

## ANNEXES

- A. Directors and Key Officers
- B. Minutes of the Previous Annual Stockholders' Meeting dated 20 April 2020
- C. Relevant Resolutions Approved by the Board of Directors from 20 April 2020 until 18 April 2021 for Ratification by the Stockholders
- D. Management's Discussion and Analysis (MD&A) and Plan of Operations
- E. Audited Financial Statements for the year ended 31 December 2020
- F. Requirements and Procedure for Voting in Absentia and Remote Communication

## ANNEX “A”

### DIRECTORS AND KEY OFFICERS

The write-ups below include positions held as of 19 March 2021 and in the past five years and personal data as of 19 March 2021, of directors and executive officers.

#### **Board of Directors**

Name	Age	Citizenship	Designation
<b>John Eric T. Francia</b>	49	Filipino	Chairman and CEO
<b>Maria Corazon G. Dizon*</b>	57	Filipino	Treasurer and CFO, Chief Risk Officer
<b>Raymundo A. Reyes, Jr.</b>	68	Filipino	President & Chief Operating Officer
<b>Augusto Cesar D. Bengzon</b>	58	Filipino	
<b>Jaime Z. Urquijo</b>	32	Filipino	
<b>Jaime Alfonso E. Zobel de Ayala</b>	30	Filipino	
<b>Raphael Perpetuo M. Lotilla</b>	62	Filipino	Independent Director
<b>Ma. Aurora D. Geotina-Garcia</b>	68	Filipino	Independent Director
<b>Alberto A. Lim</b>	71	Filipino	Independent Director
<b>Mario Antonio V. Paner**</b>	62	Filipino	Independent Director

\* until 19 April 2021

\*\* Nominated for election in the annual stockholder’s meeting for 2021

**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 and Infrastructure Corporation (“ACEIC”). He has been a Managing Director and member of the Management Committee of Ayala Corporation since 2009 and was appointed as Chairman of Ayala’s Investment Committee in 2021. He is a Director of AC Energy Corporation (“ACEN”), 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 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., Ayala Healthcare Holdings, Inc., Ayala Hotels, Inc., Michigan Holdings, 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.

**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 ACEN as Exploration Manager and in 2016, became its Vice President for Exploration. He is concurrently the President & COO of Palawan55 Exploration & Production Corporation. He is also a Director of Palawan55 Exploration & Production Corporation since February 2013. 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.

**Augusto Cesar D. Bengzon** was elected as Director of the Company on 1 July 2019. He joined ALI in December 2004 and currently serves as its Senior Vice President, Chief Finance Officer, Chief Compliance Officer & Treasurer. He is a Director of AREIT, Inc. and Treasurer of Cebu Holdings Inc. and AyalaLand Logistics Holding Corp., the publicly listed subsidiaries of ALI. His other significant positions include: Chairman of Aprisa Business Process Solutions Inc.; Director, Treasurer & Compliance Officer of Anvaya Cove Golf and Sports Club Inc.; Director and Chief Finance Officer of Altaraza Development Corporation; 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 & Assistant Treasurer of Ayala Greenfield Development Corp.; Director of AG Counselors Corporation, Alviera Country Club Inc., Alveo Land Corp., Ayala Land Premier 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 Alabang Commercial Corporation, AKL Properties, Inc. and Hero Foundation, Inc.; Assistant Treasurer of Ayala Greenfield Golf & Leisure Club, Inc.; Director and Vice President for External Affairs of the Financial Executives Institute of the Philippines; and Trustee of the Philippine National Police Foundation, Inc. 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 Degree in Business Management.

**Jaime Z. Urquijo** was elected as Director of the Company on 1 July 2019. Mr. Urquijo is currently a Senior Business Development Manager of the International Business unit of AC Energy and Infrastructure Corporation. Prior to this, he was a Strategy and Development Manager at Ayala Corporation. From 2014 to 2016, he was seconded to AF Payments, Inc., where he served as head of Business Development overseeing the launch of the Beep Card payment system. Prior to joining the Ayala Group, he was an associate at JP Morgan in New York. He is a board member of the Philippine Rugby Football Union and is the current President of the Notre Dame Club of the Philippines. He received his Bachelor of Arts Degree in Political Science from the University of Notre Dame and his Master's in Business Administration from 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., where he served as 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 a Macro-Sales analyst at Goldman Sachs in Singapore. He graduated from Harvard University in 2013, taking up Government as his primary concentration and Visual and Environmental Studies as his secondary concentration. In 2019, he obtained a Master's Degree in Business Administration (Dean's List) 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 President of Mageo Consulting Inc., a company providing business advisory and corporate finance consulting services. A Certified Public Accountant, she started her professional career at SGV & Co./ Ernst & Young Philippines, where she led the Firm's Global Corporate Finance Division. She is also currently an Independent Director of ACE Enexor, Inc., Cebu Landmasters Inc., and Queen City Development Bank. She is the first female Chairperson of the Bases Conversion and Development Authority (BCDA) (2015-2016), and was a Director in the following companies: 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). Ms. Garcia is a Fellow and Trustee of the Institute of Corporate Directors (ICD) and a Trustee of the Shareholders Association of the Philippines (Sharephil). Today,

she leads the Philippine Women's Economic Network (PhilWEN) as its Chairperson. She also Co-Chairs the Philippine Business Coalition for Women Empowerment (PBCWE) and is former Co-Chair of the ASEAN Women's Entrepreneurs' Network (AWEN) where she remains as one of the Philippine Focal Points. Boots serves several women business organizations as a long-time Trustee, namely: Women's Business Council Phils., Inc., Business & Professional Women's, Makati (BPW), the Philippine chapter of Women Corporate Directors (WCD), and the Samahan ng Pilipina para sa Reporma at Kaunlaran (Spark! Philippines). She received her 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.

**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.

**Mario Antonio V. Paner** was an Independent Director of AC Energy Corporation from 20 April 2020 to 19 April 2021. He also served as treasurer and head of the BPI's Global Markets Segment. As such, he was responsible for managing the Bank's interest rate and liquidity gaps, as well as its fixed income and currency market-making, trading, and distribution activities—in the Philippines and abroad. He was Chairman of the BPI's Asset & Liability Committee and was a member of the Management Committee and Asset Management Investment Council. He also served on the board of BPI Europe Plc. He joined BPI in 1985, when it acquired Family Savings Bank and performed various Treasury and Trust positions until 1989. Between 1989 and 1996, he worked at Citytrust, then the consumer banking arm of Citibank in the Philippines, which BPI acquired in 1996. At BPI, he was responsible for various businesses of the bank, including Risk Taking, Portfolio Management, Money Management, Asset Management, Remittance and Private Banking. He served as President of the Money Market Association of the Philippines (MART) in 1998 and remains an active member up to present. He is currently the Vice Chairman of the Bankers Association of the Philippines' (BAP) Open Market Committee. He is also a member of the Makati Business Club, Management Association of the Philippines, British Chamber of Commerce, and the Philippine British Business Council. He obtained an A.B. Economics degree from Ateneo de Manila University in 1979 and completed various courses in Business and Finance, including Strategic Financial Management in 2006. In 2009, he completed the Advanced Management Program at Harvard Business School.

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

All the above, except for Ms. Dizon (not nominated for re-election in the annual stockholder's meeting for 2021), are nominee directors.

The certifications on the qualifications of the nominees for independent directors are attached. Among the independent directors, only Mr. Lotilla is currently connected with a government agency. Attached to his certification is the written permission from the Philippine Institute of for Development Studies as to his election as independent director.

#### Management Committee Members / Senior Leadership Team

Name	Age	Citizenship	Designation
<b>John Eric T. Francia</b>	49	Filipino	Chairman and CEO
<b>Maria Corazon G. Dizon</b>	57	Filipino	Treasurer and CFO, Chief Risk Officer
<b>Raymundo A. Reyes, Jr.</b>	68	Filipino	President & Chief Operating Officer
<b>Mariejo P. Bautista</b>	55	Filipino	SVP-Finance and Controller
<b>Dodjie D. Lagazo</b>	41	Filipino	Corporate Secretary, Compliance Officer
<b>Alan T. Ascalon</b>	46	Filipino	Assistant Corporate Secretary 1, Data Privacy Officer
<b>Raissa C. Villanueva</b>	34	Filipino	Assistant Corporate Secretary 2
<b>Henry T. Gomez, Jr.</b>	31	Filipino	Chief Audit Executive

**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 and Infrastructure Corporation ("ACEIC"). He has been a Managing Director and member of the Management Committee of Ayala Corporation

since 2009 and was appointed as Chairman of Ayala's Investment Committee in 2021. He is a Director of AC Energy Corporation ("ACEN"), 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 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., Ayala Healthcare Holdings, Inc., Ayala Hotels, Inc., Michigan Holdings, 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 ACEIC, ACEN, and the Director of various ACEIC 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.

