

## DIRECTORS AND KEY OFFICERS

The write-ups below include positions held as of 12 March 2020 and in the past five years and personal data as of 12 March 2020, of directors and executive officers.

**Board of Directors**

Name	Age	Citizenship	Designation
<b>John Eric T. Francia</b>	48	Filipino	President and CEO
<b>Maria Corazon G. Dizon</b>	56	Filipino	
<b>Raymundo A. Reyes, Jr.</b>	66	Filipino	
<b>Augusto Cesar D. Bengzon</b>	56	Filipino	
<b>Jaime Z. Urquijo</b>	31	Filipino	
<b>Jaime Alfonso E. Zobel de Ayala</b>	29	Filipino	
<b>Raphael Perpetuo M. Lotilla</b>	60	Filipino	Independent Director
<b>Ma. Aurora D. Geotina-Garcia</b>	67	Filipino	Independent Director
<b>Alberto A. Lim</b>	69	Filipino	Independent Director

**John Eric T. Francia** was elected as Director, President, and CEO of the Company on 9 May 2019, effective 15 May 2019. He is the President and Chief Executive Officer of AC Energy, Inc. He has been a Managing Director and member of the Management Committee of Ayala Corporation since 2009. He is a Director of AC Energy Philippines, Inc. ("ACEPH"), a publicly listed company. He is also a member of the Board of Directors of the following companies within the Ayala Group: Purefoods International Limited, AC Education, Inc., AC College of Enterprise and Technology, Inc., AC Ventures Holding Corp., Ayala Aviation Corporation, Zapfam, Inc., Northwind Power Development Corporation, North Luzon Renewable Energy Corporation, Light Rail Manila Corporation, AC Infrastructure Holdings Corporation, MCX Tollway, Inc., and others. He received his undergraduate degree in Humanities and Political Economy (Magna Cum Laude) from the University of Asia & the Pacific. He then completed his master's degree in Management Studies at the University of Cambridge in the United Kingdom, graduating with First Class Honors.

**Maria Corazon G. Dizon** was elected as Treasurer and CFO of the Company on 9 May 2019, effective 15 May 2019, and as Director of the Company on 1 July 2019. She is the Treasurer and CFO of AC Energy, Inc., ACEPH, and the Director of various AC Energy's subsidiaries. She is also the Chief Risk Officer of ACEPH. She previously held positions with Ayala Land Inc. ("ALI") as Head of ALI Capital Corp., Head of Business Development and Strategic Planning of the Commercial Business Group, Head of Asset Management Group of Shopping Centers, Head of Control and Analysis, Head of Investor Relations as well as CFO of Residential Buildings, Office Buildings and Shopping Centers groups. She worked in SGV & Co for three years as a senior auditor. She is a Certified Public Accountant and graduated with a degree in Accountancy (Cum Laude) from the University of Santo Tomas. She completed academic units for a master's degree in Business Administration from De la Salle University Graduate School of Business and attended an Executive Management Program from the Wharton University of Pennsylvania.

**Augusto Cesar D. Bengzon** was elected as Director of the Company on 1 July 2019. He joined ALI on December 2004 and currently serves as its Senior Vice President, Chief Finance Officer, Chief Compliance Officer & Treasurer. He is a Director of Cebu Holdings Inc. and Prime Orion Philippines Inc., the publicly listed subsidiaries of ALI. His other significant positions include: Chairman of Aprisa Business Process Solutions Inc.; Vice Chairman of CMPI Holdings Inc.; Director, Treasurer & Compliance Officer of Anvaya Cove Golf and Sports Club Inc.; Director & President of CMPI Land Inc.; Director & Assistant Treasurer of Ayala Greenfield Development Corp.; Director and Treasurer of ALI Eton Property Development Corp., Amaia Land Corp., Aurora Properties Inc., Avida Land Corp., Ayala Property Management Corp., Bellavita Land Corp., BGNorth Properties Inc., BGSouth Properties Inc., BGWest Properties Inc., Ceci Realty Inc., Philippine Integrated Energy Solutions Inc., Serendra Inc. and Vesta Property Holdings Inc.; Director of AG Counselors Corporation, Alabang Commercial Corporation, ALINet.Com Inc., Alviera Country Club Inc., Alveo Land Corp., Ayala Land Commercial Reit Inc., Ecozone Power Management Inc., Laguna Technopark Inc., Makati Development Corp., Nuevocentro Inc., Northgate Hotel Ventures, Inc., Portico Land Corp., Station Square East Commercial Corp. and Southcrest Hotel Ventures, Inc.; Treasurer of AKL Properties, Inc., Cebu Property Ventures and Development Corporation, and Hero Foundation, Inc., Assistant Treasurer of Ayala Greenfield

Golf & Leisure Club, Inc. Prior to joining ALI, he was Vice President and Credit Officer at Citibank N.A. where he spent sixteen years in various line management roles covering Treasury, Corporate Finance and Relationship Management. He received his Bachelor of Science degree in Business Management from the Ateneo de Manila University and is a graduate of the Philippine Trust Institute. He was granted the Andres K. Roxas scholarship at the Asian Institute of Management where he received his Master's in Business Management degree.

**Raymundo A. Reyes, Jr.** was elected as Director of the Company on 1 July 2019. He has been a member of the Board of Directors since February 2013. He is the Chief Operating Officer of the Company. After a short teaching and graduate assistantship stint at the U.P. Department of Chemistry and Department of Geology and Geography, he started his career as a geologist with the Philippine National Oil Company in 1976 and was subsequently seconded to the Department of Energy and its predecessor agencies. In 1987, he joined the Company as Exploration Manager and in 1994, became its Vice President for Exploration. He is concurrently the President & COO of Palawan55 Exploration and Production Corporation, and Vice President of Maibarara Geothermal, Inc., a 25%-owned subsidiary of ACEPH. He is also a Director of Palawan55 Exploration and Production Corporation since February 2013, and Maibarara Geothermal, Inc. since April 2016. Mr. Reyes holds a Bachelor of Science in Chemistry and Master of Science in Geology degrees from the University of the Philippines and is both a licensed geologist and chemist.

**Jaime Z. Urquijo** was elected as Director of the Company on 1 July 2019. Mr. Urquijo is currently a Strategy and Development manager in Ayala Corporation. From 2014 to 2016, he was seconded to AF Payments, Inc. and served as head of Business Development. Prior to joining Ayala, he was an analyst in JP Morgan Bank in New York from 2010 to 2013. He was a player and a board member of the Philippine Rugby Football Union from June 2010 to August 2017. He received his Bachelor of Arts Degree in Political Science in the University of Notre Dame, Indiana, USA. He is the President of the Notre Dame Club of the Philippines since July 2015. He obtained his Masters in Business Administration in INSEAD (France).

**Jaime Alfonso E. Zobel de Ayala** was elected as Director of the Company on 23 July 2019. He started as a Business Development associate of Ayala Corporation's Strategic Development Group in January 2015. He was then seconded to Globe Telecom, Inc. and was its Head of Business Development (Prepaid Division) from April 2016 to May 2017, and its Head of Fixed-Mobile Convergence (Product Management) from May 2017 to November 2018. Prior to joining the Ayala Group, he worked as an analyst at Goldman Sachs in Singapore. He studied in Harvard University and took up Government as his primary concentration and Visual and Environmental Studies as his secondary concentration. He obtained a master's degree in Business Administration at Columbia Business School, New York.

**Raphael Perpetuo M. Lotilla** was elected as Independent Director of the Company on 17 September 2019 and has been an Independent Director of the Company since 2013. He also serves as an Independent Director of several private companies. He served as Secretary of Energy from 2005 to 2007 and was a former Professor of Law at the University of the Philippines. He has a varied experience in law, legislation, ocean law and marine affairs, energy, power sector reform, privatization, sustainable development, and justice and development. He is currently a member of the Board of Trustees of the Philippine Institute for Development Studies, and chairs the boards of the Center for Advancement of Trade Integration and Facilitation (CATIF) and the Asia-Pacific Pathways for Progress Foundation, Inc. He obtained his degrees in Bachelor of Science in Psychology in 1979, and Bachelor of Arts in History in 1980 from the UP College of Arts and Sciences in Diliman. He graduated from the UP College of Law in 1984, and earned his Master of Laws degree from the University of Michigan, Ann Arbor in 1988.

**Ma. Aurora D. Geotina-Garcia** was elected as Independent Director of the Company on 17 September 2019. She is currently the President of Mageo Consulting, Inc., a corporate finance advisory services firm. She is also currently an Independent Director of ACEPH, Cebu Landmasters Inc., and Queen City Development Bank. She was a director in the following companies and organizations: Bases Conversion and Development Authority (2011-2016), BCDA Management Holdings, Inc. (2011-2016), Fort Bonifacio Development Corporation (2011-2016), Heritage Park Management Corporation (2015-2016), Bonifacio Global City Estates Association, Inc. (2012-2016), Bonifacio Estates Services Corporation (2012-2016), and HBC, Inc. (2012-2016). She started her professional career at SyCip, Gorres, Velayo & Co. (SGV & Co.), where she joined the Management Services Division in 1974, and was promoted to Partner in 1990. She headed SGV & Co.'s Global Corporate Finance Division from 1992 until her retirement from the partnership in 2001, after which she remained as Senior Adviser to SGV & Co up to September 2006. She received a Bachelor of Science degree in Business Administration and Accountancy from the University of the Philippines in 1973 and completed her Master of Business Administration

from the same university in 1978. She is a Certified Public Accountant and a Fellow of the Institute of Corporate Directors.

**Alberto A. Lim** was elected as Independent Director of the Company on 17 September 2019. He is also the President of the Culion Foundation, Inc., and the Chairman of the El Nido Foundation, Inc. He was a former director of the Development Bank of the Philippines, and the Chairman of the DBP Leasing Corporation. He was a former executive director of the Makati Business Club and served as the Secretary of Tourism from 30 June 2010 to 12 August 2011.

Mr. Lim holds a Bachelor's degree in Economics from the Ateneo de Manila University, a Master's degree in business administration from the Harvard Business School and a master's degree in public administration from the Kennedy School of Government, Harvard University.

Nominees to the Board of Directors for election at the annual stockholders' meeting

All the above are nominee directors.

The certifications on the qualifications of the nominees for independent directors are attached.

Management Committee Members / Senior Leadership Team

Name	Age	Citizenship	Designation
<b>John Eric T. Francia</b>	48	Filipino	President and CEO
<b>Maria Corazon G. Dizon</b>	56	Filipino	Treasurer and CFO, Chief Risk Officer
<b>Raymundo A. Reyes, Jr.</b>	66	Filipino	Chief Operating Officer
<b>Mariejo P. Bautista</b>	54	Filipino	SVP-Finance and Controller
<b>Dodjie D. Lagazo</b>	40	Filipino	Corporate Secretary, Compliance Officer
<b>Alan T. Ascalon</b>	45	Filipino	Assistant Corporate Secretary, Data Privacy Officer
<b>Raissa C. Villanueva</b>	33	Filipino	Assistant Corporate Secretary
<b>Henry T. Gomez</b>	30	Filipino	Chief Audit Executive

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**Maria Corazon G. Dizon** was elected as Treasurer and CFO of the Company on 9 May 2019, effective 15 May 2019, and as Director of the Company on 1 July 2019. She is the Treasurer and CFO of AC Energy, Inc., ACEPH, and the Director of various AC Energy's subsidiaries. She is also the Chief Risk Officer of ACEPH. She previously held positions with Ayala Land Inc. ("ALI") as Head of ALI Capital Corp., Head of Business Development and Strategic Planning of the Commercial Business Group, Head of Asset Management Group of Shopping Centers, Head of Control and Analysis, Head of Investor Relations as well as CFO of Residential Buildings, Office Buildings and Shopping Centers groups. She worked in SGV & Co for three years as a senior auditor. She is a Certified Public Accountant and graduated with a degree in Accountancy (Cum Laude) from the University of Santo Tomas. She completed academic units for a master's degree in Business Administration from De la Salle University Graduate School of Business and attended an Executive Management Program from the Wharton University of Pennsylvania.

**Mariejo P. Bautista** is an SVP-Finance and Controller of ACEPH. She worked with SGV & Co. in 1987 and in various multinational manufacturing and service companies up to August 2011. She joined the Company in September 2011. She is also the Senior Vice President – Finance and Controller of PHINMA Power Generation Corporation, CIP II Power Corporation, One Subic Power Generation Corp., PHINMA RE, ACE Enexor, Inc., One Subic Oil Distribution Corp., and Palawan55 Exploration and Production Corporation. She obtained her

Bachelor of Science degree in Business Administration and Accountancy from the University of the Philippines. She is a Certified Public Accountant with a master's degree in Business Management from the Asian Institute of Management.

**Dodjie D. Lagazo** was elected as Corporate Secretary and Compliance Officer of the Company on 1 July 2019. He is an Executive Director of AC Energy, Inc., and the Head of Legal and Regulatory of both AC Energy, Inc. and ACEPH. Previously, he served as Director and member of AG Counselors Corporation's Management Committee from January 2014 to July 2017. He is also the Assistant Corporate Secretary of Ayala Corporation, AC Energy, and ACEPH, and the Corporate Secretary of various AC Energy subsidiaries and affiliates. He received his undergraduate degree in Political Science from the University of the Philippines, Diliman, graduating magna cum laude. He then completed his Bachelor of Laws Degree in the College of Law of the University of the Philippines, Diliman. He is a member in good standing of the Integrated Bar of the Philippines.

**Alan T. Ascalon** is a Vice President of AC Energy Philippines, Inc. He served as director of PHINMA Renewable Energy Corporation ("PHINMA Renewable") and is the Corporate Secretary of PHINMA Renewable, One Subic Power Generation Corp., One Subic Oil Distribution Corp., Palawan55 Exploration and Production Corp., PHINMA Power Generation Corporation, CIP II Power Corporation, and PHINMA Solar Corporation. He was an Assistant Legal Counsel of PHINMA, Inc. from 2005 to 2008. He graduated from the University of the Philippines with a Bachelor of Arts degree in Journalism in 1996 and a Bachelor of Laws degree in 2000.

**Raissa C. Villanueva** is a Senior Manager of AC Energy, Inc. and previously a Senior Counsel at Ayala Group Legal. She is also the Assistant Corporate Secretary of various AC Energy, Inc. subsidiaries and affiliates. Prior to joining Ayala, she was Primary Counsel at Energy Development Corporation. Before this, she practiced law as legislative officer at the Office of Senator Pia Cayetano and as associate in Leynes Lozada Marquez Offices. She received her undergraduate degree in Business Administration from the University of the Philippines, Diliman, graduating cum laude. She then completed her Juris Doctor in the College of Law of the University of the Philippines, Diliman. She is a member in good standing of the Integrated Bar of the Philippines.

**Henry T. Gomez, Jr.** is the Company's and ACEPH's Chief Audit Executive and the Internal Audit Head of AC Energy, Inc. Prior to joining AC Energy, Inc., he worked at Aboitiz Power Corporation in 2012 as a Senior Internal Auditor and at SGV & Co. in 2011 as an Assurance Associate. He is a Certified Public Accountant, Certified Internal Auditor (CIA), a passer of the Certified Information Systems Auditor (CISA) examinations, and a CQI & IRCA Certified ISO 14001:2015 Environmental Management System Lead Auditor. He graduated from University of the Philippines-Visayas with a degree in BS in Accountancy

**CERTIFICATION OF INDEPENDENT DIRECTOR**

I, **MARIA AURORA D. GEOTINA-GARCIA**, Filipino, of legal age, and a resident of \_\_\_\_\_, after having duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of ACE Enexor, Inc. (the “**Corporation**”), and has been the Corporation’s independent director since 2019.
2. I am affiliated with the following companies or organizations (including Government Owned and Controlled Corporations):

<b>Company/Organization</b>	<b>Position/Relationship</b>	<b>Period of Service</b>
Cebu Landmasters, Inc.	Independent Director	2017 to present
MAGEO Consulting, Inc.	President	2015 to present
Queen City Development Bank	Independent Director	2009 to present

3. I possess all the qualifications and none of the disqualifications to serve as an independent director of the Corporation, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other relevant issuances of the Securities and Exchange Commission (“SEC”).
4. I am not related to the any director/officer/substantial shareholder of the Corporation and its subsidiaries and affiliates other than the relationship provided under Rule 38.2 of the Securities Regulation Code (where applicable).
5. To the best of my knowledge, I am subject of the following criminal or administrative investigation or proceeding:

<b>Offense charged / investigated</b>	<b>Tribunal / agency involved</b>	<b>Status</b>
Libel during my membership in the Bases Conversion and Development Authority Board of Directors (Crim. Case No. 150045-PSG)	Branch 167 of the Pasig City Regional Trial Court (re-raffled from Branch 67).	Trial on the merits is ongoing. The accused have a pending Motion for Leave to File Demurrer to Evidence.
Criminal complaint for acts of the BCDA’s Board of Directors during my membership (OMB-C-C-12-0287-G)	Case filed before the Office of the Ombudsman was dismissed. Case elevated to the Supreme Court by complainant is pending.	The Office of the Ombudsman dismissed the complaint. The Petition for Review filed by the complainant before the Supreme Court (G.R. No. 225565) is still pending resolution.

Administrative complaint for acts of the BCDA's Board of Directors during my membership (OMB-C-A-12-1308-G)	Case filed before the Office of the Ombudsman was dismissed. Case was elevated to the Court of Appeals.	The Office of the Ombudsman dismissed the complaint. The complainant, CJH DevCo, filed a Petition for Review before the Court of Appeals (CA-G.R. SP No. 145849), which was likewise dismissed. CJH DevCo filed a Motion for Reconsideration, which was denied by the Court of Appeals. I am not aware of any appeal or petition filed by CJH DevCo from the Court of Appeals' rulings.
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6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other relevant issuances of the SEC.
7. I shall inform the Corporate Secretary of the Corporation of any changes in the abovementioned information within five (5) days from my receipt of knowledge of any such changes.

IN WITNESS WHEREOF, I have signed this Certification this \_\_\_\_\_, in \_\_\_\_\_.

**MARIA AURORA D. GEOTINA-GARCIA**  
*Affiant*

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ in \_\_\_\_\_, affiant personally appeared before me and exhibited to me her \_\_\_\_\_ issued at \_\_\_\_\_ on \_\_\_\_\_.

Doc. No. \_\_\_\_\_;  
Page No. \_\_\_\_\_;  
Book No. \_\_\_\_\_;  
Series of 2020.

### CERTIFICATION OF INDEPENDENT DIRECTOR

I, **ALBERTO ALDABA LIM**, Filipino, of legal age, and a resident of No. 33 Molave St., Valle Verde 3, Pasig City, after having duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of ACE Enexor, Inc. (the “**Corporation**”).
2. I am affiliated with the following companies or organizations (including Government Owned and Controlled Corporations):

<b>Company/Organization</b>	<b>Position/Relationship</b>	<b>Period of Service</b>
Culion Foundation, Inc.	President	1997 to present
El Nido Foundation, Inc.	Chairman	1994 to present

3. I possess all the qualifications and none of the disqualifications to serve as an independent director of the Corporation, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other relevant issuances of the Securities and Exchange Commission (“SEC”).
4. I am not related to the any director/officer/substantial shareholder of the Corporation and its subsidiaries and affiliates other than the relationship provided under Rule 38.2 of the Securities Regulation Code (where applicable).
5. To the best of my knowledge, I am not the subject of any pending criminal investigation or proceeding, and hereby disclose that I am subject of the following administrative investigation:

<b>Offense charged/investigated</b>	<b>Tribunal/agency involved</b>	<b>Status</b>
Violation of Section 24.1 (a)(iii) of the Securities Regulation Code	Securities and Exchange Commission	Pending

6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other relevant issuances of the SEC.
7. I shall inform the Corporate Secretary of the Corporation of any changes in the abovementioned information within five (5) days from my receipt of knowledge of any such changes.

[Signature page follows.]

IN WITNESS WHEREOF, I have signed this Certification this \_\_\_\_\_, in \_\_\_\_\_.

**ALBERTO ALDABA LIM**  
*Affiant*

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ in \_\_\_\_\_, affiant personally appeared before me and exhibited to me his \_\_\_\_\_ issued at \_\_\_\_\_ on \_\_\_\_\_.

Doc. No. \_\_\_\_;  
Page No. \_\_\_\_;  
Book No. \_\_\_\_;  
Series of 2020.

FOR SIGNATURE



### CERTIFICATION OF INDEPENDENT DIRECTOR

I, **RAPHAEL PERPETUO M. LOTILLA**, Filipino, of legal age, and a resident of No. 23 Andrew St., Metroheights Subd., Culiat, Quezon City, after having duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of ACE Enexor, Inc. (the “**Corporation**”), and has been its independent director 2013.
2. I am affiliated with the following companies or organizations (including Government Owned and Controlled Corporations):

Company/Organization	Position/Relationship	Period of Service
Aboitiz Equity Ventures Corp.	Independent Director	2012 to present
First Metro Investment Corp.	Independent Director	2013 to present
Petron Foundation, Inc.	Independent Director	2014 to present
Asia-Pacific Pathways to Progress Foundation, Inc.	Chairman, Board of Trustees	2014 to present
Center for the Advancement of Trade Integration and Facilitation, Inc.	Chairman, Board of Trustees	2014 to present
Philippine Institute for Development Studies	Member, Board of Trustees	2014 to present
Ateneo de Manila University Professional Schools	Member, Advisory Board	2016 to present
SMC Global Power Foundation	Independent Director	2018 to present

3. I possess all the qualifications and none of the disqualifications to serve as an independent director of the Corporation, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other relevant issuances of the Securities and Exchange Commission (“SEC”).
4. I am not related to the any director/officer/substantial shareholder of the Corporation and its subsidiaries and affiliates other than the relationship provided under Rule 38.2 of the Securities Regulation Code (where applicable).
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I have the required written permission or consent from the president of the Philippine Institute for Development Studies to be an independent director of the Corporation, pursuant to the Office of the President Memorandum Circular No. 17 and Section 12, Rule XVIII of the Revised Civil Service Rules.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other relevant issuances of the SEC.
8. I shall inform the Corporate Secretary of the Corporation of any changes in the abovementioned information within five (5) days from my receipt of knowledge of any such changes.

IN WITNESS WHEREOF, I have signed this Certification this \_\_\_\_\_, in \_\_\_\_\_.

**RAPHAEL PERPETUO M. LOTILLA**  
*Affiant*

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ in \_\_\_\_\_, affiant personally appeared before me and exhibited to me his \_\_\_\_\_ issued at \_\_\_\_\_ on \_\_\_\_\_.

Doc. No. \_\_\_\_\_;  
Page No. \_\_\_\_\_;  
Book No. \_\_\_\_\_;  
Series of 2020.



11 March 2020

**ATTY. RAPHAEL PERPETUO M. LOTILLA**

38 K-Square Homes, Cenacle Drive,  
Sanville, Quezon City, Metro Manila

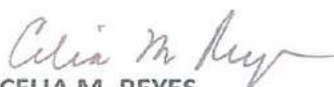
Dear Atty. Lotilla:

Please be informed that we do not interpose any objection to your engagement with ACE Enexor, Inc. (AEI) concurrently with your position as a Member of the Board of Trustees of the Philippine Institute for Development Studies (PIDS).

We believe that your involvement as Independent Director of AEI will not pose an actual or potential conflict of interest with PIDS.

We have always been confident that you will discharge your duties as a Trustee with utmost good faith and will always act in the best interest of PIDS.

Very truly yours,

  
**CELIA M. REYES**  
President



**MINUTES OF THE ANNUAL STOCKHOLDERS' MEETING**  
**September 17, 2019 at 2:00 PM**  
**Ballroom 2, Fairmont Makati**  
**1 Raffles Drive, Makati Avenue, Makati City**

		<i>Percentage of Total</i>
<b>No. of Outstanding and Voting Shares</b>	250,000,001	
<b>Shareholders Present:</b>	192,087,868	76.835%

**Directors Present:**

John Eric T. Francia	<i>Chairman, Board</i> <i>Chairman, Executive Committee</i>
Raymundo A. Reyes, Jr.	<i>Member, Executive Committee</i>
Jaime Alfonso Zobel de Ayala	<i>Member, Executive Committee</i>
Jaime Urquijo Zobel de Ayala	<i>Member, Personnel and Compensation Committee</i>
Augusto Cesar D. Bengzon	<i>Chairman, Personnel and Compensation Committee</i> <i>Member, Audit Committee</i>
Maria Corazon G. Dizon	<i>Member, Executive Committee</i> <i>Member, Board Risk Management and Related Party Transactions Committee</i>
Raphael Perpetuo M. Lotilla (independent director)	<i>Chairman, Corporate Governance and Nominations Committee</i> <i>Member, Executive Committee</i>
Ma. Aurora Geotina-Garcia (independent director)	
Alberto A. Lim (independent director)	

### **1. Call to Order**

The Chairman, Mr. John Eric T. Francia, called the meeting to order at 2:00 p.m. and welcomed the stockholders.

### **2. Notice of Meeting**

The Secretary, Mr. Dodjie D. Lagazo, certified that notice of the meeting was sent by August 27, 2019 to each stockholder of record as of August 16, 2019, the record date for the meeting, in accordance with the By-Laws and applicable rules. The notice was also published online on July 24, 2019 in the disclosure system website of the Philippine Stock Exchange.

### **3. Determination of Quorum**

The Secretary certified that there was a quorum for the meeting since based on partial tabulation, stockholders owning 191,162,410 shares or 76.465% of the total outstanding shares are present in person or by proxy, including stockholders representing 1,818 shares or 0.0001% of the total outstanding voting shares who have voted *in absentia* or through remote communication.

The Secretary also reported that as of September 13, 2019, after the proxy validation process, stockholders owning 191,153,531 voting shares representing 99.995% of the total voting shares represented in this meeting (based on partial tabulation), and 76.461% of the total outstanding shares, have cast their votes on the items for consideration in the meeting; that the votes of these stockholders had been tabulated; that he would be referring to such partial tabulation when reporting the voting results throughout the meeting; and that there were remaining votes that have yet to be counted but the results of the complete and final tabulation of votes would be reflected in these minutes.

### **4. Instructions on Rules of Conduct, Voting Procedures and Voting Requirements**

The Chairman requested that any stockholder wishing to speak should first identify himself or herself after being acknowledged by the Chair and to limit his or her remarks to the item under consideration. Thereafter, the Secretary explained that the rules of conduct, the voting procedures, and the voting requirements were provided to the stockholders together with the notice of the meeting and printed copies were made available to the stockholders or their proxies upon registration at the meeting.

The Secretary further emphasized the following points:

- (i) Generally, the stockholders approve any item by the affirmative vote of the stockholders representing at least a majority of the issued and outstanding voting stock.
- (ii) The approval of the amendments of the Articles of Incorporation requires the affirmative vote of shareholders representing not less than two-thirds of the outstanding capital stock.

The Secretary further explained that stockholders may cast their votes either manually using the ballot provided upon registration or electronically using the computers near the registration area. Both the paper ballot and electronic voting platform set forth the proposed resolutions for consideration by the stockholders, which resolutions would be shown on the screen as they are taken up during the meeting. He added that beginning this year's meeting, the Corporation has introduced a facility for voting *in absentia* or through remote communication as an additional mode through which stockholders who are not in attendance may cast their votes.

## 5. Approval of the Minutes of the 2018 Stockholders' Meeting

The Chairman then proceeded with the approval of the minutes of the annual stockholders' meeting held on April 12, 2018. Copies of the minutes were distributed to the stockholders upon registration and an electronic copy of the minutes was posted on the website of the Corporation.

There being no question on the item under consideration, the Chairman requested for a motion for approval.

On motion of Ms. Joanne Melanie D. Trinidad-Gemanil, seconded by Ms. Jessica Mae B. Balangue, the stockholders approved the minutes and adopted the following Resolution No. S-2019-001, which was shown on the screen:

### **Resolution No. S-2019-001**

**RESOLVED**, to approve the minutes of the annual stockholders' meeting held on April 12, 2018.

As tabulated by the Committee of Inspectors of Proxies and Ballots and validated by SyCip Gorres Velayo and Co. ("SGV"), the votes on the motion for the approval of the minutes and the adoption of Resolution No. S-2019-001 are as follows:

	<b>For</b>	<b>Against</b>	<b>Abstain</b>
Number of voted shares	191,157,188	0	0
% of shares voted	100%	0%	0%

## 6. Annual Report of Officers

### Message of the Chairman and Report of the President

The Chairman acknowledged the presence of the shareholders, colleagues from the Board of Directors and management, and other guests.

The Chairman recounted how earlier this year, the Ayala Group's energy platform, AC Energy, Inc. ("**AC Energy**"), acquired a controlling interest in PHINMA Energy, the parent company of the Corporation. He said that AC Energy will combine the strengths of its domestic energy unit with that of PHINMA Energy and will make the latter its energy platform for growth in the Philippines. As such, PHINMA Energy will be renamed AC Energy Philippines.

The primary focus of such investment and business combination is in power generation and retail electricity business. PHINMA Energy is also in the resource exploration business, with its controlling stake in the Corporation. As such, AC Energy has to take a position as to whether it would like to participate in this sector. The Chairman narrated how AC Energy conducted a review, and arrived at the following observations and conclusions:

- (1) The Philippines has potential in oil and gas resources. AC Energy believes that Malampaya is not a fluke. The Chairman shared that various studies indicate that there are strong potential petroleum resources in the West Philippine Sea, particularly off the Western Palawan coast.
- (2) Notwithstanding the country's potential, there has been underinvestment in the sector. The last offshore exploratory well was drilled in 2015, which was followed by offshore and onshore appraisal wells in 2017 and 2018. The government has therefore encouraged more investments to unlock the potential in the sector.

- (3) Malampaya is reaching the end of life in the next decade or so. It powers more than 3000MW or around 20% of the country's electricity today, and there is no replacement in sight. While LNG could be an alternative, its price could be quite volatile.
- (4) As the country shifts towards lower carbon energy mix, and with the increasing role of renewables, there is a need to complement the variable nature of renewables, which gas pipe powerplants are able to provide. Having indigenous gas and developing the next Malampaya is ideal to achieve the country's energy security.
- (5) While offshore exploration is a risky proposition, technological improvements over the past decade has helped in the de-risking process. The cost of offshore deepwell drilling has also declined over the last few years due to lower global oil prices.
- (6) Of the Corporation's assets, Service Contract 55 or SC 55 presents an opportunity that could provide an interesting alternative to Malampaya, if developed successfully. In 2015, gas was discovered in the first well ever drilled in said frontier basin. The Chairman expressed excitement over the petroleum prospects of said area, saying that the Corporation's Chief Operating Officer will explain the Corporation's current activities and forward exploration plans to bring this block to drill-ready status.

The Chairman further described the SC 55 area as just being ~50 kilometers off the coast of Southwest Palawan, and to the Corporation's knowledge, it is not within disputed waters. Given the foregoing, the Chairman expressed that management would like to heed the call of government to revive investments in the offshore resource exploration sector. The Chairman expressed plans for the Corporation to become the energy exploration organization of AC Energy; hence, the proposed change of company name to "ACE Enexor, Inc."

The Chairman detailed that ACE Enexor will be making investments to nurture and harness these potential energy sources. The Corporation will utilize leading-edge technology to improve the Corporation's chance of success and will bring in strategic partners to help realize the potential of the Corporation's exploration block.

Given the foregoing, and with good amount of luck, the Chairman expressed hope in locking significant energy resources for the country.

#### Message of the Chief Operating Officer

The Chairman then called on Mr. Raymundo A. Reyes, Jr., the Chief Operating Officer, to render his report.

Mr. Reyes acknowledged the presence of stockholders and other guests.

Considering that it is already September, Mr. Reyes mentioned that he will no longer repeat the 2018 annual report but would rather give an update on the active service contracts of the Corporation. Mr. Reyes shared that the Corporation is a participant in two (2) service contracts, SC 6 and SC 55, both covering areas in offshore West Palawan.

Mr. Reyes reported that the Corporation holds a 7.78% participating interests in SC 6 Block A and 2.475% carried interest in both Block A and B. Prospect generation studies are underway for Block A, whereas Block B has been dormant for some time.

The Corporation also owns, indirectly, 37.5% participating interests in SC 55 through its subsidiary, Palawan 55 Exploration and Production Corporation ("Palawan 55"). Mr. Reyes explained that Palawan

55 is the operator of SC 55, and that said block is currently the focus of the Corporation's exploration efforts.

Mr. Reyes further detailed that SC 55 covers some 10,000 sq. km. of the southwest coast off Palawan, inwater depths between 1 kilometer and 2 kilometers. Mr. Reyes claimed that the Corporation is particularly excited with the area because it is within the same trends of the Northern Palawan and Northwest Sabah petroleum fields.

Mr. Reyes described SC 55 as being ~300 kilometers from the Malampaya gas field, which has 2.7 trillion cubic feet of gas and 100 million cubic feet of condensate, and the Kamansu gas fields in offshore Sabah, which is a cluster of four (4) gas fields with reserves of over 4 trillion cubic feet.

SC 55 Block B, on the other hand, is ~200 to 300 kilometers south of Reed Bank, the area which is currently in dispute between the Philippines and China. Mr. Reyes recalled that numerous petroleum prospects have been mapped by the former operators, including Trans-Asia, the predecessor of the Corporation, BHP Billiton, and Otto Energy of Australia. Mr. Reyes identified for the shareholders the potential targets on the map shown on the screen.

Mr. Reyes recounted that in 2012, BHP Billiton aborted the drilling of the Cinco prospect at the last minute, when it failed to receive clearance from the Palawan Council for Sustainable Development, before the scheduled mobilization of the contracted drilling rig. In 2015, Otto Energy discovered natural gas at the Hawkeye-1 well but deemed that the find was non-commercial. Mr. Reyes disclosed that Otto has since withdrawn from all its contracts in the Philippines.

Mr. Reyes shared that the Corporation believes that the contract area is virtually unexplored; that the Cinco prospect remains a viable target, the greater Hawkeye area is not fully tested, and that there are other potential drilling structures on the block. For the foregoing reasons, the Corporation assumed operatorship, and conducted follow-on studies on the Cinco and Hawkeye corridors.

Mr. Reyes further mentioned that Palawan 55 had processed over 1,000 sq.km. of 3D seismic data out of the BHP Billiton and Otto Energy surveys, as outlined on the map shown on the screen. The re-processing program had been completed, which resulted in significant improvement in the resolution of seismic profiles in the study area. Moreover, Palawan 55 conducted quantitative interpretation of the re-processed data, a physical technique that allows prediction of reservoir rock type and fluid type, whether oil, gas or water. Mr. Reyes reported that said project will be completed shortly.

Mr. Reyes also noted that in addition to the identified prospects, there are numerous leads as shown on the map appearing on the screen that might be developed eventually into prospects. Palawan 55 is currently interpreting the reprocessed 3D seismic data to generate additional prospects in the greater Hawkeye area and refine the mapping of the Cinco prospect. Mr. Reyes further relayed that resource assessment has already started.

Palawan 55 also commenced the first phase of drilling preparation, including well design, issuance of tenders for long-lead items such as wellhead casings and conductors, Reed market survey, contract strategy, all of which are being done in preparation of drilling.

In view of the encouraging results of the current work programs, Palawan 55 has notified the DOE of the consortium's election to proceed from the exploratory period to the appraisal period. During the appraisal period, the consortium committed to drill one (1) deep water well within the first two (2) years, and to re-interpret 3D seismic data not covered by the reprocessing program, which may lead to additional 3D seismic surveys.

In conclusion, Mr. Reyes reported that the Corporation is now awaiting the DOE's confirmation of SC 55's entry into the appraisal period.



The Chairman then opened the floor for questions or comments from the stockholders on the annual report or the 2018 audited financial statements.

Mr. Stephen Soliven asked as to when the Corporation can probably have sales or discovery, and if the Corporation has any estimate thereto.

The Chairman replied that the Corporation has yet to focus on the drilling program but, as Mr. Reyes mentioned, is in the process of finishing studies that will be available in the next couple of months. In parallel, though, the Corporation is already preparing for the committed drilling. The Chairman opined that until the Corporation affirmatively proves the resources on a commercial basis, estimating or determining the sales prospects the would be premature at this point.

Mr. Soliven further inquired as to whether the Corporation is related to the Philippine Oil Geothermal Energy Incorporated ("POGEI") which folded up years ago. The Chairman, in consultation with Mr. Reyes, stated that the Corporation is not aware of any such entity. Mr. Reyes shares that POGEI was an exploration company that drilled two (2) offshore wells in the Visayas, after which, the company disappeared. Mr. Reyes said that there is no relationship between the Corporation and POGEI.

There being no other questions and comments from the stockholders, Mr. Jenson O. Lim, seconded by Ms. Girlie C. Caldit, moved for the noting of the annual report, the approval of the 2018 consolidated audited financial statements, and the adoption of the following Resolution No. S-2019-002, which was shown on the screen:

**Resolution No. S-2019-002**

**RESOLVED**, to note the Corporation's Annual Report, which consists of the Chairman's Message, the President's Report, and the audio-visual presentation to the stockholders, and to approve the consolidated financial statements of the Corporation and its subsidiaries as of December 31, 2018, as audited by the Corporation's external auditor, SyCip Gorres Velayo & Co.