**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 ACEN as Exploration Manager and in 2016, became its Vice President for Exploration. He is concurrently the President & COO of Palawan55 Exploration & Production Corporation. He is also a Director of Palawan55 Exploration & Production Corporation since February 2013. 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.

**Mariejo P. Bautista** is an SVP-Finance and Controller of ACEN. 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 Bulacan Power Generation Corporation, CIP II Power Corporation, One Subic Power Generation Corp., Guimaras Wind, 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 ACEIC, and the Head of Legal and Regulatory of both ACEIC and ACEN. 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, ACEIC, and ACEN, and the Corporate Secretary of various ACEIC 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** was elected as Assistant Corporate Secretary of the Company on 1 July 2019. He is the Vice President-Legal of ACEN. He served as director of Guimaras Wind Corporation ("Guimaras Wind"), and is the Corporate Secretary of Guimaras Wind, One Subic Power Generation Corp., One Subic Oil Distribution Corp., Palawan55 Exploration and Production Corp., Bulacan Power Generation Corporation, and CIP II Power 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** was elected as Assistant Corporate Secretary of the Company on 1 July 2019. She is a Senior Manager of ACEIC, and previously a Senior Counsel at Ayala Group Legal. She is also the Assistant Corporate Secretary of various ACEIC subsidiaries and affiliates. Prior to joining the Ayala Group, 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 ACEN's Chief Audit Executive and the Internal Audit Head of ACEIC. Prior to joining ACEIC, 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, **MA. AURORA D. GEOTINA-GARCIA**, Filipino, of legal age, and a resident of No. 27 Sanso St., Corinthian Gardens, 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 the Corporation’s Independent Director since 2019.
2. I am affiliated with the following companies or organizations (including Government Owned and Controlled Corporations):

Company/Organization	Position/Relationship	Period of Service
AC Energy Corporation	Independent Director	2019 to present
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:

Offense charged / investigated	Tribunal / agency involved	Status
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-affiled from Branch 67)	In an Order dated September 18, 2020, the trial court granted the accused’s demurrer to evidence and dismissed the case for insufficiency of the prosecution’s evidence. The dismissal is equivalent to an acquittal, which is immediately final and executory.



		<p>The prosecution filed a Motion for Reconsideration dated October 15, 2020, which was denied by the court at the hearing held on October 23, 2020.</p> <p>The Private Complainant filed a Petition for Certiorari dated December 9, 2020 with the Court of Appeals, alleging grave abuse of discretion on the part of the trial court. The Court of Appeals may either dismiss the petition outright or require the respondents to file a comment. It has not issued any resolution.</p>
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.	On January 15, 2016, 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.	On January 30, 2018, 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.

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 MAR 19 2021 in Makati City.

  
\_\_\_\_\_  
**MA. AURORA D. GEOTINA-GARCIA**

SUBSCRIBED AND SWORN to before me this MAR 19 2021 in Makati City, affiant personally appeared before me and exhibited to me her Senior Citizen's ID no. 40360-B issued on 10 October 2012 in Quezon City.

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Page No. 80;  
Book No. III;  
Series of 2021.



  
**ATTY. MARK DEAN D.R. ITARALDE**  
Notary Public – Makati City  
Appt. No. M-163 until December 31, 2021  
Roll of Attorneys No. 71073  
IBP OR No. 144650; January 7, 2021  
PTR No. MKT-8534431; 01/05/2021; Makati City  
MCLE Compliance No. V1-0028680; valid until 04/14/ 2022  
7727 E. Jacinto cor. Medina St.  
Barangay Pio Del Pilar, Makati City

**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 since 8 August 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
Philippine Institute for Development Studies	Member, Board of Trustees	2014 to present
Ateneo de Manila University Professional Schools	Member, Advisory Board	2016 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 MAR 19 2021, in Makati City.

  
**RAPHAEL PERPETUO M. LOTILLA**

SUBSCRIBED AND SWORN to before me this MAR 19 2021 in Makati City, affiant personally appeared before me and exhibited to me his Philippine Passport no. P8900211A issued at DFA NCR North East on 26 September 2018.

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**ATTY. MARK DEAN D.R. ITARALDE**  
Notary Public – Makati City  
Appt. No. M-163 until December 31, 2021  
Roll of Attorneys No. 71073  
IBP OR No. 144650; January 7, 2021  
PTR No. MKT-8534431; 01/05/2021; Makati City  
MCLE Compliance No. V1-0028680; valid until 04/14/ 2022  
7727 E. Jacinto cor. Medina St.  
Barangay Pio Del Pilar, Makati City



11 February 2021

**ATTY. RAPHAEL PERPETUO M. LOTILLA**

23 Andrew St., Metroheights Subd.  
Culiat, Quezon City, Metro Manila

Dear Atty. Lotilla:

Please be informed that we do not interpose any objection to your engagement with ACE Enexor, Inc. (ACEX) 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 ACEX 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.

Sincerely,

**CELIA M. REYES**

President



**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**”), and has been the Corporation’s Independent Director since 17 September 2019.
2. I am affiliated with the following companies or organizations (including Government Owned and Controlled Corporations):

Company/Organization	Position/Relationship	Period of Service
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:

Offense charged/investigated	Tribunal/agency involved	Status
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 MAR 19 2021, in Makati City.

  
ALBERTO A. LIM

SUBSCRIBED AND SWORN to before me this MAR 19 2021 in Makati City, affiant personally appeared before me and exhibited to me his Driver's License no. N11-08-017156 issued at the Land Transportation Office on 30 July 2017.

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ATTY. MARK DEAN D.R. ITARALDE

Notary Public – Makati City  
Appt. No. M-163 until December 31, 2021  
Roll of Attorneys No. 71073  
IBP OR No. 144650; January 7, 2021  
PTR No. MKT-8534431; 01/05/2021; Makati City  
MCLE Compliance No. V1-0028680; valid until 04/14/ 2022  
7727 E. Jacinto cor. Medina St.  
Barangay Pio Del Pilar, Makati City

REPUBLIC OF THE PHILIPPINES}  
MAKATI CITY } S.S.

### CERTIFICATION OF INDEPENDENT DIRECTOR

I, **MARIO ANTONIO V. PANER**, Filipino, of legal age, and a resident of 24 Winchester St., Hillsborough Alabang Village, Muntinlupa 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):

Company/Organization	Position/Relationship	Period of Service
AC Energy Corporation	Independent Director	20 April 2020 until 19 April 2021

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 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 MAR 15 2021, in Makati City.

  
**MARIO ANTONIO V. PANER**

SUBSCRIBED AND SWORN to before me this MAR 15 2021 in Makati City, affiant personally appeared before me and exhibited to me his Philippine Passport no. P0677976B issued on 15 February 2019 at DFA NCR South.

Doc. No. 297;  
Page No. 61;  
Book No. III;  
Series of 2021.



  
**ATTY. MARK DEAN D.R. ITARALDE**  
Notary Public – Makati City  
Appt. No. M-163 until December 31, 2021  
Roll of Attorneys No. 71073  
IBP OR No. 144650; January 7, 2021  
PTR No. MKT-8534431; 01/05/2021; Makati City  
MCLE Compliance No. V-0028680; valid until 04/14/ 2022  
**Certification of Independent Director**  
**Paner, Mario Antonio V.**  
7727 E. Jacinto cor. Maguigsa St.  
Barangay Pio Del Pilar, Makati City  
Page 1 of 1



*For approval in the 2021 stockholders' meeting*

**MINUTES OF THE ANNUAL STOCKHOLDERS' MEETING**  
**Tuesday, 20 April 2020 at 2:00 P.M.**  
**Conducted virtually via livestream – <https://asm.ayala.com/ACEX2020>**

		<i>Percentage of Total</i>
<b>No. of Outstanding and Voting Shares</b>	250,000,001	
<b>Shareholders Present:</b>	189,804,478	75.92%

**Directors Present:**

John Eric T. Francia <sup>1</sup>	<i>Chairman, Board of Directors Chairman, Executive Committee</i>
Augusto Cesar D. Bengzon	<i>Member, Audit Committee</i>
Maria Corazon G. Dizon	<i>Member, Executive Committee</i>
Raymundo A. Reyes, Jr. <sup>2</sup>	<i>Member, Executive Committee</i>
Jaime Z. Urquijo	<i>Member, Board Risk Management and Related Party Transactions Committee</i>
Jaime Alfonso Zobel de Ayala	<i>Chairman, Personnel and Compensation Committee</i>
Ma. Aurora Geotina-Garcia (independent director)	<i>Chairman, Audit Committee Member, Corporate Governance and Nomination Committee</i>
Alberto A. Lim (independent director)	<i>Chairman, Board Risk Management and Related Party Transactions Committee Member, Personnel and Compensation Committee Member, Corporate Governance and Nomination Committee</i>
Raphael Perpetuo M. Lotilla (independent director)	<i>Chairman, Corporate Governance and Nomination Committee Member, Audit Committee Member, Board Risk Management and Related Party Transactions Committee</i>

<sup>1</sup> Mr. Francia presided over the meeting and presented while being physically present in the principal office of the Corporation.

<sup>2</sup> Mr. Reyes participated and presented from his residence in Paranaque City.

## 1. Call to Order

The Chairman, Mr. John Eric T. Francia, called the meeting to order at 2:00 p.m. He welcomed the stockholders who joined the meeting through the live webcast and thanked the stockholders who participated in the meeting through the Corporation's voting in absentia system or their appointment of the Chairman as proxy. He then introduced his co-presenters, namely: Mr. Raymundo A. Reyes, Jr., the Chief Operating Officer, Mr. Dodjie D. Lagazo<sup>3</sup>, the Corporate Secretary, and Mr. Alan T. Ascalon<sup>4</sup>, the Assistant Corporate Secretary. Finally, he noted the participation of the other members of the Board of Directors (the "**Board**"), other officers of the Corporation, and representatives of the Corporation's external auditor, SyCip Gorres Velayo & Co. ("**SGV**"), who joined the meeting through the live webcast.

## 2. Notice of Meeting

The Corporate Secretary certified that the Notice of the Annual Stockholders' Meeting (the "**Notice**") and the Definitive Information Statement (the "**DIS**") were sent on March 26, 2020 to the Corporation's stockholders of record as of March 31, 2020, the record date for the meeting, in three ways: first, by e-mail to stockholders who provided their e-mail addresses; second, by posting on the Corporation's website; and third, by disclosure in the Philippine Stock Exchange ("**PSE**"). In addition, the Notice was published on March 30, 2020 in the Philippine Star, a newspaper of general circulation. The Notice contained the agenda, the requirements and procedures for participation and manner of casting votes by remote communication, contact information of the Corporate Secretary, requirements and process of nomination of directors, and the fact that there will be a visual and audio recording. Accordingly, the Corporate Secretary confirmed that the stockholders were duly notified of the meeting in accordance with the Corporation's By-Laws and applicable rules, including the Corporation's Internal Guidelines on Participation in Stockholders' Meeting by Remote Communication and Voting in Absentia under Extraordinary Circumstances, which are embodied in the Corporation's DIS.

## 3. Determination of Quorum

The Corporate Secretary certified that a quorum had existed for the meeting and that based on partial tabulation, stockholders owning at least 189,804,478 shares representing 75.92% of the 250,00,001 total outstanding shares were present in the meeting.

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

The Chairman stated that although the meeting was held in a virtual format because of government regulations that prevented the Corporation from conducting an in-person meeting, the Corporation strived to provide the stockholders the opportunity to participate in the meeting to the same extent possible as in an in-person meeting. Thereafter, the Corporate Secretary explained the rules of conduct and voting procedures for the meeting, as provided in the DIS and the Explanation of Agenda Items, which were part of the Notice that was distributed to the stockholders.

The Corporate Secretary further emphasized the following:

- i. Stockholders who registered under the Voting in Absentia & Shareholder ("**VIASH**") System or who notified the Corporation by email to corpsec.enexor@acenergy.com.ph by April 15, 2020 of their intention to participate in the meeting by remote communication may send their questions or comments to the above-mentioned email address.
- ii. The Assistant Corporate Secretary will read the questions or comments received before 2:30 p.m. under the item "Other Matters". Management would reply by e-mail to questions

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<sup>3</sup> Mr. Lagazo participated and presented while being physically present in the principal office of the Corporation.

<sup>4</sup> Mr. Ascalon participated and presented from his residence in Quezon City.



and comments not taken up during the meeting.

- iii. As indicated in the ballot, there are five (5) resolutions proposed for adoption by the stockholders in the meeting. Each proposed resolution will be shown on the screen as the same is being taken up.
- iv. Stockholders could cast their votes on these proposed resolutions and in the election of directors beginning April 14, 2020 through the Corporation's VIASH System. The polls would remain open until the end of the meeting for stockholders who had successfully registered to cast their votes electronically using the VIASH System.
- v. The Corporation tabulated the votes cast as of April 15, 2020, after the end of the proxy validation process. Those votes were from stockholders owning 189,804,435 voting shares representing 75.92% of the total outstanding shares. All voting results reported at the meeting, will refer to this preliminary tabulation. The results of the final tabulation of votes, with full details of the affirmative and negative votes and abstentions, would be reflected in the minutes of the meeting.

## 5. Approval of the Minutes of the 2019 Stockholders' Meeting

The Chairman then proceeded with the approval of the minutes of the annual stockholders' meeting held on September 17, 2019. An electronic copy of the minutes was posted on the Corporation's website and contained in the DIS.

The Corporate Secretary, on behalf of management, proposed the adoption of Resolution No. S-2020-001 for the approval of the minutes of the annual stockholders' meeting on September 17, 2019. Resolution No. S-2020-001 was shown on the screen:

### Resolution No. S-2020-001

**RESOLVED**, to approve the minutes of the annual stockholders' meeting held on 17 September 2019.

Thereafter, the Secretary reported that stockholders owning 189,804,435 shares, or 75.92% of the total outstanding shares, voted in favor of Resolution No. S-2020-001. Therefore, the said resolution was approved.

As tabulated by the Committee of Inspectors of Proxies and Ballots and validated by SGV, the stockholders voted on Resolution No. S-2020-001 as follows:

	For	Against	Abstain
Number of voted shares	189,804,435	0	0
% of Total Outstanding Shares	75.92%	0%	0%

## 6. Annual Report of Officers

### Message of the Chairman

The Chairman acknowledged the stockholders, the directors, management, and guests, and delivered the following message:

The impact of the COVID-19 pandemic continues to be felt globally, and the crisis is set to hit the most vulnerable the hardest. The various businesses within the Ayala group have been proactive in mobilizing resources to help overcome the challenges.

There are no known COVID-19 cases among the ACE Enexor and AC Energy Group employees. The Corporation is fully supportive of the government efforts to address the challenges by ensuring the health and safety of its employees and their families, providing support to immediate communities where the Corporation operates, and supporting broader efforts such as feeding programs, creation of additional health facilities, and the provision of medical supplies and PPEs.

Despite the current challenges, the Corporation is making progress on its initiatives. Significant strides have been made on investments and towards exploratory drilling, yet the Corporation acknowledges that headwinds were encountered on the macro environment in which it operates.

The year was marked by oversupply, few reserves replacement, and modest annual increase in capital spending. From a high of \$86 per barrel in 2018, Brent crude settled in the \$60 level through most of 2019. Meanwhile the COVID-19 crisis reached pandemic levels in early 2020, severely affecting economic activity and oil demand, resulting in Crude prices declining to less than \$30 per barrel.

The same challenges experienced will persist into 2020. The local upstream sector has been in dormancy in the last four (4) years and efforts to revitalize exploration have so far not achieved the desired results, despite the latest petroleum bid round that was formally launched in November 2018.

Aware of the country's dire need for replacement reserves, the Corporation, through its subsidiary Palawan55 Exploration & Production Corporation ("**Palawan55**"), has responded proactively by bringing its primary asset, Service Contract 55 ("**SC 55**"), closer to exploratory drilling.

Palawan55 acquired the entire participating interest of its erstwhile foreign partner, thereby doubling its stake in SC 55 to 75%, highly encouraged by the results of its technical studies centered on a gas discovery made in the area in 2015.

Last week, the Department of Energy ("**DOE**") confirmed SC 55's entry into the Appraisal Period, with a commitment to drill one (1) exploratory well within the first two (2) years of the said time frame. Two (2) candidate target sites are currently being evaluated using leading edge standards, and upon completion of the assessment, preparations for drilling will commence soon after.

2019 has been a year of good progress for the Corporation. The Corporation's decisions and actions during this period positioned it well to work on its future growth and aid in the country's future energy landscape.

The business of oil and gas exploration will continue to be challenging, uncertain and very complex. With the stockholders' continued trust and support, the Corporation will constantly pursue business growth and value creation, while the Corporation moves towards playing a significant role in helping the country's energy security in due course.

The Chairman then called on Mr. Raymundo A. Reyes, Jr., the Chief Operating Officer ("**COO**"), to give his report.

#### Report of the Chief Operating Officer

Mr. Reyes acknowledged the stockholders and guests, and reported as follows:

Since the middle of last year when AC Energy took over the Corporation, the Corporation focused on validating the gas discovery made at the Hawkeye-1 well in 2015. While the former operator of SC 55 notified the DOE of the gas find prior to its withdrawal, such operator failed to submit a formal gas



discovery report as required under said contract. Palawan55, the Corporation's subsidiary and current SC 55 Operator, remedied this deficiency by undertaking specialized technical studies that proved the existence of the gas resource, to the satisfaction of the DOE.