As tabulated by the Committee of Inspectors of Proxies and Ballots and validated by SGV, the votes on the motion for the noting of the annual report, the approval of the 2018 audited financial statements, and the adoption of Resolution No. S-2019-002 are as follows:

	<b>For</b>	<b>Against</b>	<b>Abstain</b>
Number of voted shares	191,157,188	0	0
% of shares voted	100%	0%	0%

**7. Ratification of the Acts of the Board of Directors and Officers**

The Secretary, upon the Chairman's request, explained that stockholders' ratification is being sought for all the acts and resolutions of the Board, the Executive Committee, and other Board Committees exercising powers delegated by the Board, which were adopted from April 12, 2018 until September 17, 2019 as well as for all the acts of the Corporation's officers performed to implement the resolutions of the Board or its Committees, or in connection with the Corporation's general conduct of its business. The acts and resolutions of the Board are reflected in the minutes of the meetings, and they include the election of officers and members of the various Board Committees, updating of the lists of authorized representatives and bank signatories, treasury matters, budget and funding plan, investments, and matters covered by disclosures to the Securities and Exchange Commission and the Philippine Stock Exchange.

The Chairman asked the stockholders if they have any questions or comments. There being none, the Chairman requested for a motion for approval.

Ms. Mary Ann D. Ballesteros, seconded by Ms. Therese Angeline C. Sevilla, moved for the ratification of the acts and resolutions of the Board, the Executive Committee, and other Board Committees, as well as all the acts of the officers performed pursuant to Board resolutions and the By-Laws of the Corporation since the annual stockholders' meeting on April 12, 2018 until September 17, 2019, and the adoption of the following Resolution No. S-2019-003, as shown on the screen:

**Resolution No. S-2019-003**

**RESOLVED**, to ratify each and every act and resolution, from 12 April 2018 to 17 September 2019 (the "Period"), of the Board of Directors (the "Board") and the Executive Committee and other Board committees exercising powers delegated by the Board, and each and every act, during the Period, of the officers of the Corporation performed in accordance with the resolutions of the Board, the Executive Committee and other Board committees as well as with the By-laws of the Corporation.

As tabulated by the Committee of Inspectors of Proxies and Ballots and validated by SGV, the votes on the ratification of the acts of the Board of Directors and Officers of the Corporation and the adoption of Resolution No.S-2019-003 are as follows:

	<b>For</b>	<b>Against</b>	<b>Abstain</b>
Number of voted shares	191,157,188	0	0
% of shares voted	100%	0%	0%

**8. Election of Directors**

The next item in the Agenda was the election of the nine (9) members of the Board for the ensuing year. The Chairman of the meeting requested Mr. Lagazo, the Secretary, to explain this item.

Mr. Lagazo explained that in accordance with the requirements of the Corporation's By-Laws, the Manual of Corporate Governance, and the Rules of the Securities and Exchange Commission, the following stockholders were duly nominated to the Board for the ensuing term: John Eric T. Francia, Augusto Cesar D. Bengzon, Maria Corazon G. Dizon, Raymundo A. Reyes, Jr., Jaime Z. Urquijo, Jaime Alfonso Zobel de Ayala, Ma. Aurora Geotina-Garcia, Alberto A. Lim, and Raphael Perpetuo M. Lotilla.

Ms. Geotina-Garcia, Mr. Lim, and Mr. Lotilla have been nominated as Independent Directors.

The Corporate Governance and Nomination Committee of the Board has ascertained that the nine (9) nominees, including the three (3) nominees for Independent Directors, are qualified to serve as Directors of the Corporation, and that each has given his or her consent to the nomination.

The Chairman asked the stockholders if they have any questions or comments. There being none, the Chairman requested the Secretary to report the results of the election.

The Secretary reported that based on the partial tabulation of votes, each of the nine (9) nominees has garnered at least 191,155,349 votes, which represent 76.46% of the total outstanding shares and 99.996% of the shares represented in the meeting. Given this, he certified that each nominee has received enough votes for election to the Board.

With such certification, the Chairman of the meeting requested for a motion for the adoption of a resolution declaring the election of the nine (9) nominees.

On motion of Ms. Jenelyn C. Baligat-Baltazar, seconded by Ms. Ma. Cristina D. Cardinal, the stockholders elected the nine (9) nominees as directors of the Corporation for the ensuing year to serve as such until their successors are elected and qualified, and adopted Resolution No. S-2019-004, as follows:

**Resolution No. S-2019-004**

**RESOLVED**, to elect the following as directors of the Corporation to serve as such beginning today until their successors are elected and qualified:

Augusto Cesar D. Bengzon  
Maria Corazon G. Dizon  
John Eric T. Francia  
Raymundo A. Reyes, Jr.  
Jaime Z. Urquijo  
Jaime Alfonso Zobel de Ayala  
Ma. Aurora D. Geotina-Garcia (*Independent Director*)  
Alberto A. Lim (*Independent Director*)  
Raphael Perpetuo M. Lotilla (*Independent Director*)

As tabulated by the Committee of Inspectors of Proxies and Ballots and validated by SGV, the final votes received by the nominees based on the total cumulative votes received are as follows:

<b>Director</b>	<b>For</b>	<b>Against</b>	<b>Abstain</b>
1. John Eric T. Francia	191,157,155	0	0
2. Augusto Cesar D. Bengzon	191,157,155	0	0
3. Maria Corazon G. Dizon	191,157,155	0	0
4. Raymundo A. Reyes, Jr.	191,157,155	0	0
5. Jaime Z. Urquijo	191,157,155	0	0
6. Jaime Alfonso Zobel de Ayala	191,157,188	0	0
7. Ma. Aurora Geotina-Garcia	191,157,155	0	0
8. Alberto A. Lim	191,157,155	0	0
9. Raphael Perpetuo M. Lotilla	191,157,155	0	0

**9. Approval of the Amendment of the Title and the First Article of the Articles of Incorporation to Change the Name of the Corporation to “ACE Enexor, Inc.”**

At the request of the Chairman, the Secretary explained that the Board has agreed to endorse an amendment to the Articles of Incorporation of the Corporation to reflect the change in the Corporation's name to “ACE Enexor, Inc.”

The Chairman asked the stockholders if they have any questions or comments. There being none, Ms. Aubrey Mae L. Patupat moved for the approval of the amendment of the Title and First Article of the Articles of Incorporation to change the Corporation's name to ACE Enexor, Inc., and the adoption of the following Resolution No. S-2019-005, as shown on the screen. Ms. Nesly Joy S. Javier-Castillo seconded the motion:

**Resolution No. S-2019-005**

**RESOLVED**, as recommended by the Board of Directors in Resolution No. B-2019-0723-02, to approve the amendment of the Title and the First Article of the Articles of Incorporation to change the name of the Corporation from “PHINMA Petroleum and Geothermal, Inc.” to “ACE Enexor, Inc.,” as follows (xxx are ellipses to denote that portions of the provision not subject of the amendment were redacted for brevity):

**Amended Articles of Incorporation of**

**ACE Enexor, Inc.**

Know all men by these presents: xxx

**FIRST:** The name of the corporation shall be:

**ACE Enexor, Inc.**

xxx

As tabulated by the Committee of Inspectors of Proxies and Ballots and validated by SGV, the votes on the approval of the amendment of the Title and First Article of the Articles of Incorporation to change the Corporation’s name to “ACE Enexor, Inc.,” and the adoption of Resolution No. S-2019-005 are as follows:

	<b>For</b>	<b>Against</b>	<b>Abstain</b>
Number of voted shares	191,157,188	0	0
% of shares voted out of the total outstanding shares	76.463%	0%	0%

At that point, the name of the Corporation as appearing in the backdrop for the meeting transitioned from “PHINMA Petroleum and Geothermal, Inc.” to “ACE Enexor, Inc.”

**10. Approval of the Amendment of the Third Article of the Articles of Incorporation to Change the Principal Office of the Corporation to the 4<sup>th</sup> Floor, 6750 Office Tower, Ayala Ave., Makati City**

The Secretary then stated that the second proposed amendment to the Articles of Incorporation is to change the principal place of business of the Corporation from Level 11, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City to the 4<sup>th</sup> Floor, 6750 Office Tower, Ayala Ave., Makati City.

The Chairman asked the stockholders if they have any questions or comments. There being none, Ms. Amirah L. Peñalber moved for the approval of the amendment of the Third Article of the Articles of Incorporation to authorize the Corporation to change the Corporation’s principal place of business to the 4<sup>th</sup> Floor, 6750 Office Tower, Ayala Ave., Makati City, and for the adoption of Resolution No. S-2019-006, as shown on the screen. Mr. Edsel John R. Serrano seconded the motion:

**Resolution No. S-2019-006**

**RESOLVED**, as recommended by the Board of Directors in Resolution No. B-2019-0723-03, to approve the amendment of the Third Article of the Articles of Incorporation to change the principal office of the Corporation from “Level 11, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City” to “4<sup>th</sup> Floor, 6750 Office Tower, Ayala Avenue, Makati City, Philippines”, as follows:

THIRD: That the place where the principal office of the corporation is to be established or located is at 4<sup>th</sup> Floor, 6750 Office Tower, Ayala Avenue, Makati City, Philippines.

As tabulated by the Committee of Inspectors of Proxies and Ballots and validated by SGV, the votes on the approval of the amendment of the Third Article of the Articles of Incorporation to change the Corporation's principal place of business to the 4<sup>th</sup> Floor, 6750 Office Tower, Ayala Avenue, Makati City, Philippines, and for the adoption of Resolution No. S-2019-006 are as follows:

	<b>For</b>	<b>Against</b>	<b>Abstain</b>
Number of voted shares	191,157,188	0	0
% of shares voted out of the total outstanding shares	76.463%	0%	0%

**11. Approval of the Amendment of the Title of the By-Laws to Change the Name of the Corporation to "AC Energy Philippines, Inc."**

The next item on the agenda is the amendment of the Corporation's By-Laws.

At the request of the Chairman of the meeting, Mr. Lagazo enlightened the stockholders on the endorsement by the Board of the proposed amendment to the By-Laws of the Corporation to reflect the change in the Corporation's name to "ACE Enexor, Inc."

The Chairman asked the stockholders if they have any questions or comments. There being none, Mr. Miguel R. Principe moved for the approval of the amendment of the Title of the By-Laws to change the Corporation's name to ACE Enexor, Inc., and the adoption of Resolution No. S-2019-007, as shown on the screen. Ms. Timothea Lois C. Salcedo seconded the motion:

**Resolution No. S-2019-007**

RESOLVED, as recommended by the Board of Directors in Resolution No. B-2019-0723-04, to approve the amendment of the Title of the By-Laws to change name of the Corporation from "PHINMA Petroleum and Geothermal, Inc." to "ACE Enexor, Inc." as follows:

**AMENDED BY-LAWS OF**

**ACE Enexor, Inc.**

(formerly PHINMA Petroleum and Geothermal, Inc.)

As tabulated by the Committee of Inspectors of Proxies and Ballots and validated by SGV, the votes on the approval of the amendment of the Title of the By-Laws to change the Corporation's name to "AC Energy Philippines, Inc.", and for the adoption of Resolution No. S-2019-007 are as follows:

	<b>For</b>	<b>Against</b>	<b>Abstain</b>
Number of voted shares	191,157,188	0	0
% of shares voted	100%	0%	0%

**12. Approval of the Amendment of Article V of the By-Laws to Change the Principal Office of the Corporation to the 4<sup>th</sup> Floor, 6750 Office Tower, Ayala Ave., Makati City**

At the request of the Chairman, Mr. Lagazo then discussed the endorsement by the Board of the proposed amendment to the By-Laws of the Corporation to redefine the powers and functions of the Executive Committee, Audit Committee, and Personnel and Compensation Committee, re-organize the Nomination Committee into the Corporate Governance and Nomination Committee, and create the Board Risk Management and Related Party Transactions Committee.

There being no questions or comments on the item, Ms. Katreena Dachele C. Chang moved for the approval of the amendment of Article V of the By-Laws to redefine the powers and functions of the Executive Committee, Audit Committee, and Personnel and Compensation Committee, re-organize the Nomination Committee into the Corporate Governance and Nomination Committee, and create the Board Risk Management and Related Party Transactions Committee be approved, and the adoption of Resolution No. S-2019-008, as shown on the screen. Ms. Katherine Rose F. Lacio seconded the motion:

**Resolution No. S-2019-008**

**RESOLVED**, as recommended by the Board of Directors in Resolution No. B-2019-0723-05, to amend Article V of the By-Laws to update the Committees of the Corporation, as follows:

**ARTICLE V: Committees**

**SECTION 1. EXECUTIVE COMMITTEE.** The Committee shall be composed of not less than three (3) but not more than five (5) members, majority of whom shall be citizens of the Philippines, and shall designate among the members of the Committee a Chairman and a Vice Chairman. The Board may, from time to time, increase the membership of the Committee, and appoint additional members therein, who may or may not be Directors. Except as provided in Section 34 of the Revised Corporation Code of the Philippines, the Committee shall act on such specific matters within the competence of the Board as may from time to time be delegated to it.

**ARTICLE V-A: Corporate Governance and Nomination Committee**

**SECTION 1. CREATION.** The Committee shall be composed of at least three (3) Directors, all of whom shall be Independent Directors.

**SECTION 2. FUNCTION.** The Committee shall be tasked to ensure that good corporate governance principles and practices are being complied with and observed by the Corporation, and to determine the nomination and election process for the Corporation's Directors.

**ARTICLE V-B: Audit Committee.**

**SECTION 1. CREATION.** The Committee shall be composed of at least three (3) Non-Executive Directors, majority of whom shall be Independent Directors chaired by an Independent Director, who shall not chair any other Committee. The Chairman should not be the chairman of the Board or of any other committees.

**SECTION 2. FUNCTION.** The Committee shall be responsible for ensuring that adequate, effective and adequate financial reporting, internal

control, internal and external audit, and compliance systems are established and maintained.

**ARTICLE V-C: Personnel and Compensation Committee**

**SECTION 1. CREATION.** The Committee shall be composed of at least three (3) members, one of whom shall be an Independent Director.

**SECTION 2. FUNCTION.** The Committee shall be responsible for establishing a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and Directors, ensuring that compensation is consistent with the Corporation's culture, strategy, and control environment and aligned with the long-term interests of the Corporation and stakeholders.

**ARTICLE V-D: Board Risk Management and Related Party Transactions Committee**

**SECTION 1. CREATION.** The Committee shall be composed of at least three (3) Non-Executive Directors, majority of whom shall be Independent Directors. An Independent Director shall chair the Committee. The Chairman should not be the chairman of the Board or of any other committee.

**SECTION 2. FUNCTION.** The Committee shall be responsible for the oversight of the Corporation's Enterprise Risk Management (ERM) system and for the review of all material related party transactions of the Corporation.

As tabulated by the Committee of Inspectors of Proxies and Ballots and validated by SGV, the votes on the amendment to Article V of the By-Laws to redefine the powers and functions of the Executive Committee, Audit Committee, and Personnel and Compensation Committee, re-organize the Nomination Committee into the Corporate Governance and Nomination Committee, and create the Board Risk Management and Related Party Transactions Committee, and the adoption of Resolution No. S-2019-008 are as follows:

	<b>For</b>	<b>Against</b>	<b>Abstain</b>
Number of voted shares	191,157,188	0	0
% of shares voted	100%	0%	0%

**13. Appointment of External Auditor and Fixing of Its Remuneration**

The next item on the agenda is the appointment of the Corporation's external auditor. At the request of the Chairman, Mr. Lagazo informed the stockholders that the Audit Committee evaluated the performance during the past year of the Corporation's present auditor, the firm of SGV and found it satisfactory. Therefore, the Committee and the Board agreed to endorse the appointment of SGV as the Corporation's external auditor for the present fiscal year for an audit fee of PHP190,960.00, inclusive of value-added tax and out of pocket expenses.

With no stockholder raising any question or comment, on motion of Ms. Ma. Angelica M. Santos-Dalit, seconded by Ms. Angeli Mae D. Sipoy, the stockholders approved the appointment of SGV as external auditor of the Corporation for the current fiscal year including the SGV's audit fee, and the adoption of the following Resolution No. S-2019-009:

**Resolution No. S-2019-009**

**RESOLVED**, as endorsed by the Board of Directors, to approve the appointment of SyCip Gorres Velayo & Co. as the external auditor of the Corporation for the year 2019 for an audit fee of PHP190,960.00, inclusive of value-added tax and out-of-pocket expenses.

As tabulated by the Committee of Inspectors of Proxies and Ballots and validated by SGV, the votes on the election of SGV as external auditor of the Corporation, the approval of its audit fee, and the adoption of Resolution No. S-2019-009 are as follows:

	<b>For</b>	<b>Against</b>	<b>Abstain</b>
Number of voted shares	191,157,188	0	0
% of shares voted	100%	0%	0%

**14. Other Matters**

The Chairman opened the floor for additional questions or comments from the stockholders on matters which are relevant and of general concern to the stockholders.

Mr. Guillermo Gili, Jr. inquired as to how the 9-dash line of China affects the operations of the Corporation.

The Chairman responded by first referring to his earlier statements (in the Message of the Chairman / Report of the President) that as far as management is aware, the Corporation's operations are within the Philippine territory, at roughly 50 kilometers off the West Palawan shores, which distance is similar to where Malampaya is relative to the Palawan shoreline. Secondly, the Chairman disclosed that the Corporation conducted drilling in 2015, during which there was no geopolitical incident, and expressed hope that such order continues. While acknowledging the lack of certainty, the Chairman expressed belief that the 9-dash line is not an issue in the Corporation's case.

Mr. Soliven remarked that he noticed in the the Corporation's audited financial statements that there were investments in UITFs, which is a source of the Corporation's other income. Mr. Soliven clarified if the said activities were approved via board resolutions.

The Chairman answered in the affirmative, citing the limits of authority within Management to place these low-risk investments (good as cash equivalents). In consultation with the Corporation's Chief Financial Officer, the Chairman responded that the investments are within the limits set forth by the Board. The Chairman further noted that the Corporation holds cash and cash equivalents to fund the existing studies that are being conducted. Instead of putting said assets in low-yielding accounts, there are certain parameters where the management can place these, such as UITFs.

Mr. Gregorio Pahena asked about the stand of the Corporation's female directors in relation to the SOGIE (Sexual Orientation and Gender Identity and Expression) Equality Bill. The Chairman remarked that this is not within the purview of the Corporation's business, but that Mr. Pahena can approach Ms. Dizon and Ms. Geotina-Garcia after the meeting to ask for their personal views on the SOGIE Equality Bill.

There being no other questions or comments from the stockholders, the Chairman proceeded to recognize two (2) individuals who were present in the meeting who have contributed significantly to the Corporation and taken the Corporation to where it is now. The Chairman acknowledged the presence of the former Chief Executive Officer, Dr. Francisco L. Viray, and one of the former independent directors, Ms. Corazon dela Paz-Bernardo. The Chairman shared that Dr. Viray and Ms. dela Paz-Bernardo had really encouraged Management team to persist in the power to discover and that now, Management will try to optimize what they have and realize the power of potential. The Chairman expressed hope that something will be borne out of all the efforts that were put in the Corporation and



gave assurance that management will do what it can to further develop the potential resource that it has and make significant positive impact on the country's energy sector.

**15. Adjournment**

There being no other matters to discuss, on motion of Mr. Mark Angelo B. Almero, seconded by Mr. Christian Justin P. Boro, the meeting was adjourned.

  
**DODJIE D. LAGAZO**  
*Corporate Secretary*

  
**ALAN T. ASCALON**  
*Assistant Corporate Secretary*

  
**RAISSA C. VILLANUEVA**  
*Assistant Corporate Secretary*

ATTESTED BY:

  
**JOHN ERIC T. FRANCIA**  
Chairman of the Board and of the Meeting

**RELEVANT RESOLUTIONS APPROVED BY THE BOARD OF DIRECTORS  
FOR CALENDAR YEAR 2019 FOR RATIFICATION BY THE STOCKHOLDERS**

**Meeting of the Board of Directors**

**01 March 2019**

- Resolved to approve the sale/disposition of the Company's interest in Palawan55, and to delegate to the Executive Committee the final approval of the terms and conditions thereof. Corporate Secretary was further directed and authorized to prepare the appropriate resolution/s for the purpose.
- Resolved to approve the sale/disposition of the Company's interest in SC Blocks A & B, and delegate to the Executive Committee the final approval of the terms and conditions thereof. Corporate Secretary was further directed and authorized to prepare the appropriate resolution/s for the purpose.
- Resolved to approve the postponement of the Company's Annual Shareholders Meeting
- Resolved that the Company be authorized to transact with the following counterparties and/or any of its branches relative to transactions for all instruments and facilities:

Banco de Oro Unibank, Inc. and BDO Private Bank  
Rizal Commercial Banking Corporation  
Security Bank Corporation  
Metropolitan Bank & Trust Company  
Development Bank of the Philippines  
Bank of the Philippine Islands and any of its subsidiaries

- Resolved that the Company invest in the following instruments, both in local and foreign currency, with the abovementioned counterparties:
  - (a) Unit Investment Trust Funds, Trust Accounts and/or similar products
  - (b) Time deposits, certificate of deposits, special savings and other deposit products
- Resolved that the Company be authorized to open, operate, and close deposit accounts, both in local and foreign currency, with the foregoing banks.
- Resolved that the Company be authorized to open, operate, and close trust accounts with the Trust Department of the abovementioned banks.
- Resolved that the Company be authorized to enter into foreign exchange dealings as well as derivative transactions and contracts with Banco de Oro Unibank Inc., Security Bank Corporation, and Rizal Commercial Banking Corporation and/or their affiliate or branch, such as buying and selling of foreign exchange, under spot, swaps, options, and forwards transactions.
- Resolved that the Company be authorized to open and utilize the electronic or internet banking services, Transactional Banking services and payroll services of the foregoing banks.
- Resolved that any two (2) of the Group A signatories below be authorized to sign, execute and deliver deposits, withdrawal slips, drafts, authorizations, receipts, check payments and other modes of payment, and other documents for and in behalf of the Company which may be required or necessary in connection with the Company's transactions with banks:

**Group A**

Francisco L. Viray	President & CEO
Raymundo A. Reyes, Jr.	EVP & COO
Pythagoras L. Brion, Jr.	EVP Treasurer & CFO
Mariejo P. Bautista	SVP-Finance & Controller
Alan T. Ascalon	VP-Legal

- Resolved that for banking transactions involving amounts equal to **Fifty Thousand Pesos (Php 50,000.00) and below** any two (2) of the aforementioned Group A signatories or any one (1) of the Group A or Group B signatories below together with any one (1) of Group C signatories below, be authorized to sign execute and deliver deposits, withdrawal slips, drafts, authorizations, receipts, check payments and other modes of payment, and authorizations, receipts, check payments and other modes of payment, and other documents as may be required or necessary for and in behalf of the Company.

**Group B**

Arthur R. Villacorte AVP-Materials Management

**Group C**

Mariejo P. Bautista SVP-Finance and Controller  
Yolanda D. Anonuevo Asst. Controller

**Meeting of the Board of Directors**

**09 May 2019**

- Election of Director: John Eric T. Francia to replace Dr. Francisco L. Viray  
Effective Date: End of Day, 15 May 2019 to also replace Dr. Francisco L. Viray in Executive Committee
- Appointment of the following Officers Effective 15 May 2019
  - President and CEO: John Eric T. Francia – to replace Francisco L. Viray
  - CFO and Treasurer: Maria Corazon G. Dizon – to replace Pythagoras L. Brion
- Authorization to transact with the following counterparties and/or any of its branches
  - BDO Unibank, Inc. and BDO Private Bank
  - Rizal Commercial Banking Corporation
  - Security Bank Corporation
  - Metropolitan Bank & Trust Company
  - Development Bank of the Philippines
  - Land Bank of the Philippines
  - Bank of the Philippine Islands and any of its subsidiaries relative to the following:
    - Investment in the following instruments: Unit Investment Trust Funds and Trust Accounts and related products, namely: time deposits, certificate of deposits, special savings and other deposit products.
    - opening, maintenance and closure of deposit accounts and trust accounts (including escrow, custodianship and/or safekeeping) with the Trust Department, both in local and foreign currency
    - Authorization to enter into foreign exchange dealings as well as derivative transactions and contracts with Security Bank Corporation, BDO Unibank, Inc. and Rizal Commercial Banking Corporation and/or their affiliates or branch, such as buying and selling of foreign exchange, under spot, swaps, options, and forwards transactions
    - opening /utilization of electronic or internet banking services, Transactional Banking and payroll services
    - utilization of the Check Writing Facility of BDO (in-house) and Check Cutting Facility (bank-prepared) and authorize the processing and acceptance of company checks with digitized or printer generated signatures.

Group A	Group B (Php50,000 and below)
John Eric T. Francia	Arthur R. Villacorte
Maria Corazon G. Dizon	
Pythagoras L. Brion	
Mariejo P. Bautista	Group C (signing with Group B)
Roman Miguel G. De Jesus	Mariejo P. Bautista
Gabino Ramon G. Mejia	Yolanda D. Anonuevo
Alan T. Ascalon	

**Meeting of the Board of Directors  
01 July 2019**

- Resolved to approve and authorized the appointment and designation of the following as Attorneys-in-Fact of the Company effective 01 August 2019:

Class "A"	Class "B"
John Eric T. Francia	J. Edmond C. Garcia
Maria Corazon G. Dizon	Christian Gerard P. Castillo
Gabino Ramon G. Mejia	Mary Ann D. Ballesteros
Roman Miguel G. de Jesus	Riolita C. Inocencio
Dodjie D. Lagazo	Alan T. Ascalon
Jose Maria Eduardo P. Zabaleta	Shirlene M. Anyayahan
Andree Lou C. Kintanar	Ma. Teresa P. Posadas

that any of these Attorneys-in-fact, may conduct the operations of the Company, and act and sign, for and in behalf of the Company, any contract of whatsoever nature that creates any right and/or obligation of the Company, including the disposition of its properties, both real and personal, subject to limitations provided by law and in accordance with the following limits of authority:

<u>Contracts/Transactions involving the Following amounts (in Pesos)</u>	<u>Authority</u>
a. Up to Php 100,000.00	Any two (2) "Class B" signatories
b. Above Php 100,000.00 up to Php 5,000,000.00	Any one (1) "Class A" and any one (1) "Class B" signatories
c. Above Php 5,000,000.00	Any two (2) "Class A" signatories

to repeal and revoke any resolution approved by the Board of Directors prior hereto for the purpose of designating certain persons as Attorneys-in-fact for general transactions.

- Resolve to approve and authorize the appointment and designation of the following persons as authorized check signatories of the Company for all its bank accounts, effective 01 August 2019:

Class "A"	Class "B"
John Eric T. Francia	J. Edmond C. Garcia
Maria Corazon G. Dizon	Christian Gerard P. Castillo
Gabino Ramon G. Mejia	Mary Ann D. Ballesteros
Dodjie D. Lagazo	Riolita C. Inocencio
Jose Maria Eduardo P. Zabaleta	Alan T. Ascalon
Andree Lou C. Kintanar	Shirlene M. Anyayahan
	Ma. Teresa P. Posadas

That the funds of the Company deposited with any and all banks shall be subject to withdrawals, or be charged at any time upon checks, notes, drafts, bills of exchange, acceptances, undertakings, or other instruments or orders for the payment of money when needed, signed, drawn, accepted or endorsed on behalf of the Company, under the signatures of the Class "A" and "B" signatories named above, for such amounts and in the manner, form, and limitations indicated below:

Limits of Authority:

- For amounts not exceeding PhP100,000.00, or its equivalent in US Dollars, under the joint signatures of any two (2) Class "B" signatories
- For any amount exceeding PhP100,000.00 up to PhP5,000,000.00, or its equivalent in US Dollars, under the joint signatures of any one (1) Class "A" and any one (1) Class "B" signatories and

- (c) For any amount exceeding PhP5,000,000.00, or its equivalent in US Dollars, under the joint signatures of any two (2) Class “A” signatories.

to revoke any and all resolutions previously issued, which are contrary or inconsistent herewith, to authorize Management to give the appropriate notice of this resolution to all banks, financial institutions and other entities concerned.

### **Meeting of the Board of Directors 23 July 2019**

- Resolved to elect Mr. Jaime Alfonso E. Zobel de Ayala as director of the Company for the current fiscal year, and to serve such until his successor has been duly elected and qualified
- Resolved to approve and to authorize the conduct of the 2019 annual stockholders meeting of the Company as follows:

Date: 17 September 2019, Tuesday  
Time: 2:00 P.M.  
Place of Meeting: Ballroom 2, Fairmont Hotel, 1 Raffles Drive, Makati Avenue, Makati City, 1224  
Record Date: 16 August 2019, Friday  
Inclusive Dates of Closing of Stock Transfer Book:

- Start Date: 17 August 2019
- End Date: 17 September 2019

with the following agenda:

- I. Call to Order
  - II. Proof of notice and determination of quorum
  - III. Approval of minutes of the previous Annual Shareholders’ Meeting
  - IV. Annual Report of Management including the 2018 Audited Financial Statements and ratification of all acts of the Board of Directors and of Management since the last Annual Shareholders’ Meeting
  - V. Amendment the articles of incorporation
    - a. Change in corporate name
    - b. Change in address
  - VI. Amendments to the by-laws
    - a. Change in corporate name
    - b. Updating of Committees
  - VII. Election of Directors (including Independent Directors)
  - VIII. Appointment of external auditor
  - IX. Other matters
  - X. Adjournment
- Resolved to amend the Articles of Incorporation as follows:
    - i. Change the corporate name to ACE Enexor, Inc. and for this purpose, to amend the First Article; and
    - ii. Change the corporate office to 4<sup>th</sup> Floor, 6750 Office Tower, Ayala Avenue, Makati City and for this purpose, to amend the Third Article.
  - Resolve to amend the By-Laws as follows:
    - i. Change the corporate name to ACE Enexor, Inc. and for this purpose, to amend the First Article; and
    - ii. Amend Art. V of By-Laws to redefine the composition and powers of the existing committees, and create new committees as follows:
      - a. Corporate Governance and Nomination Committee
      - b. Audit Committee
      - c. Personnel and Compensation Committee

d. Board Risk Management and Related Party Transactions Committee (new; separated from Audit Committee)

- Resolved to approve and authorize the amendment of the Manual of Corporate Governance on terms as presented.
- Resolved to approve and authorize the updating of the Materials Management Manual and Procurement Manual on terms as presented.
- Resolved to approve the proposed remuneration for independent directors at PHP 50,000.00 per Board Meeting attended, and PHP 10,000.00 per Committee meeting attended.
- Resolved to approve the Company's year to date financial statements as presented.
- Resolved to authorize Palawan 55 Exploration & Production Corporation ("Palawan55") to notify the Department of Energy ("DOE") of its entry into Sub-Phase 5 of SC 55 effective 26 August 2019, without prejudice to Palawan55's option to enter the Appraisal Period no later than the said date;
- Resolved to authorize Palawan55 to notify the DOE of its entry into the Appraisal Period subject to the reasonable determination to be made by the authorized representatives named below;
- Resolved to delegate to Messrs. John Eric T. Francia and Raymundo A. Reyes, Jr. to determine the propriety of the Palawan55 entering into Appraisal Period and for any one of them to communicate to the DOE the decision to enter into Sub-Phase 5 of SC 55 without prejudice to Palawan55's option to enter into the Appraisal Period, and/or to enter into the Appraisal Period if warranted; and
- Resolved that in the event that Palawan55 does not enter into the Appraisal Period, for the Company to exercise its voting rights to authorize the Company to approve and authorize Palawan55 procure the Long Lead Items (wellhead, casings, conductors) required for drilling operations (ca. \$1.5 MM to \$ 2 MM).
- Resolved to ratify and approve the second quarter 2019 financial statement of the Company, the 2019 external audit plan including the proposed audit fees of PHP 183,750.00, and the 2019 internal audit work plan, the write-off of the P34.0M deferred exploration cost of SC 55 and the other actions taken by the Audit Committee at its meeting held on 22 July 2019.

**Organizational Meeting of the Board of Directors  
17 September 2019**

- Resolved to approve the minutes of the Special Meeting of the Board of Directors of the Company held on 23 July 2019.
- Resolved to elect the following as officers of the Company for the years 2019 to 2020 and to serve as such until the election and qualification of their respective successors:

John Eric T. Francia – Chairman of the Board; President & CEO  
Raymundo A. Reyes, Jr. – Chief Operating Officer  
Dodjie D. Lagazo – Corporate Secretary; Compliance Officer  
Alan T. Ascalon – Assistant Corporate Secretary  
Raissa C. Villanueva – Assistant Corporate Secretary  
Maria Corazon G. Dizon – Treasurer & CFO  
Mariejo P. Bautista – SVP–Finance and Controller

- Resolved to appoint the following as representatives to the various board committees for the years 2019 to 2020 and to serve as such until the appointment of their respective successors:

**Executive Committee**

1. John Eric T. Francia – Chairperson
2. Maria Corazon G. Dizon – Member

3. Raymundo A. Reyes, Jr. - Member

**Personnel and Compensation Committee**

1. Jaime Alfonso Zobel de Ayala - Chairperson
2. Ma. Aurora Geotina-Garcia – Member
3. Alberto A. Lim – Member

**Audit Committee**

1. Ma. Aurora Geotina-Garcia – Chairperson
2. Raphael Perpetuo M. Lotilla – Member
3. Augusto Cesar D. Bengzon – Member

**Board Risk Management and Related Party Transactions Committee**

1. Alberto A. Lim – Chairperson
2. Raphael Perpetuo M. Lotilla – Member
3. Jaime Z. Urquijo – Member

**Corporate Governance and Nomination Committee**

1. Raphael Perpetuo M. Lotilla – Chairperson
2. Ma. Aurora Geotina-Garcia – Member
3. Alberto A. Lim – Member

Further, upon consultation with the independent directors, Ms. Ma. Aurora Geotina-Garcia was nominated and confirmed to be the lead independent director of the Company.

**Meeting of the Board of Directors  
22 October 2019**

- Resolved to approve the minutes of the Company’s Organizational Meeting of the Board of Directors held on 17 September 2019.
- Resolved to approve the Revised Related Party Transactions Policy of the Company on terms as presented.
- Resolved to approve the Company’s Consolidated Financial Statements for the Nine (9) Months Ended 30 September 2019 and 2018 as presented.
- Resolved to approve and appoint Ms. Maria Corazon G. Dizon as the Chief Risk Officer of the Company.
- Resolved to approve and appoint Mr. Henry T. Gomez as the Chief Audit Executive of the Company.

## Management's Discussion and Analysis (MD&A) and Plan of Operations

### **BUSINESS AND GENERAL INFORMATION**

#### **BUSINESS**

ACE Enexor, Inc. (“**ACEX**” or the “**Company**”), formerly PHINMA Petroleum and Geothermal, Inc. (“**PPG**”) is a Philippine corporation organized on 28 September 1994 as a wholly owned subsidiary of AC Energy Philippines, Inc. (“**ACEPH**”), formerly PHINMA Energy Corporation (“**PHINMA Energy**”). The Company’s Articles of incorporation and By-Laws were amended on 28 August 2012, to focus the primary purpose of the Company to the business of oil and gas exploration, development, and production both domestically and internationally.

On 24 June 2019, ACEPH purchased the combined 25.18% stake of PHINMA, Inc. (30,481,111 shares) and PHINMA Corp. (32,481,317 shares) in ACE Enexor. Meanwhile, AC Energy, Inc. acquired the 51.48% combined stake of PHINMA, Inc. and PHINMA Corporation in ACEPH, and subscribed to 2.632 billion ACEPH shares. In addition, AC Energy, Inc. acquired an additional 156,476 ACEPH shares under a mandatory tender offer which ended on 19 June 2019. AC Energy (66.34%), together with its directors, officers and affiliates (3.18%), owns and controls 69.52% percent of all issued and outstanding shares of the ACEPH.

As of 29 February 2020, ACEPH owns 75.92% of the outstanding voting shares of the Company. The immediate parent company of ACEPH is AC Energy, Inc. ACEPH has a management contract with AC Energy, Inc. effective until 1 September 2023. Under the contract, AC Energy, Inc. has general management authority with corresponding responsibility over all operations and personnel of ACEPH, including planning, direction, and supervision of all the operations, sales, marketing, distribution, finance, and other business activities of the Company. The ultimate parent company of the Company is Mermac, Inc. domiciled and incorporated in the Republic of the Philippines.

Petroleum and geothermal resources exploration involve the search for commercially exploitable subsurface deposits of oil, gas and steam through geological, geophysical and drilling techniques. A discovery is made when significant amounts of oil and/or gas and steam are encountered in a well and are flowed to the surface. Following a discovery, additional wells (appraisal or delineation wells) are drilled to determine whether the petroleum and steam accumulation could be economically extracted or not. If the results are positive, the oil, gas or steam field is developed by drilling production wells, and installing the necessary production facilities such as wellheads, platforms, separators, storage tanks, pipelines, and others.