Palawan55 also confirmed the drill-ready status of the prospect that another former operator almost tested in 2012, were it not for last-minute permitting problems. Palawan55 also conducted advanced reprocessing and interpretation of seismic data that were originally acquired by the two (2) former operators, and this exercise yielded a number of new prospects and leads in the vicinity of the Hawkeye gas accumulation. Drilling scenario planning indicated that the primary prospects are technically drillable.

Encouraged by the promising results of technical studies, Palawan55 acquired the entire 37.5% participating interest of its Australian partner that opted to withdraw from the consortium due to financial constraints. Given this, Palawan55 doubled its stake in the block to 75% and remains as the Operator.

Palawan55 notified the DOE of SC 55's direct entry into the Appraisal Period with a commitment to drill one (1) deep water well. This exploration phase would allow the consortium to test other prospects in the block that could merit stand-alone or cluster field development. The DOE confirmed SC 55's entry into the Appraisal Period effective April 26, 2020. The consortium will prepare for the DOE's approval, a definitive work program that shall include the drilling of at least one (1) well no later than April 2022.

In conclusion, Palawan55 is currently conducting follow-on evaluation of two (2) candidate targets for drilling. Upon completion of the comparative assessment, the consortium will choose the prospect to be drilled, then commence preparations for drilling immediately thereafter. The Corporation will keep the stockholders posted of material developments through its regulatory disclosures.

After the COO's report, the Chairman then asked the Corporate Secretary to present the proposed resolution on this item and the voting results.

The Corporate Secretary, on behalf of management, proposed the adoption of Resolution No. S-2020-002 to note the Corporation's Annual Report, and approve the 2019 consolidated audited financial statements of the Corporation and its subsidiaries as of December 31, 2019, as audited by SGV. Resolution No. S-2020-002, was shown on the screen:

**Resolution No. S-2020-002**

**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 31 December 2019, as audited by the Corporation's external auditor, SyCip Gorres Velayo & Co.

The Corporate Secretary then reported that stockholders owning 189,804,435 shares, or 75.92% of the total outstanding shares, voted for the adoption of Resolution No. S-2020-002. Therefore, the said resolution was approved.

As tabulated by the Committee of Inspectors of Proxies and Ballots and validated by SGV, the votes on the adoption of Resolution No. S-2020-002, are as follows:

	For	Against	Abstain
Number of voted shares	189,804,435	0	0
% of Total Outstanding Shares	75.92%	0%	0%

## 7. Ratification of the Acts of the Board and Officers

The Corporate 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 September 18, 2019 until April 19, 2020. The acts and resolutions of the Board were reflected in the minutes of the meetings, and they include the election of officers and members of the various Board Committees, project launches, 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 ("SEC") and the PSE.

Stockholders' ratification was also sought for all the acts of the Corporation's officers performed in accordance with the resolutions of the Board, the Executive Committee and other Board Committees as well as the By-Laws, from September 18, 2019 to April 19, 2020. These acts were performed to implement the resolutions of the Board or its Committees, or as part of the Corporation's general conduct of business.

Thereafter, the Corporate Secretary reported that stockholders owning 189,804,435 shares, or 75.92% of the total outstanding shares, voted for the adoption of Resolution No. S-2020-003, which was shown on the screen. Therefore, the said resolution was adopted:

### Resolution No. S-2020-003

**RESOLVED**, to ratify each and every act and resolution, from 18 September 2019 to 19 April 2020 (the "Period"), of the Board of Directors (the "Board"), 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 stockholders voted on the adoption of Resolution No. S-2020-003 as follows:

	For	Against	Abstain
Number of voted shares	189,804,435	0	0
% of Total Outstanding Shares	75.92%	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 requested the Corporate Secretary to explain this item.

The Corporate Secretary explained that in accordance with the requirements of the Corporation's By-Laws, the Manual of Corporate Governance, and the rules of the SEC, the following stockholders were duly nominated to the Board for the ensuing term: 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 Geotina-Garcia, Alberto A. Lim, and Raphael Perpetuo M. Lotilla.

Ms. Geotina-Garcia, Mr. Lim, and Mr. Lotilla were nominated as independent directors.

The Corporate Governance and Nomination Committee of the Board 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 Corporate Secretary reported that each of the nine (9) nominees garnered at least 189,804,435 votes, which represent 75.92% of the total outstanding shares. Thus, each nominee received sufficient number of votes for election to the Board, and that Resolution No. S-2020-004, as shown on the screen, for the election of the nine (9) nominees to the Board was approved:

**Resolution No. S-2020-004**

**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 Alfonso E. Zobel de Ayala  
Jaime Z. Urquijo  
Ma. Aurora D. Geotina-Garcia (*Independent Director*)  
Raphael Perpetuo M. Lotilla (*Independent Director*)  
Alberto A. Lim (*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:

Director	No. of votes received
1. Augusto Cesar D. Bengzon	189,804,435
2. John Eric T. Francia	189,804,435
3. Maria Corazon G. Dizon	189,804,435
4. Raymundo A. Reyes, Jr.	189,804,435
5. Jaime Z. Urquijo	189,804,435
6. Jaime Alfonso Zobel de Ayala	189,804,435
7. Ma. Aurora Geotina-Garcia	189,804,435
8. Alberto A. Lim	189,804,435
9. Raphael Perpetuo M. Lotilla	189,804,435

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

The Corporate Secretary 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 Corporate Secretary reported that the Committee and the Board endorse the appointment of SGV as the Corporation's external auditor for the present fiscal year for an audit fee of PhP162,750.00, exclusive of value-added tax and out-of-pocket expenses.

The Corporate Secretary, on behalf of management, then proposed the adoption of Resolution No. S-2020-005 appointing SGV as the Corporation's external auditor and fixing its remuneration, as shown on the screen:



**Resolution No. S-2020-005**

**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 2020 for an audit fee of One Hundred Sixty-Two Thousand Seven Hundred Fifty Pesos (PHP 162,750.00), exclusive of value-added tax and out-of-pocket expenses.

The Corporate Secretary then reported that stockholders owning 189,804,435 shares, or 75.92% of the total outstanding shares, voted for the adoption of Resolution No. S-2020-005. Therefore, the said resolution was approved.

As tabulated by the Committee of Inspectors of Proxies and Ballots and validated by SGV, the votes on the adoption of Resolution No. S-2020-005 are as follows:

	<b>For</b>	<b>Against</b>	<b>Abstain</b>
Number of voted shares	189,804,435	0	0
% of Total Outstanding Shares	75.92%	0%	0%

**10. Other Matters**

There being no other matters for consideration by the stockholders, the Chairman opened the floor for questions or comments from the stockholders. The Assistant Corporate Secretary, Mr. Alan T. Ascalon, read the questions and comments together with the names of the stockholders who sent them.

Rodolfo C. Dela Cruz (stockholder): *What are the plans of ACE Enexor for 2021? Does it plan to actively seek more drilling sites?*

Chairman: The Corporation is currently focused on assessing two (2) prospective sites within Service Contract 55. The Corporation aims to complete these on-going studies within the year, so management can focus on hopefully one (1) specific target for potential drilling by 2022. As requested by the Chairman, the COO expounded that right now Palawan55 is in the middle of prospect-specific technical studies that would help the consortium decide, which of the prospects in the block to drill, and that the Corporation expects to finish this work program in the next two (2) months.

COO: The second half of 2020 will be spent primarily for well planning and that the Corporation anticipates the execution of the drilling program will be the focus throughout 2021. This phase will include, among others, permitting, procurement of drilling equipment, materials, supplies and services, and employment of the drilling team. The final stage will be actual drilling operations. This will likely happen in the first quarter of 2022 and may last around 40 days.

Danilo L. Panes (stockholder): *Are we planning to have new partners in developing SC55?*

Jhe Conese (guest): *Do you already have an update on how will you fund the drilling? Will this be through foreign partner? Do you already have a foreign partner?*

Chairman: The Corporation prefers a strategic partner for this significant undertaking. The Corporation does not have a foreign partner as of this moment but in the next few months, the Corporation will begin discussion with potential partners, taking into consideration their financial and technical capabilities that can be complementary and beneficial to the consortium.

Gina Judith dela Cruz (stockholder): *How has COVID-19 affected the business?*

Chairman: The Enhanced Community Quarantine has minimal effect on the Corporation's ongoing operations given that the Corporation is not yet in the drilling stage.

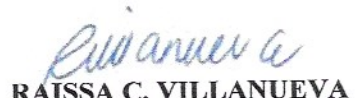
COO: The Corporation is routinely interacting with its foreign contractors via videoconferences and online exchanges. Its employees have access to the necessary computer hardware and software and, thus, continue to work unhampered. The team can probably work off-site with high productivity up to the end of this year or even up to the first quarter of next year. However, permitting activities for drilling should start by the second quarter of 2020. As these are mostly face-to-face transactions, the drilling timetable may be adversely affected depending on the level of government restrictions on people mobility.

#### 11. Adjournment

There being no other comments or questions from the stockholders, the Chairman adjourned the meeting. The Chairman mentioned that a link to the recorded webcast of the meeting will be posted on the Corporation's website and that stockholders may raise issues, clarifications and concerns on the meeting conducted within two (2) weeks from posting of the link by sending an email to [corpsec.enexor@acenergy.com.ph](mailto:corpsec.enexor@acenergy.com.ph).

  
**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 Meeting, Director

## ANNEX “C”

### RELEVANT RESOLUTIONS APPROVED BY THE BOARD OF DIRECTORS FROM 20 APRIL 2020 UNTIL 18 APRIL 2021 FOR RATIFICATION BY THE STOCKHOLDERS

#### Organizational Meeting of the Board of Directors

20 April 2020

#### **Resolution No. B-2020-0420-01**

**RESOLVED**, to approve the minutes of the regular meeting of the Board of Directors held on 19 March 2020.

#### **Resolution No. B-2020-0420-02**

**RESOLVED**, as endorsed by the Audit Committee, to ratify the engagement of SyCip Gorres Velay & Co. as the Company’s independent validator for its 2020 Annual Stockholders’ Meeting for a fee of Php50,000.00, exclusive of value-added taxes and out of pocket expenses.

#### **Resolution No. B-2020-0420-003**

**RESOLVED**, to appoint the following as officers of the Company and to serve as such beginning today until their successors are appointed and qualified:

John Eric T. Francia	Chairman, Board of Directors; CEO
Raymundo A. Reyes, Jr.	President & Chief Operating Officer
Dodjie D. Lagazo	Corporate Secretary; Compliance Officer
Alan T. Ascalon	Assistant Corporate Secretary 1; Data Privacy Officer
Raissa C. Villanueva	Assistant Corporate Secretary 2
Maria Corazon G. Dizon	Treasurer & CFO; Chief Risk Officer
Mariejo P. Bautista	SVP – Finance and Controller
Henry T. Gomez, Jr.	Chief Audit Executive

#### **Resolution No. B-2020-0420-004**

**RESOLVED**, to appoint the following as members of the various board committees as indicated, to serve as such beginning today until their successors are appointed and qualified:

##### **Executive Committee**

1. John Eric T. Francia
2. Maria Corazon G. Dizon
3. Raymundo A. Reyes, Jr.

##### **Personnel and Compensation Committee**

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

##### **Audit Committee**

1. Ma. Aurora Geotina-Garcia

2. Raphael Perpetuo M. Lotilla
3. Augusto Cesar D. Bengzon

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

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

**Corporate Governance and Nomination Committee**

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

**RESOLVED, FINALLY**, to appoint Ms. Ma. Aurora Geotina-Garcia as the lead independent director of the Company.

**Resolution No. B-2020-0420-005**

**RESOLVED**, to approve the financial statements for the three (3)-month period ended, and as at, 31 March 2020, as presented;

**RESOLVED, FURTHER**, to approve the filing and submission of the said financial statements to the Securities and Exchange Commission and Philippine Stock Exchange no later than 15 May 2020; and

**RESOLVED, FINALLY**, to delegate authority to the Audit Committee to finalize the first quarter financial statements including the notes therein.

**Resolution No. B-2020-0420-006**

**RESOLVED**, as endorsed by the Audit Committee, to approve the revisions to the Audit Committee Charter.

**Regular Meeting of the Board of Directors**

**19 August 2020**

**Resolution No. B-2020-0819-01**

**RESOLVED**, to approve the minutes of the organizational meeting of the Board of Directors held on 20 April 2020.

**Resolution No. B-2020-0819-02**

**RESOLVED**, to ratify the Executive Committee's approval dated 10 August 2020 of the Company's Quarterly Report for the quarter ending on 30 June 2020.

**Regular Meeting of the Board of Directors**  
**13 November 2020**

**Resolution No. B-2020-1113-01**

**RESOLVED**, to approve the minutes of the regular meeting of the Board of Directors held on 19 August 2020.

**Resolution No. B-2020-1113-02**

**RESOLVED**, to approve the Company's SEC Form No. 17-Q and Consolidated Financial Statements for the three-month period ended 30 September 2020 and to authorize the submission of the foregoing reports to the Philippine Stock Exchange and the Securities and Exchange Commission no later than 13 November 2020.

**Resolution No. B-2020-1113-03**

**RESOLVED**, to approve and to adopt the Code of Conduct on terms as presented and as endorsed by the Corporate Governance and Nomination Committee.

**Resolution No. B-2020-1113-04**

**RESOLVED**, to approve and to adopt the charter of the Board of Directors on terms as presented and as endorsed by the Corporate Governance and Nomination Committee.

**Resolution No. B-2020-1113-05**

**RESOLVED**, to approve and to adopt the charter of the Executive Committee on terms as presented and as endorsed by the Corporate Governance and Nomination Committee.

**Resolution No. B-2020-1113-06**

**RESOLVED**, to approve and to adopt the revised Whistleblower and NonRetaliation Policy on terms as presented and as endorsed by the Corporate Governance and Nomination Committee.

**Resolution No. B-2020-1113-07**

**RESOLVED**, to approve and to adopt the revised Corporate Governance Manual on terms as presented and as endorsed by the Corporate Governance and Nomination Committee.

**Regular Meeting of the Board of Directors**  
**10 March 2021**

**Resolution No. B-2021-0310-01**

**RESOLVED**, to approve the minutes of the regular meeting of the Board of Directors held on 13 November 2020.

**Resolution No. B-2021-0310-02**

**RESOLVED**, to ratify the approval by the Executive Committee of the Corporation's withdrawal from Service Contract 6 – Block A.

**Resolution No. B-2021-0310-03**

**RESOLVED**, to ratify the approval by the Executive Committee of the Corporation's appointment of Michael A. Escarcha, Jennifer M. Naynes, and Ronnie A. Domingo as the Corporation's authorized representatives to transact with the Bureau of Internal Revenue ("BIR") in relation to the Corporation's application for transfer of Revenue District Office, and other BIR-related permits.

**Resolution No. B-2021-0310-04**

**RESOLVED**, to approve the schedule and agenda of the Corporation's 2021 annual stockholders' meeting as follows:

Date: April 19, 2021 (Monday)

Time: 2:00 P.M.

Manner: via remote communication, with voting via proxy or in absentia via the Voting in Absentia by Shareholders (VIASH) System developed by Globe

Agenda:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of Minutes of Previous Meeting
4. Annual Report of Management Including the 2020 Audited Financial Statements
5. Ratification of the Acts of the Board of Directors and Officers
6. Delegation of Power and Authority to the Board to Amend the By-laws
7. Election of Directors (Including the Independent Directors)
8. Election of External Auditor and Fixing of its Remuneration
9. Consideration of Such Other Business as may Properly Come Before the Meeting
10. Adjournment

**RESOLVED, FINALLY**, to approve and authorize the holding by the Corporation of a fully virtual annual stockholders' meeting for the year 2021 including all the necessary and related arrangements, subject to applicable rules and regulations of the Securities and Exchange Commission and such other relevant rules and procedures as may be determined by the Chairman of the Board.

**Resolution No. B-2021-0310-05**

**RESOLVED**, to approve the Corporation's Parent and Consolidated Financial Statements for the year ended 31 December 2020 and to authorize the submission of the foregoing reports to the Philippine Stock Exchange and the Securities and Exchange Commission.

## ANNEX “D”

### 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 incorporated on 28 September 1994 as a wholly owned subsidiary of AC Energy Corporation (“**ACEN**”, formerly AC Energy Philippines, Inc.). 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. Thereafter, on 11 November 2019, the Company’s Articles of Incorporation and By-Laws were amended to change its corporate name to ACE Enexor, Inc.

On 24 June 2019, ACEN purchased the combined 25.18% stake of PHINMA, Inc. (30,481,111 shares) and PHINMA Corp. (32,481,317 shares) in ACEX. Meanwhile, AC Energy and Infrastructure Corporation (formerly AC Energy, Inc.; “**ACEIC**”) acquired the 51.48% combined stake of PHINMA, Inc. and PHINMA Corporation in ACEN, and subscribed to 2.632 billion ACEN shares. In addition, AC Energy acquired an additional 156,476 ACEN shares under a mandatory tender offer which ended on 19 June 2019. As of 28 February 2021, ACEIC (70.02%), together with its directors, officers, and affiliates (5.04%), owns and controls 75.06% percent of all issued and outstanding shares of the ACENACEN.