#### **Material dates**

November 2012	SEC approves increase of capital and restructuring of ACEX.
November 2012	ACEPH subscribes to 24 Billion new shares at par value of ₱0.01. <sup>1</sup>
November 2012	Palawan55 Exploration and Production Corporation (“Palawan55”), a subsidiary of ACEX and ACEPH, is incorporated.
December 2012	ACEX and ACEPH sign a Memorandum of Agreement and Deeds of Assignment for the transfer of SC 6 (Block A and B), SC 51 and SC 69; Palawan 55 and ACEPH sign a Memorandum of Agreement and Deed of Assignment for the transfer of SC 55.
February 2013	ACEPH requests DOE approval of the assignment contracts.
23 April 2013	The DOE approves the assignment of the entire participating interests of ACEPH in: 1) SC 6 Block A, SC 6 Block B, SC51 and SC69 to ACEX, and 2) in 55 to Palawan 55.
31 May 2013	SEC approves the increase in par value of ACEX shares from ₱0.01 to ₱1.00 per share.

<sup>1</sup>In 2013, the par value of ACEX shares was increased to ₱1.00 per share.



27 September 2013	SEC approves the amendment to include the Lockup Requirements in accordance with the Philippine Stock Exchange's (PSE) Listing Rules for Small, Medium and Emerging (SME) Board and Main Board.
03 July 2015	SEC approves the amendment to change the principal office of the Company to Level 11, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City, Philippines.
31 May 2017	SEC approves the amendment of the Company's Articles of Incorporation and By-Laws to change its name from Trans-Asia Petroleum Corporation to PHINMA Petroleum and Geothermal, Inc. to reflect the Company's entry into the exploration and development of geothermal resources business line and to further enhance the Company's identity as part of the PHINMA Group of Companies.
24 June 2019	ACEPH purchases the combined 25.18% stake of PHINMA, Inc. (30,481,111 shares) and PHINMA Corp. (32,481,317 shares) in the Company.
11 November 2019	SEC approves the amendment of the Company's Articles of Incorporation and By-Laws to change its name from PHINMA Petroleum and Geothermal, Inc. to ACE Enexor, Inc. and to change the principal office of the Company to 4 <sup>th</sup> Floor 6750 Office Tower, Ayala Avenue, Makati City, Philippines.

## **Petroleum Exploration and Production**

### *ACE Enexor, Inc.'s Corporate Structure*

As of 29 February 2020, ACEPH owns 75.92% of the outstanding voting shares of the ACEX. The immediate parent company of ACEPH is AC Energy, Inc. ACEPH has a management contract with AC Energy, Inc. for five (5) years effective until 1 September 2023. Under the contract, AC Energy, Inc. has general management authority with corresponding responsibility over all operations and personnel of ACEPH, including planning, direction, and supervision of all the operations, sales, marketing, distribution, finance, and other business activities of the Company. The ultimate parent company of the Company is Mermac, Inc. domiciled and incorporated in the Republic of the Philippines.

The Company's primary business is the exploration and production of crude oil and natural gas through interests in petroleum contracts and through holdings in resource development companies with interests in petroleum contracts. Crude oil, natural gas and coal are fossil fuels that are derived from organic material deposited and buried in the earth's crust Millions of years ago. Fossil fuels currently account for more than half of primary energy mix in the Philippines. Coal and natural gas are used to fuel nearly two thirds of power generation in the country. It is likely that fossil fuels will continue to be major energy sources over the next decades, even with the aggressive development of alternative sources of energy.

A petroleum discovery is made when significant amounts of oil and/or gas are encountered in a well and are flowed to the surface. Following a discovery, additional wells (called appraisal or delineation wells) are drilled to determine whether the petroleum accumulation could be economically extracted or not. If the results are positive, the oil or gas field is developed by drilling production wells, and installing the necessary production facilities such as wellheads, platforms, separators, storage tanks, pipelines and others.

Crude oil is usually sold at market price in its natural state at the wellhead after removal of water and sediments, if any. Depending on the location of the oil field, the oil produced may be transported via offshore tankers and/or pipeline to the refinery. On the other hand, natural gas may be flared, reinjected to the reservoir for pressure maintenance, or sold, depending on the volume of reserves and other considerations. Natural gas is commonly transported by pipeline. However, if the deposit is very large and the market is overseas, the gas may be transformed into liquefied natural gas and transported using specialized tankers.

### **Domestic Petroleum Exploration and Production**

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

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

The extensive exploration program in the 1970s resulted in several oil and gas discoveries in the West Palawan basins. Nido1 well, drilled by Philippine Cities Service in 1976, was the first oil discovery in the Northwest Palawan basin. Several small fields, all located in offshore Northwest Palawan, were subsequently developed and produced.

In 1989, relatively large deposits were discovered in the deep waters off Palawan. Occidental Petroleum discovered the Camago gas field. In 1990, Shell discovered the extension of the Camago deposit and the combined accumulation became known as the Malampaya gas field, the largest natural gas find in the country to date. The Malampaya gas field commenced production in late 2002, providing fuel for 2,700 MW of gas fired power generation facilities in the Luzon grid.

At the end of 2005, the estimated petroleum resources of the Philippines amounted to 456 Million Barrels of Fuel Oil Equivalent (BFOE). This consists of 25 Million barrels of oil, 2,135 Billion cubic feet of gas and 54 Million barrels of condensate. These petroleum resource estimates cover the 16 sedimentary basins situated from the Cagayan Valley Basin in the north down to the Agusan Davao Basin in the south as well as the Northwest Palawan Basin and the Sulu Sea Basin along the western flank of the archipelago. These basins are located in both offshore and onshore areas.

Under *Presidential Decree No. 87*, petroleum service contractors are entitled to the following incentives:

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

There are presently 21\* active petroleum service contracts in the Philippines:

No.	PSC NO.	Operator	Location/Area (hectares)
1	<b>6A</b>	The Philodrill Corporation	NW Palawan / 108,146.587
2	<b>6B</b>	The Philodrill Corporation	NW Palawan / 53,293.945
3	<b>14</b>	The Philodrill Corporation / Galoc Production Company WLL	NW Palawan / 70,887.52
4	<b>37</b>	PNOC – Exploration Corporation	Cagayan / 36,000.00
5	<b>38</b>	Shell Philippines Exploration B. V.	NW Palawan / 83,000
6	<b>40</b>	Forum Exploration, Inc.	North Cebu / 458,000.00
7	<b>44</b>	Gas2Grid Ltd.	Central Cebu / 75,000
8	<b>49</b>	China International Mining Petroleum Corp.	South Cebu / 197,000
9	<b>53</b>	Pitkin Petroleum Ltd.	Onshore Mindoro / 724,000

10	<b>54</b>	Nido Petroleum Philippines Pty. Ltd	NW Palawan (Area A / B = 87,616 / 314,000
11	<b>55</b>	Otto Energy Investments Ltd.	West Palawan Ultra Deepwater / 988,000
12	<b>56</b>	Total E&P Ltd	Sulu Sea / 622,000
13	<b>57</b>	PNOC – Exploration Corporation	Calamian Block, NW Palawan / 720,000
14	<b>58</b>	Nido Petroleum Philippines Pty. Ltd	West Calamian Block, NW Palawan / 1,344,000
15	<b>59</b>	PNOC – Exploration Corporation	West Balabac, SW Palawan/ 1,476,000
16	<b>63</b>	PNOC – Exploration Corporation	SW Palawan / 528,000
17	<b>70</b>	Polyard Petroleum International Company Ltd	Central Luzon Basin / 684,000
18	<b>72</b>	Forum (GSEC101) Ltd.	Reed Bank / 888,000
19	<b>74</b>	PXP Energy Corporation	Northwest Palawan/426,800
20	<b>75</b>	PXP Energy Corporation	Northwest Palawan/616,000
21	<b>76</b>	Ratio Petroleum Limited	East Palawan/416

*\*As of 31 December 2019 per DOE Data*

## **Competition**

While competition for market of petroleum does not have a significant bearing in the operations of the Company, competition occurs on two fronts, namely: 1) petroleum acreage and 2) investment capital.

The Department of Energy (DOE) awards petroleum contracts to technically and financially capable companies through competitive bidding. Thus, the Company competes with foreign firms and local exploration companies, such as Philippine National Oil Company (PNOC) Exploration Corporation, The Philodrill Corporation, Oriental Petroleum and Minerals Corporation, and PetroEnergy Resources Corporation, for acquisition of prospective blocks. While there is competition in the acquisition of exploration rights, the huge financial commitments associated therewith also provide opportunities for partnership, especially between local and foreign companies. Under a service contract, a substantial financial incentive is given to consortia with at least fifteen percent (15%) aggregate Filipino equity. As a result, foreign firms invite local exploration companies in joint ventures to take advantage of said benefit and vice versa.

ACEX and other listed companies also compete for risk capital in the securities market. This may be in the form of initial public offerings, rights offerings, upward change in capitalization, and other vehicles. These domestic companies may also seek full or partial funding of projects from foreign companies through farm out of interest (dilution of equity in exchange for payment of certain financial obligations).

ACEX is also a recognized leader in the local petroleum industry. The Company is comparatively financially robust and has low level of debt. Its foreign partners and the DOE recognize its management and technical expertise in the field of energy exploration. Given these strengths, ACEX remains a strong competitor in the local exploration and production industry.

## **Foreign Sales**

The Company does not have any foreign sales.

## **Bankruptcy, Receivership or Similar Proceedings, Reclassification, Merger or Purchase or Sale of Assets**

Neither the Company nor its subsidiaries or affiliates are under any actual or potential bankruptcy, receivership or similar proceedings. Nor has the Company had any material reclassification, merger, consolidation, or purchase or sale of any significant amount of assets not in the ordinary course of business.

## Suppliers and Customers

The Company's exploration business is not dependent on a single supplier nor on a single customer. Since the Company is not yet in operations, it does not have any Principal Suppliers and sources of raw materials.

## 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. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely its legal form.

Any transaction between the Company and a related party must be approved by the Board Risk Management and Related Party Transaction Committee, composed of Independent Directors. The Committee uses acceptable valuation methods common in the industry or project involved, including but not limited to:

1. Joint Venture Method, a market-based approach which uses actual transactions on the asset;
2. Comparative Valuation Method which uses similar projects to estimate the value of an asset; and
3. Multiple Exploration Expenditure Method which uses historical cost as basis for estimating asset value.

In the last two (2) years, the Company has not been a party in any transaction in which a Director or Executive Officer of the Company, any nominees for election as a director, any security holder owning more than 10% of the Company's issued and outstanding shares and/or any member of his immediate family had a material interest thereon.

Outstanding balances at year-end are unsecured and settlement occurs in cash throughout the financial year. There have been no guarantees provided or received for any related party receivables or payables. For the years ending 2019, 2018 and 2017, the Company has not recorded any impairment of receivables on amounts owed by the related parties. The assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

In the ordinary course of business, the Company transacts with associates, affiliates and other related parties on operating and reimbursement of expenses, management service agreements and advances.

### As at and for the Year Ended December 31, 2019

Company	Amount/ Volume	Nature	Outstanding Balance		Terms	Conditions
			Receivable	Payable		
<b>Parent Company</b>						
<b>ACEPH</b>						
Accounts payable and other current liabilities	₱8,577,272	Advances	₱-	₱7,577,272	30-60 day terms; noninterest-bearing	Unsecured
Due to related parties			₱- ₱7,577,272			

#### ACEPH

The Group purchased U.S. dollars to pay various expenses through ACEPH's banking facilities and accommodation of expenses.

#### PHINMA Inc.

The Parent Company and its subsidiaries PHINMA Power, CIPP and PHINMA Renewable have management contracts with PHINMA, Inc. These Management Contracts were assigned by PHINMA Inc. to AC Energy on June 24, 2019.

### T-O Insurance

T-O Insurance is also controlled by PHINMA, Inc. through a management agreement. The Group insures its properties through T-O Insurance.

Company			As at and for the Year Ended 31 December 2018		Terms	Conditions
	Amount/ Volume	Nature	Outstanding Balance Receivable	Payable		
<b>Ultimate Parent Company</b>						
<b>PHINMA, Inc.</b>						
Accounts payable and other current liabilities	<b>₱262,645</b>	Share in expenses	<b>₱-</b>	<b>₱31,380</b>	30–60 day terms; noninterest-bearing	Unsecured
<b>Parent Company</b>						
<b>AC Energy Philippines, Inc.</b>						
Others	<b>140,724</b>	Purchase of dollar	–	–	30–60 day terms; noninterest-bearing	Unsecured
<b>Entity Under Common Control</b>						
<b>PHINMA Corporation</b>						
Accounts payable and other current liabilities	<b>54,038</b>	Share in expenses	–	<b>1,100</b>	30–60 day terms; noninterest-bearing	Unsecured
<b>T-O Insurance, Inc.</b>						
Accounts payable and other current liabilities	<b>1,451</b>	Insurance expense	–	–	30–60 day terms; noninterest-bearing	Unsecured
<b>Due to related parties</b>			<b>₱-</b>	<b>₱32,480</b>		
<b>Subsidiary</b>						
<b>Palawan55</b>						
	<b>₱1,950,000</b>	Advances	<b>₱1,950,000</b>	<b>₱-</b>	30–60 day terms; noninterest-bearing	Unsecured
<b>Due from related party</b>			<b>₱1,950,000</b>	<b>₱-</b>		

Company			As at and for the Year Ended 31 December 2017		Terms	Conditions
	Amount/ Volume	Nature	Outstanding Balance Receivable	Payable		
<b>Ultimate Parent Company</b>						
<b>PHINMA, Inc.</b>						
Accounts payable and other current liabilities	₱165,787	Share in expenses	₱-	₱24,026	30–60 day terms; noninterest-bearing	Unsecured
<b>Intermediate Parent Company</b>						
<b>ACEPH</b>						
Accounts payable and other current liabilities	663,643	Accommodation	–	–	30–60 day terms; noninterest-bearing	Unsecured
Others	543,879	Purchase of dollar	–	–	30–60 day terms; noninterest-bearing	Unsecured

(Forward)

**As at and for the Year Ended 31 December 2017**

Company	Amount/ Volume	Nature	Outstanding Balance		Terms	Conditions
			Receivable	Payable		
<b>Entity Under Common Control</b>						
<b>PHINMA Corporation</b>						
Accounts payable and other current liabilities	₱48,118	Share in expenses	₱-	₱3,036	30–60 day terms; noninterest-bearing	Unsecured
<b>T-O Insurance, Inc.</b>						
Accounts payable and other current liabilities	2,209	Insurance expense	-	-	30–60 day terms; noninterest-bearing	Unsecured
Due to related parties (see Note 10)			₱-	₱27,062		

PHINMA, Inc.

The Company had a management contract with PHINMA, Inc. up to 01 January 2018, renewable thereafter upon mutual agreement. Under this contract, PHINMA, Inc. had a general management authority with corresponding responsibility over all operations and personnel of the Company including planning, direction, and supervision of all the operations, and other business activities. Under the existing agreement, the Company pays PHINMA, Inc. a fixed monthly management fee plus an annual incentive based on a certain percentage of the Company's net income. On 23 February 2016, the Company's Board approved the suspension of the management contract for 2016, which remained effective as at 21 March 2019. PHINMA, Inc. bills the Company for its share in expenses.

AC Energy Philippines, Inc. formerly PHINMA Energy

The Company purchased US dollars to pay various expenses through the PHINMA Energy's banking facilities and accommodation of expenses.

Palawan55

The Company's non-interest-bearing advances made to Palawan55 is for the latter's working capital requirements.

PHINMA Corporation

PHINMA Corporation was likewise controlled by PHINMA, Inc. through a management agreement. PHINMA Corporation bills the Company for its share in expenses.

T-O Insurance

T-O Insurance is likewise controlled by PHINMA, Inc. through a management agreement. The Company insures its properties through T-O Insurance.

**Research and Development**

The Company incurs minimal expenses for research and development activities, which do not amount to a significant percentage of its exploration costs.

## REGULATORY FRAMEWORK

The Company's petroleum business is subject to the following laws, rules and regulations:

### *Presidential Decree (P.D.) No. 87, as amended, or The Oil Exploration and Development Act of 1972*

P.D. 87, as amended, or "The Oil Exploration and Development Act of 1972" declares that the State should accelerate the discovery and production of indigenous petroleum through utilization of government and/or private resources, local and foreign, under arrangements calculated to yield maximum benefit to the Filipino people and revenues to the Philippine government, and to assure just returns to participating private enterprises, particularly those that will provide services, financing, and technology, and fully assume all exploration risks. The government may undertake petroleum exploration and production by itself or may indirectly undertake the same through Service Contracts. Under a service contract, service and technology are furnished by a contractor for which it would be entitled to a service fee of up to forty percent (40%) of net production proceeds. Where the Government is unable to finance petroleum exploration or in order to induce the contractor to exert maximum efforts to discover and produce petroleum, the service contract would stipulate that, if the contractor furnishes service, technology and financing, the proceeds of the sale of the petroleum produced under the service contract would be the source of payment of the service fee and the operating expenses due the contractor. Operating expenses are deductible up to seventy percent (70%) of gross production proceeds. If, in any year, the operating expenses exceed seventy percent (70%) of gross proceeds from production, the unrecovered expenses may be recovered from the operations of succeeding years. Intangible exploration costs may be reimbursed in full, while tangible exploration costs (such as capital expenditures and other recoverable capital assets) are to be depreciated for a period of five (5) or ten (10) years. Any interest or other consideration paid for any financing approved by the Government for petroleum development and production would be reimbursed to the extent of two-thirds (2/3) of the amount, except interest on loans or indebtedness incurred to finance petroleum exploration.

Aside from reimbursement of its operating expenses, a contractor with at least fifteen percent (15%) Filipino participation is allowed to recover a Filipino participation incentive allowance equivalent to a maximum of seven and a half percent (7.5%) of the gross proceeds from the crude oil produced in the contract area. Incentives to service contractors include (i) exemption from all taxes except income tax which is paid out of Government's share, (ii) exemption from all taxes and duties on importation of machinery, equipment, spare parts, and materials for petroleum operations, (iii) repatriation of investments and profits, and (iv) free market determination of crude oil prices. Finally, a subcontractor is subject to special income tax rate of eight percent (8%) of gross Philippine income while foreign employees of the service contractor and the subcontractor are subject to a special tax rate of fifteen percent (15%) on their Philippine income.

A service contract has a maximum exploration period of ten (10) years and a maximum development and production period of forty (40) years. Signature bonus, discovery bonus, production bonus, development allowance and training allowance are payable to the Government. Other pertinent laws and issuances include P.D. 1857, a law amending certain sections of P.D. 87, as amended, offering improved fiscal and contractual terms to service contractors with special reference to deep water oil exploration; *DOE Circular No. 2009040004*, a circular that establishes the procedures for the Philippine Contracting Rounds; *DOE Circular No. 2003050006*, a circular that provides the guidelines to the financial and technical capabilities of a viable petroleum exploration and production company; *Executive Order (EO) No. 66* issued in 2002 which designated the DOE as the lead government agency in developing the natural gas industry; and *DOE Circular 200208005*, a circular setting the interim rules and regulations governing the transmission, distribution and supply of natural gas.

Under P.D. 87, as amended, every service contractor that produces petroleum is authorized to dispose of same either domestically or internationally, subject to supplying the domestic requirements of the country on a pro-rata basis. There is a ready market for oil produced locally inasmuch as imported oil which comprised about thirty-four percent (34%) of the Philippines' primary energy mix as of 2010. Heavy dependence on foreign oil supply is not expected to change significantly over the next ten (10) years. On a case by case basis, the Government has allowed the export of locally produced crude oil in the past. The domestic natural gas industry is at the nascent stage, with supply coming from a single offshore field. Domestic gas production accounted for about seven percent (7%) of the country's primary energy mix in year 2010. The Government is actively promoting the use of natural gas for power, industry, commercial and transport applications, owing to environmental considerations and the need to diversify energy supply.

### ***Republic Act (R.A.) No. 8371 or The Indigenous Peoples' Rights Act of 1997***

R.A. 8371 or “The Indigenous Peoples’ Rights Act of 1997” (IPRA) requires the free and prior informed consent (FPIC) of indigenous peoples (IP) who will be affected by resource exploration and extraction activities. Under the IPRA, IPs are granted certain preferential rights to their ancestral domains and all resources found therein. Ancestral domains are defined as areas generally belonging to IPs, subject to property rights within ancestral domains already existing or vested upon the effectivity of the IPRA, comprising lands, inland waters, coastal areas, and natural resources, held under a claim of ownership, occupied or possessed by IPs themselves or through their ancestors, communally or individually, since time immemorial, continuously to the present, except when interrupted by war, force majeure or displacement by force, deceit, stealth, or as a consequence of government projects or any voluntary dealings entered into by the Government and private persons, and which are necessary to ensure their economic, social and cultural welfare.

Under the IPRA, no concession, license, lease or agreement shall be issued by any government agency without the certification precondition (CP) from the National Commission on Indigenous People (NCIP). The CP states that the FPIC has been obtained from the concerned IPs. For areas not occupied by IPs, a certificate of non-overlap is issued instead by the NCIP. For areas occupied by IPs, the applicant and representatives from the NCIP will conduct consultations and consensus building to obtain the consent of IPs. The FPIC is manifested through a memorandum of agreement with IPs, traditionally represented by their elders. The CP is then issued by the NCIP stating that the FPIC has been obtained from the IPs concerned.

### ***R. A. 8749 or The Philippine Clean Air Act of 1999***

R.A. 8749 or “The Philippine Clean Air Act of 1999” is a comprehensive air quality management program which aims to achieve and maintain healthy air for all Filipinos. Under this, the Department of Environment and Natural Resources (DENR) is mandated to formulate a national program on how to prevent, manage, control, and reverse air pollution using regulatory and market based instruments, and setup a mechanism for the proper identification and indemnification of victims of any damage or injury resulting from the adverse environmental impact of any project, activity or undertaking. To implement this law, the Government is promoting energy security through policies on energy independence, sustainability, and efficiency. These involve:

- (1) increasing oil and gas exploration;
- (2) strengthening of the PNOC to spearhead the development of indigenous energy resources and building global partnerships and collaborative undertakings;
- (3) pursuing the development of renewable energy such as geothermal, wind, solar, hydropower, and biomass, and the vigorous utilization of the cleaner development mechanism and the emerging carbon market;
- (4) expanding the use of natural gas; and
- (5) adopting energy efficiency promotion strategies.

In support of this legislation, ACEX is participating in oil and gas exploration and development of renewable energy sources.

### ***The Philippine Environmental Impact Statement System***

Projects relating to resource exploration and extraction are required to comply with the Philippine Environmental Impact Statement (EIS) System. The EIS System was established by virtue of P.D. 1586 entitled “Establishing An Environmental Impact Statement System, Including Other Environmental Management Related Measures And For Other Purposes”, issued in 1978. The EIS System requires all government agencies; government owned or controlled corporations and private companies to prepare an Environmental Impact Assessment (EIA) for any project or activity that affects the quality of the environment. An EIA is a process that involves evaluating and predicting the likely impacts of a project (including cumulative impacts) on the environment and includes designing appropriate preventive, mitigating and enhancement measures to protect the environment and the community’s welfare. An entity that complies with the EIS System is issued an Environmental Compliance Certificate (“ECC”), which is a document certifying that, based on the representations of the project proponent, the proposed project or undertaking will not cause significant negative environmental impacts and that the project proponent has complied with all the requirements of the EIS System.



To strengthen the implementation of the EIS System, the Office of the President of the Philippines issued Administrative Order (A.O.) No. 42 in 2002, providing the streamlining of the ECC application processing and approval procedures. Pursuant to A.O. 42, the DENR promulgated DENR AO No. 200330, also known as the Implementing Rules and Regulations (IRR) for the Philippine EIS System, in 2003.

Under the IRR, only projects that pose potential significant impact to the environment would be required to secure ECCs. In determining the scope of the EIS System, two factors are considered, namely: (i) the nature of the project and its potential to cause significant negative environmental impacts, and (ii) the sensitivity or vulnerability of environmental resources in the project area.

Specifically, the criteria used to determine projects covered by the EIS System are as follows:

- a. Characteristics of the project or undertaking
  - i. size of the project;
  - ii. cumulative nature of impacts compared to other projects;
  - iii. use of natural resources;
  - iv. generation of wastes and environment related nuisance; and
  - v. environment related hazards and risk of accidents.
- b. Location of the project
  - i. vulnerability of the project area to disturbances due to its ecological importance endangered or protected status;
  - ii. conformity of the proposed project to existing land use, based on approved zoning or on national laws and regulations; and
  - iii. relative abundance, quality and regenerative capacity of natural resources in the area, including the impact absorptive capacity of the environment.
- c. Nature of the potential impact
  - i. geographic extent of the impact and size of affected population;
  - ii. magnitude and complexity of the impact; and
  - iii. likelihood, duration, frequency, and reversibility of the impact.

The ECC of a project not implemented within five (5) years from its date of issuance is deemed expired. The proponent must reapply for a new ECC if it intends to still pursue the project. The reckoning date of project implementation is the date of ground-breaking, as stated on the proponent's work plan submitted to the Environmental Management Bureau (EMB).

Petroleum service contractors are mandated to comply with all environmental laws and rules and regulations in all phases of exploration and production operations. ECCs or certificates of no coverage, if applicable, are obtained from the EMB of the DENR, in coordination with the DOE.

The exploration, production and sale of oil are subject to extensive national and local laws and regulations. The Company and its subsidiaries may incur substantial expenditures to comply with these laws and regulations, which may include permitting costs, adoption and implementation of antipollution equipment, methods and procedures, and payment of taxes and royalties.

Under these laws, the Company could be subject to claims for personal injury or property damages, including damages to natural resources, which may result from the Company's operations. Failure to comply with these laws may also result in the suspension or termination of the Company's operations and subject it to administrative, civil and criminal penalties. Moreover, these laws could be modified or reinterpreted in ways that substantially increase the Company's costs of compliance. Any such liabilities, penalties, suspensions, terminations or regulatory changes could have a material adverse effect on the Company's financial condition and results of operations

### **Statement of Active Business Pursuit**

The Company is at present a co-contractor in two (2) Service Contracts ("SC") with the Philippine government. An SC grants the contractor the exclusive right to explore, develop and produce petroleum resources within the contract area. In the event of commercial production, the Government and the contractor share in the profit. SCs

grant the contractor an exploration period of seven (7) years, which may be extended for a limited number of years. If the reserves found are deemed commercial, the SC allows a production period of twenty-five (25) years, which may be extended

The Company applies for or acquires interest in selected petroleum SCs covering areas usually in the exploration phase. Due to the high risk and capital-intensive nature of the business, the Company normally participates in several consortia and takes a minority interest, usually below a thirty percent (30%) stake. Subject to results of technical and risk economic studies prior to exploratory drilling, the Company may farm out or dilute its interest in exchange for financial consideration and/or non-payment of its pro-rata share of forward exploration drilling costs. If a petroleum discovery is made, the Company will fund its share of appraisal drilling and economic studies. Upon delineation of a commercial discovery, financing for up to seventy percent (70%) of field development costs is available in the international market.

### **Interests in Petroleum Contracts**

*The following describes the Company's interest in various petroleum contracts. This includes a discussion of the status of the exploration projects and estimated investment requirements for each participative interest.*

ACEX has the right to actively participate in the exploration for and/or extraction of natural resources within the Service Contract through adequate rights which give the Company sufficient influence in decisions over the said exploration for and/or extraction of natural resources. Under the SCs, the Company as the Contractor is the exclusive party to conduct petroleum operations in the covered Contract Area. The Company, as a Contractor, is solidarily liable with other Contractors to the Philippine government to perform the obligations under the SCs. The Philippine Government may require the performance of any or all obligations under the SCs by any or all of the Contractors. As a Contractor, the Company has the right and obligation to participate actively in the exploration, development, and production of petroleum resources within the contract area. The SCs provide for minimum work commitments and minimum exploration expenditures which must be complied with by any or all of the Contractors. ACEX's obligations under the Service Contracts include delineation and operation of Production Area, preparation of the annual Work Program and budget to carry out Petroleum Operations, including exploration, development and production, and, determination of commerciality of Crude Oil or Natural Gas discoveries. ACEX's rights under the SCs include, among others, the right to export and sell its share of petroleum production in the open market, subject to the obligation to supply a portion of domestic petroleum requirements.

A summary of the existing projects and the Service Contracts where ACEX has participating interests, as of 29 February 2020 are as follows:

<b>Contract</b>	<b>Location</b>	<b>Interest</b>	<b>Issue Date</b>	<b>Commercial Terms</b>	<b>Partners</b>	<b>Work Program 2019</b>
<b>SC51</b>	Eastern Visayas	33.34%	8 July 2005	A	ACE Enexor, Inc., Alcorn Petroleum and Minerals Corp., PetroEnergy Resources Corp.  Operator: ACE Enexor, Inc.	On 4 July 2018, the SC 51 Consortium, notified the DOE of their decision to relinquish SC 51 block, to withdraw from SC 51 and to waive their rights to Otto Energy's interest. DOE approved above requests on 1 July 2019.
<b>SC69</b>	Camotes Sea, Eastern Visayas	50%	7 May 2008	A	Frontier Gasfields Pty. Ltd.  Operator: ACE Enexor, Inc.	The Consortium notified the DOE of its relinquishment of SC 69 block in view of the strong oppositions to the Project from various stakeholders. DOE approved above request on 29 July 2019.
<b>SC 6 Block A</b>	Northwest Palawan	7.78%	1 September 1973	A	Philodrill Corp., PetroEnergy Resources, Philex Petroleum, Forum Energy Philippines, AngloPhilippine Holding, Alcorn Petroleum and Minerals  Operator: Philodrill Corp	Completed seismic interpretation and mapping and integration of quantitative inversion results to resource evaluation.
<b>SC 6 Block B</b>	Northwest Palawan	2.475% Carried Interest; (14.063% Participating Interest relinquished)	1 Sept 1973	A	Philodrill Corp., Nido Petroleum Ltd., Oriental Petroleum & Minerals Corp., Forum Energy Philippines	On 12 April 2018, DOE approved the transfer of participating interest from ACEX to SC 6B

Contract	Location	Interest	Issue Date	Commercial Terms	Partners	Work Program 2019
		20 Feb 2017)			Corp., Alcorn Petroleum & Minerals Corp. Operator: Philodrill Corp.	continuing parties.  ACEX retained its 2.475% Carried Interest in the block.
<b>SC55 (through subsidiary Palawan 55)</b>	Offshore West Palawan	75% (upon approval by the DOE of the Deed of Assignment and transfer of participating interest from Century Red to Palawan55 as of 13 February 2020)	5 August 2005	A, B	Pryce Gases, Inc. Operator: Palawan55	The DOE approved the Moratorium Period extension up to August 2019.  Committed work program under the Moratorium Period includes 3D seismic data reprocessing and Quantitative Interpretation Studies.

Note: A = Contractor provides all required services and technology funding. Contractor is entitled to a service fee out of production equivalent to 40% of net proceeds. Net proceeds would refer to the balance of gross income after deducting Filipino participation incentive allowance and operating expenses.

Note: B = The 75% interest in SC 55 is owned by Palawan55, a 69.35% owned subsidiary of ACEX.

### **SC 51 (East Visayas)**

SC 51 was awarded on 08 July 2005. The exploration period is valid for seven (7) years, extendible for three (3) years, and the production period is twenty-five (25) years. It covers an area of 444,000 hectares in the Eastern Visayas region, consisting of a 204,000 hectare block in Cebu Strait and a 240,000 hectare block mostly over the northwest peninsula of Leyte island and partly the adjoining offshore area. The block has three (3) primary prospects and several leads. ACEPH initially had 33.34% participating interest. ACEPH signed a Farm-In Agreement with Australasian Energy Ltd. and Ottoman Energy Ltd. on 05 August 2005, thereby diluting its participating interest to 6.67% in exchange for a carry in costs of certain work programs. Under said Farm-In Agreement, the farmees agreed to undertake and fund at their sole cost and risk the minimum work program for the first exploration sub-phase shown below. Further, should the farmees elect to drill an exploratory well in the contract area, they shall shoulder the farmers' or Farm-Ing our parties' share of the drilling costs associated with said well in exchange for 85% interest in SC 51. The farmees subsequently merged their interests in Otto Energy Investments Ltd. (Otto Energy, formerly NorAsian Energy Ltd.). The members of the consortium and their corresponding interests are Otto Energy (Australia), 80%; Cosco Resources Corporation, 9.32%; ACEPH, 6.67% and PetroEnergy, 4.01%. Otto Energy is the Operator.

The consortium committed to undertake a new 250 km 2D seismic program over the Cebu Strait and an engineering study of the Villaba – 1 sub-commercial gas discovery in offshore Northwest Leyte, within the first eighteen (18) months of the contract term. The 2D seismic program was designed to pick the drilling location for the Argao prospect and to upgrade a neighboring lead to drillable status. The Villaba engineering study aimed to determine whether the sub-commercial Villaba gas discovery could be developed on a standalone basis using minimalist options or whether additional reserves from neighboring prospects would be necessary or enough to ensure commerciality. The partners have successive options to drill exploratory wells during the balance of the seven (7) year exploration period.

The consortium requested the DOE to amend the schedule of work commitments in view of the difficulty of securing drilling rigs in the market. The approved amended exploration period is as follows:

1st Sub Phase	08 July 2005 - 08 Apr 2007	acquire, process and interpret 261 km. of 2D seismic data and conduct Villaba Engineering Study
2nd Sub Phase	08 Apr 2007 - 08 Feb 2008	acquire, process and interpret 146 sq. km. of 3D
3rd Sub Phase	08 Feb 2008 - 08 Mar 2009	Drill one well (Argao)
4th Sub Phase	08 Mar 2009 - 08 Jan 2010	Drill one well
5th Sub Phase	08 Jan 2010 - 08 July 2011	Drill one well
6th Sub Phase	08 July 2011 - 08 July 2012	Drill one well

The DOE approved the consortium's entry into the 3rd Sub Phase of the exploration period (from 08 February 2008 to 07 March 2009), which involves a commitment to drill one (1) exploratory well. The consortium completed a GeoMicrobial Survey. The governor of Cebu province issued Executive Order (EO) No. 10 on 29 May 2009 revoking EO No. 9 which ordered the DOE to cease and desist from conducting oil exploration surveys in the coastal waters of the municipalities of Argao and Sibonga.

Upon request of the consortium, the DOE agreed to amend the timetable of SC 51 as follows:

3rd Sub Phase	08 Feb 2008 – 31 July 2011	Drill one well
4th Sub Phase	31 July 2011 – 31 July 2012	Drill one well
5th Sub Phase	31 July 2012 – 31 July 2013	Drill one well
6th sub phase	31 July 2013 – 08 Mar 2014	Drill one well

Early 2011, the joint operating agreement was amended to accommodate the entry of Swan Oil and Gas Ltd. (Swan), and to split SC 51 into the North and South Blocks, after Otto Energy elected not to participate in the South Block. In 2012, Swan failed to perform its obligation and was forced to give up its interest in SC 51.

The remaining local partners of the South Block executed a Farm-In option agreement with Frontier Oil Corporation, giving the latter an option to acquire an eighty percent (80%) interest in the South Block, in exchange for drilling the offshore Argao1 exploratory well. Frontier did not exercise its option. The consortium completed the drilling of an onshore well in Leyte in May 2011 without reaching the target formation.

In 2012, Otto Energy acquired 100 km of new high quality 2D seismic data over the San Isidro anticline in the North Block. The results of the new seismic data confirmed a large target, which could be tested through the drilling of the Duhat2 well in mid-2013. The data acquisition phase of said seismic program commenced in May 2012 but was stopped by the unilateral one (1) month suspension of work by the Chinese seismic contractor. Due to delays caused by this event and inclement weather in the field, the consortium requested the DOE a six-month extension of the 4th Sub Phase until 31 January 2013.

Upon request of the consortium, the DOE granted a further one (1) year extension of the 4<sup>th</sup> Sub Phase to 31 January 2014.

Otto Energy spudded the Duhat2 well in onshore northwest Leyte on 24 July 2013, but on 26 July 2013 abandoned the well without reaching the reservoir objective due to unexpected drilling problems. Otto completed the demobilization for the Duhat2 well last 30 August 2013 and is conducting post well studies. On behalf of partners, Otto Energy requested and was granted by its coventurers an extension of the current Sub Phase 5 to 31 July 2014, in order to undertake post well geological, geophysical and engineering studies.

The DOE notified Otto Energy on 12 September 2013 of its ruling that the drilling of Duhat2 well is not in compliance with work and financial obligations under Sub Phase 5.

On 28 April 2014, Otto Energy notified the DOE and its consortium partners of its withdrawal from SC 51.

On 10 June 2014, Otto Energy requested the DOE's reconsideration of its decision not to approve the drilling of Duhat2 well as compliant with the Sub Phase 5 commitment.

On 28 June 2014, the non-operating partners requested the DOE to suspend the running of Sub Phase 5 to allow the deferment of the election to enter Sub Phase 6, pending resolution of the request for DOE to favorably reconsider its decision regarding the compliance of the drilling of Duhat2 well. Specifically, the non-withdrawing parties requested that the suspension period start on the date Otto Energy submitted its notice of withdrawal from SC 51 and end on the date the DOE approves the transfer of Otto Energy's participating interest in SC 51 to the remaining partners.

On 5 May 2015, Otto Energy notified the consortium that it has elected to withdraw from SC 51. Otto Energy's withdrawal from SC 51 and the transfer of its participating interest to the remaining parties are subject to the approval of the DOE.

On 28 June 2014, the Filipino partners requested the DOE for suspension of the exploration of Sub-Phase 5 from the date Otto Energy notified the DOE of its withdrawal from SC 51 until the DOE approves the transfer of Otto Energy's participating interest to the Filipino partners.

On 11 May 2015, DOE approved the request for an extension of Sub-Phase 5 to 08 July 2016.

The DOE ruled that the outstanding training commitment funds must first be settled before the transfer of Otto Energy's interest could be given due course. Negotiations between the DOE, Otto Energy and the Filipino partners continue as at 03 March 2017.

On 03 March 2017 and 20 December 2017, the Filipino partners reiterated their intent to carry on with the exploration of SC 51, following Otto Energy's withdrawal from the block and consequent resignation as Operator. They further signed and executed a Deed of Undertaking to pay the outstanding financial obligation of OEIL subject to the approval of transfer of interest from Otto Energy to the continuing parties, the extension of the term of the contract, and the revision of work program from drilling of a well to the conduct of pore pressure prediction study and gravity survey.

The above requests are still pending with the DOE as of date.

The partners in SC 51 and their respective participating interests are as follows:

Otto Energy	80.00%	(Operator)
Alcorn	9.32%	
<b>ACEX</b>	<b>6.67%</b>	
PetroEnergy	4.01%	

The Company's 6.67% participating interest in SC 51 would be adjusted to 33.34% upon DOE approval of the withdrawal of Otto Energy.

On 1 June 2018, the DOE approved the transfer of Otto Energy's participating interests in SC 51 to the Filipino Partners. ACEX's participating interest was adjusted from **6.67% to 33.34%**.

On 4 July 2018, the SC 51 Consortium, noting that the attendant requested conditions that would allow full implementation of the proposed work program were not covered in the said approval (i.e. SC 51 term extension, revision of work program), notified the DOE of their decision to relinquish SC 51 block, to withdraw from SC 51 and to waive their rights to Otto Energy's interest.

The SC 51 Consortium met with DOE in several occasions to craft the best way forward in SC 51. And on 17 December 2018, as had been agreed in a number of meetings, the Consortium provided further justification for waiver of contingent liabilities in connection with the relinquishment of their participating interests in the block.

On 1 July 2019, after legal, financial and technical evaluation, the DOE approved the Consortium's relinquishment of SC 51. As a result thereof, the Consortium was obligated to settle the outstanding Training Fund obligation amounting to US\$ 124,763.00. ACEX remitted its pro-rata share of US\$ 41,596 in the Training Fund on 22 July 2019.

### *SC 69 (Camotes Sea)*

SC 69 covers an area in the Camotes Sea, Eastern Visayas. The DOE awarded SC 69 (formerly, Area 8 of the 2006 Philippine Energy Contracting Round) on 7 May 2008 to a consortium composed of ACEPH (with 30% interest) and Otto Energy Philippines Inc. (“Otto Philippines”, formerly NorAsian Energy Philippines, Inc. with 70% interest). SC 69 has an exploration period of seven (7) years, divided into five (5) Sub Phases and extendible for three (3) years, and a production period of 25 years. While the area is underexplored, initial indications show that it has significant petroleum potential in view of gas discoveries in onshore Northern Cebu and offshore Northwest Leyte.

The consortium commenced a geological and geophysical review and reprocessing of some 3000 km of vintage 2D seismic data in fulfillment of work obligations under the 1st Sub Phase of the exploration period (from 7 May 2008 to 6 May 2009).

The consortium elected to enter the 2nd Sub Phase of the exploration period (from 7 May 2009 to 6 November 2010), which entails a commitment to conduct either a minimum of a 50 sq. km. 3D seismic survey or a minimum of 750-line kilometer 2D seismic survey, with expected expenditures of US\$2 Million for the 3D seismic survey or US\$1 Million for the 2D seismic survey. The DOE approved extension of the 2nd Sub Phase until 07 February 2011 to enable completion of interpretation of the newly acquired 900 km of 2D seismic data.

On 3 June 2010, ACEPH signed a Farm-In Option Agreement with Frontier Gasfields Ltd. (Frontier) which granted the latter the option to acquire fifteen percent (15%) of ACEPH’s interest in SC 69. Frontier exercised its option on 03 February 2011 for a total consideration of US\$395,000. The consortium elected to enter the 3rd Sub Phase (07 February 2011 to 07 August 2012) which entails a minimum commitment of either a 50 sq.km. of 3D seismic survey or one exploratory well and minimum expenditures of USD\$2 MM or USD\$3 MM, respectively.

On 3 February 2011, ACEPH signed an Agreement with Otto Philippines assigning an additional nine percent (9%) of ACEPH’s participating interest to the latter in exchange for reimbursement of certain past costs, a partial carry in the cost of the 3D seismic program and a full a carry in the costs of the first well in the block, should Otto Philippines elect to participate in said well. The total consideration for the reimbursement of past costs and partial carry in the cost of the 3D seismic program amounts to US\$313,000.00.

Otto Philippines completed a 229 sq. km. 3D seismic survey in June 2011. Processing of the seismic data was completed in April 2012. Seismic interpretation confirmed the presence of two sizeable reef structures: Lampos and Lampos South; and a third smaller prospect, Managau East.

On 4 April 2013 the DOE granted the consortium’s request for a 9-month extension of the 3rd Sub Phase to 07 May 2013, and a subsequent extension to 06 November 2013, to enable completion of seismic interpretation work and predrill studies. On 23 August 2013, Otto confirmed that it did not intend to enter Sub Phase 4 of SC 69.

Otto Philippines notified the Company and Frontier of its withdrawal in SC 69 last 04 October 2013. The Company and Frontier subsequently jointly requested the DOE a six-month extension of the 7 October 2013 deadline to elect to enter the next exploration Sub Phase, which starts on 7 November 2013. Due to the length of time needed for the transfer of the participating interest of Otto Energy Philippines, ACE Enexor, Inc. and Frontier requested a further extension of the current Sub Phase to 31 December 2014.

On 17 March 2014, the Parent Company and Frontier Gasfields jointly requested the DOE an extension of the term of SC 69 until 31 December 2014. The DOE extended the term of Sub-Phase 3 to 07 May 2015 to enable the remaining parties to proceed with planned exploration activities.

As at 17 April 2015, the consortium entered Sub-Phase 4 (May 2015 to May 2016) which entails a commitment to either undertake a 3D seismic program or drill an exploratory well. The DOE approved the consortium’s requests that participation in a proposed multi-client 2D seismic survey be credited as fulfillment of its work obligation under the current Sub-Phase and a 6-month extension of the term of SC 69 to November 2016.

On 30 June 2016, the Company signed a licensing agreement with a seismic contractor for the acquisition of 750 km of seismic data under the multi-client survey. The seismic contractor in a letter dated 18 August 2016 informed the Company that it could not proceed with the Company’s leg of the survey due to permitting and weather constraints. The consortium requested an extension of the term of SC 69 due to Force Majeure.

As at 29 December 2017, the DOE approved the request for extension due to Force Majeure, effective until 7 November 2018, with an attendant work program of permitting and information and education campaigns to address impediments to the planned seismic survey.

The partners in SC 69 and their respective participating interests are as follows:

Frontier	50.00%
<b>ACEX</b>	<b>50.00%</b> (Operator)

On 4 June 2018, the SC 69 Consortium notified the DOE of its relinquishment of SC 69 block in view of the strong oppositions to the Project from various stakeholders, including several Local Government Units (LGUs) and Non- Government Organizations (NGOs), making the conduct of petroleum exploration business in the area very challenging, if not impossible.

The aforementioned relinquishment was approved by the DOE on 29 July 2019.

### ***SC 6: Cadlao, Block A and B (Northwest Palawan)***

SC 6 covers three blocks located in Offshore Northwest Palawan, namely: Block A with 108,000 hectares, and Block B with 53,300 hectares and the Cadlao production area.

SC6 grants the contractor the exclusive right to explore, develop and produce petroleum resources within the contract area. The contractor assumes all exploration risks. In the event of commercial production, the Government and the contractor share in the profit on a 60:40 basis. The exploration period is seven (7) years, extendible by three (3) years. The production period is twenty-five (25) years, extendible by fifteen (15) years. SC 6 was awarded on 1 September 1973 and is valid until 28 February 2024 subject to certain conditions.

The DOE granted a 15-year extension of the term of SC 6 over the Cadlao Production Area, Block A and Block B effective 1 March 2009. Under SC 6, once a production area is delineated, the contractor is allowed to retain an additional twelve and a half percent (12.5%) of the original contract area. The production area was termed as Cadlao Production Area, whereas the retention areas, namely: Block A and Block B were delineated in 1988. The Cadlao oil field produced some 11 Million barrels of oil from 1981 until 1990 when production was suspended due to economic reasons. At an average crude oil price of US \$20 per barrel, ACEPH earned an estimated US \$3.6 Million from its royalty interest in the Cadlao Production Area. (Note: It is difficult to convert the US \$ earnings to its Philippine Peso equivalent because the exchange rate changed considerably during the production period)

In 2010, ACEPH assigned its 1.65% royalty interest in the Cadlao Production Area under SC 6 to Peak Royalties Limited (BVI) and recognized US\$1.325 Million income equivalent to Philippine Pesos ₱58.50 Million using the exchange rate on the date of the assignment from such transaction. Cadlao oil field commenced production in 1981. The field has been shut-in since 1990 when production was suspended to allow transfer of its dedicated floating production facility to another field.

Block A and Block B were retained from the original contract area in 1988, subject to performance of meaningful exploration work in either of the blocks in each contract year. Block A and Block B consortia have complied with this conditionality by drilling exploratory and appraisal wells, and conducting various geological and geophysical studies. An economically marginal field discovery (Octon Discovery) was made in Block A, but such field has not been developed to this date.

### **SC 6 A**

On 09 May 1988, an Operating Agreement was entered into by and among Balabac, Oriental, ACEPH and Philodrill in respect of SC 6 Block A where Philodrill was appointed operator. This agreement is in full force and effect during the term of SC 6.

On 07 March 2007, SC 6 Block A consortium entered into a Farm-In Agreement with Vitol GPC Investments S.A. of Switzerland. Under this agreement, Vitol shall undertake, at its sole cost and risk, geological, geophysical and engineering studies over a one (1) year period. At the end of the study period, Vitol shall decide whether to



acquire seventy percent (70%) participating interest in Block A. Vitol completed the first phase of its technical due diligence over Block A and concluded that development of the Octon discovery hinges on tieback to Galoc production facilities. Following several extensions of the Farm-In Agreement, Vitol informed the consortium in November 2010 that it is not exercising its option to acquire interest in the block.

Pitkin Petroleum Plc. (U.K.) and the SC Block A consortium signed on 11 July 2011 a Farm-In Agreement and a Deed of Assignment assigning seventy percent (70%) interest in the block to the former. In exchange for the assignment of interest, Pitkin shall carry the consortium members in a 500 sq. km. 3D seismic program and the drilling of two wells. On 02 September 2013, the Palawan Council for Sustainable Development issued a Strategic Environmental Plan clearance for the programmed 500 sq. km. 3D seismic survey.

Pitkin, the Operator, completed on 07 November 2013, a 500 sq. km. 3D seismic survey pursuant to the Farm-In Agreement.

Pitkin notified the partners on 28 August 2014 that it shall not exercise its option under the Farm-in Agreement to drill a well in the block and will withdraw from the block. By 31 December 2015, Pitkin completed geological and geophysical work programs in fulfillment of its obligations under the first exploration phase. The remaining partners agreed to pursue the geological evaluation of the block.

The Company's interest reverted to 7.78% from 2.334% following the withdrawal of Pitkin Petroleum, and subsequent approval of the assignment of interest by the DOE on 24 June 2015.

On 28 August 2015, the consortium completed its work program consisting of geological and geophysical evaluation. On 03 November 2015, the DOE approved the 2016 work program consisting of specialized geophysical studies. The pertinent geophysical program commenced in November 2015 and was completed by 31 December 2016. On 20 December 2016, the consortium submitted to the DOE its proposed 2017 work program consisting of advanced geophysical studies. On 13 February 2017, the program was approved by the DOE. The work program of advanced seismic data reprocessing and quantitative seismic inversion study was completed in December 2017. The studies yielded significant improvement in the imaging of complex and deeper geological structures.

On 8 January 2018, the consortium submitted to the DOE its proposed 2018 work program composed of seismic interpretation and mapping and integration of quantitative inversion results that would serve as input to preliminary well design and cost estimates. The Consortium completed its CY 2018 work program and said undertaking have improved the resource evaluation of the mapped leads and prospects in the area.

On 18 December 2018, the Joint Venture approved and the Operator, Philodrill Corporation submitted to the DOE the 2019 SC 6A Work Program and Budget composed of geological and geophysical evaluation and engineering projects in the amount of US 300,000. The document was approved by the DOE on 23 January 2019.

As of date, there is an ongoing farm-in negotiations for the development of the Octon oil discovery.

Technical studies over the northern part of the block is in progress.

## **SC 6 B**

The SC 6 Block B consortium members, excluding Nido Petroleum, signed on 04 February 2011 a Farm-In Agreement with Peak Oil and Gas Philippines Limited (Australia), Blade Petroleum Philippines Limited (Australia) and Venturoil Philippines Inc. Under said Agreement, the Farm-Inees (Peak, Blade and Venturoil) have the option to acquire seventy percent (70%) of the farmors' participating interests, upon their completion of an agreed technical work program. In the event the Farm-Inees exercise their option, they will shoulder all the forward costs of the farmors up to the production of first oil in the block. Following the exercise of the option by the Farm-Inees, the Parties signed on 02 December 2011, an Amended Deed of Assignment transferring 64.5316% participating interest of the farmors to Peak, Blade and Venturoil. However, the DOE disapproved in 22 July 2013 the Deed of Assignment due to the failure of the Farm-Inees to demonstrate the required financial capacity.

On 13 September 2013, DOE approved the work program and budget for SC 6 Block B for the 5th year of extension period. Geological and geophysical program commenced in October 2013 and was completed in February 2014.

The consortium formulated a work program for the next five (5) years of the extension period which started on 01 March 2015. Partners submitted, for the DOE's approval, a 3-year work program consisting mainly of geophysical studies with a corresponding budget amounting to US\$724,000. The geophysical studies were completed by the third quarter of 2016.

To improve the viability of the primary prospect, the consortium requested the DOE to reconfigure the contract area to include an adjoining block, which hosts an oil field where production had been suspended.

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

#### **SC 6 Block A**

PetroEnergy	16.670%	
Philodrill	51.650%	(Operator)
Anglo	11.110%	
<b>ACEX</b>	<b>7.780%</b>	
Forum	5.560%	
Philex Petroleum	5.560%	
Alcorn	1.670%	

The Company's interest reverted to 7.78% from 2.334% following the withdrawal of farminee, Pitkin Petroleum, and subsequent approval of the assignment of interest by the DOE on 24 June 2015.

#### **SC 6 Block B**

Nido Petroleum Phils. Pty. Ltd.	7.812%	
Phoenix	28.125%	
<b>ACEX</b>	<b>14.063%</b>	
Philodrill Corp.	21.875%	(Operator)
Oriental A	14.063%	
Basic Petroleum & Minerals Inc.	7.0310%	
Cosco (exAlcorn)	7.0310%	

Note: 14.063% is the original interest of ACEX in SC 6 Block B. The farm-out to Peak, Blade and Venturoil which would have reduced ACEX's interest by seventy percent (70%) did not materialize because the proposed Farm-In of the three (3) companies were disapproved by the DOE.

On 20 February 2017, the Company gave notice to the consortium of relinquishment of its 14.063% participating interest in SC 6 Block B and the Operating Agreement, but said relinquishment shall not include its 2.475% carried interest. The retained carried interest would entitle the Company for a share in the gross proceeds from any production in the block, once all exploration costs have been recovered.

On 12 April 2018, DOE approved the transfer of interest from the Company to SC 6B continuing parties.

#### **SC 55 (West Palawan)**

SC 55 was awarded by the DOE on 5 August 2005. The exploration period is valid for seven (7) years, extendible for three (3) years, and the production period is valid for 25 years. The original members of the consortium and their corresponding interests were Otto Energy (Operator) with eighty-five percent (85%) and ACEPH with fifteen percent (15%). ACEPH has a Participation Agreement with the predecessor's interest of Otto Energy which provides that the latter will shoulder ACEPH's share of costs up to the drilling of the first exploratory well. In addition, ACEPH has the option to acquire five percent (5%) interest from Otto Energy after the drilling of the first well under the SC.

SC 55 covers 900,000 hectares in offshore West Palawan. It is a deep-water block in the middle of a proven regional oil and gas fairway that extends from the productive Borneo offshore region in the southwest, to the offshore Philippine production assets northwest of Palawan. At that time, the block was deemed to have one (1) giant prospect (with at least 500 Million barrels mean resource potential) and a number of leads. The consortium committed to undertake a work program consisting of a new 400 km 2D seismic survey, processing and

interpretation of 200 km of vintage 2D seismic data and 358 km of gravity and magnetic data, within the first eighteen (18) months of the contract term. The partners have successive options to drill up to four (4) wells during the balance of the 7-year exploration period.

The DOE approved the consortium's entry into the 2nd Sub Phase of the exploration period, which entails a commitment to drill one (1) ultra deep water well. Processing and interpretation of 954 km of 2D seismic data acquired in June 2007 were already completed, but due to no availability of a suitable rig, the DOE approved the consortium's request to swap work commitments for the 2nd and 3rd Sub Phases of the exploration period to allow the drilling of the first commitment well by 04 August 2010 instead of 04 August 2009.

The consortium requested and the DOE agreed to the substitution of a 2D 3D seismic program for one (1) ultra-deep water well commitment under the 3rd Sub Phase of the exploration period (from 5 August 2009 to 5 August 2010), and deferment of the mandatory partial relinquishment of the contract area until completion of the proposed substitute 2D 3D seismic program. The consortium further requested and the DOE approved a one year extension of the 3rd Sub Phase to 5 August 2011 following execution by Otto Energy of a Farm-In Option Agreement with BHP Billiton Petroleum (Philippines) Corporation of Canada (BHP Billiton) which provided for BHP Billiton's funding of a new 3D seismic survey over the area.

On 03 June 2010, ACEPH signed an Option Agreement with Frontier Gasfields Pty. Ltd. of Australia which granted the latter the option to acquire the five percent (5%) interest that ACEPH has the option to acquire from Otto Energy after the drilling of the first well in the area.

On 03 February 2011, ACEPH signed an Agreement with Otto Energy assigning ACEPH's 8.18% participating interest to the latter in exchange for a carry in the costs of a second well in the block, should Otto Energy elect to participate in said well. Estimated budget for drilling the second well is US \$ 65 Million or ₱2.86 Billion at an exchange rate of US\$1 = ₱44.

In December 2011, BHP Billiton acquired sixty percent (60%) participating interest in SC 55 from Otto Energy and committed to drill one deep water well at its sole cost within the 4th Sub Phase.

The consortium elected to enter the 4th Sub Phase which entails a commitment to drill one deep water well by 05 August 2012.

The revised work schedule is shown below:

<b>Sub Phase</b>	<b>Date</b>	<b>Work program</b>
4	August 2011 - August 2013	One (1) deepwater well
5	August 2013 - August 2014	One (1) deepwater well

The DOE granted a one (1) year extension of the 4th Sub Phase until 5 August 2013 to enable BHP Billiton to procure a suitable drilling rig that could drill an identified deepwater prospect. On 3 May 2013, BHP Billiton filed a Force Majeure notice with the DOE due to significant delays in obtaining a clearance from the Palawan Council for Sustainable Development for the drilling of the Cinco1 well.

On 04 June 2013, the Sangguniang Panlalawigan of Palawan voted to favorably endorse the proposed Cinco1 drilling to the Palawan Council for Sustainable Development (PCSD). The PCSD approved the issuance of the Strategic Environmental Plan Clearance (SEP) clearance for the drilling of Cinco1 well but BHP Billiton sought amendment and clarification on certain conditions set by PCSD. As at 30 October 2013, BHP Billiton received the amended SEP clearance and requested the DOE a 14-month extension of the current Sub Phase considering the length of the Force Majeure period.

In the first week of November 2013, BHP Billiton verbally informed the partners that it has decided not to participate in the drilling of the Cinco1 well. In March 2014, the DOE approved the transfer of BHP Billiton's interest to Otto Energy Philippines, Inc. Otto Energy submitted a revised work program focusing on the drilling of the Hawkeye prospect. The DOE approved the new work program in April 2014 and revised the schedule of the remaining Sub Phases as follows:

<b>Sub Phase</b>	<b>Work Program and Budget</b>	<b>Revised Work Schedule</b>
4	Drill 1 deepwater well @ US\$3 MM	06 August 2011 – 23 December 2014
5	Drill 1 deepwater well @ US\$3 MM	23 December 2014 – 23 December 2016

In January 2014, BHP Billiton and Otto Energy signed definitive agreements for the reassignment of the former's participating interest to the latter. The DOE approved the transfer of the sixty percent (60%) participating interest of BHP Billiton to Otto Energy Philippines, Inc. and the transfer of Operatorship to Otto Energy. The approval formalized the exit of BHP Billiton in SC 55.

On 15 October 2014, Otto Energy requested the DOE a one-year extension of Sub-Phase 4 to 23 December 2015. The requested extension was approved by the DOE on 07 November 2014.

On 31 July 2015, Otto Energy commenced drilling of the Hawkeye-1 exploratory well and on 17 August 2015 completed the drilling to a total depth of 2,920 meters. The well discovered gas which is deemed to be non-commercial. Otto Energy informed its partners of its decision to withdraw from the service contract.

On 22 December 2015, the consortium requested the DOE for a two-year contract moratorium and proposed technical studies that would assess the impact of the results of Hawkeye-1 on the remaining prospectively of the area. On 14 June 2016, the DOE extended the term of SC 55 until 23 December 2017.

On 21 November 2016, Otto Energy and Otto Energy Philippines notified the DOE of their withdrawal from SC 55. As at 03 March 2017, the transfer of interest from Otto Energy to the continuing parties was under processing by the DOE.

On 22 November 2017, Palawan55 notified the DOE of its willingness to assume its pro-rated, post- adjustment share (37.50%) of Otto Energy's outstanding training fund obligation in conjunction with the DOE's approval of the assignment of interests and favourable consideration for a reasonable extension of the moratorium period that would allow execution of the committed technical studies.

ACEX's stake in SC 55 is held through Palawan55 Exploration & Production Corporation, an upstream oil and gas company. ACEX owns 69.35% of Palawan55, while the remaining 30.65% is owned by ACEPH.

On 26 March 2018, the DOE approved the transfer of participating interests from Otto Energy to the continuing partners, Palawan55, Century Red Pte. Ltd. and Pryce Gases, Inc. As a result of the transfer, the Company's 6.82% participating interest in SC 55 have been adjusted to 37.50%. The timeline of the Moratorium Period, with a commitment to conduct Quantitative Inversion Study, was also revised to reflect the transfer of interest. Further, the DOE formally confirmed Palawan55 as Operator of the block.

On 23 August 2018, Palawan55 awarded the 3D Marine PreSTM and PreSDM Reprocessing and Quantitative Inversion Services Contract to Down Under Geosolutions (Asia) Sdn Bhd. The project commenced on 10 September 2018. Seismic reprocessing of 1,000 sq. km. of 3D seismic data was completed.

Quantitative Interpretation Study aimed at identifying the gas-bearing zones in the service contract is ongoing.

On 24 July 2019, the SC 55 Consortium notified the DOE of its decision to enter Sub-phase 5 (SP5) effective 26 August 2019, without prejudice to the Consortium's option to enter the Appraisal Period no later than the said date. SP5 carries a commitment of drilling one (1) ultra-deepwater well.

On 9 August 2019, the SC 55 Consortium notified the DOE of its entry into the Appraisal Period of SC 55 effective 26 August 2019. The SC 55 consortium committed to drill one (1) deep-water well within the first two years of the Appraisal Period and, following reinterpretation of certain seismic data outside of the current study area, may undertake a new 3D seismic program to mature other prospects within SC 55 to drillable status. The SC 55 consortium submitted an indicative Appraisal Work Program to the DOE to support this commitment.

On 13 February 2020, after careful review and evaluation, DOE found Palawan55 to be technically, financially and legally qualified and approved the transfer of Century Red, Pte. Ltd's entire 37.5% participating interests in SC 55 to Palawan55.

As a result thereof, the partners in SC 55 and their respective participating interests are as follows:

Palawan 55	75.00%	Operator
Pryce Gases	25.00%	

The consortium awaits DOE's confirmation that SC 55 has entered the Appraisal Period.

### **Other Material Agreements**

The material agreements are mentioned in a preceding section entitled "Interests in Petroleum Contracts."

In addition, ACEX is a party to Joint Operating Agreements under SC 6 Block A, SC 6 Block B, SC 51, SC 55 (through Palawan55) and SC 69. Joint Operating Agreements govern the relationship of the parties and the conduct of joint operations under the SC.

#### ***Memorandum of Agreement between ACEX and ACEPH***

Under this Memorandum of Agreement, ACEPH agreed to assign to ACEX, a Subsidiary of ACEPH, and the SC Participating Interests of ACEPH as follows:

1. Participating interest under SC 51;
2. Participating interest under SC 69;
3. Participating interest under SC 6 with respect to SC 6 Block A; and
4. Participating interest under SC 6 with respect to SC 6 Block B.

#### ***Memorandum of Agreement between ACEPH and Palawan55***

Under this Memorandum of Agreement, ACEPH agreed to assign to Palawan55, a Subsidiary of ACEPH, and the SC Participating Interests of TA Oil under SC 55.

#### ***Deed of Assignment between ACEX and ACEPH***

Under this Deed of Assignment, ACEPH assigned to ACEX, a Subsidiary of ACEPH, and the SC Participating Interests of ACEPH as follows:

1. Participating interest under SC 51;
2. Participating interest under SC 69;
3. Participating interest under SC 6 with respect to SC 6 Block A; and
4. Participating interest under SC 6 with respect to SC 6 Block B.

#### ***Deed of Assignment between ACEPH and Palawan55***

Under this Deed of Assignment, ACEPH assigned to Palawan55, a Subsidiary of ACEPH, and the SC Participating Interests of ACEPH under SC 55.

#### ***Deed of Assignment between Century Red, Pte. Ltd. and Palawan55***

Under this Deed of Assignment, Century Red, Pte. Ltd. assigned to Palawan55, the 37.5% participating interests of Century Red, Pte. Ltd. under SC 55. On 13 February 2020, the DOE approved the assignment to Palawan55.

### **MANPOWER**

The Company have no employees as of 31 December 2019.

## **RISK FACTORS**

### **RISKS RELATING TO THE COMPANY'S BUSINESS**

There are uncertainties inherent in the business of petroleum exploration and development. It is vulnerable to contingencies such as:

- **Failure to discover oil and gas resources that can be developed for commercial production**

The Company's ability to sustain itself depends on the discovery of oil and gas resources that can be developed for commercial production. There is no assurance that exploration activities of the Company and the corporations in which it has invested (collectively with the Company, the "Group") will result in the discovery of oil or gas deposits because of the uncertainties in locating and estimating the size of subsurface deposits of oil or gas despite advances in exploration technology. Even if a substantial oil or gas deposit is discovered, there are other factors that may prevent or delay its commercial development, such as drilling and production hazards; political, social and/or environmental issues; and insufficient market demand and/or infrastructure, particularly for a natural gas development. If exploration and development activities of the Group are not successful, the Company's ability to generate future cash flow and obtain additional financing to continue operations may be adversely affected.

The Company mitigates exploration and development risks mainly by investing in a portfolio of exploration assets, working with partners and contractors with proven track records, and undertaking phased exploration with exit options.

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

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

The Company mitigates the foregoing risks by sharing the costs and risks of exploration and development with suitable joint venture partners and undertaking phased exploration with exit options. Where funding is insufficient, the Company may adjust its business plans and strategies.

- **Operating risks resulting in losses**

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

The Company addresses operating risks by ensuring that the consortium where it has participation employs good oil field practices consistent with the international oil and gas industry standards.

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

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

The petroleum industry is highly regulated. In addition to complying with the laws and regulations for doing business in the Philippines and in the other jurisdictions where the Group operates, the nature of the Group's business also subjects the Group to laws and regulations regulating the industry, as well as those on environment, occupational health and safety standards. Despite efforts to comply with all such laws and regulations, the Company's business may be exposed to significant liabilities and restrictions due to accidents and unforeseen

circumstances. Furthermore, such laws and regulations are subject to changes which may result in delays or restrictions on exploration, development or production activities as well as increased cost of compliance. There is no assurance that these costs will not have a material adverse effect on the Company's business and results of operations.

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

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

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

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

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

Estimates of reserves and resources may change as additional technical and commercial information becomes available. Not only are such estimates based on information which is currently available, but such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information. The quantities that might actually be recovered should they be discovered and developed may differ significantly from the initial estimates.

As estimates of reserves and resources change over time, the Company will have to adjust its business plans and strategies. Any significant downward revision in the estimates of reserves and resources may adversely affect the Company's financial condition, future prospects and market value.

- **Compliance with laws, regulations and contracts, failing which the Company may lose its contracts, licenses and approvals from the Government or otherwise be penalized**

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

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

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

The Government has been taking steps to attract investments in the exploration and development of oil and gas in the Philippines, particularly with respect to the application and award of petroleum SCs, which is done through competitive public bidding. The Company's competitors may have greater financial, technical, and organizational

capabilities than the Company, particularly international oil and gas companies. Significant competitive pressure could result in the failure or increased costs to acquire additional exploration and production assets, thereby causing a material adverse effect on the Company's business and results of operations.

The Company intends to remain competitive by leveraging the strengths discussed in "Description of Business."

## **RISKS RELATING TO THE PHILIPPINES**

- **Any political instability in the Philippines may adversely affect the Company's business, results of operations and financial condition**

The Philippines has from time to time experienced political instability. In the last few years, there has been political instability in the Philippines, including public and military protests arising from alleged misconduct by the former administration. No assurance can be given that the political environment in the Philippines will remain stable and any political or social instability in the future could result in inconsistent or sudden changes in regulations and policies that affect the Group or any member of the Group, which could have an adverse effect on the Company's business, results of operations and financial condition.

- **Terrorist activities in the Philippines could destabilize the country, adversely affecting the Company's business environment**

The Philippines has been subject to sporadic terrorist attacks in the past several years. The Philippine military has been in conflict with the Abu Sayyaf organization, which has been identified as being responsible for kidnapping and terrorist activities in the country and is also alleged to have ties to the Al-Qaeda and Islamic State terrorist networks. There can be no assurance that the Philippines will not be subject to further acts of terrorism in the future, and violent acts arising from, and leading to, instability and unrest may have a material adverse effect on the Company's business, results of operations and financial condition.

- **Risk of any downgrade in the sovereign credit rating of the Philippines may adversely affect the Company's business**

In March 2013, Fitch Ratings raised the Philippines' sovereign credit rating to BBB, the first time that the country has received an investment grade rating from a major credit rating agency. An investment grade rating could lower the country's cost of borrowing and widen its base of potential investors, as some funds have restrictions on holding sub investment grade debt. Other major credit rating agencies such as Moody's Investors Service and Standard & Poor's have rated the Philippines as one notch below investment grade with a positive outlook. The sovereign credit ratings of the Government directly affect companies residing in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. No assurance can be given that Moody's, Standard & Poor's or any other international credit rating agency will not in the future downgrade the credit ratings of the Government and, therefore, Philippine companies, including the Company. Any such downgrade could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including the Company, to raise additional financing and the interest rates and other commercial terms at which such additional financing will be made available.

- **The occurrence of natural catastrophes may materially disrupt the Company's operations**

The Philippines has experienced a number of major natural catastrophes in recent years, including typhoons, volcanic eruptions, earthquakes, mudslides, droughts, floods and other weather-related events. Natural catastrophes may disrupt the Company's business operations, lead to disruptions in the electrical supply to the Company's project sites and impair the economic conditions in the affected areas, as well as the Philippine economy. The Company cannot assure prospective investors that the insurance coverage it maintains for these risks will adequately compensate the Company for all damages and economic losses resulting from natural catastrophes, including possible business interruptions.



## RISKS RELATED TO THE SHARES

- **The market price of securities can and does fluctuate. The Shares have not been publicly traded and the relative volatility and illiquidity of the Philippine securities market may substantially limit investors' ability to sell the Shares at a suitable price or at a time they desire.**

The market prices of securities can and do fluctuate, and it is impossible to predict whether the price of the Shares will rise or fall. Securities may experience upward or downward movements and may even lose all value. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. There may be a substantial difference between the buying price and the selling price of such securities. Trading prices of the Shares will be influenced by, among other things:

- variations in the Company's operating results;
- success or failure of the Company's management team in implementing business and growth strategies;
- gain or loss of an important business relationship;
- changes in securities analysts' recommendation, perceptions or estimates of the Company's financial performance;
- changes in conditions affecting the industry, the general economic conditions or stock market sentiments or other events or factors;
- differences between the Company's actual financial operating results and those expected by investors and analysts;
- additions or departures of key personnel;
- changes in general market conditions and broad market fluctuations; and
- involvement in litigation.

These fluctuations may be exaggerated if the trading volume of the Shares is low.

Prior to the listing of the Shares at the Philippine Stock Exchange (PSE), there has been no public market for the Shares in the Philippines. There can be no assurance that even after the Shares have been approved for listing on the PSE, an active trading market for the Shares will develop or be sustained after the listing, or that the Initial Listing Price will correspond to the price at which the Shares will trade in the Philippine public market subsequent to the listing. There is no assurance that investors may sell the Shares at prices or at times deemed appropriate.

- **Future sales of Shares in the public market could adversely affect the prevailing market price of the Shares and shareholders may experience dilution in their holdings.**

In order to finance the Company's business and operations, and any expansion thereof, the Board will consider funding options available to the Company, which may include the issuance of new Shares. The market price of the Shares could decline as a result of future sales of substantial amounts of the Shares in the public market or the issuance of new shares, or the perception that such sales, transfers or issuances may occur. This could also materially and adversely affect the prevailing market price of the Shares or the Company's ability to raise capital in the future at a time and at a price that the Company deems appropriate.

In addition, if additional funds are raised through the issuance of new equity or equity linked securities by the Company other than on a *pro rata* basis to existing shareholders, the percentage ownership of existing shareholders may be diluted. Such securities may also have rights, preferences and privileges senior to those of the Shares.

- **The Company's investment structure may impede the Company's ability to pay dividends.**

The Company may hold interests in petroleum and gas contracts through corporations that it has invested in. Thus, the availability of funds to pay dividends to its shareholders and to service debt obligations depends in part upon dividends that may be received from the Company's subsidiary and affiliates. If the Company's subsidiary and affiliates incur debt or losses, such indebtedness or losses may impair their ability to pay dividends or other distributions to the Company. As a result, the Company's ability to pay dividends and to service the Company's indebtedness may be restricted.

The Company's ability to declare dividends in relation to the Company's Shares will also depend on the Company's future financial performance, which, in turn, depends on successfully implementing the Company's strategy, and on financial, competitive, regulatory, and other factors, general economic conditions, demand and

prices for the Company's petroleum and other future products, costs of raw materials and other factors specific to the Company's industry or specific projects, many of which are beyond the Company's control. The receipt of dividends from the Company's subsidiary and affiliates may also be affected by the passage of new laws, adoption of new regulations or changes to, or in the interpretation or implementation of existing laws and regulations and other events outside the Company's control. Philippine law requires that dividends be paid only out of unrestricted retained earnings calculated according to Philippine accounting principles. In addition, restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that the Company or its subsidiary may enter into in the future may also restrict the ability of the Company's subsidiary to make contributions to the Company and the Company's ability to receive distributions or distribute dividends.

Finally, there is no assurance that the Company will maintain and increase its holdings in its subsidiary and various affiliates. The Company evaluates each additional investment in its subsidiary and may choose to waive its right to invest in these entities, which could result in the dilution of its interest therein.

## SUBSIDIARY

### Palawan 55 Exploration & Production Corporation (“Palawan55”)

Palawan55 is a subsidiary with 69.35% of its shares owned by the Company. This corporation was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on 16 November 2012. Palawan55 is engaged in the exploration, development and production of crude oil, natural gas, natural gas liquids and other forms of petroleum. It holds a 75% interest in SC 55. Palawan55 has not started its commercial operation.