As of 19 March 2021, ACEN owns 75.92% of the outstanding voting shares of the Company. The immediate parent company of ACEN is ACEIC. ACEN has a management contract with AC Energy, Inc. effective until 1 September 2023. Under the contract, ACEIC has general management authority with corresponding responsibility over all operations and personnel of ACEN, 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 the increase of capital and restructuring of ACEX.
November 2012	ACEN subscribes to 24 Billion new shares at par value of ₱0.01 per share. <sup>1</sup>
November 2012	Palawan55 Exploration and Production Corporation (“Palawan55”), a subsidiary of ACEX and ACEN, is incorporated.
December 2012	ACEX and ACEN 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 ACEN sign a Memorandum of Agreement and Deed of Assignment for the transfer of SC 55.
February 2013	ACEN requests the Department of Energy (“ <b>DOE</b> ”) approval of the assignment contracts.
23 April 2013	The DOE approves the assignment of the entire participating interests of ACEN in: 1) SC 6 Block A, SC 6 Block B, SC51 and SC69 to ACEX, and 2) SC55 to Palawan 55.

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



31 May 2013	SEC approves the increase in par value of ACEX shares from ₱0.01 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	ACEN purchases the combined 25.18% stake of PHINMA, Inc. (30,481,111 shares) and PHINMA Corp. (32,481,317 shares) in the Company.
9 August 2019	Palawan55 notified the DOE of the entry of the SC 55 consortium (which Palawan 55 is a part of) into the Appraisal Period of SC 55 effective 26 August 2019.
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.
18 February 2020	Palawan 55 received the approval of the DOE of the assignment by Century Red, Pte. Ltd. ("Century Red") of its 37.5% interest in SC 55 to Palawan55. Palawan55 now holds a 75% interest in SC 55, with Pryce Gases, Inc. holding the remaining 25%. Palawan55 is the Operator of SC 55.
14 April 2020	Palawan55 received a letter from the DOE confirming the entry of SC 55 into the Appraisal Period effective 26 April 2020.
27 August 2020	Palawan55 received a letter from the DOE approving SC 55's Appraisal Period Work Program and Budget with the firm amount of US\$1,702,020.00.

## **Petroleum Exploration and Production**

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

As of 19 March 2021, ACEN owns 75.92% of the outstanding voting shares of the ACEX. The immediate parent company of ACEN is ACEIC. ACEN has a management contract with ACEIC for five (5) years effective until 1 September 2023. Under the contract, ACEIC has general management authority with corresponding responsibility over all operations and personnel of ACEN, 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 Toledo1 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>	Palawan55 Exploration and Production Corporation	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 2020 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 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 Exploration Corporation (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 2020, 2019 and 2018, 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.

### **Identification, Review and Approval of Related Party Transactions**

All (1) SEC-defined material related party transactions, i.e., related party transaction/s, either individually or in aggregate over a twelve (12)-month period of the Group with the same related party, amounting to ten percent (10%) or higher of the Group's total consolidated assets based on its latest audited consolidated financial statements; and (2) any related party transaction/s that meet the threshold values approved by the Risk Management and Related Party Transactions Committee (the Committee), i.e., ₱50.00 million or five percent (5%) of the Group's total consolidated assets, whichever is lower, shall be reviewed by the Committee and approved by the BOD before its commencement, except transactions that are explicitly excluded/exempted by the SEC and transactions delegated to management.

For SEC-defined material related party transactions, the approval shall be by at least 2/3 vote of the BOD, with at least a majority vote of the independent directors. In case that the vote of a majority of the independent directors is not secured, the material related party transactions may be ratified by the vote of the stockholders representing at least 2/3 of the outstanding capital stock.

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, 2020						
Company	Amount/ Volume	Nature	Outstanding Balance		Terms	Conditions
			Receivable	Payable		
<i>Intermediate Parent Company</i>						
<b>ACEN</b>						
Accrued expenses and other current liabilities - Due to related parties (see Note 8)	₱2,448,000	Management fees	₱–	₱2,448,000	30–60 day terms; noninterest-bearing	Unsecured
Accrued expenses and other current liabilities - Due to related parties (see Note 8)	15,300,000	Management fees capitalized as deferred exploration cost	–	12,240,000	30–60 day terms; noninterest-bearing	Unsecured
Accrued expenses and other current liabilities - Due to related parties (see Note 8)	5,100,000	Management fees charged to consortium partner	–	5,100,000	30–60 day terms; noninterest-bearing	Unsecured
Accrued expenses and other current liabilities - Due to related parties (see Note 8)	–	Advances	–	7,577,272	30–60 day terms; noninterest-bearing	Unsecured
<i>Entities Under Common Control of Intermediate Parent Company</i>						
<b>ACE Shared Services, Inc. (ACES)</b>						
Accrued expenses and other current liabilities - Due to related parties (see Note 8)	134,400	Management fees	–	80,961	30–60 day terms; noninterest-bearing	Unsecured
Due to related parties (see Note 8)			₱–	₱27,446,233		

As at and for the Year Ended December 31, 2019						
Company	Amount/ Volume	Nature	Outstanding Balance		Terms	Conditions
			Receivable	Payable		
<i>Intermediate Parent Company</i>						
ACEN						
Accrued expenses and other current liabilities – Due to related parties (see Note 8)						
	₱8,577,272	Advances	₱–	₱7,577,272	30–60 day terms; noninterest-bearing	Unsecured

#### ACEN

ACEN billed management fees to Palawan55 in 2020 which included ₱9.0 million pertaining to compensation of officers. ACEN also provided advances to the Group in 2019 to fund expenditures related to the SC work programs.

#### ACES

ACES provided to the Group a full range of business process outsourcing services, such as, but not limited to, financial and general accounting/ bookkeeping services (without engaging in the practice of accountancy), human resources management, manpower related services and other related functions.

Starting January 1, 2020, the compensation of the Group's key management personnel are paid by the Intermediate Parent Company and as such, the necessary disclosures required by PAS 24, *Related Party Disclosures*, are included in the financial statements of the Intermediate Parent Company.

#### Identification, Review and Approval of Related Party Transactions

All (1) SEC-defined material related party transactions, i.e., related party transaction/s, either individually or in aggregate over a twelve (12)-month period of the Group with the same related party, amounting to ten percent (10%) or higher of the Group's total consolidated assets based on its latest audited consolidated financial statements; and (2) any related party transaction/s that meet the threshold values approved by the Risk Management and Related Party Transactions Committee (the Committee), i.e., ₱50.00 million or five percent (5%) of the Group's total consolidated assets, whichever is lower, shall be reviewed by the Committee and approved by the BOD before its commencement, except transactions that are explicitly excluded/exempted by the SEC and transactions delegated to management.

For SEC-defined material related party transactions, the approval shall be by at least 2/3 vote of the BOD, with at least a majority vote of the independent directors. In case that the vote of a majority of the independent directors is not secured, the material related party transactions may be ratified by the vote of the stockholders representing at least 2/3 of the outstanding capital stock.

#### **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 2002080005*, 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" or "Service Contract")) 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 in as of 19 March 2021 are as follows:

Contract	Location	Interest	Issue Date	Commercial Terms	Partners	Work Program 2020
<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>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 6: Cadlao, Block A (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, ACEN 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, ACEN 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, ACEN 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.

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 ACEN with fifteen percent (15%). ACEN has a Participation Agreement with the predecessor's interest of Otto Energy which provides that the latter will shoulder ACEN's share of costs up to the drilling of the first exploratory well. In addition, ACEN 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, ACEN 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 ACEN has the option to acquire from Otto Energy after the drilling of the first well in the area.

On 03 February 2011, ACEN signed an Agreement with Otto Energy assigning ACEN'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 ACEN.

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%	

On April 15, 2020, Palawan55 received a letter from the DOE confirming the entry of SC 55 into the Appraisal Period effective April 26, 2020. In the said letter, the DOE stated that after the review and evaluation of the Hawkeye discovery report, “we hereby confirm that the ‘Hawkeye-1 well’ did encounter a significant volume of movable natural gas and is deemed to be a Non-Associated Gas Discovery under Section 13.02 of SC 55.”

On July 2, 2020, SC 55 Consortium submitted to the DOE its 5-year Work Program and Budget for the Appraisal Period. Said program is divided into firm (CY 1 & 2) and contingent (CY 3-5). The firm commitment consists of Geological and Geophysical studies and drilling of a well within the next two years.

On August 28, 2020, Palawan55 received a letter from the DOE approving SC 55’s Appraisal Period Work Program and Budget with the firm amount of US\$1,702,020.00. Further, the DOE stated that it expects the submission of the proposed budget for the drilling of one (1) well after the drilling proposal has been approved by the DOE.

On September 23, 2020, the Consortium requested for the declaration of a one-year Force Majeure in view of the far-reaching adverse effects of the COVID-19 pandemic and the induced low oil price, on the global upstream petroleum industry. The request is currently being evaluated by the Department of Energy as of date.

Palawan55 interpreted reprocessed seismic data to mature two prospects to drillable status. Resource Assessment of these prospects has been completed. Well Planning and Drilling preparations are ongoing.

As at December 31, 2020, Palawan 55 holds 75.00% participating interests in SC 55, respectively, and has no pending violation with the DOE.