## SERVICE CONTRACTS

The summary of the existing projects and the Service Contracts where ACEX has participating interests were earlier discussed.

All of ACEX’s contract blocks that are situated in the West Philippine Sea are some 40 to 50 km off the west coast of Palawan and are not included in the areas under dispute between the Philippines and China, such as Recto Bank (international name: Reed Bank) and the Kalayaan Group (international name: Spratly Islands), which are 250 to 300 km off the west coast of Palawan.

## FIXED ASSETS

The Company also owns the following fixed assets:

Properties	Location	Amount
Office Equipment	Makati City	₱245,000
Transportation Equipment	Makati City	800,000
Miscellaneous Assets	Makati City	124,215
<b>Total</b>		<b>₱1,169,215</b>
Less: Accumulated Depreciation		379,794
<b>Net Book Value</b>		<b>₱789,421</b>

*Source: Audited consolidated financial statements as at 31 December 2019*

Office equipment and miscellaneous assets pertain to acquired computer and software used by the Company in the technical evaluation of its petroleum contracts.

There are no mortgages, liens and/or encumbrances over the foregoing property, plant and equipment which are under the full use and control of the Company.

The Company has not entered into any leases of property.

There is no intention to acquire additional property, plant and equipment other than those that may be required for the continuing activities.

## LEGAL PROCEEDINGS

There are no pending legal proceedings involving claims for damages the aggregate amount of which exceeds ten percent (10%) of the current assets of the registrant or any of its subsidiaries. Likewise, no legal proceedings of such nature were terminated during the fourth quarter of the calendar year covered by this report.

## MARKET INFORMATION

As of 29 February 2020, the Company has an authorized capital stock of One Billion (1,000,000,000) Shares, each with a par value of ₱1.00, and its issued share capital consists of Two Hundred Fifty Million and One (250,000,001) Shares.

## Market Price

ACE Enexor, Inc.'s common shares (symbol: ACEX) were listed with the Philippine Stock Exchange on 28 August 2014. Below are the high and low sales prices as of 31 December 2019, and for the calendar years 2018, 2017 and 2016:

<b>Period</b>	<b>High</b>	<b>Low</b>
<b>11 March 2020</b>	10.54	5.48
<b>Calendar 2019</b>		
Fourth Quarter	13.92	6.40
Third Quarter	13.40	4.47
Second Quarter	4.98	2.96
First Quarter	4.10	3.02
<b>Calendar 2018</b>		
Fourth Quarter	4.41	3.02
Third Quarter	4.83	2.54
Second Quarter	3.05	1.97
First Quarter	2.98	2.00
<b>Calendar 2017</b>		
Fourth Quarter	2.70	1.88
Third Quarter	2.80	2.31
Second Quarter	3.30	2.55
First Quarter	3.00	2.51
<b>Calendar 2016</b>		
Fourth Quarter	3.48	2.86
Third Quarter	4.30	3.00
Second Quarter	5.00	2.36
First Quarter	2.94	1.68

## STOCKHOLDERS

As of 29 February 2020, the Company has 2,900 registered shareholders. The following table sets forth the top 20 shareholders of the Company, their nationality, the number of shares held, and the percentage of ownership as of 29 February 2020:

	NAME OF STOCKHOLDER	NUMBER OF SHARES HELD	% OF OWNERSHIP
1	PCD NOMINEE CORPORATION	246,119,451	98.45%
2	EMAR Corporation	950,740	00.38%
3	PCD NOMINEE CORPORATION (NONFILIPINO)	906,033	00.36%
4	ALBERT MENDOZA &/OR JEANNIE MENDOZA	76,193	00.03%
5	PHIL. REMNANTS CO. INC.	71,431	00.03%
6	PETER MAR OR ANNABELLE C. MAR	52,020	00.02%
7	VICTOR JUAN DEL ROSARIO	41,453	00.02%
8	TERESITA A. DELA CRUZ	38,306	00.02%
9	BELEK INC.	37,842	00.02%
10	JOSEPH D. ONG	35,640	00.01%
11	WILLIAM HOW &/OR BENITO HOW	34,003	00.01%
12	ALEXANDER J. TANCHAN &/OR DOLORES U. TANCHAN	27,358	00.01%
13	BENJAMIN S. AUSTRIA	26,086	00.01%
14	VICTOR J. DEL ROSARIO OR MA. RITA S. DEL ROSARIO	24,342	00.01%
15	DR. ANITA TY	23,816	00.01%
16	ALBERTO MENDOZA &/OR MARITNESS MENDOZA	21,886	00.01%
17	LIM TAY	20,815	00.01%
18	NOEL L. ESCALER	17,478	00.01%
19	JAMES UY INC. A/C# 11079	17,007	00.01%
20	IRENE M. GALVEZ	15,777	00.01%

## DIVIDENDS

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

Apart from legal restrictions governing the declaration of dividends there are no restrictions that limit the Company's ability to pay dividends whether currently or in the future.

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

On 28 August 2012, the Board and stockholders representing at least two-thirds of the Company's outstanding capital stock approved the increase of the Corporation's authorized capital stock from Forty Million Pesos (₱40,000,000.00), divided into Four Billion (4,000,000,000) shares at ₱0.01 per share, to One Billion Pesos (₱1,000,000,000.00) divided into One Hundred Billion (100,000,000,000) shares at the same par value. Out of the increase, ACEPH subscribed to an additional ₱240,000,000.00 divided into 24,000,000,000 Shares at ₱0.01 per share, which subscription was fully paid for in cash on 21 December 2012. The increase in capital stock was approved by the SEC on 28 November 2012.

Subscription for shares of the capital stock of a corporation in pursuance of an increase in its authorized capital stock, when no expense is incurred, no commission, compensation or remuneration is paid or given in connection with the sale or disposition of such securities, and only when the purpose for soliciting, giving or taking of such subscriptions is to comply with the required minimum twenty-five percent (25%) subscribed capital stock, is exempt from registration under the SRC. No notice or confirmation of exemption is required to be filed for the issuance of shares pursuant to an increase in authorized capital stock.

On 22 April 2013, the Board and stockholders representing at least two thirds of the Company's outstanding capital stock approved the increase in the par value of the shares of the Corporation from ₱0.01 per share to ₱1.00 per share, resulting to an authorized capital stock of ₱1,000,000,000.00, divided into 1,000,000,000 shares at the par value of ₱1.00 per share. The change in par value was approved by the SEC on 31 May 2013.

On 22 July 2013, the Board of Directors of ACEPH (the parent company of the Company) approved a property dividend declaration which resulted in the distribution to the Company's shareholders of 2.55 shares for every 100 Company shares as of 05 August 2013, subject to SEC approval, and cash in the amount of ₱0.013 per share to said stockholders of record, while US-based stockholders received cash in the amount of P0.0385 per Company share plus the ₱0.013 cash dividend per share. A registration statement covering 250,000,000 shares was filed by the Company on 22 November 2013. The SEC approved the application for approval of property dividend on 17 September 2013 and the application for listing by way of introduction was approved by the PSE on 11 June 2014. The SEC declared the Registration Statement effective on 14 August 2014. The shares were listed by introduction on 28 August 2014 at a listing price of ₱4.60 per share. Maybank ATR Kim Eng Capital Partners, Inc, acted as Financial Advisor to the transaction.

## **PLAN OF OPERATION**

ACE Enexor, Inc. is currently a participant in two (2) petroleum Service Contracts with the Government of the Republic of the Philippines, namely: SC 6 and SC 55 (the latter through its subsidiary, Palawan55 Exploration & Production Corporation). All these contracts are in the exploratory stage, i.e. without any commercial production. ACEX intends to maintain its participation in the aforementioned service contracts over the next twelve (12) months and to defray regular business expenses using available cash and investments held for trading. In the event that these contracts are successful, the Company will reap revenues that will more than offset losses incurred.

### **CALENDAR 2019 AND NEXT TWELVE MONTHS**

#### **SC 55 (Ultra Deepwater – West Palawan) (Palawan55, 37.50%)**

On 24 July 2019 Palawan55 notified the DOE that Palawan55 is entering into the fifth sub-phase of Service Contract No. 55 (SC 55), which covers a deepwater exploration block off southwest Palawan, effective 26 August 2019, without prejudice to Palawan55's option to enter the Appraisal Period of SC 55 no later than the said date. On 9 August 2019, Palawan55 notified the Department of Energy of the SC 55 consortium's entry into the Appraisal Period of SC 55 effective 26 August 2019.

The seismic reprocessing of 1,000 sq. km. of 3D seismic data and the Quantitative Interpretation Study aimed at identifying the gas-bearing zones in the service contract have been completed in October 2019.

Palawan55 is currently interpreting the reprocessed seismic data to generate additional prospects in the contract area.

Palawan55 has completed the first phase of drilling preparations including well design, issuance of tenders for long lead items such as wellhead, conductor pipes and casing, and a rig market survey.

On February 13, 2020, the DOE approved the transfer of Century Red's entire 37.50% participating interest to Palawan55 as a result of the former's withdrawal from the block. As a result, Palawan55's participating interest was adjusted to 75% and Palawan55 retained its position as Operator of SC55.

The SC 55 Consortium is awaiting confirmation from the DOE of its entry into the Appraisal Period with one deep water well drilling commitment.

#### **SC 6 Block A (Offshore Northwest Palawan) (7.78%)**

In January 2019, the DOE approved the Consortium's 2019 Work Program and Budget consisting of seismic attribute analysis and preliminary well drilling design.

The Consortium completed seismic attribute analysis of the Galoc Clastic unit in the northern block and review of subsurface work done by a prospective farminee on the Octon Field.

#### **SC 6 Block B (Offshore Northwest Palawan) (2.475%)**

Enexor relinquished its 14.063% participating interests in SC 6B in favor of the Consortium. The assignment of Enexor's participating interests, however, does not include the transfer of its 2.475% Carried Interest in the block. The transfer of interest from Enexor to SC6B continuing parties was approved by the DOE on 12 April 2018.

#### **SC 51 (East Visayas) (6.67%)**

On 04 July 2018, the consortium members notified the DOE of their decision to relinquish the SC 51 block, after the latter approved the transfer of the former Operator's interests without granting the partners' request for term extension and amendment of the work program commitment.

On 01 July 2019, the DOE approved the relinquishment. Enexor fully settled its training fund obligations on 22 July 2019.

#### **SC 69 (Central Visayas) (50%)**

In June 2018, Enexor notified the DOE of the consortium's relinquishment of the block in light of strong opposition from several non-governmental stakeholders and the issuances of local government units declaring the Visayan Sea as a national protected area and marine reserve.

On 29 July 2019, the DOE approved said relinquishment subject to Enexor's full settlement of its financial obligations for training and development assistance.

On 29 January 2020, Enexor fully paid its financial obligations.

## **CALENDAR 2018**

### **SC 6 Block A (Offshore Northwest Palawan) (7.78%)**

The Consortium completed its CY2018 work program consisting of more advanced geological and geophysical activity (seismic attribute mapping and interpretation) using the output from Quantitative Inversion Study. Said technical undertaking have improved the resource evaluation of the identified leads and prospects in the area.

On 18 December 2018, the Joint Venture Partners approved and the Operator submitted to the DOE the proposed 2019 SC 6A Work Program and Budget amounting to US\$ 314,116 composed of geological and geophysical evaluation and engineering projects. The same was approved by the DOE on 23 January 2019.

### **SC 6 Block B (Offshore Northwest Palawan) (14.063%)**

ACEX relinquished its 14.063% participating interests in SC 6B in favor of the Consortium. The assignment of ACEX's participating interests, however does not include the transfer of its 2.475% Carried Interest in the block. The transfer of interest from ACEX to SC 6B continuing parties was approved by the DOE on 12 April 2018.

### **SC 51 (East Visayas) (6.67%)**

On 04 July 2018, the SC 51 Consortium filed to the DOE its Notice of Relinquishment of the block.

Following several meetings with the DOE regarding technical and contractual issues in SC 51, the Consortium submitted a supplemental letter to the DOE providing further justification in connection with the relinquishment of their participating interests in the block. The matter has been endorsed to Central Review and Evaluation Committee of the DOE and is currently being evaluated.

### **SC 55 (Ultra Deepwater – West Palawan) (Palawan 55, 37.50%)**

On 26 March 2018, the DOE approved the transfer of participating interests from Otto Energy to its Partners, Palawan55, Century Red and Pryce Gases, Inc. The Moratorium Period was also approved with a budget of US\$478,750 for 3D seismic reprocessing and Quantitative Inversion Study.

On 23 August 2018, Palawan 55 awarded the 3D Marine PreSTM and PreSDM Reprocessing and Quantitative Services Contract to a third party. The Notice to Proceed was issued on 10 September 2018. Said work program is currently ongoing.

On 24 June 2019, Palawan55 notified the DOE that Palawan55 is entering into the 5th sub-phase of Service Contract No. 55 (SC55), which covers a deep-water exploration block off southwest Palawan, effective 26 August 2019. This is without prejudice to Palawan55's option to enter the Appraisal Period of SC 55 no later than the said date. The 5th sub-phase carries a commitment to drill one ultra-deepwater (water depth beyond 1,500 meters) well in the second quarter of 2020. In 2015, the SC 55 Consortium drilled the Hawkeye-1 well in 1,700 meters of water at a cost of US\$23.5 million. The well discovered natural gas at the crest of the target structure but the estimated volume of the accumulation was deemed by the former Operator to be non-commercial on a stand-alone basis. Palawan55 is currently undertaking quantitative interpretation of over 1,000 sq. km. of recently reprocessed 3D seismic data over the greater Hawkeye area and a large carbonate reef prospect.

### **SC 69 (Central Visayas) (50%)**

On 04 June 2018, the SC 69 Consortium filed to the DOE its Notice of Relinquishment of the block in consideration of strong opposition from various stakeholders, including several NGOs and LGUs, making the conduct of petroleum exploration business in the area very difficult.

The matter had been endorsed to Central Review and Evaluation Committee of the DOE and is currently being evaluated.



## FINANCIAL PERFORMANCE

### 2019 compared with 2018

#### Consolidated Statements of Income

	For the year ended December 31		Increase (Decrease)	
	2019	2018	Amount	%
Expenses	21,093,880	69,922,618	(48,828,738)	(70%)
Other income (charges)	1,121,554	1,578,680	(457,126)	(29%)
<b>Loss before income tax</b>	<b>22,215,434</b>	<b>68,343,938</b>	<b>(48,371,612)</b>	<b>(99%)</b>
Provision for (benefit from) income tax	(275,550)	176,082	(451,632)	-
<b>Net loss</b>	<b>₱19,696,776</b>	<b>₱68,520,020</b>	<b>(₱48,823,244)</b>	<b>(71%)</b>

For the year ended December 31, 2019, the consolidated net loss is lower compared to previous year. The following are the material changes in the Consolidated Statements of Income for the year ended December 31, 2019 and 2018:

- In 2018, P48m provision for probable losses were recorded for SC 51 and SC 69 due to the relinquishment of the SCs. No such provision was recorded in 2019, however, P13.8m in training fund obligations were booked for these SCs and SC55.
- Other income decreased due to foreign exchange losses incurred from dollar payments to service providers.
- Provision for (benefit from) income tax is mainly from movement of unrealized gains from changes in fair value of investments held for trading..

#### Consolidated Statements of Financial Position

	2019	2018	Increase (Decrease)	
			Amount	%
<b>Current Assets</b>				
Cash and cash equivalents	₱52,624,376	₱9,863,588	₱42,760,788	434%
Investments held for trading	-	57,584,369	(57,584,369)	-100%
Receivables	428,702	95,390	333,312	349%
Other current assets	541,085	37,079	504,006	1359%
<b>Noncurrent Assets</b>				
Property and equipment	789,421	23,512	765,909	3258%
Deferred exploration costs	46,040,651	29,384,114	16,656,537	57%
<b>Current Liabilities</b>				
Accounts payable and other current liabilities	33,297,265	9,888,737	23,408,527	237%
Deferred tax liability	11,583	287,133	(275,550)	-96%

The following are the material changes in the Consolidated Statements of Financial Position as at December 31, 2019 and 2018:

- Decrease in cash and cash equivalents and investments held for trading due to expenditures related to the Company's activities.

- Advances to third party for business expenses accounted for the increase in receivables.
- Other current assets increased due to prepayments for a software license and rental of storage facility.
- Increase in property and equipment is from a newly acquired transportation equipment.
- Deferred exploration costs grew due to expenditures from approved work programs in SC 55 and SC 6A.
- Increase in current liabilities was mainly due to advance payments from consortium partners to be applied to SC 55's 2019 work program, accrued training commitments with the DOE pertaining to SC 55 and SC 69 and payables for technical services.
- The Company's deferred tax liability decreased due to movement of unrealized gain on changes in fair value of investments held for trading.

Key Performance Indicator	Formula	2019	2018	Increase (Decrease)	
				Amount	%
<b>Liquidity Ratios</b>					
Current Ratio	Current assets	1.61	6.83	-5.22	-76%
	Current liabilities				
Acid test ratio	Cash + Short-term investments + Accounts receivables + Other liquid assets	1.59	6.83	-5.24	-77%
	Current liabilities				
<b>Solvency Ratios</b>					
Debt-to-equity ratio	Total liabilities	0.50	0.12	0.38	323%
	Total equity				
Asset-to-equity ratio	Total assets	1.50	1.12	0.38	34%
	Total equity				
<b>Profitability Ratios</b>					
Return on equity	Net income after tax	-25.59%	-56.64%	31.05%	-55%
	Average stockholders' equity				
Return on assets	Net income after taxes	-19.95%	-54.01%	34.06%	-63%
	Total assets				

#### **Current ratio and Acid test ratio**

Current ratio and acid test ratio declined due to a significant increase in accounts payable and other current liabilities.

#### **Debt to equity ratio**

This year's higher debt to equity ratio as compared to the previous year is the result of the Company's advances from consortium partners, accrual of training commitments with the DOE and accrued liabilities for technical services.

**Asset to equity ratio**

Asset to equity ratio increased due to the additional deferred exploration costs of the Company pursuant to the approved work program.

**Return on equity and Return on assets**

The Company showed negative returns because it has not started commercial operations and posted net losses on the periods covered.

**DURING THE CALENDAR YEAR 2019:**

- There were no unusual items that affected assets, liabilities, equity, net income or cash flows.
- There were no events that will trigger direct or contingent financial obligation that was material to the company, including any default or acceleration of an obligation.
- There were no events that had occurred subsequent to the balance sheet date that required adjustments to or disclosure in the financial statements.
- There were no contingent assets or contingent liabilities since the last annual balance sheet date.
- There were no material trends, demands, commitments, events or uncertainties known to the Company that would likely affect adversely the liquidity of the Company.
- There were no trends, events or uncertainties that have had or that were reasonably expected to have material favorable or unfavorable impact on net revenues/income from continuing operations.
- There were no significant elements of income or loss that did not arise from continuing operations that had material effect on the financial condition or result of operations.
- There are no material off balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.
- There were no operations subject to seasonality and cyclicity.

## 2018 compared with 2017

### Consolidated Statements of Income

	For the year ended December 31		Increase (Decrease)	
	2018	2017	Amount	%
Expenses	₱69,922,618	₱14,900,495	₱55,022,123	369%
Other income	1,578,680	1,261,652	371,028	25%
<b>Loss before income tax</b>	<b>68,343,938</b>	<b>13,638,843</b>	<b>54,705,095</b>	<b>401%</b>
Provision for (benefit from) income tax	176,082	(128,325)	304,407	(237%)
<b>Net loss</b>	<b>₱68,520,020</b>	<b>₱13,510,518</b>	<b>₱55,009,502</b>	<b>(407%)</b>

For the year ended 31 December 2018, the consolidated net loss is higher as compared to previous year. The following are the material changes in the Consolidated Statements of Income for the year ended 31 December 2018 and 2017:

- Expenses grew mainly due to a P48.3 million provision for probable losses pertaining to deferred exploration costs of SC 51 and SC 69 as against P4.9 million recognized last year. During the year, the Company also incurred project development costs on the LNG-to-Power project and recognized training fund obligations related to SC 6B and SC 55.
- Other income increased with higher fair value of investments held for trading for the year ended 2018.
- Provision for (benefit from) income tax is mainly from movement of unrealized gains from changes in fair value of investments held for trading.

### Consolidated Statements of Financial Position

	2018	2017	Increase (Decrease)	
			Amount	%
<b>Current Assets</b>				
Cash and cash equivalents	₱9,863,588	₱3,271,882	₱6,591,706	201%
Investments held for trading	57,584,369	77,519,176	(19,934,807)	(26%)
Receivables	95,390	59,030	36,360	62%
Other current assets	37,079	24,399	12,680	52%
<b>Noncurrent Assets</b>				
Property and equipment	23,512	–	23,512	100%
Deferred exploration costs	29,384,114	76,105,395	(46,721,281)	(61%)
(Forward)				
<b>Current Liabilities</b>				
Accounts payable and other current liabilities	9,888,737	1,536,629	8,352,108	544%
<b>Noncurrent Liability</b>				

	2018	2017	Increase (Decrease)	
			Amount	%
Deferred tax liability	287,133	111,051	176,082	159%

The following are the material changes in the Consolidated Statements of Financial Position as at 31 December 2018 and 2017:

- Decrease in cash and cash equivalents were mainly due to expenditures related to the Company's activities.
- Investments held for trading declined due to redemption of short-term investments.
- Increase in receivables is due to receivable from third party.
- Other current assets increased due to prepayments of shared liability insurance of directors.
- Increase in property and equipment is from a newly acquired computer equipment.
- Deferred exploration costs dropped with the full provision for probable losses of SC 51 due to deemed expiration of the exploration period and SC 69 due to vigorous opposition of stakeholders and recent issuances of concerned LGUs declaring the Visayan Sea as a protected area and marine reserve.
- Increase in current liabilities was mainly due to accrual of training fund obligations and work program activities related to SC 55.
- The Company's deferred tax liability increased due to movement of unrealized gain on changes in fair value of investments held for trading.

The key performance indicators of ACE Enexor, Inc. and its subsidiary, as consolidated, are the following:

Key Performance Indicator	Formula	2018	2017	Increase (Decrease)	
				Amount	%
<b>Liquidity Ratios</b>					
Current Ratio	Current assets	6.83	52.63	(45.80)	(87%)
	Current liabilities				
Acid test ratio	Cash + Short-term investments + Accounts receivables + Other liquid assets	6.83	52.62	(45.79)	(87%)
	Current liabilities				

Key Performance Indicator	Formula	2018	2017	Increase (Decrease)	
				Amount	%
<b>Solvency Ratios</b>					
Debt-to-equity ratio	Total liabilities	0.12	0.01	0.11	1100%
	Total equity				
Asset-to-equity ratio	Total assets	1.12	1.01	0.11	11%
	Total equity				
Interest coverage ratio	Earnings before interest & tax (EBIT)	N/A	N/A	N/A	N/A
	Interest expense				
Net debt-to-equity ratio	Debt - cash and cash equivalents	0.00	(0.01)	0.01	(96%)
	Total equity				
<b>Profitability Ratios</b>					
Return on equity	Net income after tax	(56.64%)	(8.34%)	(48.30%)	58%
	Average stockholders' equity				
Return on assets	Net income after taxes	(70.65%)	(8.61%)	(62.04%)	-55%
	Total assets				
Asset turnover	Revenues	N/A	N/A	N/A	N/A
	Total assets				

#### Current ratio and Acid test ratio

Current ratio and acid test ratio declined due to redemption of investments held for trading and increase in accrued liabilities. For the first semester of 2019, current ratio and acid test ratio decreased due to the 15% decrease in current asset primarily brought about by the decrease in cash & cash equivalents used in operating activities. In addition, during the semester, current liabilities increased by 34% due to increase in accrued expenses and accounts payable.

#### Debt to equity ratio

The Company has minimal liabilities and is funded primarily through equity. For the first semester of 2019, debt-to-equity ratio increased due to 37% increase in current liabilities

#### Asset to equity ratio

Asset to equity ratio increased due to increase in accrued liabilities of the Company. As at 30 June 2019, asset-to-equity ratio increased with the net losses posted during the first semester of 2019.

#### Interest coverage ratio and Net debt to equity ratio

These ratios are not applicable since the Company has no borrowings.

#### Return on equity and Return on assets

The Company showed negative returns because it has not started commercial operations and posted net losses on the periods covered.

### **Asset turnover**

This ratio is not applicable since the Company has not started commercial operations.

### **DURING THE CALENDAR YEAR 2018:**

- There were no unusual items that affected assets, liabilities, equity, net income or cash flows.
- There were no events that will trigger direct or contingent financial obligation that was material to the company, including any default or acceleration of an obligation.
- There were no events that had occurred subsequent to the balance sheet date that required adjustments to or disclosure in the financial statements.
- There were no contingent assets or contingent liabilities since the last annual balance sheet date.
- There were no material trends, demands, commitments, events or uncertainties known to the Company that would likely affect adversely the liquidity of the Company.
- There were no trends, events or uncertainties that have had or that were reasonably expected to have material favorable or unfavorable impact on net revenues/income from continuing operations.
- There were no significant elements of income or loss that did not arise from continuing operations that had material effect on the financial condition or result of operations.
- There are no material off balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.
- There were no operations subject to seasonality and cyclicity.

### **SC 6 Block A (Offshore Northwest Palawan) (7.78%)**

On 08 January 2018, the consortium submitted to the DOE its proposed 2018 work program composed of seismic interpretation and mapping and integration of quantitative inversion results that would serve as input to preliminary well design and cost estimates. The Consortium completed its CY 2018 work program and said undertaking have improved the resource evaluation of the mapped leads and prospects in the area.

On 18 December 2018, the Joint Venture approved and the Operator, Philodrill Corporation submitted to the DOE the 2019 SC 6A Work Program and Budget composed of geological and geophysical evaluation and engineering projects in the amount of US 300,000. The document was approved by the DOE on 23 January 2019.

### **SC 6 Block B (Offshore Northwest Palawan) (14.063%)**

ACEX relinquished its 14.064% participating interest in SC 6B in favor of its partners. The assignment of participating interest, however, does not include ACEX's 2.475% Carried Interest in the block, which is applicable to gross proceeds from any production in the block. On 12 April 2018, DOE approved the transfer of interest from the Company to SC 6B continuing parties

### **SC51 (East Visayas) (6.67%)**

The Filipino Partners submitted a Deed of Undertaking to assume the outstanding training fund obligation of the previous Operator, a condition of the DOE for approval of the transfer of interests from the latter to the former. The Deed is subject to an extension of the term of the contract and conduct of gravity and pore pressure studies prior to exploratory drilling.

On 01 June 2018, the DOE approved the transfer of Otto Energy's participating interests in SC 51 to the Filipino Partners. ACEX's participating interest was adjusted from 6.67% to 33.34%. On 04 July 2018, the SC 51 Consortium, noting that the attendant requested conditions that would allow full implementation of the proposed work program were not covered in the said approval (i.e. SC 51 term extension, revision of work program), notified the DOE of their decision to relinquish SC 51 block, to withdraw from SC 51 and to waive their rights to Otto Energy's interest.

The SC 51 Consortium met with DOE in several occasions to craft the best way forward in SC 51. And on 17 December 2018, as had been agreed in a number of meetings, the Consortium provided further justification for waiver of contingent liabilities in connection with the relinquishment of their participating interests in the block.

The matter is still being evaluated by the DOE and the aforementioned requests are pending with the Department as of date.

#### **SC55 (Ultra Deepwater – West Palawan) (Palawan55, 6.82%)**

Palawan55 notified the DOE of its willingness to assume its proportionate share in the outstanding training fund obligation of the former Operator upon DOE approval of the transfer of the latter's participating interest to the remaining partners. The continuing partners committed to undertake specialized geophysical studies that would reassess the prospectivity of the block in light of the gas discovery in Hawkeye-1 well, once the request for transfer of interests and extension of the moratorium period is approved.

On 26 March 2018, the DOE approved the transfer of participating interests from Otto Energy to the continuing partners, Palawan55, Century Red Pte. Ltd. and Pryce Gases, Inc. As a result of the transfer, the Company's 6.82% participating interest in SC 55 have been adjusted to 37.50%. The timeline of the Moratorium Period, with a commitment to conduct Quantitative Inversion Study, was also revised to reflect the transfer of interest. Further, the DOE formally confirmed Palawan55 as Operator of the block.

On 23 August 2018, Palawan55 awarded the 3D Marine PreSTM and PreSDM Reprocessing and Quantitative Inversion Services Contract to DownUnder Geosolutions (Asia) Sdn Bhd. The project commenced on 10 September 2018 and is still ongoing as of 28 February 2019.

On 24 June 2019, Palawan55 notified the DOE that Palawan55 is entering into the 5th sub-phase of Service Contract No. 55 (SC55), which covers a deep-water exploration block off southwest Palawan, effective 26 August 2019. This is without prejudice to Palawan55's option to enter the Appraisal Period of SC 55 no later than the said date. The 5th sub-phase carries a commitment to drill one ultra-deepwater (water depth beyond 1,500 meters) well in the second quarter of 2020. In 2015, the SC 55 Consortium drilled the Hawkeye-1 well in 1,700 meters of water at a cost of US\$23.5 million. The well discovered natural gas at the crest of the target structure but the estimated volume of the accumulation was deemed by the former Operator to be non-commercial on a stand-alone basis. Palawan55 is currently undertaking quantitative interpretation of over 1,000 sq. km. of recently reprocessed 3D seismic data over the greater Hawkeye area and a large carbonate reef prospect.

#### **SC69 (Central Visayas) (50%)**

The Consortium invoked a Force Majeure event under SC 69 brought about by the unforeseen cancellation of a programmed seismic survey due to challenges in securing local government permits and environmental clearances in the Visayan Sea in the area of interest. The DOE approved the Force Majeure situation with an attendant work program of permitting and information and education campaigns to address the aforementioned impediments to the planned seismic survey.

On 04 June 2018, the SC 69 Consortium notified the DOE of its relinquishment of SC 69 block in view of the strong oppositions to the Project from various stakeholders, including several Local Government Units (LGUs) and Non-Government Organizations (NGOs), making the conduct of petroleum exploration business in the area very challenging, if not impossible. The aforementioned request is still pending with the DOE as of 18 February 2019.

#### **SC50 (North Palawan)**

In January 2016, Frontier Oil requested a 2-year moratorium on contract obligations. Negotiations between the DOE and Frontier Oil for possible reinstatement of SC 50 continues. Also, approval of the assignment of 10% participating interest in SC 50 to the Company remains pending with the DOE.

### **FINANCIAL PERFORMANCE**

#### **2017 compared with 2016**

##### **Consolidated Statements of Income**

	<b>For the year ended December 31</b>		<b>Increase (Decrease)</b>	
	<b>2017</b>	<b>2016</b>	<b>Amount</b>	<b>%</b>
Interest income	₱14,770	₱11,163	₱3,607	32%
Cost and expenses	14,900,495	41,568,866	(26,668,373)	-64%



Other income (charges)	1,246,882	1,488,290	(241,408)	-16%
<b>Loss before income tax</b>	<b>13,638,842</b>	<b>40,069,413</b>	<b>26,430,572</b>	<b>66%</b>
Provision for (benefit from) income tax	(128,325)	246,570	(374,895)	-152%
<b>Net loss</b>	<b>₱13,510,518</b>	<b>₱40,315,983</b>	<b>₱26,805,465</b>	<b>66%</b>

For the year ended 31 December 2017, the consolidated net loss is lower as compared to previous year of the same period. The following are the material changes in the Consolidated Statements of Income for the year ended 31 December 2017 and 2016:

- Consolidated interest income went up due to higher level of short-term deposits as compared to the same period last year.
- Consolidated cost and expenses decreased by ₱26.7 million year-on-year. This is mainly from the ₱20.0 million allowance for doubtful accounts provided in 2016. Also, the Company recognized ₱4.8 million provision for probable losses in SC 6B in 2017 compared to ₱11.7 million provision for probable losses in SC 50 in 2016.
- Other income (charges) decreased due to lower redemption of investments held for trading during the year compared to the same period of last year.
- Provision for (benefit from) income tax is mainly from movement of unrealized gains from changes in fair value of investments.

### Consolidated Statements of Financial Position

	2017	2016	Increase (Decrease)	
			Amount	%
<b>Current Assets</b>				
Cash and cash equivalents	₱3,271,882	₱3,752,652	(₱480,770)	-13%
Investments held for trading	77,519,176	85,677,433	(8,158,257)	-10%
Receivables	59,030	203,428	(144,398)	-71%
Other current assets	24,399	82,843	(58,444)	-71%
<b>Noncurrent Assets</b>				
Property and equipment	-	103,740	(103,740)	-100%
Deferred exploration costs	76,105,395	80,034,927	(3,929,532)	-5%
<b>Current Liabilities</b>				
Accounts payable and other current liabilities	1,536,629	772,927	763,702	99%
Deferred tax liability	111,051	239,376	(128,324)	-54%

The following are the material changes in the Consolidated Statements of Financial Position as at 31 December 2017 and 2016:

- Decrease in cash and cash equivalents were mainly due to expenditures related to the Company's activities.
- In 2017, the Company redeemed portion of its investments held for trading.
- Receivables' decline is mainly attributable to the receipt of payment from the Parent company.
- Prepaid expenses decreased due to non-renewal of license used in technical review.
- Decrease in property and equipment is attributed to annual depreciation. As at 31 December 2017, property and equipment are fully depreciated.
- Deferred exploration costs dropped due to the provision for probable losses in SC6B recognized during the year.
- The Company's deferred tax liability decreased due to movement of unrealized gain on changes in fair value of investments held for trading.

The key performance indicators of ACE Enexor, Inc. and its subsidiary, as consolidated, are the following:

Key Performance Indicator	Formula	2017	2016	Increase (Decrease)	
				Amount	%
<b>Liquidity Ratios</b>					
Current Ratio	Current assets	52.63	116.07	-63.44	-55%
	Current liabilities				
Acid test ratio	Cash + Short-term investments + Accounts receivables + Other liquid assets	52.62	115.97	-63.35	-21%
	Current liabilities				
<b>Solvency Ratios</b>					
Debt-to-equity ratio	Total liabilities	0.01	0.01	0.00	0.0%
	Total equity				
Asset-to-equity ratio	Total assets	1.01	1.00	0.01	0%
	Total equity				
Interest coverage ratio	Earnings before interest & tax (EBIT)	N/A	N/A	N/A	N/A
	Interest expense				
Net debt-to-equity ratio	Debt - cash and cash equivalents	N/A	N/A	N/A	N/A
	Total equity				
<b>Profitability Ratios</b>					
Return on equity	Net income after tax	-8.34%	-21.33%	-12.99%	-61%
	Average stockholders' equity				
Return on assets	Net income after taxes	-8.27%	-21.24%	-12.97%	-61%
	Total assets				
Asset turnover	Revenues	N/A	N/A	N/A	N/A
	Total assets				

#### **Current ratio and Acid test ratio**

Current ratio and acid test ratio declined due to decrease in current assets from redemption of a portion of its investments held for trading and increase of accrued liabilities.

#### **Debt to equity ratio**

The Company has minimal liabilities and is funded primarily through equity.

#### **Asset to equity ratio**

Asset to equity ratio increased due to increase of accrued liabilities of the Company.

#### **Interest coverage ratio and Net debt to equity ratio**

These ratios are not applicable since the Company has no borrowings.

### **Return on equity and Return on assets**

The Company showed negative returns because it has not started commercial operations and posted net losses on the periods covered.

### **Asset turnover**

This ratio is not applicable since the Company has not started commercial operations.

### **DURING THE CALENDAR YEAR 2017:**

- There were no unusual items that affected assets, liabilities, equity, net income or cash flows.
- There were no events that will trigger direct or contingent financial obligation that was material to the company, including any default or acceleration of an obligation.
- There were no events that had occurred subsequent to the balance sheet date that required adjustments to or disclosure in the financial statements.
- There were no contingent assets or contingent liabilities since the last annual balance sheet date.
- There were no material trends, demands, commitments, events or uncertainties known to the Company that would likely affect adversely the liquidity of the Company.
- There were no trends, events or uncertainties that have had or that were reasonably expected to have material favorable or unfavorable impact on net revenues/income from continuing operations.
- There were no significant elements of income or loss that did not arise from continuing operations that had material effect on the financial condition or result of operations.
- There are no material off balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.
- There were no operations subject to seasonality and cyclicity.

### **SC 6 (Offshore Northwest Palawan)**

#### ***Block A***

CY 2016 work program pertinent geophysical program, which commenced in November 2015, was completed by 31 December 2016.

The consortium submitted to the DOE its proposed 2017 work program consisting of advanced geophysical studies.

#### ***Block B***

The consortium formulated a work program for the next five years of the extension period which started on 01 March 2015. Partners submitted, for the DOE's approval, a 3-year work program consisting mainly of geophysical studies with a corresponding budget amounting to US\$724,000. The geophysical studies were completed by the third quarter of 2016.

To improve the viability of the primary prospect, the consortium requested the DOE to reconfigure the contract area to include an adjoining block, which hosts an oil field where production had been suspended.

The Company holds 7.78% and 14.063% participating interests in Block A and Block B, respectively. SC 6 is valid until 28 February 2024 subject to fulfillment of work commitments for each of the three 5-year terms comprising the 15-year extension period of SC 6 in respect of Block A and B and payment of training assistance, development assistance and scholarship funds to the DOE.

On 20 February 2017, the Company gave notice to the consortium of relinquishment of its 14.063% participating interest in SC 6 Block B and the Operating Agreement, but said relinquishment shall not include the Company's 2.475% carried interest.

### **SC 51 (Northwest Leyte/Cebu Strait)**

On 11 May 2015, DOE approved the request for an extension of Sub Phase 5 to 08 July 2016. The DOE ruled that the outstanding training commitment funds must be settled before the transfer of Otto Energy's interest could be given due course. Negotiations between the DOE, Otto Energy and the Filipino partners continues. The Company's 6.67% participating interest in SC 51 would be adjusted to 33.34% upon DOE approval of the withdrawal of Otto Energy.

### **SC 55 (Offshore West Palawan)**

The DOE extended the term of SC 55 until 23 December 2017. The transfer of interest from Otto Energy to the continuing parties is under processing by the DOE. The Company holds 6.82% participating interest in SC 55.

### **SC 69 (Camotes Sea)**

On 30 June 2016, the Company signed a licensing agreement with a seismic contractor for the acquisition of 750 km of seismic data under the multi-client survey. The seismic contractor in a letter dated 18 August 2016 informed the Company that it could not proceed with the Company's leg of the survey due to permitting and weather constraints. The consortium requested an extension of the term of SC 69 due to Force Majeure. The approval of the aforementioned extension remains pending with the DOE. The Company's participating interest in SC 69 is 50%.

### **SC 50 (North Palawan)**

In January 2016, Frontier Oil requested a 2-year moratorium on contract obligations. Negotiations between the DOE and Frontier Oil for possible reinstatement of SC 50 continues. Also, approval of the assignment of 10% participating interest in SC 50 to the Company remains pending with the DOE.

## **FINANCIAL PERFORMANCE**

### **2016 compared with 2015**

#### **Consolidated Statements of Income**

	<b>For the year ended December 31</b>		<b>Increase (Decrease)</b>	
	<b>2016</b>	<b>2015</b>	<b>Amount</b>	<b>%</b>
Interest income	₱11,163	₱69,058	(₱57,895)	-84%
Cost and expenses	41,568,866	11,908,116	29,660,750	249%
Other income (charges)	1,488,290	1,209,877	278,413	23%
<b>Loss before income tax</b>	<b>40,069,413</b>	<b>10,629,181</b>	<b>29,440,232</b>	<b>277%</b>
Provision for (benefit from) income tax	246,570	65,433	181,137	277%
<b>Net loss</b>	<b>₱40,315,983</b>	<b>₱10,694,614</b>	<b>₱29,621,369</b>	<b>277%</b>

The Company posted a higher consolidated net loss for the year compared to previous year of the same period. The following are the material changes in the Consolidated Statements of Income for the year ended 31 December 2016 and 2015:

- Interest income decreased due to reduction of short-term deposits as compared to the same period last year.
- Cost and expenses increased mainly due to the ₱20 million allowance provided for receivables from a third party and ₱11.7 million provision for probable losses in SC 50 recognized in 2016. Decline in expenses were due to lower professional fees and insurance paid in 2016 and due to capitalized portion of salaries, depreciation and utilities to deferred exploration costs as a result of the Company's operatorship of SC 69.
- Other income increased due to higher gains on changes in fair value of investments held for trading and miscellaneous income.
- Higher provision for income tax resulted from recognizing the deferred tax liability from unrealized gain on fair value changes of investments held for trading.

	<b>2016</b>	<b>2015</b>	<b>Increase (Decrease)</b>	
			<b>Amount</b>	<b>%</b>
<b>Current Assets</b>				
Cash and cash equivalents	₱3,752,652	₱4,456,177	(₱703,525)	-16%
Investments held for trading	85,677,433	95,837,558	(10,160,125)	-11%
Receivables	203,428	20,056,945	(19,853,517)	-99%
Prepaid expense	82,843	55,732	27,111	49%

**Noncurrent Assets**

Property and equipment	103,740	16,912	(113,172)	-52%
Deferred exploration costs	80,034,927	89,129,867	(9,094,940)	-10%
Deferred income tax asset	-	3,440	(3,440)	-

**Current Liabilities**

Accounts payable and other current liabilities	772,927	597,928	174,999	29%
Deferred tax liability	239,376	-	239,376	-

The following are the material changes in the Consolidated Statements of Financial Position as at 31 December 2016 and 2015:

- Decrease in cash and cash equivalents were mainly due to expenditures related to the Company's activities.
- In 2016, the Company redeemed portion of its investments held for trading.
- Receivables' significant decline pertain to the provision for doubtful account.
- Prepaid expenses increased due to renewal of license used in technical review.
- Property and equipment decrease was attributable to depreciation.
- Deferred exploration costs dropped due to the provision for probable loss in SC 50.
- The Company's deferred tax assets was reversed and a liability was set up due to movement of unrealized foreign exchange loss to gain.
- Increase in accounts payable and current liabilities was mainly due to accrual of employee costs.
- Deferred tax liability includes taxable temporary difference from unrealized gain on changes in fair value of investments held for trading.

The key performance indicators of the Company and its subsidiary, as consolidated, are the following:

Key Performance Indicator	Formula	Increase (Decrease)			
		2016	2015	Amount	%
<b>Liquidity Ratios</b>					
Current Ratio	Current assets	116.07	201.37	(85.30)	(42%)
	Current liabilities				
Acid test ratio	Cash + Short-term investments + Accounts receivables + Other liquid assets	115.97	201.28	(85.31)	(42%)
	Current liabilities				
<b>Solvency Ratios</b>					
Debt-to-equity ratio	Total liabilities	0.00	0.00	0.00	0%
	Total equity				
Asset-to-equity ratio	Total assets	1.01	1.00	0.01	0%
	Total equity				
Interest coverage ratio	Earnings before interest & tax (EBIT)	N/A	N/A	N/A	N/A
	Interest expense				
Net debt-to-equity ratio	Debt - cash and cash equivalents	N/A	N/A	N/A	N/A
	Total equity				
<b>Profitability Ratios</b>					
Return on equity	Net income after tax	-21.33%	-4.99%	-16.34%	-328%
	Average stockholders' equity				
Return on assets	Net income after taxes	(21.24%)	(4.97%)	(16.27%)	(327%)
	Total assets				
Asset turnover	Revenues	N/A	N/A	N/A	N/A
	Total assets				

**Current ratio and Acid test ratio**

Current ratio and acid test ratio declined due to decrease in current assets from the provision for doubtful accounts recognized in 2016.

**Debt to equity ratio**

The Company has minimal liabilities and is funded majority through equity.

**Asset to equity ratio**

Asset to equity ratio increased due to increase of deferred tax liability of the Company.

**Interest coverage ratio and Net debt to equity ratio**

These ratios are not applicable since the Company has no borrowings.

**Return on equity and Return on assets**

The Company showed negative returns because it has not started commercial operations and posted net losses on the periods covered.

**Asset turnover**

This ratio is not applicable since the Company has not started commercial operations.

**DURING THE CALENDAR YEAR 2016:**

- There were no unusual items that affected assets, liabilities, equity, net income or cash flows.
- There were no events that will trigger direct or contingent financial obligation that was material to the company, including any default or acceleration of an obligation.
- There were no events that had occurred subsequent to the balance sheet date that required adjustments to or disclosure in the financial statements other than those already disclosed in the Consolidated Financial Statements.
- There were no contingent assets or contingent liabilities since the last annual balance sheet date.
- There were no material trends, demands, commitments, events or uncertainties known to the Company that would likely affect adversely the liquidity of the Company.
- There were no trends, events or uncertainties that have had or that were reasonably expected to have material favorable or unfavorable impact on net revenues/income from continuing operations.
- There were no significant elements of income or loss that did not arise from continuing operations that had material effect on the financial condition or result of operations.
- There are no material off balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.
- There were no operations subject to seasonality and cyclicity.

**FUTURE PROSPECTS**

The Company, through its subsidiary Palawan55 Exploration & Production Corporation, commenced advanced geophysical studies under SC 55 as it remains optimistic of petroleum prospectivity of the area where subcommercial gas was discovered in 2015.

**FOR CALENDAR 2015****SC 6 (Offshore Northwest Palawan)*****Block A***

Philodrill, the Operator, engaged a contractor to perform the programmed seismic data processing and quantitative interpretation. The consortium completed its CY 2015 work program consisting of geological and geophysical evaluation in third quarter of 2015.

The DOE approved the consortium's CY 2016 work program consisting of specialized geophysical studies. The project commenced in the fourth quarter of 2015.

ACE Enexor, Inc.'s participating interest reverted to 7.78% following the withdrawal of farminee, Pitkin Petroleum.

### ***Block B***

The consortium completed seismic interpretation and satellite gravity studies Seismic reprocessing of 400 sq. km. 3D seismic data continued. The project is about 75% complete as of end 2015.

The DOE approved a six - month extension of the current Sub-Phase to 28 August 2016. The Company holds 7.78% and 14.063% participating interests in Block A and Block B, respectively.

### **SC51 (Northwest Leyte/Cebu Strait)**

The DOE granted six (6) months of extension of Sub-Phase 5 to 31 July 2014 to enable the Operator, Otto, to complete its post well evaluation of the results of the Duhat2 well. The Duhat2 well was plugged and abandoned in 3Q 2013 when it failed to reach its reservoir objective due to drilling problems.

On 5 May 2014, Otto Energy notified the Company and the other partners in the consortium that it has elected to withdraw from SC 51. Otto Energy's withdrawal from SC 51 and the transfer of its participating interest to the remaining parties are subject to the approval of the DOE.

The remaining Filipino partners opted to continue exploration work in the area, but requested the DOE suspension of the term of Sub-Phase 5 from the date Otto Energy notified the DOE of its withdrawal from SC 51, until the DOE approves the transfer of Otto's interest to the Filipino partners.

The DOE denied Otto's request that Duhat-2 well be credited as a compliant well under Sub-Phase 5, but Otto has contested the DOE's ruling. The partners are in discussion with the DOE on how to address this issue.

The Company owns 6.67%% participating interest in SC 51 which will become 33.34% upon DOE approval of the withdrawal of Otto Energy.

### **SC 55 (Offshore West Palawan)**

Otto Energy, the Operator, completed the drilling of the Hawkeye – 1 well to a total depth of 2,920 meters. The well discovered gas which is deemed to be non-commercial. Otto Energy informed its partners of its decision to withdraw from the service contract. On 22 December 2015, the consortium requested the DOE a 2 - year contract moratorium and proposed technical studies that would assess the impact of the results of Hawkeye - 1 on the remaining prospectivity of the area. As at 23 February 2016, the DOE has not approved the request for moratorium.

Palawan55 holds 6.82% participating interest in SC 55.

### **SC 69 (Camotes Sea)**

Following DOE approval of the assignment of Otto Philippines' interests to the Company and Frontier Gasfields, the Company's participating interest in SC 69 was adjusted from the current 6% to 50%.

On 17 March 2014, the Parent Company and Frontier Gasfields jointly requested the DOE an extension of the term of SC 69 until 31 December 2014. The DOE extended the term of Sub-Phase 3 to 07 May 2015 to enable the remaining parties to proceed with planned exploration activities.

As at 17 April 2015, the consortium entered Sub-Phase 4 (May 2015 to May 2016) which entails a commitment to either undertake a 3D seismic program or drill an exploratory well. The DOE approved the consortium's requests that participation in a proposed multi-client 2D seismic survey be credited as fulfillment of its work obligation under the current Sub-Phase and a 6 – month extension of the term of SC 69 to November 2016.

### **SC 50 (North Palawan)**

Frontier Oil, the Operator, applied for a Force Majeure in view of the unilateral cancellation of its rig contract by the counterparty.



On 5 October 2015, the DOE denied the Operator's request and, consequently, ruled that the contract effectively expired in March 2015. As at 20 October 2015, Frontier Oil contested DOE's position and engaged the DOE in discussions aimed at a mutually acceptable resolution of the issue. Frontier requested a 2-year moratorium on contract obligations in January 2016.

## FUTURE PROSPECTS

In March 2017, ACE Enexor, Inc., then named Trans-Asia Petroleum Corporation, amended its corporate name to PHINMA Petroleum and Geothermal Inc. in line with the parent company's name change and to include exploring and developing geothermal resources in its portfolio. Among the projects the Company is looking at is the Mabini Geothermal Service Contract Number 8 located in San Teodoro, Mabini, Batangas, undertaken by ACEPH and Basic Energy Corporation. Prior initial pre-feasibility studies projected the area to yield a resource of between 20 to 60 MW. Subsequently, however, in April 2017 the Mabini local government ordered the partners to cease further exploration, attributing local earthquake activity to the exploration, despite assurances from PHIVOLCS to the contrary. The Mabini partners hope to soon arrive at an agreement with the LGU in order to continue the project. Other projects under study are possible interests in cycle gas turbine (CCGT) plants currently undertaken by ACEPH, including a 383-MW Sta. Ana CCGT power plant in Port Irene, Sta. Ana, Cagayan; a 383-MW Sual CCGT floating power plant in Brgy. Baquioen, Sual, Pangasinan; and a 138 MW Argao floating CCGT power plant in Brgy. Bulasa, Argao, Cebu. The projects, all in the pre-development stage, have been cleared by the DoE for conduct of grid impact

Despite a slight recovery in oil prices in 2017, ACE Enexor, Inc. remains challenged by low oil prices which have dampened global exploration activity. The company remains ready to resume activities once conditions permit, with the conviction that resource exploration and development play a key role in pursuing energy self-reliance for the country.

## FINANCIAL PERFORMANCE

### 2015 compared with 2014

#### Consolidated Statements of Income

	For the year ended December 31		Increase (Decrease)	
	2015	2014	Amount	%
Interest income	₱69,058	₱130,486	(₱61,428)	-47%
Cost and expenses	11,908,116	14,498,337	(2,590,221)	-18%
<b>Other income (loss)</b>				
Gain on changes in fair value of investments held for trading - net	1,245,176	734,986	510,190	69%
Foreign exchange losses	(35,299)	(5,561)	(29,738)	-535%
	1,209,877	729,425	480,452	66%
<b>Loss before income tax</b>	<b>(10,629,181)</b>	<b>(13,638,426)</b>	<b>(3,009,245)</b>	<b>-22%</b>
Provision for (benefit from) income tax	65,433	(69,193)	134,626	-
<b>Net loss</b>	<b>(₱10,694,614)</b>	<b>(₱13,569,233)</b>	<b>(₱2,874,619)</b>	<b>-21%</b>

The Company posted a lower consolidated net loss for the year compared to previous year of the same period. The following are the material changes in the Consolidated Statements of Income for the year ended 31 December 2015 and 2014:

- Interest income decreased due to transfer of financial assets from cash to unit investments trust funds (UITFs) during the second quarter of 2015.
- Cost and expenses declined due to lower professional fees and filing and registration fees paid during the year. Prior year's expenses were related to the Company's listing activities with PSE.
- Other income increased due to higher gain on changes in fair value of investments held for trading
- Provision for income tax resulted from the reversal of previously recognized deferred tax asset in 2014.

## Consolidated Statements of Financial Position

	2015	2014	Increase (Decrease)	
			Amount	%
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	₱4,456,177	₱42,808,622	(₱38,352,445)	-90%
Investments held for trading	95,837,558	70,471,867	25,365,691	36%
Receivables	20,056,945	895,389	19,161,556	2140%
Prepaid expense	55,732	-	55,732	-
<b>Total Current Assets</b>	<b>120,406,412</b>	<b>114,175,878</b>	<b>6,230,534</b>	<b>5%</b>
<b>Noncurrent Assets</b>				
Receivable from a third party	-	20,000,000	(20,000,000)	-100%
Property and equipment	216,912	330,084	(113,172)	-34%
Deferred exploration costs	89,129,867	85,967,118	3,162,749	4%
Deferred income tax asset	3,440	68,873	(65,433)	-95%
<b>Total Noncurrent Assets</b>	<b>89,350,219</b>	<b>106,366,075</b>	<b>(17,015,856)</b>	<b>-16%</b>
<b>TOTAL ASSETS</b>	<b>₱209,756,631</b>	<b>₱220,541,953</b>	<b>(₱10,785,322)</b>	<b>-5%</b>

The following are the material changes in asset accounts in the Consolidated Statements of Financial Position as at 31 December 2015 and 31 December 2014:

- In 2015, the Company repositioned its financial assets from cash and cash equivalents to investments held for trading.
- Receivables went up due to the reclassification of ₱20 Million receivable from Frontier Oil Corporation from current to non-current.
- Prepaid expense pertains to license paid in advance used by the Company in its technical reviews.
- Decrease in property and equipment is attributed to annual depreciation.
- Deferred income tax asset declined due to the reversal of previously recognized net operating loss carry over (NOLCO). Remaining deferred income tax asset pertains to foreign currency movements.
- Deferred exploration costs represent the Company's share in the expenditures incurred under petroleum SCs with DOE. The increase during the year is from the Company's participation in SC 6 (Northwest Palawan).

Details of deferred exploration costs are as follows:

	2015	2014	Increase (Decrease)	
			Amount	%
ACE Enexor, Inc.				
SC51 (East Visayas)	₱32,665,864	₱32,665,864	₱-	-
SC69 (Camotes Sea)	15,085,259	15,085,259	-	-
SC 6 (Northwest Palawan):				
Block A	19,083,683	18,804,924	278,759	1%
Block B	4,862,765	1,978,775	2,883,990	146%
SC50 (Northwest Palawan)	11,719,086	11,719,086	-	-
	83,416,657	80,253,908	3,162,749	4%
Palawan55:				
SC55 (Southwest Palawan)	5,713,210	5,713,210	-	-
	<b>₱89,129,867</b>	<b>₱85,967,118</b>	<b>₱3,162,749</b>	<b>4%</b>

Deferred exploration costs include mainly expenditures for geological and geophysical studies and, in some instances, exploratory drilling costs. The service contracts provide for certain minimum work and expenditure obligations and the rights and benefits of the contractor. Cash calls are made by the service contract operator in accordance with the work program and budget for the particular phase of the service contract as approved by the DOE.

Increase (Decrease)

	2015	2014	Amount	%
<b>LIABILITIES AND EQUITY</b>				
<b>Current Liability</b>				
Accounts payable and other current liabilities	₱597,928	₱688,636	(₱90,708)	-13%
<b>Equity</b>				
Attributable to Equity Holders of the Parent Company:				
Capital stock	250,000,000	250,000,000	-	-
Deficit	(43,256,854)	(32,688,443)	10,568,411	32%
	206,743,146	217,311,557	(10,568,411)	-5%
Non-controlling interest	2,415,557	2,541,760	(126,203)	-5%
<b>Total Equity</b>	<b>209,158,703</b>	<b>219,853,317</b>	<b>(10,694,614)</b>	<b>-10%</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱209,756,631</b>	<b>₱220,541,953</b>	<b>(₱10,785,322)</b>	<b>-5%</b>

The following are the material changes in liability and equity accounts in the Consolidated Statements of Financial Position as at 31 December 2015 and 31 December 2014:

- Decrease in current liabilities pertains mainly to payment of accrued expenses.
- Deficit increased due to the 2015 net loss attributable to the Parent Company.
- Non-controlling interest was reduced by its proportionate share in the consolidated net loss of the Company.

#### Consolidated Statements of Cash Flows

	For the year ended December 31		Increase (Decrease)	
	2015	2014	Amount	%
Net cash flows used in operating activities	(₱11,062,025)	(₱14,768,724)	(₱3,706,699)	-25%
Cash flows from (used in) investing activities	(27,238,264)	36,556,215	(63,794,479)	-
Net increase (decrease) in cash and cash equivalents	(38,345,289)	21,787,491	(60,132,780)	-
Effect of exchange rate changes	(7,156)	(8,770)	1,614	18%
Cash and cash equivalents at beginning of year	42,808,622	21,029,901	21,778,721	104%
<b>Cash and cash equivalents at end of year</b>	<b>₱4,456,177</b>	<b>₱42,808,622</b>	<b>(₱38,352,445)</b>	<b>-90%</b>

The following are the material changes in the Consolidated Statements of Cash Flows for the years ended 31 December 2015 and 2014:

- Net cash flows used in operating activities declined in 2015 due to lower expenses incurred during the year.
- Net cash flows used in investing activities in 2015 is from additions to investments held for trading and cash call in SC 6. In 2014, net cash flow provided by investing activities was from the redemption of investments held for trading.
- No financing activities occurred in 2015 and 2014.
- Effect of exchange rate changes is from foreign exchange rate movements.

The key performance indicators of ACE Enxor, Inc. and its subsidiary, as consolidated, are the following:

Key Performance Indicator	Formula	2015	2014	Increase (Decrease)	
				Amount	%
<b>Liquidity Ratios</b>					
Current Ratio	Current assets	201.37	165.80	35.57	21%
	Current liabilities				
Acid test ratio	Cash + Short-term investments + Accounts receivables +	201.28	165.80	35.48	21%
	Other liquid assets				
	Current liabilities				

Key Performance Indicator	Formula	2015	2014	Increase (Decrease)	
				Amount	%
<b>Solvency Ratios</b>					
Debt-to-equity ratio	Total liabilities	0.00	0.00	0.00	-9%
	Total equity				
Asset-to-equity ratio	Total assets	1.00	1.00	0.00	0%
	Total equity				
Interest coverage ratio	Earnings before interest & tax (EBIT)	N/A	N/A	N/A	N/A
	Interest expense				
Net debt-to-equity ratio	Debt - cash and cash equivalents	N/A	N/A	N/A	N/A
	Total equity				
<b>Profitability Ratios</b>					
Return on equity	Net income after tax	-4.99%	-5.99%	-1.00%	-17%
	Average stockholders' equity				
Return on assets	Net income after taxes	-4.97%	-5.97%	-1.00%	-17%
	Average total assets				
Asset turnover	Revenues	N/A	N/A	N/A	N/A
	Total assets				

**Current ratio and Acid test ratio**

Current ratio and acid test ratio improved due to increase in receivables.

**Debt to equity ratio**

The Company has minimal liabilities and is funded majority through equity.

**Asset to equity ratio**

Asset to equity ratio remained at 1.00 because of minimal liabilities of the Company.

**Interest coverage ratio and Net debt to equity ratio**

These ratios are not applicable since the Company has no borrowings.

**Return on equity and Return on assets**

The Company showed negative returns because it has not started commercial operations and posted net losses on the periods covered.

**Asset turnover**

This ratio is not applicable since the Company has not started commercial operations.

**During the calendar year 2015:**

- There were no unusual items that affected assets, liabilities, equity, net income or cash flows.
- There were no know trends or any known demands, commitments, events or uncertainties that would likely affect adversely the liquidity of the Company.
- There were no events that trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.
- There were no material off-balance sheet transactions, arrangements, obligations, including contingent obligations, and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.
- Except for the uncertainty of any termination of the Company's Service Contracts, there were no known trends, events or uncertainties that have had or that are reasonably expected to have a material or unfavorable impact on revenues or income from continuing operations.
- There were no significant elements of income or loss that did not arise from continuing operations that had a material effect on the financial condition or result of operations.
- There were no seasonal aspects that had a material effect on the financial condition or results of operations.

## **COMPLIANCE PROGRAM**

### **Corporate Governance**

The Board of Directors, officers and employees of the Company commit themselves to the principles and best practices embodied in its Corporate Governance Manual. The Company believes that good corporate governance is a necessary component of what constitutes sound strategic business management and will therefore exert every effort to ensure adherence thereto within the organization.

### **Compliance Officer**

The Board designates a Compliance Officer who reports to the Chairman of the Board. As required of publicly-listed companies, the appointment of Compliance Officer is properly disclosed to the SEC. The Board also ensures the presence and adequacy of internal control mechanisms for good governance.

The Compliance Officer's duties include ensuring proper on boarding of new directors (i.e., orientation on the company's business, charter, articles of incorporation and by-laws, among others), monitor, review, evaluate and ensure compliance by the Corporation, its officers and directors with the relevant laws, with the Code of Corporate Governance ("Code"), rules and regulations and all governance issuances of regulatory agencies, appear before the Securities and Exchange Commission upon summon on matters in relation to compliance with the Code, ensure the integrity and accuracy of all documentary submissions to regulators, determine violation/s of the Code and recommend to the Board the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation, identify possible areas of compliance issues and work towards the resolution of the same, develop and establish, subject to approval of the Board, a monitoring and evaluation system to determine compliance with this Manual, which system shall provide for a procedure that fulfils the requirements of due process, ensure the attendance of board members and key officers to relevant trainings and perform such other duties and responsibilities as may be provided by the SEC.

### **Integrated Annual Corporate Governance Report (I-ACGR)**

SEC MC No. 15, Series of 2017 was released in December 2017 which mandates all publicly-Listed companies to submit an Integrated Annual Corporate Governance Report (I-ACGR) on or before May 30 of the following year for every year that the company remains listed in the PSE, covering all relevant information for the preceding year.

The I-ACGR supersedes the ACGR last submitted for the year 2017 to the SEC and the Compliance Report on Corporate Governance last submitted for the year 2017 to the PSE. The Company submitted its I-ACGR for the year 2017 on 30 May 2018. For the fiscal year 2018, the Company submitted its I-ACGR on 30 May 2019.

As of 31 December 2019, The Company has substantially complied with the principles and best practices contained in the Corporate Governance Manual. There were no sanctions imposed on any director, officer or employee for non-compliance of the Manual. The Company is taking further steps to enhance adherence to principles and practices of good corporate governance.

ACE Enexor, Inc.  
(Formerly PHINMA Petroleum and Geothermal,  
Inc.)  
and Subsidiary

Consolidated Financial Statements  
December 31, 2019 and 2018  
and Years Ended December 31, 2019, 2018 and  
2017

and

Independent Auditor's Report

DRAFT

# COVER SHEET

## for AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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**COMPANY NAME**

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N	C	.	)		A	N	D		S	U	B	S	I	D	I	A	R	Y											

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

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Form Type  

A	A	F	S
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Department requiring the report  

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Secondary License Type, If Applicable  

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**COMPANY INFORMATION**

Company's Email Address <b>www.phinmappg.com</b>	Company's Telephone Number <b>+(632) 7-730-6300</b>	Mobile Number
No. of Stockholders <b>2,903</b>	Annual Meeting (Month / Day) <b>April</b>	Fiscal Year (Month / Day) <b>12/31</b>

**CONTACT PERSON INFORMATION**

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

Name of Contact Person <b>Alan T. Ascalon</b>	Email Address <b><u>ascalon@acenergy.com.ph</u></b>	Telephone Number/s <b>7 730 6300</b>	Mobile Number
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**CONTACT PERSON'S ADDRESS**

<b>4<sup>th</sup> Floor, 6750 Office Tower Ayala Avenue, Makati City</b>
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**NOTE 1** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

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

\*SGVFS033512\*



## **INDEPENDENT AUDITOR'S REPORT**

The Board of Directors and Stockholders  
ACE Enexor, Inc. (formerly PHINMA Petroleum and Geothermal, Inc.)

### **Opinion**

We have audited the consolidated financial statements of ACE Enexor, Inc. (formerly PHINMA Petroleum and Geothermal, Inc.) and its subsidiary (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

### **Basis for Opinion**

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

### **Key Audit Matters**

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

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters.

Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

#### *Recoverability of Deferred Exploration Cost*

As at December 31, 2019, the carrying value of the Group's deferred exploration costs amounted to ₱46,040,651. These deferred exploration costs pertain to their participating interests in oil and gas service contracts (SC), which provide for certain minimum work and expenditure obligations and the rights and benefits of a consortium member. Under PFRS 6, *Exploration for and Evaluation of Mineral Resources*, these deferred exploration costs shall be assessed for impairment when facts and circumstances suggest that the carrying amounts exceed the recoverable amounts. The ability of the Group to recover its deferred exploration costs would depend on the commercial viability of the reserves. We considered this as a key audit matter because of the materiality of the amount involved, and the significant management judgment required in assessing whether there is any indication of impairment.

The Group's disclosures regarding the status of the SCs are presented in Note 8 to the consolidated financial statements

#### *Audit Response*

We obtained management's assessment on whether there is any indication that deferred exploration costs may be impaired. We reviewed the summary of the status of each exploration project as of December 31, 2019, as certified by the Group's technical group head, and compared it with the disclosures submitted to regulatory agencies. We reviewed contracts and agreements, and budget for exploration and development costs. We inspected the licenses/permits of each exploration project to determine that the period for which the Group has the right to explore in the specific area has not expired, will not expire in the near future, and will be renewed accordingly. We also inquired about the existing concession areas that are expected to be abandoned or any exploration activities that are planned to be discontinued in those areas.

## **Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Benjamin N. Villacorte.

SYCIP GORRES VELAYO & CO.

Benjamin N. Villacorte  
Partner  
CPA Certificate No. 111562  
SEC Accreditation No. 1539-A (Group A),  
March 26, 2019, valid until March 25, 2022  
Tax Identification No. 242-917-987  
BIR Accreditation No. 08-001998-120-2016,  
January 28, 2019, valid until January 27, 2022  
PTR No. 8125320, January 7, 2020, Makati City

March 18, 2020

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders  
ACE Enexor, Inc. (formerly PHINMA Petroleum and Geothermal, Inc.)  
4<sup>th</sup> Floor, 6750 Office Tower  
Ayala Avenue, Makati City

### Opinion

We have audited the consolidated financial statements of ACE Enexor, Inc. (formerly PHINMA Petroleum and Geothermal, Inc.) and its subsidiary (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

### Basis for Opinion

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

### Key Audit Matters

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

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

#### *Recoverability of Deferred Exploration Cost*

As at December 31, 2019, the carrying value of the Group's deferred exploration costs amounted to ₱46,040,651. These deferred exploration costs pertain to their participating interests in oil and gas service contracts (SC), which provide for certain minimum work and expenditure obligations and the rights and benefits of a consortium member. Under PFRS 6, *Exploration for and Evaluation of Mineral Resources*, these deferred exploration costs shall be assessed for impairment when facts and circumstances suggest that the carrying amounts exceed the recoverable amounts. The ability of the Group to recover its deferred exploration costs would depend on the commercial viability of the reserves. We considered this as a key audit matter because of the materiality of the amount involved, and the significant management judgment required in assessing whether there is any indication of impairment.

The Group's disclosures regarding the status of the SCs are presented in Note 8 to the consolidated financial statements

#### *Audit Response*

We obtained management's assessment on whether there is any indication that deferred exploration costs may be impaired. We reviewed the summary of the status of each exploration project as of December 31, 2019, as certified by the Group's technical group head, and compared it with the disclosures submitted to regulatory agencies. We reviewed contracts and agreements, and budget for exploration and development costs. We inspected the licenses/permits of each exploration project to determine that the period for which the Group has the right to explore in the specific area has not expired, will not expire in the near future, and will be renewed accordingly. We also inquired about the existing concession areas that are expected to be abandoned or any exploration activities that are planned to be discontinued in those areas.

## **Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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



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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Benjamin N. Villacorte.

SYCIP GORRES VELAYO & CO.

Benjamin N. Villacorte  
Partner  
CPA Certificate No. 111562  
SEC Accreditation No. 1539-A (Group A),  
March 26, 2019, valid until March 25, 2022  
Tax Identification No. 242-917-987  
BIR Accreditation No. 08-001998-120-2016,  
January 28, 2019, valid until January 27, 2022  
PTR No. 8125320, January 7, 2020, Makati City

March 18, 2020

## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

The Board of Directors and Stockholders  
ACE Enexor, Inc. (formerly PHINMA Petroleum and Geothermal, Inc.)  
4<sup>th</sup> Floor, 6750 Office Tower  
Ayala Avenue, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of ACE Enexor, Inc. (formerly PHINMA Petroleum and Geothermal, Inc.) and its subsidiary, as at December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, included in this Form 17-A and have issued our report thereon dated March 18, 2020. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Revised Securities Regulation Code Rule 68, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

**SYCIP GORRES VELAYO & CO.**

Benjamin N. Villacorte  
Partner  
CPA Certificate No. 111562  
SEC Accreditation No. 1539-A (Group A),  
March 26, 2019, valid until March 25, 2022  
Tax Identification No. 242-917-987  
BIR Accreditation No. 08-001998-120-2016,  
January 28, 2019, valid until January 27, 2022  
PTR No. 8125320, January 7, 2020, Makati City

March 18, 2020

## **INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

The Board of Directors and Stockholders  
ACE Enexor, Inc. (formerly PHINMA Petroleum and Geothermal, Inc.)  
4<sup>th</sup> Floor, 6750 Office Tower  
Ayala Avenue, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of ACE Enexor, Inc. (formerly PHINMA Petroleum and Geothermal, Inc.) and its subsidiary, as at December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019 and have issued our report thereon dated March 18, 2020. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Benjamin N. Villacorte  
Partner  
CPA Certificate No. 111562  
SEC Accreditation No. 1539-A (Group A),  
March 26, 2019, valid until March 25, 2022  
Tax Identification No. 242-917-987  
BIR Accreditation No. 08-001998-120-2016,  
January 28, 2019, valid until January 27, 2022  
PTR No. 8125320, January 7, 2020, Makati City

March 18, 2020

**ACE Enexor, Inc. (formerly PHINMA Petroleum and Geothermal, Inc.) AND  
SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	<b>₱52,624,376</b>	₱9,863,588
Financial assets at FVTPL (Notes 5 and 15)	–	57,584,369
Receivables (Note 6)	<b>428,702</b>	95,390
Prepaid expenses	<b>541,085</b>	37,079
<b>Total Current Assets</b>	<b>53,594,163</b>	67,580,426
<b>Noncurrent Assets</b>		
Property and equipment (Note 7)	<b>789,421</b>	23,512
Deferred exploration costs (Note 8)	<b>46,040,651</b>	29,384,114
<b>Total Noncurrent Assets</b>	<b>46,830,072</b>	29,407,626
<b>TOTAL ASSETS</b>	<b>₱100,424,235</b>	₱96,988,052
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities (Note 9)	<b>₱33,297,245</b>	₱9,888,737
<b>Noncurrent Liability</b>		
Deferred tax liability (Note 12)	<b>11,583</b>	287,133
<b>Total Liabilities</b>	<b>33,308,828</b>	10,175,870
<b>Equity</b>		
Attributable to Equity Holders of the Parent Company:		
Capital stock (Note 11)	<b>250,000,001</b>	250,000,000
Deficit	<b>(183,042,321)</b>	(163,904,395)
	<b>66,957,680</b>	86,095,605
Non-controlling interest (Note 14)	<b>157,727</b>	716,577
<b>Total Equity</b>	<b>67,115,407</b>	86,812,182
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱100,424,235</b>	₱96,988,052

*See accompanying Notes to Consolidated Financial Statements.*

**ACE Enexor, Inc. (formerly PHINMA Petroleum and Geothermal, Inc.) AND  
SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2019	2018	2017
<b>EXPENSES</b>			
Training fund expense	P13,773,166	P-	P-
Provision for probable losses (Note 8)	-	48,262,794	4,892,178
Professional fees	3,257,701	4,671,315	2,615,204
Employee costs	955,095	2,947,468	5,067,585
Project development cost	500,000	6,131,837	-
Taxes and licenses	452,716	40,865	27,820
Meetings	420,003	228,151	230,405
Supplies	408,991	895,237	757,394
Filing and registration fees	289,767	4,750,730	266,387
Communication	126,303	42,812	375,943
Depreciation (Note 7)	34,091	6,188	84,578
Insurance	21,215	23,697	19,713
Transportation	17,263	760,424	194,335
Others	837,569	1,161,100	368,953
	<b>21,093,880</b>	<b>69,922,618</b>	<b>14,900,495</b>
<b>OTHER INCOME (CHARGES)</b>			
Net gains on changes in fair value of investments held for trading (Note 5)	1,386,501	1,508,999	1,239,682
Interest income (Note 4)	45,354	58,990	14,770
Foreign exchange gain (losses) - net	(310,301)	10,691	7,200
	<b>1,121,554</b>	<b>1,578,680</b>	<b>1,261,652</b>
<b>LOSS BEFORE INCOME TAX</b>	<b>19,972,326</b>	<b>68,343,938</b>	<b>13,638,843</b>
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 12)</b>			
Current	-	-	-
Deferred	(275,550)	176,082	(128,325)
	<b>(275,550)</b>	<b>176,082</b>	<b>(128,325)</b>
<b>NET LOSS</b>	<b>19,696,776</b>	<b>68,520,020</b>	<b>13,510,518</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
	-	-	-
<b>TOTAL COMPREHENSIVE LOSS</b>	<b>P19,696,776</b>	<b>P68,520,020</b>	<b>P13,510,518</b>
Total Comprehensive Loss Attributable to:			
Equity holders of the Parent Company	P19,137,926	P66,838,225	P13,499,111
Non-controlling interest (Note 14)	558,850	1,681,795	11,407
	<b>P19,696,776</b>	<b>P68,520,020</b>	<b>P13,510,518</b>
<b>Basic/Diluted Loss Per Share (Note 13)</b>	<b>P0.077</b>	<b>P0.267</b>	<b>P0.054</b>

See accompanying Notes to Consolidated Financial Statements.