#### **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 ACEN***

Under this Memorandum of Agreement, ACEN agreed to assign to ACEX, a Subsidiary of ACEN, and the SC Participating Interests of ACEN 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 ACEN and Palawan55***

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

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

Under this Deed of Assignment, ACEN assigned to ACEX, a Subsidiary of ACEN, and the SC Participating Interests of ACEN 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 ACEN and Palawan55***

Under this Deed of Assignment, ACEN assigned to Palawan55, a Subsidiary of ACEN, and the SC Participating Interests of ACEN 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 has no employees as of 19 March 2021.

## **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, it must be noted 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.

- **COVID-19, future pandemics, epidemics or outbreaks of diseases could have an adverse effect on economic activity in the Philippines and could materially and adversely affect the Company's operations.**

In December 2019, an outbreak of the novel coronavirus (“COVID-19”) occurred in China and spread to other countries, including the Philippines. On 10 March 2020 the World Health Organization characterized COVID-19 as a pandemic. As of 8 March 2021, the Philippine Department of Health reported 597,763 cases of COVID-19 nationwide with 12,521 deaths attributed to COVID-19.

The Philippines remains vulnerable to exposure and spread of the disease for the following reasons: (a) the considerable number of Overseas Filipino Workers (“OFWs”) globally; (b) the impact of international travel which raises the probability of transmission; and (c) lack of the necessary infrastructure to contain the spread of the disease. In response to the recent outbreak of COVID-19, the Philippines has imposed travel bans on several affected countries, which may have an adverse impact its suppliers’ ability to deliver, which could delay the construction of ACEN’s projects.

In a move to contain the COVID-19 outbreak, on 13 March 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective 15 March 2020. On 16 March 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six months and imposed an enhanced community quarantine throughout the island of Luzon until 12 April 2020, unless earlier lifted or extended. On 24 March 2020, Congress passed Republic Act No. 11469, the Bayanihan to Heal as One Act (the “Bayanihan Act”) into law, which confers emergency powers on the President of the Philippines. On 25 June 2020, the Bayanihan Act measures implemented to address the pandemic in the Philippines expired without extension or replacement. On September 11, 2020, Republic Act No. 11494, the Bayanihan to Recover as One Act (the “Bayanihan 2 Act”) was signed into law by President Duterte. The Bayanihan 2 Act seeks to provide a stimulus package to struggling sectors as part of the country’s COVID-19 response and recovery plan, and to scrutinize the government’s implementation of programs related to the pandemic. Similar to the Bayanihan Act, the Bayanihan 2 Act confers emergency powers to President Duterte was in effect until 19 December 2020. Such powers include the authority to adopt measures to “conserve and regulate the distribution and use of power, fuel, energy and water, and ensure adequate supply of the same.” The Bayanihan 2 Act also imposes a minimum 30-day grace period for the payment of electricity and other utilities falling due within the period of community quarantine without penalty and further provides that such payments may be settled on a staggered basis in no fewer than three monthly installments. On 17 November 2020, House Bill No. 8031 or the Bayanihan to Arise as One Act, was filed which proposes to extend the effectivity of Bayanihan 2 Act until 4 June 2021 to ensure its full implementation. On 29 December 2020, the Congress passed Republic Act No. 11519, extending the availability of appropriations under Bayanihan 2 until 30 June 2021.

Due to numerous uncertainties and factors beyond its control, the Company is unable to predict the impact that COVID-19 will have going forward on its businesses, results of operations, cash flows, and financial condition. These factors and uncertainties include, but are not limited to:

- the severity and duration of the pandemic, including whether there is a “second wave” or “third wave” or other additional periods of increases or spikes in the number of COVID-19 cases in future periods in areas in which the Company operates;
- the duration and degree of governmental, business or other actions in response to the pandemic, including but not limited to quarantine, stay-at-home or other lockdown measures as well as measures taken by the Company’s regulators;
- economic measures, fiscal policy changes, or additional measures that have not yet been effected;
- evolving macroeconomic factors, including general economic uncertainty, unemployment rates, and recessionary pressures;
- volatility in the credit and financial markets during and after the pandemic;
- the pace of recovery when the pandemic subsides; and
- the long-term impact of the pandemic on the Company’s businesses.

These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve. The outbreak of COVID-19 and the measures to contain this increase in severity, have had an adverse effect on economic activity in the Philippines and could materially and adversely affect ACEN’s business, financial condition and results of operations. To the extent the COVID-19 pandemic adversely affects the business and financial results of ACEN, it may also have the effect of heightening many of the other risks described here.

Even as quarantine measures continue at the current time, with various levels of restrictions applicable to certain areas, DOE recognized that energy utilization is a basic necessity and is vital to the society. To this end, DOE allows the movement of energy related goods and the movement of energy related personnel subject to adherence

to necessary public health precautions prescribed by the DOH. As such, the Company's operating plants continues to produce power.

## **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		550,026
<b>Net Book Value</b>		<b>₱619,189</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 28 February 2021, 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 22 March 2021 and for the calendar years 2020, 2019, 2018 and 2017:

Period	High	Low
<b>22 March 2020</b>	22.90	21.00
<b>Calendar 2020</b>		
Fourth Quarter	12.30	5.68
Third Quarter	6.71	5.40
Second Quarter	7.24	5.11
First Quarter	9.90	4.70
<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



## STOCKHOLDERS

As of 28 February 2021, the Company has 2,899 registered shareholders. The following table sets forth the top 20 shareholders of the Company, the number of shares held, and the percentage of ownership as of 28 February 2021:

	NAME OF STOCKHOLDER	NUMBER OF SHARES HELD	% OF OWNERSHIP
1	PCD NOMINEE CORPORATION	246,030,933	98.41%
2	PCD NOMINEE CORPORATION (NONFILIPINO)	994,417	00.40%
3	EMAR Corporation	950,740	00.38%
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 MARITESS 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	CESAR C. ZALAMEA	15,380	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 (P40,000,000.00), divided into Four Billion (4,000,000,000) shares at P0.01 per share, to One Billion Pesos (P1,000,000,000.00) divided into One Hundred Billion (100,000,000,000) shares at the same par value. Out of the increase, ACEN subscribed to an additional P240,000,000.00 divided into 24,000,000,000 Shares at P0.01 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 ACEN (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.

On 26 January 2021, ACEX notified the SC 6A consortium of its intention not to extend Service Contract 6 beyond CY 2020.

ACEX intends to maintain its participation in SC 55 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 2020 AND NEXT TWELVE MONTHS**

#### **SC 55 (Ultra Deepwater – West Palawan) (Palawan55, 75%)**

On 13 February 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.

On 14 April 2020, Palawan55 received a letter from the DOE confirming the entry of SC 55 into the Appraisal Period effective 26 April 2020.

On 27 August 2020, Palawan55 received a letter from the DOE approving SC 55's Appraisal Period Work Program and Budget with the firm amount of US\$1,702,020.00.

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

On 26 January 2021, ACEX notified the SC 6A consortium of its intention not to extend Service Contract 6 beyond CY 2020.

### **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%)**

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 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. ACEX fully settled its training fund obligations on 22 July 2019.

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

In June 2018, ACEX 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 ACEX's full settlement of its financial obligations for training and development assistance.

On 29 January 2020, ACEX 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****2020 compared with 2019****Consolidated Statements of Income**

	<b>For the year ended December 31</b>		<b>Increase (Decrease)</b>	
	<b>2020</b>	<b>2019</b>	<b>Amount</b>	<b>%</b>
Expenses	<b>₱13,595,098</b>	₱21,093,880	(₱7,498,782)	(36%)
Other charges (income) - net	<b>564,761</b>	(1,121,554)	1,686,315	150%
Loss before income tax	<b>14,159,859</b>	19,972,326	(5,812,467)	(29%)
Benefit from income tax	<b>(11,583)</b>	(275,550)	(263,967)	(96%)
Net Loss	<b>₱14,148,276</b>	₱19,696,776	(₱5,548,500)	(28%)

The following are the material changes in the Consolidated Statements of Income for the year ended December 31, 2020 and 2019:

- The net decrease in expenses is mainly driven by lower training fund obligations which declined by ₱7.9 million following the full impairment of service contracts (SCs) 51 and 69 in 2019. Decreases are also registered in employee costs, project development costs, office supplies and taxes and licenses, partly offset by ₱2.8 million management fees from ACEN.
- Other charges for 2020 largely comprise of foreign exchange losses from dollar-denominated deposits with the depreciation of the US dollar. 2019 reported net other income from gains on changes in fair value of financial assets at fair value through profit and loss (FVTPL). The financial assets at FVTPL were fully redeemed as of December 31, 2019.
- Current year's benefit from income tax was on account of unrealized loss from foreign exchange changes while last year came mainly from the movement of unrealized gains from changes in fair value of financial assets at FVTPL.