**ACE Enexor, Inc. (formerly PHINMA Petroleum and Geothermal, Inc.) AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**

	Attributable to Equity Holders of the Parent Company			Non-controlling Interest (Note 14)	Total Equity
	Capital Stock (Note 11)	Deficit	Total		
<b>BALANCES AT JANUARY 1, 2017</b>	<b>₱250,000,000</b>	<b>(₱83,567,059)</b>	<b>₱166,432,941</b>	<b>₱2,409,779</b>	<b>₱168,842,720</b>
Total comprehensive loss/ net loss for the year	–	(13,499,111)	(13,499,111)	(11,407)	(13,510,518)
<b>BALANCES AT DECEMBER 31, 2017</b>	<b>250,000,000</b>	<b>(97,066,170)</b>	<b>152,933,830</b>	<b>2,398,372</b>	<b>155,332,202</b>
Total comprehensive loss/ net loss for the year	–	(66,838,225)	(66,838,225)	(1,681,795)	(68,520,020)
<b>BALANCES AT DECEMBER 31, 2018</b>	<b>250,000,000</b>	<b>(163,904,395)</b>	<b>86,095,605</b>	<b>716,577</b>	<b>86,812,182</b>
Issuance of common stock	1	–	1	–	1
Total comprehensive loss/ net loss for the year	–	(19,137,926)	(19,137,926)	(558,850)	(19,696,776)
<b>BALANCES AT DECEMBER 31, 2019</b>	<b>₱250,000,001</b>	<b>(₱183,042,321)</b>	<b>₱66,957,680</b>	<b>₱157,727</b>	<b>₱67,115,407</b>

*See accompanying Notes to Consolidated Financial Statements.*

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**ACE Enexor, Inc. (formerly PHINMA Petroleum and Geothermal, Inc.) AND  
SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before income tax	<b>(P19,972,306)</b>	(P68,343,938)	(P13,638,843)
Adjustment for:			
Provision for probable losses (Note 8)	–	48,262,794	4,892,178
Gains on changes in fair value of investments held for trading (Note 5)	<b>(1,386,501)</b>	(1,508,999)	(1,239,682)
Unrealized foreign exchange loss (gain) - net	<b>(265,029)</b>	(4,912)	(7,387)
Interest income (Note 4)	<b>(45,354)</b>	(58,990)	(14,770)
Depreciation (Note 7)	<b>34,091</b>	6,188	84,578
Operating loss before working capital changes	<b>(21,635,099)</b>	(21,647,857)	(9,923,926)
Decrease (increase) in:			
Receivables	<b>1,612,862</b>	(33,321)	146,566
Prepaid expenses	<b>(504,007)</b>	(12,680)	58,444
Increase in accounts payable and other current liabilities	<b>14,194,508</b>	8,371,573	763,702
Cash used in operations	<b>(6,331,736)</b>	(13,322,285)	(8,955,214)
Interest received	<b>49,180</b>	57,556	12,602
Net cash used in operating activities	<b>(6,282,556)</b>	(13,264,729)	(8,942,612)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from redemption of investments held for trading	<b>78,970,870</b>	31,627,958	144,749,517
Advances from a related party (Note 10)	<b>7,577,272</b>	–	–
Additions to:			
Investments held for trading	<b>(20,000,000)</b>	(10,184,152)	(135,351,578)
Deferred exploration costs (Note 8)	<b>(16,656,537)</b>	(1,541,513)	(943,484)
Property and equipment (Note 7)	<b>(800,000)</b>	(29,700)	–
Net cash from investing activities	<b>49,091,605</b>	19,872,593	8,454,455
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>42,809,049</b>	6,607,864	(488,157)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(48,261)</b>	(16,158)	7,387
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)</b>	<b>9,863,588</b>	3,271,882	3,752,652
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	<b>P52,624,376</b>	P9,863,588	P3,271,882
<b>NON-CASH ACTIVITIES</b>			
Depreciation capitalized as part of deferred exploration costs (see Note 7)	<b>P–</b>	P–	P19,162

*See accompanying Notes to Consolidated Financial Statements.*

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# ACE Enexor, Inc. (formerly PHINMA Petroleum and Geothermal, Inc.) AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 1. Corporate Information

ACE Enexor, Inc. (formerly PHINMA Petroleum and Geothermal, Inc.) (Enexor or the Parent Company) and Palawan55 Exploration & Production Corporation (Palawan55 or the Subsidiary), collectively referred to as “the Group”, were incorporated in the Philippines on September 28, 1994 and November 16, 2012, respectively, to engage in oil and gas exploration, exploitation and production. Palawan55 is 69.35% owned by the Parent Company. The Parent Company and the Subsidiary are 75.92% and 30.65% directly-owned, respectively, by ACEPH (AC Energy Philippines, Inc. formerly PHINMA Energy Corporation or the Intermediate Parent Company). The ultimate parent company is Mermac, Inc. ACEPH and Mermac, Inc. are both incorporated and domiciled in the Philippines. Both Enexor and Palawan55 are domiciled in the Philippines and have not yet started commercial operations as at March 18, 2020.

On August 14, 2014, the Philippine Securities and Exchange Commission (SEC) approved the registration of the shares of the Parent Company. On August 28, 2014, the Parent Company listed its shares at the Philippine Stock Exchange by way of introduction.

On May 31, 2017, the SEC approved the amendment of the Parent Company’s Articles of Incorporation to change its corporate name to PHINMA Petroleum and Geothermal, Inc. and to include in its primary and secondary purposes the exploration and development of geothermal resources.

On February 7, 2019, Philippine Investment Management (PHINMA), Inc., PHINMA Corporation (collectively, the PHINMA Group) and AC Energy, Inc. (AC Energy) signed an investment agreement for AC Energy’s acquisition of the PHINMA Group’s 51.476% stake in ACEPH via a secondary share sale through the Philippine Stock Exchange (PSE). On June 24, 2019, the PSE confirmed the special block sale of ACEPH shares to AC Energy.

ACEPH conducted a Voluntary Tender Offer of Enexor shares on May 20, 2019 to June 19, 2019, with 3,332 Enexor public shares tendered during the tender offer period at P2.44 per share. On June 24, 2019, ACEPH acquired the shares of PHINMA, Inc. and PHINMA Corporation in Enexor representing 25.18% of Enexor’s total outstanding stock. The transaction increased ACEPH’s direct ownership over Enexor from 50.74% as at December 31, 2018 to 75.92% as at December 31, 2019.

On July 23, 2019, the Board of Directors (BOD) of Enexor approved the following amendments to the articles of incorporation of Enexor:

- Change in corporate name to ACE Enexor, Inc. to reflect the change in the ownership of the Intermediate Parent Company; and
- Change in the principal office of the Parent Company to 4th Floor, 6750 Office Tower, Ayala Ave., Makati City for alignment, operational and management efficiency.

During the Annual Stockholders' Meeting held on September 17, 2019, the stockholders approved and adopted the amendments.

On November 11, 2019, the SEC approved the proposed changes in the articles of incorporation of the Parent Company.

The registered office address of the Group is 4<sup>th</sup> Floor, 6750 Office Tower, Ayala Avenue, Makati City.

The consolidated financial statements were approved and authorized for issuance by the Parent Company's BOD on March 18, 2020.

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## 2. Summary of Significant Accounting and Financial Reporting Policies

### Basis of Preparation

The consolidated financial statements of the Group are prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

The consolidated financial statements have been prepared on a historical cost basis, except for financial asset at FVTPL that are measured at fair value. The consolidated financial statements are presented in Philippine peso (Peso), which is the Parent Company's functional and presentation currency. All values are rounded to the nearest Peso, except when otherwise indicated.

### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary, Palawan55, as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019. The financial statements of the Subsidiary are prepared for the same reporting year as the Parent Company using uniform accounting policies. When necessary, adjustments are made to the separate financial statements of the subsidiary to bring its accounting policies in line with the Parent Company's accounting policies.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests (NCI), even if this results in the NCI having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the Parent Company and the Subsidiary are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Parent Company loses control over the Subsidiary, it derecognizes the related assets (including goodwill), liabilities, NCI and other components of equity while any resultant gain or loss is recognized in the consolidated statement of comprehensive income. Any investment retained is recognized at fair value.

NCI represents the interest in the Subsidiary not held by the Parent Company, and are presented separately in the consolidated statements of comprehensive income and consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from equity attributable to holders of the Parent Company.

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2019. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance, unless indicated otherwise.

- PFRS 16, *Leases*

PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

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

These amendments are currently not applicable to the Group since the Group does not have lease agreements but may apply to future transactions.

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

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

These amendments had no impact in the consolidated financial statements of the Group.

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

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

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

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

The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

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

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

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

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

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

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

The interpretation specifically addresses the following:

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

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

The Group applies significant judgement in identifying uncertainties over income tax treatments.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions. The interpretation did not have an impact on the consolidated financial statements of the Group.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group, unless otherwise stated.

- *Annual Improvements to PFRSs 2015-2017 Cycle*

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

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

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

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

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

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

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments had no impact on the consolidated financial statements of the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

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

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

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

The amendments did not have impact on the consolidated financial statements of the Group but may apply to future transactions.

*Standards Issued but not yet Effective*

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

*Effective beginning on or after January 1, 2020*

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

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

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

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

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

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

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

*Effective beginning on or after January 1, 2021*

- **PFRS 17, *Insurance Contracts***

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

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

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

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

*Deferred effectivity*

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

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

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

**Presentation of Consolidated Financial Statements**

The Group has elected to present all items of recognized income and expense in one statement: displaying components of profit or loss and OCI (consolidated statements of comprehensive income).

#### Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statements of financial position based on current/noncurrent classification. An asset is current when it is:

- expected to be realized or intended to be sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within twelve months after the reporting period; or,
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

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

The Group classifies all other liabilities as noncurrent.

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

#### Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of financial position comprise cash in banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

#### Fair Value Measurement

The Group measures investments held for trading at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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



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

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in Note 15 to the consolidated financial statements.

#### Financial Instruments – Classification and Measurement (upon adoption of PFRS 9)

##### *Classification of Financial Assets*

Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Group's business model for managing the financial assets. The Group classifies its financial assets into the following measurement categories:

- financial assets measured at amortized cost
- financial assets measured at FVTPL
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are reclassified to profit or loss
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss

The Group's financial assets are classified at FVTPL and amortized cost as at December 31, 2019 and 2018 (see Notes 4, 5, 6 and 15).

##### *Contractual Cash Flows Characteristics*

If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Group assesses whether the cash flows from the financial asset represent SPPI on the principal amount outstanding.

In making this assessment, the Group determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated.

### *Business Model*

The Group's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The Group's business model refers to how it manages its financial assets in order to generate cash flows. The Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Group in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

### *Financial Assets at Amortized Cost*

A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) 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. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the consolidated statement of comprehensive income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in the consolidated statement of comprehensive income.

The Group's cash and cash equivalents and receivables (except Others) are classified as financial assets at amortized cost (see Notes 4 and 6).

### *Financial Assets at FVTPL*

Financial assets at FVTPL are measured at fair value unless these are measured at amortized cost or at FVOCI. Included in this classification are equity investments held for trading and debt instruments with contractual terms that do not represent solely payments of principal and interest. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the consolidated statements of comprehensive income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the consolidated statement of comprehensive income.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Group, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL, and the gains or losses from disposal of financial investments.

The Group's investments in UITFs are classified as financial assets at FVTPL (see Note 5).

#### *Classification of Financial Liabilities*

Financial liabilities are measured at amortized cost, except for the following:

- financial liabilities measured at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Group retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3, *Business Combinations*.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

The Group's accounts payable and other current liabilities (excluding statutory payables) are classified as financial liabilities measured at amortized cost (see Note 9).

#### *Reclassifications of Financial Instruments*

The Group reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Group and any previously recognized gains, losses or interest shall not be restated. There was no reclassification of financial instruments upon adoption of PFRS 9.

The Group does not reclassify its financial assets when:

- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and
- There is a change in measurement on credit exposures measured at fair value through profit or loss.

#### Derecognition of Financial Assets and Liabilities (prior to and upon adoption of PFRS 9)

##### *Financial Assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or,
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; or,

- the Group has transferred its rights to receive cash flows from the asset and either (a) the Group has transferred substantially all the risks and rewards of the asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

#### *Modification of Contractual Cash Flows*

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of comprehensive income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

#### *Financial Liabilities*

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

#### Impairment of Financial Assets (upon adoption of PFRS 9)

PFRS 9 introduces the single, forward-looking "expected loss" impairment model, replacing the "incurred loss" impairment model under PAS 39.

#### Impairment of Financial Assets (prior to adoption of PFRS 9)

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data

indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Loans and Receivables Carried at Amortized Cost*

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the consolidated statement of comprehensive income. Interest income is recognized in the consolidated statements of comprehensive income, continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If a write-off is later recovered, the recovery is recognized in the consolidated statements of comprehensive income.

The Group recognizes ECL for debt instruments that are measured at amortized cost.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

*Stage 1: 12-month ECL*

For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.

*Stage 2: Lifetime ECL - not credit-impaired*

For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

*Stage 3: Lifetime ECL - credit-impaired*

Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

*Loss allowance*

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For cash and cash equivalents, the Group applies the low credit risk simplification. The investments are considered to be low credit risk investments as the counterparties have investment grade ratings. It is the Group's policy to measure ECLs on such instruments on a 12-month basis based on available probabilities of defaults and loss given defaults. The Group uses the ratings published by a reputable rating agency to determine if the counterparty has investment grade rating. If there are no available ratings, the Group determines the ratings by reference to a comparable bank.

For all debt financial assets other than trade receivables, ECLs are recognized using the general approach wherein the Group tracks changes in credit risk and recognizes a loss allowance based on either a 12-month or lifetime ECLs at each reporting date.

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. This primarily pertains to the Group's cash and cash equivalents.

*Determining the Stage for Impairment*

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

#### Offsetting of Financial Instruments (prior to and upon adoption of PFRS 9)

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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, to realize the assets and settle the liabilities simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

The Group did not offset any financial instruments in 2019 and 2018.

#### Prepaid Expenses

Prepaid expenses, which mainly pertain to prepayments on computer software subscription, are expected to be amortized over a period not exceeding twelve months from the reporting date.

#### Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. All other repair and maintenance costs are recognized in the consolidated statements of comprehensive income as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of 3 to 5 years for its office equipment and miscellaneous assets. The Group's miscellaneous assets pertain to computer software licenses.

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

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of comprehensive income when the asset is derecognized.

#### Foreign Currency Denominated Transactions and Balances

Transactions in foreign currencies are initially recorded by the entities within the Group at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in the consolidated statements of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is

treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or in the consolidated statement of comprehensive income are also recognized in OCI or in the consolidated statements of comprehensive income, respectively).

#### Interest in Joint Arrangements

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

*Joint Operations.* A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities and share in the revenues and expenses relating to the arrangement. The Group's service contracts (SC) are considered joint operations.

#### Deferred Exploration Costs

The Group follows the full cost method of accounting for exploration costs determined on the basis of each Service Contract (SC) area. The costs recorded pertain to the Group's share in exploration costs, pro-rated based on participating interest held in each joint agreement for each SC. Under this method, all exploration costs relating to each SC are deferred pending the determination of whether the contract area contains oil and gas reserves in commercial quantities, net of any allowance for probable losses. These costs are written off against the allowance when the projects are abandoned or determined to be definitely unproductive.

The Group classifies exploration costs as intangible or tangible according to the nature of the assets acquired and apply the classification consistently. Some costs are treated as intangible, whereas others are tangible to the extent that tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is part of the cost of the intangible asset. However, using a tangible asset to develop an intangible asset does not change a tangible asset into an intangible asset. The Group recognizes its exploration costs as intangible assets.

The deferred exploration costs cease to be classified as intangible asset when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. These costs shall be assessed for impairment, and any impairment loss recognized, before reclassification.

#### Impairment of Non-Financial Assets

##### *Property and Equipment and Prepaid Expenses*

The Group assesses, at each reporting date, whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group 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 costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows 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 of disposal, recent market transactions are taken into account. If no such transactions can be identified, 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.

Impairment losses of continuing operations are recognized in the consolidated statements of comprehensive income.

An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of comprehensive income.

The Group assesses impairment of its property and equipment on the basis of impairment indicators such as evidence of internal obsolescence or physical damage.

#### *Deferred Exploration Costs*

Deferred exploration costs are reassessed for impairment on a regular basis. An impairment review is performed, either individually or at the CGU level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is fully provided against, in the reporting period in which this is determined.

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 Group 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 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;
- When a service contract where the Group has participating interest in is permanently abandoned; 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.

When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, impairment loss is measured, presented and disclosed in accordance with PAS 36, *Impairment of Assets*.

#### Provisions

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

virtually certain. The expense relating to a provision is presented in the consolidated statements of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized in the consolidated statements of comprehensive income.

#### Capital Stock

Capital stock represents the portion of the paid-in capital representing the total par value of the shares issued.

#### Deficit

Deficit represents the cumulative balance of net loss.

#### Interest Income

Income is recognized as the interest accrues, taking into account the effective yield on the asset.

#### Other Income

Other income is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Group through an increase in asset or a reduction in the liability that can be measured reliably.

#### Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decreases of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Expenses are recognized when incurred.

#### Taxes

*Current Income Tax.* Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operate and generate taxable income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statements of comprehensive income.

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

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

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

Deferred income tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred income tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

#### Loss Per Share (LPS)

Basic LPS is computed based on weighted average number of issued and outstanding common shares during each year after giving retroactive effect to stock dividends declared during the year. Diluted LPS is computed as if the stock options were exercised as at the beginning of the year and as if the funds obtained from exercise were used to purchase common shares at the average market price during the year. Outstanding stock options will have a dilutive effect under the treasury stock method only when the fair value of the underlying common shares during the period exceeds the exercise price of the option. Where the outstanding stock options have no dilutive effect and the Group does not have any potential common share nor other instruments that may entitle the holder to common shares, diluted LPS is the same as basic LPS.

### Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products. Financial information on business segments is presented in Note 16 to the consolidated financial statements.

### Contingencies

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

### Events After the Reporting Period

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

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## 3. Significant Accounting Judgments and Estimates

The Group's consolidated financial statements prepared in accordance with PFRSs require management to make a judgment and estimates that affect the amounts reported in the consolidated financial statements and related notes. In preparing the Group's consolidated financial statements, management has made its best estimate and judgment of certain amounts, giving due consideration to materiality.

The estimates and judgments used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the consolidated financial statements. Actual results could differ from such estimates.

### *Determining and Classifying a Joint Arrangement*

Judgment is required to determine when the Group has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement. Judgment is also required to classify a joint arrangement. Classifying the arrangement requires the Group to assess their rights and obligations arising from the arrangement. Specifically, the Group considers:

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

This assessment often requires significant judgment, and a different conclusion on joint control and also whether the arrangement is a joint operation or a joint venture, may materially impact the accounting. As at December 31, 2019 and 2018, the Group's SCs are assessed as joint arrangements in the form of joint operations.

#### *Identifying Business Models upon Adoption of PFRS 9*

The Group manages its financial assets based on a business model that maintains adequate level of financial assets to match expected cash outflows while maintaining a strategic portfolio of financial assets for trading activities.

The Group's business model can be to hold financial assets to collect contractual cash flows even when sales of certain financial assets occur. The following are the Group's business models:

- *Portfolio 1, Strategic Fund*  
Portfolio 1 is classified as fair value through profit or loss with the objective of generating interest income from low-risk investments in liquid assets to maximize returns from the excess funds of the Group. This includes the Group's financial assets at FVTPL.
- *Portfolio 2, Operating and Liquidity Fund*  
Portfolio 2 is classified as amortized cost with the objective to hold to collect the financial assets to ensure sufficient funding to support operations and project implementation. This includes cash and cash equivalents and trade receivable and due from third party under 'Receivables'.

#### *Definition of Default and Credit-impaired Financial Assets upon adoption of PFRS 9*

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when one or more events that have occurred and have significant impact on the expected future cash flows of the financial assets. This includes the following observable criteria:

- *Quantitative Criteria*  
The borrower is more than 90 days past due on its contractual payments, i.e., principal and/or interest, which is consistent with the Group's definition of default.
- *Qualitative Criteria*  
The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:
  - a. The borrower is experiencing financial difficulty or is insolvent
  - b. The borrower is in breach of financial covenant(s)
  - c. Concessions have been granted by the Group, for economic or contractual reasons relating to the borrower's financial difficulty
  - d. It is becoming probable that the borrower will enter bankruptcy or other financial reorganization
  - e. Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) throughout the Group's expected loss calculation.

## Estimates

### *Impairment of Deferred Exploration Costs*

The carrying value of deferred exploration costs is reviewed for impairment by management when there are indications that the carrying amount exceeds the recoverable amount under PFRS 6. Among the factors considered by management in the impairment review of deferred exploration costs are the expiration of the contracts and the technical evaluation that the remaining prospects in these areas are small and are likely to be uneconomical. In the event of impairment, the Group measures, presents and discloses the resulting impairment loss in accordance with PAS 36.

The Group recognized impairment loss on its deferred exploration costs amounting to nil, ₱48,262,794 and ₱4,892,178 in 2019, 2018 and 2017, respectively, and presented as “Provision for probable losses” under “Expenses” in the consolidated statements of comprehensive income. The carrying value of deferred exploration costs amounted to ₱46,040,651 and ₱29,384,114 as at December 31, 2019 and 2018, respectively (see Note 8).

### *Realizability of Deferred Tax Asset*

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that sufficient taxable income will be generated to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets as at December 31, 2019 and 2018 amounted to ₱40,194,754 and ₱37,248,455, respectively (see Note 12).

### *Estimating Provision for Credit Losses of Receivables (prior to adoption of PFRS 9)*

The Group maintains allowance for credit losses based on the results of the individual assessment under PAS 39. Under the individual assessment, the Group considers the significant financial difficulties of the customer or significant delays in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on age and status of financial asset, as well as historical loss experience. The methodology and assumptions used for the impairment assessment are based on management’s judgments and estimates. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

As at December 31, 2019 and 2018, the allowance for credit losses amounted to ₱20,000,000 (see Note 6).

### *Estimating Provision of Expected Credit Losses on Receivables (upon adoption of PFRS 9)*

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- *Financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.
- *Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.

The Group leverages existing risk management indicators (e.g. internal credit risk classification and restructuring triggers), credit risk rating changes and reasonable and supportable information which allows the Group to identify whether the credit risk of financial assets has significantly increased.

*General approach for cash in banks and other financial assets measured at amortized cost*

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, LGD and EAD, defined as follows:

- *Probability of Default*

The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining life of the obligation. PD estimates are estimates at a certain date, which are calculated based on available market data using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

The 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at reporting date and future economic conditions that affect credit risk.

- *Loss Given Default*

Loss Given Default represents the Group's expectation of the extent of loss on a defaulted exposure, taking into account the mitigating effect of collateral, its expected value when realized and the time value of money. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

- *Exposure at Default*

EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.

*Simplified Approach for Trade Receivables*

The Group uses a provision matrix to calculate ECLs for receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating).

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

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

The carrying values of receivables and the related allowance for credit losses of the Group are disclosed in Note 6. Provision for credit losses amounted to nil in 2019, 2018 and 2017.

As at December 31, 2019 and 2018, the allowance for credit losses on receivables amounted to ₱20,000,000 (see Note 6).

#### 4. Cash and Cash Equivalents

	2019	2018
Cash on hand and in banks	<b>₱23,124,376</b>	₱5,455,179
Short-term deposits	<b>29,500,000</b>	4,408,409
	<b>₱52,624,376</b>	₱9,863,588

Cash in banks earn interest at the respective bank deposit rates. Short-term deposits are made for varying periods between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

Interest income on cash and short-term deposits amounted to ₱45,354, ₱58,990, and ₱14,770 in 2019, 2018 and 2017, respectively.

#### 5. Financial assets at FVTPL

Financial assets at FVTPL consist of investments in UITFs amounting to nil and ₱57,584,369 as at December 31, 2019 and 2018, respectively. The changes in fair value on financial assets at FVTPL amounted to a net gain of ₱1,386,501, ₱1,508,999 and ₱1,239,682 in 2019, 2018 and 2017, respectively.

#### 6. Receivables

This account consists of the following:

	2019	2018
Trade receivables	<b>₱31,863</b>	₱31,863
Due from third party (see Note 8)	<b>20,000,000</b>	20,000,000
Accrued interest receivable	-	3,826
Others	<b>396,839</b>	59,701
	<b>20,428,702</b>	20,095,390
Less allowance for credit losses	<b>20,000,000</b>	20,000,000
	<b>₱428,702</b>	₱95,390

As at December 31, the aging analysis of receivables is as follows:

	Total	2019					Past Due and Impaired
		Neither Past Due nor Impaired	Past Due but not Impaired				
		<30 Days	30-60 Days	61-90 Days	Over 90 Days		
Trade receivables	<b>₱31,863</b>	₱-	₱-	₱-	₱-	₱31,863	
Due from third party	<b>20,000,000</b>	-	-	-	-	20,000,000	
Accrued interest receivable	-	-	-	-	-	-	
Others	<b>396,839</b>	-	-	-	396,839	-	
	<b>₱20,428,702</b>	₱-	₱-	₱-	₱-	₱20,000,000	



	2018						
	Total	Neither Past Due nor Impaired	Past Due but not Impaired				Past Due and Impaired
			<30 Days	30–60 Days	61–90 Days	Over 90 Days	
Trade receivables	₱31,863	₱–	₱–	₱–	₱–	₱31,863	₱–
Due from third party	20,000,000	–	–	–	–	–	20,000,000
Accrued interest receivable	3,826	3,826	–	–	–	–	–
Others	59,701	3,347	–	29,974	–	26,380	–
	<b>₱20,095,390</b>	<b>₱7,173</b>	<b>₱–</b>	<b>₱29,974</b>	<b>₱–</b>	<b>₱58,243</b>	<b>₱20,000,000</b>

The Group's receivables are noninterest-bearing and are due and demandable. Trade receivables mainly represent return of cash call from the service contract operator.

Due from third party pertain to advance payment made in pursuant to the Memorandum of Agreement with Frontier Energy and Frontier Oil and is due and demandable. In 2016, the Company recognized a provision for credit losses on this advance. As at December 31, 2019 and 2018, no provision for credit losses was recognized (see Note 8).

Accrued interest receivable pertains to the accrued interest on cash in banks.

Others pertain to advances to employees and a service provider subject to liquidation.

## 7. Property and Equipment

Details and movement of this account follow:

	2019		
	Equipment	Miscellaneous Assets	Total
Cost:			
Balance at beginning of year	<b>₱245,000</b>	<b>₱124,215</b>	<b>₱369,215</b>
Additions	<b>800,000</b>	–	<b>800,000</b>
Balances at end of year	<b>1,045,000</b>	<b>124,215</b>	<b>1,169,215</b>
Less accumulated depreciation:			
Balance at beginning of year	<b>245,000</b>	<b>100,703</b>	<b>345,703</b>
Depreciation expense	<b>26,667</b>	<b>7,424</b>	<b>34,091</b>
Balance at end of year	<b>271,667</b>	<b>108,127</b>	<b>379,794</b>
Net book value	<b>773,333</b>	<b>16,088</b>	<b>789,421</b>

	2018		
	Equipment	Miscellaneous Assets	Total
Cost:			
Balance at beginning of year	₱245,000	₱94,515	₱339,515
Additions	–	29,700	29,700
Balances at end of year	245,000	124,215	369,215
Less accumulated depreciation:			
Balance at beginning of year	245,000	94,515	339,515
Depreciation expense	–	6,188	6,188
Balance at end of year	245,000	100,703	345,703
Net book value	–	23,512	23,512

## 8. Deferred Exploration Costs

Details of deferred exploration costs are as follows:

	2019	2018
TA Petroleum:		
SC 51/Geophysical Survey and Exploration Contract (GSEC) 93 (East Visayas)	P-	P32,665,864
SC 6 (Northwest Palawan):		
Block A	22,977,688	22,568,129
Block B	4,892,178	4,892,178
SC 69 (Camotes Sea)	-	15,596,930
SC 50 (Northwest Palawan)	11,719,085	11,719,085
	<b>39,588,951</b>	87,442,186
Less allowance for probable losses	<b>16,611,263</b>	64,874,057
	<b>22,977,688</b>	22,568,129
Palawan55 -		
SC 55 (Southwest Palawan)	23,062,963	6,815,985
	<b>P46,040,651</b>	P29,384,114

Below is the rollforward analysis of the deferred exploration costs as at December 31, 2019 and 2018:

	2019	2018
Cost:		
Balances at beginning of year	P94,258,171	P92,716,658
Additions:		
Cash calls	16,656,537	1,541,513
Write-off	(48,262,794)	-
Balance at end of year	<b>62,651,914</b>	94,258,171
Allowance for probable losses:		
Balances at beginning of year	64,874,057	16,611,263
Provisions for the year	-	48,262,794
Write-off	(48,262,794)	-
Balance at end of year	<b>16,611,263</b>	64,874,057
Net book value	<b>P46,040,651</b>	P29,384,114

The foregoing deferred exploration costs represent the Group's share in the expenditures incurred under petroleum SCs with the Department of Energy (DOE). The contracts provide for certain minimum work and expenditure obligations and the rights and benefits of the contractor. Operating agreements govern the relationship among co-contractors and the conduct of operations under an SC.

In 2018, the Group neither incurred nor capitalized share in various expenses to deferred exploration costs due to its operatorship in SC 69. No similar costs were incurred and capitalized in 2019.

The following summarizes the status of the foregoing projects:

### *Enexor*

#### a. SC 6 (Northwest Palawan)

Block A

Pitkin Petroleum Plc. (Pitkin), the Operator, completed a geophysical review of the block.

The partners for SC 6 Block A approved the conduct of a new 500-sq. km. 3D seismic program over selected prospects and leads in the first half of 2013, subject to issuance of local government permits.

Under the Farm-in Agreement dated July 11, 2011, Pitkin shall carry the Parent Company and the other non-operating consortium members in the costs of said seismic program and the drilling of two wells, in exchange for the assigned 70% participating interest.

On June 4, 2013, the Sangguniang Panlalawigan of Palawan voted to favorably endorse the proposed bathymetry and 3D seismic survey over the area to the Palawan Council for Sustainable Development (PCSD).

Pitkin completed a 500-sq. km. 3D seismic survey over selected prospects and leads.

Pitkin notified the partners on August 28, 2014 that it shall not exercise its option under the Farm-in Agreement to drill a well in the block and will withdraw from the block by December 31, 2014. By December 31, 2014, Pitkin completed geological and geophysical work programs in fulfillment of its obligations under the first exploration phase. The remaining partners agreed to pursue the geological evaluation of the block.

The Parent Company's interest reverted to 7.78% from 2.334% following the withdrawal of Pitkin Petroleum, and subsequent approval of the assignment of interest by the DOE on June 24, 2015.

On August 28, 2015, the consortium completed its work program consisting of geological and geophysical evaluation.

On November 3, 2015, the DOE approved the 2016 work program consisting of specialized geophysical studies. The pertinent geophysical program commenced in November 2015 and was completed by December 31, 2016.

On December 20, 2016, the consortium submitted to the DOE its proposed 2017 work program consisting of advanced geophysical studies. On February 13, 2017, the program was approved by the DOE. The work program of advanced seismic data reprocessing and quantitative seismic inversion study was completed in December 2017. The studies yielded significant improvement in the imaging of complex and deeper geological structures.

On January 8, 2018, the consortium submitted to the DOE its proposed 2018 work program composed of seismic interpretation and mapping and integration of quantitative inversion results that would serve as input to preliminary well design and cost estimates.

The Consortium completed its 2018 work program and said undertaking have improved the resource evaluation of the mapped leads and prospects in the area.

On December 18, 2018, the Partners have approved and the Operator, Philodrill Corporation (Philodrill), submitted to the DOE the proposed 2019 SC 6A Work Program and Budget amounting to US\$314,116 composed of geological and geophysical evaluation and engineering projects. The same was approved by the DOE on January 23, 2019.

No impairment was recognized for SC 6 Block A as at December 31, 2019 and 2018 as the Group believes that the related deferred exploration costs are still recoverable.

#### Block B

Pursuant to a Farm-in Agreement dated February 4, 2011, Peak Oil and Gas Philippines Ltd. (Australia), Blade Petroleum Philippines Ltd. (Australia) and Venturoil Philippines, Inc. ("Farminees") exercised their option to acquire 70% participating interest of the SC 6 Block B consortium, which includes Enexor ("Farmors").

Under the Farm-in Agreement, the Farminees were supposed to shoulder all the Farmors' share of exploration and development expenditures in the Block up to the production of first oil.

The DOE denied the applications for the transfer of participating interests to the Farminees and transfer of operatorship due to failure of the Farminees to comply with DOE requirements. Under the Farm-in Agreement, the Farminees would have been eligible to earn a combined 70% of the participating interest of the farming out parties. On August 7, 2013, the DOE directed the original Operator, Philodrill, to submit a new and comprehensive work program and budget of exploration activities over the Block.

On September 13, 2013, the DOE approved the work program and budget for SC 6 Block B for the 5th year of extension period. The pertinent geological and geophysical program commenced in October 2013 and was completed in January 2014.

The consortium formulated a work program for the next five years of the extension period which started on March 1, 2014. Partners submitted, for the DOE's approval, a 3-year work program consisting mainly of geophysical studies with a corresponding budget amounting to US\$724,000. The geophysical studies were completed by the third quarter of 2016.

To improve the viability of the primary prospect, the consortium requested the DOE to reconfigure the contract area to include an adjoining block, which hosts an oil field where production had been suspended.

Enexor holds 7.78% and 14.063% participating interests in Block A and Block B, respectively. SC 6 is valid until February 28, 2024 subject to fulfillment of work commitments for each of the three 5-year terms comprising the 15-year extension period of SC 6 in respect of Block A and B and payment of training assistance, development assistance and scholarship funds to the DOE.

On February 20, 2017, Enexor gave notice to the consortium of relinquishment of its 14.063% participating interest in SC 6 Block B and the Operating Agreement, but said relinquishment shall not include its 2.475% carried interest. The retained carried interest would entitle the Group for a share in the gross proceeds from any production in the block, once all exploration costs have been recovered. The carried interest will be valued upon establishment of the commercial viability of the project.

In 2017, the Group recognized full provision for probable loss on deferred exploration costs pertaining to SC 6B amounting to ₱4,892,178 due to the Group's relinquishment of its participating interest, but not the carried interest, to its partners.

On April 12, 2018, the transfer of participating interest from Enexor to SC6 Block B continuing parties was approved by the DOE.

- b. SC 50 (Northwest Palawan)

In 2013, Enexor commenced negotiations with Frontier Energy Limited (Frontier Energy), the Operator, regarding a Farm-in Agreement that would provide for the Group's acquisition of 10% participating interest in SC 50.

Subject to execution of said Farm-in Agreement, Enexor has committed to subscribe to 136,000,000 in Frontier Oil shares through the latter's planned initial public offering. On September 1, 2014, the Parent Company made advance payment to Frontier Oil amounting to ₱20,000,000 pursuant to the Memorandum of Agreement with Frontier Energy and Frontier Oil dated August 22, 2014 subject to execution of a Farm-in Agreement and Loan Agreement among the parties not later than 30 days from date of execution of the MOA. The advances are due 24 months after the release of the funds. In the event a Loan Agreement for ₱136,000,000 is signed between the Group and Frontier Oil, the advances shall be considered as initial drawdown on the Loan.

On October 16, 2014, Enexor signed the following agreements providing for its acquisition of 10% participating interest in SC 50:

1. Farm-in Agreement with Frontier Energy and Frontier Oil
2. Deed of Assignment with Frontier Energy
3. Loan Agreement with Frontier Oil

Frontier Oil, the Operator, applied for a Force Majeure in view of the unilateral cancellation of its rig contract by the other partners in the consortium.

On October 5, 2015, the DOE denied the Operator's request and, consequently, ruled that the contract effectively expired in March 2015. On October 20, 2015, Frontier Oil contested DOE's position and engaged the DOE in discussions aimed at a mutually acceptable resolution of the issue.

In 2016, the advances to Frontier Oil amounting to ₱20,000,000 was fully provided with an allowance for credit losses account (see Note 6) and the deferred exploration costs amounting to ₱11,719,085 was fully provided with an allowance for impairment, due to the expiration of the SC's term and denial by the DOE of the request for Force Majeure.

In January 2016, Frontier Oil requested a 2-year moratorium on contract obligations. A subsequent letter was sent to the DOE, dated December 14, 2016, requesting for reconsideration of the termination of SC 50.

As at March 18, 2020, approval of the assignment of 10% participating interest in SC 50 to Enexor remains pending with the DOE.

c. SC 51/GSEC 93 (East Visayas)

In April 2012, the Operator, Otto Energy Investments Ltd. (Otto Energy) [formerly "NorAsian Energy Ltd."] commenced a 100-kilometer (km) 2D seismic program in the town of San Isidro, Leyte primarily to pick the optimum location for the drilling of the Duhat prospect, which reservoir objective was not reached by the Duhat-1 and Duhat-1A wells in 2011.

In mid-May 2012, the foreign seismic acquisition contractor unilaterally suspended its field operations as instructed by its government.

In view of said development, the DOE granted on September 30, 2012 the consortium's request for a six-month extension of the current Sub-Phase 4 to January 31, 2013.

The 2D seismic survey resumed after a one-month suspension and was completed on October 1, 2012. Data processing was completed by December 31, 2012.

The consortium elected to enter Sub-Phase 5 (January 31, 2013 to January 31, 2014) with the drilling of Duhat-2 well in Northwest Leyte as work commitment.

Swan Oil and Gas Ltd. (Swan) withdrew from SC 51 in September 2012 after settling disputes over the North Block (Northwest Leyte) and the South Block (Cebu Strait) with Otto Energy and Filipino partners (remaining members of the consortium), respectively. Consequently, the 40% participating interest of Swan in the North Block reverted to Otto Energy, and as between Otto Energy and Filipino partners, the latter retained 100% interest in the South Block.

The Filipino partners signed a Farm-in Option Agreement with Frontier Oil Corporation (Frontier Oil) over the South Block on October 23, 2012. Under the said Agreement, Frontier Oil has the option to acquire 80% participating interest in the area by undertaking to drill the Argao-1 well at its sole cost during Sub-Phase 6 of SC 51 (January 31, 2015 to July 8, 2015). Frontier Oil may exercise its option not later than January 31, 2013, which was extended to February 28, 2013. The Farm-in Option Agreement lapsed since the option was not exercised by Frontier Oil.

On July 24, 2013, Otto Energy spudded the Duhat-2 well in Northwest Leyte but prematurely plugged and abandoned the well on July 26, 2013 at a depth of 201 meters for safety and environmental reasons, after encountering a high-pressure water zone. Otto Energy completed the demobilization for the Duhat-2 well on August 30, 2013 and conducted post-well studies. The new information will be considered in any future decisions on SC 51. The consortium requested the DOE a six-month extension of the current exploration Sub-Phase 5 to July 31, 2014 to be able to conduct post-well geological, geophysical and drilling studies. The DOE approved the foregoing request on November 7, 2013.

On May 5, 2014, Otto Energy notified the Group and the other partners in the consortium that it has elected to withdraw from SC 51. Otto Energy's withdrawal from SC 51 and the transfer of its participating interest to the remaining parties are subject to the approval of the DOE.

On June 28, 2014, the Filipino partners requested the DOE for suspension of the exploration of Sub-Phase 5 from the date Otto Energy notified the DOE of its withdrawal from SC 51 until the DOE approves the transfer of Otto Energy's participating interest to the Filipino partners.

On May 11, 2015, the DOE approved the request for an extension of Sub-Phase 5 to July 8, 2016.

On March 3, 2017 and December 20, 2017, the Filipino partners reiterated their intent to carry on with the exploration of SC 51, following Otto Energy's withdrawal from the block and consequent resignation as Operator. They further signed and executed a Deed of Undertaking to pay the outstanding financial obligation of Otto Energy amounting to US\$124,763, subject to the approval of the transfer of interest from Otto Energy to the continuing parties, the extension of the term of the contract, and the revision of work program from drilling of a well to the conduct of pore pressure prediction study and gravity survey. Of this amount, the Group's share is US\$41,596 which is equivalent to the pro-rata amount of liability using its post-adjustment ownership interest.

On May 15, 2018, Enexor notified the DOE of its withdrawal from SC 51 and advised the latter that it would no longer pursue its entitlement to Otto Energy's participating interest under the Deed of Undertaking dated March 3, 2017. The DOE acknowledged this formal notification from Enexor on May 23, 2018.

On June 1, 2018, the DOE approved the transfer of Otto Energy's participating interests in SC 51 to the Filipino Partners. Enexor's participating interest was adjusted from 6.67% to 33.34% after the DOE's approval of the withdrawal of Otto Energy.

On July 4, 2018, the SC 51 Consortium, noting that the attendant requested conditions that would allow full implementation of the proposed work program were not covered in the said approval (i.e., SC 51 term extension, revision of work program), notified the DOE of their decision to relinquish SC 51 block, to withdraw from SC 51 and to waive their rights to Otto Energy's interest.

The SC 51 Consortium met with the DOE on several occasions to craft the best way forward in SC 51. On December 17, 2018, as had been agreed in a number of meetings, the Consortium provided further justification for waiver to pay the outstanding financial obligation of Otto Energy, as executed in the Deed of Undertaking, given that the aforementioned conditions were not met.

In 2018, the Group recognized full provision for probable loss on deferred exploration costs pertaining to SC 51 amounting to ₱32,665,864 due to deemed expiration of the exploration period.

On July 1, 2019, Enexor received the DOE's approval of the relinquishment of SC51. During the year, the deferred exploration costs and related allowance for probable losses of SC51 amounting to ₱32,665,864 were written off.

d. SC 69 (Camotes Sea)

Interpretation of the 229-square kilometers (sq. km.) 3D seismic data acquired in June 2011 generated three drillable prospects.

The DOE granted the consortium's request for a nine-month extension of Sub-Phase 3 to May 7, 2013 to allow completion of technical studies.

On April 4, 2013, the DOE granted the consortium's request for a further six-month extension of Sub-Phase 3 to November 6, 2013 to allow completion of technical studies and initiate farm-out efforts.

On August 23, 2013, the Operator, Otto Energy (Philippines) Inc. (Otto Philippines), confirmed to Enexor that it did not intend to enter Sub-Phase 4 of SC 69 and will reassign 9% participating interest in SC 69 to Enexor pursuant to the Assignment Agreement dated February 3, 2011.

Following an unsuccessful campaign to farm out its participating interest, Otto Philippines notified Enexor and Frontier Gasfields Pty. Ltd. (Frontier Gasfields) of its withdrawal in SC 69 on October 4, 2013. Enexor and Frontier Gasfields subsequently jointly requested the DOE a six-month extension of the October 7, 2013 deadline to elect to enter the next exploration sub-phase, which started on November 7, 2013. An additional extension of the contract term to December 31, 2014 was requested due to the delays in the transfer of participating interests and operatorship to the remaining partners.

Following DOE approval of the assignment of Otto Philippines' interests to Enexor and Frontier Gasfields on October 14, 2014, the Group's participating interest in SC 69 was adjusted from the current 6% to 50%.

On March 17, 2014, Enexor and Frontier Gasfields jointly requested the DOE an extension of the term of SC 69 until December 31, 2014. The DOE extended the term of Sub-Phase 3 to May 7, 2014 to enable the remaining parties to proceed with planned exploration activities and Enexor was designated as Operator of SC 69.

On April 17, 2015, the consortium entered Sub-Phase 4 (May 2015 to May 2016) which entails a commitment to either undertake a 3D seismic program or drill an exploratory well. The DOE approved the consortium's requests that participation in a proposed multi-client 2D seismic survey be credited as fulfillment of its work obligation under the current Sub-Phase and a 6-month extension of the term of SC 69 to November 2016.

On June 30, 2016, Enexor signed a licensing agreement with a seismic contractor for the acquisition of 750 km of seismic data under the multi-client survey. The seismic contractor in a letter dated August 18, 2016 informed Enexor that it could not proceed with the leg of the survey due to permitting and weather constraints. The consortium requested an extension of the term of SC 69 due to Force Majeure.

As at December 29, 2017, the DOE approved the request for extension due to Force Majeure, effective until November 7, 2018, with an attendant work program of permitting and information and education campaigns to address impediments to the planned seismic survey.

On June 4, 2018, the SC 69 Consortium notified the DOE of its relinquishment of SC 69 block in view of the strong oppositions to the Project from various stakeholders, including several Local Government Units and Non-Government Organizations, making the conduct of petroleum exploration business in the area very challenging, if not impossible.

In 2018, the Group recognized full provision for probable loss on deferred exploration costs pertaining to SC 69 amounting to ₱15,596,930 due to vigorous opposition of stakeholders and recent issuances of concerned LGUs declaring the Visayan Sea as a protected area and marine reserve.

On July 29, 2019, the Group received DOE's approval of the relinquishment of SC69. During the year, the deferred exploration costs and related allowance for probable losses of SC69 amounting to ₱15,596,930 were written off.

#### *Palawan55*

##### e. SC 55 (Southwest Palawan)

On May 2, 2012, the DOE approved a twelve-month extension of exploration Sub-Phase 4 to August 5, 2013 to enable BHP Billiton Petroleum (Philippines) Corporation (BHP Billiton), the Operator, to secure a drilling rig with specialized well control equipment for the committed Cinco-1 well. The Cinco-1 well will test a large interpreted carbonate structure in 1,400 meters of water.

Palawan55's 6.82% participating interest will be carried in the drilling cost of two (2) wells in the block under its Participation Agreement dated March 15, 2005 with the predecessors-in-interest of Otto Energy [formerly "NorAsian Energy Ltd."] and an Agreement with NorAsian Energy Ltd. dated February 3, 2011.



In May 2013, BHP Billiton filed a Notice of Force Majeure under SC 55 with the DOE in order to preserve the term of the current exploration sub-phase that requires the drilling of one exploratory well. It is deemed that the Force Majeure event commenced on September 7, 2012, at which time the endorsement of the Sangguniang Panlalawigan of the province of Palawan and the Strategic Environmental Plan (SEP) Clearance from the PCSD would have been released in the ordinary course of business.

On June 4, 2013, the Sangguniang Panlalawigan of Palawan voted to favorably endorse the proposed Cinco-1 drilling to the PCSD. The PCSD approved the issuance of the SEP clearance for the drilling of Cinco-1 well but BHP Billiton sought amendment and clarification on certain conditions set by PCSD. The SEP was issued by the PCSD and signed by all parties in October 2013.

BHP Billiton requested from the DOE an extension of the current Sub-Phase 4 to October 2014 to account for the Force Majeure period caused by the fourteen-month delay in issuance of the aforementioned PCSD clearance.

In November 2013, BHP Billiton verbally informed the partners of its decision not to drill a well under SC 55 and proposed to reassign its 60% participating interest to Otto Energy. Otto Energy subsequently signed a Letter of Intent with BHP Billiton providing for the termination of their Farm-out Agreement and the reassignment of BHP Billiton's participating interest, including a cash settlement.

In January 2014, BHP Billiton and Otto Energy signed definitive agreements for the reassignment of the former's participating interest to the latter. The DOE approved the transfer of the 60% participating interest of BHP Billiton to Otto Energy Philippines, Inc. and the transfer of Operatorship to Otto Energy. The approval formalized the exit of BHP Billiton in SC 55. Otto Energy submitted a revised work program to the DOE focused on the drilling of an ultra deepwater prospect and commenced a farm-out campaign. The new work program was subsequently approved by the DOE. On April 29, 2014, the DOE extended the term of Sub-Phase 4 to December 23, 2014. Otto Energy commenced preparations for exploratory drilling.

On October 15, 2014, Otto Energy requested the DOE a one-year extension of Sub-Phase 4 to December 23, 2015. The requested extension was approved by the DOE on November 7, 2014.

On July 31, 2015, Otto Energy commenced drilling of the Hawkeye-1 exploratory well and on August 17, 2015 completed the drilling to a total depth of 2,920 meters. The well discovered gas, which is deemed to be non-commercial. Otto Energy informed its partners of its decision to withdraw from the service contract.

On December 22, 2015, the consortium requested the DOE for a two-year contract moratorium and proposed technical studies that would assess the impact of the results of Hawkeye-1 on the remaining prospect of the area.

On June 14, 2016, the DOE extended the term of SC 55 until December 23, 2017.

On November 21, 2016, Otto Energy and Otto Energy Philippines notified the DOE of their withdrawal from SC 55.

On November 22, 2017, Palawan55 notified the DOE of its willingness to assume its pro-rata, post-adjustment share (37.50%) amounting to US\$64,613 of Otto Energy's outstanding training fund obligation of US\$172,300 in conjunction with the DOE's approval of the assignment of

interests and favorable consideration for a reasonable extension of the moratorium period that would allow execution of the committed technical studies.

On March 26, 2018, the DOE approved the transfer of participating interests from Otto Energy to its Partners, Palawan55, Century Red and Pryce Gases, Inc. The Moratorium Period until April 26, 2019 was also approved with a budget of US\$478,750 for 3D seismic reprocessing and Quantitative Inversion Study. Palawan55's 6.82% participating interest in SC 55 was adjusted to 37.50% upon the DOE's approval of the withdrawal of Otto Energy.

On August 23, 2018, Palawan55 awarded the 3D Marine PreSTM and PreSDM Reprocessing and Quantitative Services Contract to a third party. The Notice to Proceed was issued on September 10, 2018. Said work program is currently ongoing.

On November 19, 2018, Palawan55 requested for an extension of the SC 55 Moratorium Period up to December 31, 2019 due to the fact that the Quantitative Interpretation Study and Resource Assessment will only be completed after April 2019. The DOE acknowledged the receipt of this request from Palawan55 on November 23, 2018.

In December 2018, a third-party Partner in the consortium advanced its payment for its share in the 2019 work program amounting to US\$69,669 or ₱3,663,170. This shall be applied to the third party's share in the subsequent expenditure of SC 55 (see Note 9).

In 2018, Palawan55 accrued its share in the training obligations for SC55 payable to DOE amounting to ₱3,489,075 (see Note 9).

On 22 April 2019, the DOE granted Palawan55 a four-month extension of the Moratorium Period from 26 April 2019 to 26 August 2019.

On 24 July 2019, the SC 55 Consortium elected to enter Sub-Phase 5 of SC 55 effective 26 August 2019, without prejudice to the Consortium's option to enter the Appraisal Period no later than the said date.

On August 9, 2019, the SC 55 Consortium formally notified the DOE that is directly proceeding into the Appraisal Period effective August 26, 2019. The Consortium committed to drill one (1) deepwater well within the first two years of the Appraisal period and re-interpretation of legacy seismic data over the rest of the block which may lead to the conduct of new 3D seismic campaign to mature other identified prospects to drillable status. DOE's confirmation of the Consortium's entry into the Appraisal Period is still pending as at 06 March 2020.

On September 26, 2019, Palawan55 informed the DOE of Century Red Pte. Ltd.'s withdrawal from SC 55 and accordingly requested for the approval of the transfer of Century Red's entire 37.50% participating interest.

No impairment was recognized for SC 55 as the Group believes that the related deferred exploration costs are still recoverable.

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## 9. Accounts Payable and Other Current Liabilities

This account consists of:

	2019	2018
Accounts payable	<b>₱10,515,130</b>	₱1,096,177
Accrued expenses	<b>5,052,202</b>	4,852,037
Due to:		
Third party	<b>10,146,443</b>	3,663,170
Related parties (see Note 10)	<b>7,577,272</b>	32,481
Employees	-	166,888
Withholding taxes	<b>6,198</b>	70,077
Others	-	7,907
	<b>₱33,297,245</b>	₱9,888,737

Accounts payable and other current liabilities, other than accrued expenses and due to third party, are noninterest-bearing and are settled on 30 to 60-day terms.

Accrued expenses include accrual for professional fees and training obligations for SC55 payable to the DOE (see Note 8). Accrual for professional fee are noninterest-bearing and are settled on 30 to 60-day terms. Training obligations for SC55 payable to the DOE are due and demandable.

Accounts payable are trade payables to suppliers and service providers.

Due to a third party is an advance payment from a partner in the consortium to be applied to SC55's 2019 work program (see Note 8).

Due to employees refer to tax refund.

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## 10. 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. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely its legal form.

Outstanding balances at year-end are unsecured and settlement occurs in cash throughout the financial year. There have been no guarantees provided or received for any related party receivables or payables.

The transactions and balances of accounts as at and for the years ended December 31, 2019, 2018 and 2017 with related parties are as follows:

Company	As at and for the Six Months Ended December 31, 2019					
	Amount/ Volume	Nature	Outstanding Balance		Terms	Conditions
			Receivable	Payable		
<b>Parent Company</b>						
<b>ACEPH</b>						
Accounts payable and other current liabilities	₱8,577,272	Advances	₱-	₱7,577,272	30–60 day terms; noninterest-bearing	Unsecured
Due to related parties (see Note 9)			₱-		₱7,577,272	

Company	As at and for the Year Ended December 31, 2018						
	2017	Amount/ Volume	Nature	Outstanding Balance		Terms	Conditions
	Amount/ Volume			Receivable	Payable		
<b>Ultimate Parent Company</b>							
<b>PHINMA, Inc.</b>							
Accounts payable and other current liabilities	₱165,787	₱262,645	Share in expenses	₱-	₱29,445	30–60 day terms; noninterest-bearing	Unsecured
<b>Parent Company</b>							
<b>ACEPH</b>							
Accounts payable and other current liabilities	663,643	-	Accommodation	-	-	30–60 day terms; noninterest-bearing	Unsecured
Others	543,879	140,724	Purchase of U.S. dollars	-	-	30–60 day terms; noninterest-bearing	Unsecured
<b>Entity Under Common Control</b>							
<b>PHINMA Corporation</b>							
Accounts payable and other current liabilities	48,118	54,038	Share in expenses	-	3,036	30–60 day terms; noninterest-bearing	Unsecured
<b>T-O Insurance, Inc.</b>							
Accounts payable and other current liabilities	2,209	2,459	Insurance expense	-	-	30–60 day terms; noninterest-bearing	Unsecured
Due to related parties (see Note 9)			₱-		₱32,481		

#### ACEPH

The Group purchased U.S. dollars to pay various expenses through ACEPH's banking facilities and accommodation of expenses.

#### PHINMA Inc.

The Parent Company and its subsidiaries PHINMA Power, CIPP and PHINMA Renewable have management contracts with PHINMA, Inc. These Management Contracts were assigned by PHINMA Inc. to AC Energy on June 24, 2019.

#### PHINMA Corporation

PHINMA Corporation is likewise controlled by PHINMA, Inc. through a management agreement. PHINMA Corporation bills the Group for its share in expenses.

#### T-O Insurance

T-O Insurance is also controlled by PHINMA, Inc. through a management agreement. The Group insures its properties through T-O Insurance.

Compensation of Key Management Personnel

Compensation of key management personnel of the Group are as follows:

	2019	2018	2017
Short-term employee benefits	₱928,083	₱3,216,688	₱3,346,688
Post-employment benefits	–	–	–
	<b>₱928,083</b>	<b>₱3,216,688</b>	<b>₱3,346,688</b>

**11. Capital Stock**

Following are the details of the Parent Company's capital stock as at December 31, 2018 and 2017:

	Number of Shares
Authorized - ₱1 par value	1,000,000,000
Issued and outstanding - ₱1 par value	250,000,001

The issued and outstanding shares as at December 31, 2019 and 2018 are held by 2,903 and 2,926 equity holders, respectively.

**12. Income Taxes**

- There were no provision for current tax in 2019 and 2018 both under RCIT and MCIT.
- The reconciliation of the Group's provision for (benefit from) income tax using the statutory tax rate is as follows:

	2019	2018	2017
Benefit from income tax at statutory tax rate	<b>(₱5,991,698)</b>	(₱20,503,181)	(₱4,091,653)
Tax effects of:			
Movement in deductible temporary differences, NOLCO and MCIT for which no deferred tax assets were recognized	<b>5,462,137</b>	20,551,183	4,111,141
Nondeductible expenses	<b>127,707</b>	264,238	–
Realized gains on changes in fair value of investments held for trading	<b>139,910</b>	(21,979)	(139,102)
Interest income subject to final tax	<b>(13,606)</b>	(17,697)	(4,431)
Effect of difference in tax rates	–	(96,482)	(4,280)
	<b>(₱275,550)</b>	₱176,082	(₱128,325)

- The Group recognized provision for deferred tax amounting to ₱176,082 in 2018 and benefit from deferred tax amounting to ₱275,550 and ₱128,325 in 2019 and 2017 respectively.
- Deferred tax liability amounting to ₱11,583 as at December 31, 2019 and ₱287,133 as at December 31, 2018 relate to unrealized gain on foreign exchange translation and unrealized gain on changes in fair value of investments held for trading, respectively.
- As at December 31, 2019 and 2018, deferred tax assets related to the following temporary differences, NOLCO and MCIT were not recognized because management believes that it is not probable that sufficient future taxable income will be available to allow deferred tax assets to be utilized.

	2019	2018
Provision for:		
Probable losses (see Note 8)	<b>₱16,611,263</b>	₱64,874,057
Credit losses (see Note 6)	<b>20,000,000</b>	20,000,000
NOLCO	<b>97,057,960</b>	39,255,480
MCIT	–	3,754
Unrealized foreign exchange loss	<b>313,290</b>	19,465

Unrecognized deferred tax assets amounted to ₱40,194,754 and ₱37,248,455 as at December 31, 2019 and 2018.

- f. The details of the Group's MCIT and NOLCO as at December 31, 2019 and 2018 are as follows:

Year Incurred	Available Until	NOLCO		MCIT	
		2019	2018	2019	2018
2019	2022	<b>₱67,478,506</b>	₱–	₱–	₱–
2018	2021	<b>20,765,862</b>	20,765,862	–	–
2017	2020	<b>8,813,592</b>	8,813,592	–	–
2016	2019	–	9,676,026	–	3,754
		<b>₱97,057,960</b>	₱39,255,480	<b>₱–</b>	₱3,754

The movements in NOLCO and MCIT are as follows:

	NOLCO		MCIT	
	2019	2018	2019	2018
Beginning balances	<b>₱39,255,480</b>	₱30,425,800	<b>₱3,754</b>	₱3,754
Additions	<b>67,478,506</b>	20,765,862	–	–
Expirations	<b>(9,676,026)</b>	(11,936,182)	<b>(3,754)</b>	–
Ending balances	<b>₱97,057,960</b>	₱39,255,480	<b>₱–</b>	₱3,754

### 13. Basic/Diluted Loss Per Share

Basic/diluted loss per share is computed as follows:

	2019	2018	2017
(a) Net loss attributable to equity holders of the Parent Company	<b>₱19,137,926</b>	₱66,838,225	₱13,499,111
(b) Weighted average number of common shares outstanding	<b>250,000,001</b>	250,000,000	250,000,000
<b>Basic/diluted loss per share (a/b)</b>	<b>₱0.077</b>	₱0.267	₱0.054

As at December 31, 2019, 2018 and 2017, the Group does not have any potential common share nor other instruments that may entitle the holder to common shares. Hence, diluted loss per share is the same as basic loss per share.

### 14. Material Partly-Owned Subsidiary

Financial information of Palawan55 is provided below:

	2019	2018
Equity interest held by NCI	<b>30.65%</b>	30.65%
Accumulated balances of NCI	<b>₱157,727</b>	₱716,577
Net loss for the year allocated to NCI	<b>558,850</b>	1,681,795

The summarized financial information of Palawan55 is provided below.

#### Statements of Comprehensive Income

	2019	2018	2017
Other income	<b>(₱198,010)</b>	₱34,986	₱12,757
Expenses	<b>1,631,217</b>	5,516,429	49,974
Provision for deferred tax	<b>5,839</b>	5,839	-
<b>Total comprehensive loss</b>	<b>₱1,823,388</b>	₱5,487,282	₱37,217
<b>Attributable to NCI</b>	<b>558,850</b>	₱1,681,795	₱11,407

#### Statements of Financial Position

	2019	2018
Total current assets	<b>16,541,678</b>	₱5,777,044
Total noncurrent assets	<b>23,062,963</b>	6,815,985
Total current liabilities	<b>(39,089,963)</b>	(10,254,963)
<b>Total equity</b>	<b>514,678</b>	₱2,338,066
<b>Attributable to equity holders of the Parent Company</b>	<b>356,951</b>	₱1,621,489
<b>NCI</b>	<b>157,727</b>	₱716,577

### Cash Flow Information

	2019	2018	2017
Net cash flows provided by (used in):			
Operating activities	<b>₱4,264,783</b>	₱2,757,451	(₱39,385)
Investing activities	<b>(16,246,978)</b>	(1,102,775)	–
Financing activity	<b>22,464,670</b>	1,950,000	–

There were no dividends paid to NCI in 2019, 2018 and 2017.

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## 15. Financial Risk Management Objectives and Policies and Fair Value

### Objectives and Investment Policies

The funds of the entities are held directly by the Group and are managed by AC Energy's Risk, Corporate Finance, Investor Relations and Treasury Group (RCIT). All cash investments of the Group are carried and governed by the following principles, stated in order of importance:

- Preservation of invested cash
- Liquidity of invested cash; and
- Yield on invested cash.

Under no circumstance is yield to trump the absolute requirement that the principal amount of investment be preserved and placed in liquid instruments.

RCIT manages the funds of the Group and invests them in highly liquid instruments such as short-term deposits, marketable instruments, corporate promissory notes and bonds, government bonds, and trust funds denominated in Philippine peso and U.S. dollar. It is responsible for the sound and prudent management of the Group's financial assets that finance the Group's operations and investments in enterprises.

RCIT focuses on the following major risks that may affect its transactions:

- Foreign exchange risk
- Credit or counterparty risk
- Liquidity risk
- Market risk
- Interest rate risk

Professional competence, prudence, clear and strong separation of office functions, due diligence and use of risk management tools are exercised at all times in the handling of the funds of the Group.

### Risk Management Process

#### *Foreign Exchange Risk*

The Group defines Foreign Exchange Risk as the risk of realizing reduced operating cash flows and/or increasing the volatility of future earnings from movements in foreign exchange. The risk is measured based on potential downside impact of market volatility to operating cash flows and target earnings.



Foreign exchange risk is generally managed in accordance with the Natural Hedge principle and further evaluated through :

- Continual monitoring of global and domestic political and economic environments that have impact on foreign exchange;
- Regular discussions with banks to get multiple perspectives on currency trends/forecasts; and
- Constant updating of the foreign currency holdings gains and losses to ensure prompt decisions if the need arises.

In the event that a Natural Hedge is not apparent, the Group endeavors to actively manage its open foreign currency exposures through:

- Trading either by spot conversions; and
- Entering into derivative forward transactions on a deliverable or non-deliverable basis to protect values

The Group has foreign currency exposures arising from cash calls and refunds in currency other than the Philippine peso. The Group's financial instruments denominated un US\$ as at December 31, 2019 and 2018 are as follows:

	2019		2018	
	In US\$	In Philippine Peso	In US\$	In Philippine Peso
<i>Financial Assets</i>				
Cash and cash equivalents	US\$69,609.7	₱3,532,277	US\$71,253.0	₱3,746,483
Trade receivable under 'Receivables'	628.0	31,863	606.0	31,863
			71,859.0	3,778,346
<i>Financial Liability</i>				
Due to third party under 'Accounts payable and other current liabilities'	408,823	20,745,320	69,668.5	3,663,170
	(US\$338,585.3)	(₱17,181,180)	US\$2,190.5	₱115,176

Exchange rates used were ₱50.744 to \$1.00 and ₱52.58 to \$1.00 as at December 31, 2019 and 2018, respectively.

Management has determined that the volume of foreign currency-denominated transactions is not significant to the Group and, accordingly, its exposure to the risk of changes in foreign exchange rates has no material impact to its profitability.

#### *Credit or Counterparty Risk*

The Group defines Credit or Counterparty Risk as the **risk** of sustaining a loss resulting from a counterparty's default to a transaction entered with the Group.

Credit or counterparty risk is managed through the following:

- Investments are coursed through or transacted with duly accredited domestic and foreign banks subject to investment limits per counterparty as approved by the Board.
- Discussions are done on every major investment by RCIT before it is executed subject to the Chief Financial Officer (CFO) approval. Exposure limits are tracked for every transaction and a RCIT Finance Managers supervises major transaction executions.
- Market and portfolio reviews are done at least once a week and as often as necessary should market conditions require. Monthly reports are given to the CFO with updates in between these reports as needed.

- A custodian bank for Philippine peso instruments and foreign currency instruments has been appointed based on its track record on such service and the bank's financial competence.

With respect to credit risk arising from the receivables of the Group, the Group's exposures arise from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

	2019					
	Neither Past Due nor Impaired			Past Due but not Impaired	Past Due Individually Impaired	Total
	Class A	Class B	Class C			
Trade receivables	P-	P-	P-	P31,863	P-	P31,863
Due from third party	-	-	-	-	20,000,000	20,000,000
	P-	P-	P-	P31,863	P20,000,000	P20,031,863

	2018					
	Neither Past Due nor Impaired			Past Due but not Impaired	Past Due Individually Impaired	Total
	Class A	Class B	Class C			
Trade receivables	P-	P-	P-	P31,863	P-	P31,863
Due from third party	-	-	-	-	20,000,000	20,000,000
Accrued interest receivable	-	-	3,826	-	-	3,826
	P-	P-	P3,826	P31,863	P20,000,000	P20,035,689

The Company uses the following criteria to rate credit risk as to class:

Class	Description
Class A	Customers with excellent paying habits
Class B	Customers with good paying habits
Class C	Unsecured accounts

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and financial assets at FVTPL, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. These financial assets are assessed as high grade since these are deposited in or transacted with reputable banks, which have low probability of insolvency.

#### *Liquidity Risk*

Liquidity risk is defined as the risk that the Group may not be able to settle or meet its obligations on time or at a reasonable price.

Liquidity risk is managed through:

- Asset and Liability Management principle. Short-term assets are used to fund short-term liabilities while major investments, capital expenditures and long-term assets are funded by long-term liabilities.
- Detailed cash flow forecasting and continuous monitoring of the weekly and monthly cash flows as well as frequent updates of the annual plans of the Group.
- Investment maturities being spread on a weekly, monthly, and annual basis as indicated in the Group's plans. Average duration of investments do not exceed one (1) year.
- Setting up working capital lines to address unforeseen cash requirements that may cause pressure to liquidity.

*Market Risk*

Market risk is the risk that the value of an investment will decrease due to drastic adverse market movements that consist of interest rate fluctuations affecting bid values or fluctuations in stock market valuation due to gyrations in offshore equity markets or business and economic changes. Interest rate, foreign exchange rates and risk appetite are factors of a market risk as the summation of the three defines the value of an instrument or a financial asset.

As of December 31, 2019, the Group has already liquidated all outstanding investment in marketable securities and will discontinue investing in highly volatile financial instruments to keep a risk-averse position.

Monitoring of Risk Management Process

Risk management is regarded as a core competency, thus review of processes and approval processes including periodic audit are practiced and observed as follows:

- Monthly Treasury meetings are scheduled where approved strategies, limits, mixes are challenged and rechallenge based on current and forecasted developments on the financial and political events.
- Weekly portfolio reports are submitted to the Management Committee that includes an updated summary of global and domestic events of the past month and the balance of the year.
- Annual teambuilding sessions are organized as a venue for the review of personal goals, corporate goals and professional development.
- One on one coaching sessions are scheduled to assist, train and advise personnel.
- Periodic review of Treasury risk profile and control procedures.
- Periodic specialized audit is performed to ensure active risk oversight.

Capital Management

The primary objective of the Group’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 shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares. No changes were made in the objectives, policies or processes in 2019 and 2018.

Capital includes all the items appearing in the equity section of the Group’s consolidated statements of financial position totaling to ₱67,115,407 and ₱86,812,182 as at December 31, 2019 and 2018, respectively.

Fair Value of Financial Assets and Financial Liabilities

The following table shows the classifications, carrying values and fair values of the financial instruments, except for those whose fair values approximate their carrying values:

	2018			
	Carrying Value	Fair Value		
		Quoted Prices in Active Markets (Level 1)	Significant Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
Asset				
Financial assets at FVTPL	₱57,584,369	₱-	₱57,584,369	₱-

*Cash and Cash Equivalents, Receivables and Accounts Payable and Other Current Liabilities (Excluding Statutory Payables).* Due to the short-term nature of these balances, the fair values approximate the carrying values as at reporting date.

*Financial assets at FVTPL.* Net asset value per unit has been used to determine the fair values of investments held for trading.

In 2019 and 2018, there were no transfers between levels of fair value measurement.

Offsetting of Financial Instruments

There were no offsetting of financial instruments as at December 31, 2019 and 2018.

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## 16. Segment Information

The Group has only one reportable segment, Petroleum and Gas, which is engaged in oil and gas exploration and development. The Group planned to expand its operations to include geothermal exploration and development; however, there are no activities undertaken under this segment during the year and all activities reported pertains to oil and gas exploration. Management monitors the operating results of the reportable segment for the purpose of making decisions about resource allocation and performance assessment.

Capital expenditures in 2019 and 2018 were as follows:

	2019	2018
Deferred exploration cost (Note 8)	<b>₱16,656,537</b>	₱1,541,513
Property and equipment (Note 7)	<b>800,000</b>	29,700
	<b>₱17,456,538</b>	₱1,571,213

As at March 18, 2020, the Group has not started commercial operations and has not reported revenue or gross profit. The total assets of the segment amounting to ₱100,424,235 and ₱96,988,052 and liabilities amounting to ₱33,308,828 and ₱10,175,870 as at December 31, 2019 and 2018, respectively, are the same as that reported in the consolidated statements of financial position.

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**17. Events After the Reporting Period**

*DOE Approval on Transfer of Participating Interests of Century Red in SC 55*

On February 13, 2020, Palawan55 received DOE's approval on the transfer of the 37.50% participating interest of Century Red in SC 55. After careful review and evaluation of DOE, Palawan55 is found to be technically, financially and legally qualified to assume the participating interests of Century Red.

Palawan55's participating interest in SC 55 is adjusted from 37.50% to 75.00%. The subsequent event does not have financial impact as of December 31, 2019.

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**ACE ENEXOR, INC. AND SUBSIDIARY**  
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**AND SUPPLEMENTARY SCHEDULES**  
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## INSTRUCTIONS FOR VOTING IN ABSENTIA & SHAREHOLDER

You may access ACE Enexor, Inc.'s Definitive Information Statement (DIS), through any of the following modes:

1. By using the Company website:  
[Link and QR codes for updating]
2. By scanning the QR code

For iPhone/iPad:

- a. Point the camera of your iPhone/iPad at the QR Code of the DIS.  
Once the QR Code is in focus, your iPhone/iPad will provide the link to the DIS.
- b. Click on the link to view the DIS.

For Android phone/tablet:

- a. Download a QR Code Reader Application (the "App") from Google Play Store.
- b. Open the App and point the camera of your phone/tablet at the QR Code of the DIS
- c. Scan the QR Code. The App will provide the link to the DIS.
- d. Click on the link to view the DIS.

The Securities and Exchange Commission has approved the use of the QR Code in the distribution of the Company's DIS.

3. By requesting a hard copy  
Hard copies of the DIS will be available upon request from the Office of the Corporate Secretary ([corpsec\\_enexor@acenergy.com.ph](mailto:corpsec_enexor@acenergy.com.ph)).

### Instructions for Voting in Absentia & Shareholder ("VIASH") System

As a stockholder, you may cast your votes using the VIASH System, subject to complete registration and successful validation.

To access the VIASH System, you must provide the Company your active, primary electronic mail (e-mail) address through (a) direct coordination with the Company, (b) a brokerage firm, or (c) the stock transfer office.

To register with VIASH, simply follow the instructions sent to the e-mail address you provided.

To access the VIASH System:

1. Visit the designated online web address: [ayalagroupshareholders.com](http://ayalagroupshareholders.com) and choosing "ACEnexor, Inc.":
  2. Scan the QR Code:  
For iPhone/iPad:
    - a. Point the camera of your iPhone/iPad at the QR Code of the VIASH System.  
Once the QR Code is in focus, your iPhone/iPad will provide the link to the VIASH System.
    - b. Click on the link to view the VIASH System.
    - c. Log-in using your STOCKHOLDER NUMBER which can be found in the delivery receipt attached to the envelope of this Meeting Kit. The STOCKHOLDER NUMBER will serve as your UNIQUE SECURITY CODE for the VIASH System.
- For Android phone/tablet:
- a. Download a QR Code Reader Application (the "App") from Google Play Store.
  - b. Open the App and point the camera of your phone/tablet at the QR Code of the VIASH System
  - c. Scan the QR Code. The App will provide the link to the VIASH System.
  - d. Click on the link to view the VIASH System.
  - e. Log-in using your STOCKHOLDER NUMBER which can be found in the delivery receipt attached to the envelope of this Meeting Kit. The STOCKHOLDER NUMBER will serve as your UNIQUE SECURITY CODE for the VIASH System.

You may register with the VIASH System until 15 April 2020. You may vote through the VIASH System until the end of the meeting on 20 April 2020.

A stockholder casting votes through the VIASH System shall be deemed present at the meeting for purposes of quorum.