### Consolidated Statements of Financial Position

	2020	2019	Increase (Decrease)	
			Amount	%
<b>Current Assets</b>				
Cash and cash equivalents	<b>₱27,515,014</b>	₱52,624,376	(₱24,906,487)	(47%)
Receivables	<b>226,443</b>	428,702	(202,259)	(47%)
Other current assets	<b>24,399</b>	541,085	(516,686)	(95%)
<b>Noncurrent Assets</b>				
Property and equipment	<b>₱619,189</b>	₱789,421	(₱170,232)	(22%)
Deferred exploration costs	<b>66,546,216</b>	46,040,651	20,411,501	44%
<b>Current Liabilities</b>				
Accrued expenses and other current liabilities	<b>₱41,964,130</b>	₱33,297,265	₱8,833,297	27%
<b>Noncurrent Liability</b>				
Deferred tax liability	<b>₱-</b>	₱11,583	(₱11,583)	(100%)

The following are the material changes in the Consolidated Statements of Financial Position as at December 31, 2020 and 2019:

- Decrease in cash and cash equivalents was primarily due to settlement of liabilities coupled with expenditures related to the Group's activities for the current period including additional expenditures for deferred exploration costs.
- Liquidation of advances to service provider for business expenses accounted for the decrease in receivables.
- Decrease in other current assets was primarily due to amortization of prepayments.
- Decrease in property and equipment is due to depreciation.
- Increase in deferred exploration costs is due to additional expenditures related to SC 6-A and SC55.
- The Group's current liabilities increased mainly due to advances from ACEN, partly offset by the settlement of training commitment pertaining to SC 69 and SC 55.
- Deferred tax liability as at December 31, 2019 was already closed in 2020 while additional deferred tax liability on unrealized foreign exchange gain during the year was netted against the recognized deferred tax asset in 2020.

### Financial Soundness Indicators

Key Performance Indicator	Formula	2020	2019	Increase (Decrease)	
				Amount	%
<b>Liquidity Ratios</b>					
Current Ratio	Current assets	<b>0.66</b>	1.61	(0.95)	(59%)
	Current liabilities				
Acid test ratio	Cash + Short-term investments + Accounts receivables + Other liquid assets	<b>0.66</b>	1.59	(0.93)	(58%)
	Current liabilities				
<b>Solvency Ratios</b>					
Debt-to-equity ratio	Total liabilities	<b>0.79</b>	0.50	0.29	58%
	Total equity				
Asset-to-equity ratio	Total assets	<b>2.00</b>	1.50	0.50	33%
	Total equity				

Key Performance Indicator	Formula	2020	2019	Increase (Decrease)	
				Amount	%
Net bank Debt to Equity Ratio	Short & long-term loans - Cash & Cash Equivalents	N/A	N/A	N/A	N/A
	Total Equity				
Profitability Return on equity	Net income after tax	N/A	N/A	N/A	N/A
	Average stockholders' equity				
Return on assets	Net income after taxes	N/A	N/A	N/A	N/A
	Average total assets				
Asset turnover	Revenues	N/A	N/A	N/A	N/A
	Average total assets				

#### Current ratio and acid test ratio

Current ratio and acid test ratios decreased as the Group settled its liabilities and incurred expenditures for activities during the period.

#### Debt-to-equity ratio

The Group's debt-to-equity ratio increased due to additional payable to ACEN as related party.

#### Asset-to-equity ratio

As at December 31, 2020, asset-to-equity ratio increased due to higher deferred exploration costs with lower equity due to net loss for the year.

#### Return on equity, Return on assets and Asset turnover

These ratios are not applicable since the Company has not started commercial operations yet.

#### During the calendar year 2020:

- 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 interim consolidated financial statements.
- There were no contingent assets or contingent liabilities since the last annual balance sheet date.
- As disclosed in Note 7.e of the Consolidated Financial Statements, the SC 55 Consortium is committed to the Appraisal Period Work Program and Budget which includes the drilling of one (1) well within the next two years plus a one-year Force Majeure period if approved by the DOE. There were no other 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.

## **2019 compared with 2018**

### **Consolidated Statements of Income**

	<b>For the year ended December 31</b>		<b>Increase (Decrease)</b>	
	<b>2019</b>	<b>2018</b>	<b>Amount</b>	<b>%</b>
Expenses	<b>₱21,093,880</b>	₱69,922,618	(₱48,828,738)	(70%)
Other charges	<b>1,121,554</b>	1,578,680	(457,126)	(29%)
Loss before income tax	<b>19,972,326</b>	68,343,938	(48,371,612)	(71%)
Provision for (benefit from) income tax	<b>(275,550)</b>	176,082	(451,632)	(256%)
Net Loss	<b>₱19,696,776</b>	₱68,520,020	(₱48,823,244)	(71%)

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, ₱48 million 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, ₱13.8 million 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**

	<b>2019</b>	<b>2018</b>	<b>Increase (Decrease)</b>	
			<b>Amount</b>	<b>%</b>
<b>Current Assets</b>				
Cash and cash equivalents	<b>₱52,624,376</b>	₱9,863,588	₱42,760,788	434%
Investments held for trading	–	57,584,369	(57,584,369)	(100%)
Receivables	<b>428,702</b>	95,390	333,312	349%
Other current assets	<b>541,085</b>	37,079	504,006	1359%
<b>Noncurrent Assets</b>				
Property and equipment	<b>₱789,421</b>	₱23,512	₱765,909	3258%
Deferred exploration costs	<b>46,040,651</b>	29,384,114	16,656,537	57%
<b>Current Liabilities</b>				
Accounts payable and other current liabilities	<b>₱33,297,265</b>	₱9,888,737	₱23,408,528	237%
Deferred tax liability	<b>11,583</b>	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 SC6A.
- 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.

#### Financial Soundness Indicators

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	317%
	Total equity				
Asset-to-equity ratio	Total assets	1.50	1.12	0.38	34%
	Total equity				
<b>Profitability</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%
	Average 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 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.
- 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	P69,922,618	P14,900,495	P55,022,123	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>P68,520,020</b>	<b>P13,510,518</b>	<b>P55,009,502</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

			Increase (Decrease)	
	2018	2017	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 ACEX 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 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.

**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 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.

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 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 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.



## **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. For the fiscal year 2019, the Company submitted its I-ACGR on 1 September 2020.

As of 31 December 2020, 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.

### **Annual Report**

For information on the Company's corporate governance framework, including the results of the performance evaluation of the Board of Directors, a copy of the Company's 2019 Annual Report may be accessed via <https://enexor.com.ph/governance/corporate-governance-report/>

A copy of the Company's Annual Report for the year 2020 will be provided to stockholders of record via <https://enexor.com.ph/annual-report-2020/>

## **SUSTAINABILITY**

The Company, together with its parent, AC Energy Corporation and Ayala Corporation, integrates core sustainability principles into all aspects of its businesses, and provides guidance to day-to-day operations and its sustainable business strategy.

ACEX promotes inclusive growth in its partner communities by engaging in relevant programs and initiatives geared towards the needs of stakeholders and recognizes the importance of working with communities to create development programs that benefit its stakeholders.

### **Environmental and Social**

The Ayala Group has always been geared towards improving lives by ensuring value creation in the environment and communities where it operates. At the forefront is the Company with sustainability initiatives that fully support the development and prosperity of their host communities, with the ultimate goal towards self-actualization and national progress.

With sustainability being central to its operations, the Company outlines its commitment to protect the communities and environment in tandem with its focus on developing indigenous energy sources to support the government's energy roadmap.

The Company's sustainability will be discussed further in the Annual Report to be located in <https://enexor.com.ph/annual-report-2020/>.

# COVER SHEET

for  
**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

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**COMPANY NAME**

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**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	Company's Telephone Number	Mobile Number
<u>www.enexor.com.ph</u>	+(632) 7-730-6300	—
No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
2,899	April 19	12/31

**CONTACT PERSON INFORMATION**

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Alan T. Ascalon	<u>ascalon@acenergy.com.ph</u>	7 730 6300	—

**CONTACT PERSON'S ADDRESS**

4 <sup>th</sup> Floor, 6750 Office Tower Ayala Avenue, Makati City
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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.



## 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, 2020 and 2019, 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, 2020, 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, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2020 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 the 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 matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

#### *Recoverability of Deferred Exploration Cost*

As at December 31, 2020, the carrying value of the Group's deferred exploration costs amounted to ₱66,546,216 and pertain to its 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 their carrying amounts exceed their 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 7 to the consolidated financial statements.

#### *Audit Response*

We obtained management's assessment whether there is any indication that deferred exploration costs may be impaired. We reviewed the summary of the status of each exploration project as at December 31, 2020, 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 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 contract areas that are expected to be abandoned or where any exploration activities are planned to be discontinued.

#### **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, 2020, 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, 2020 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-AR-1 (Group A),  
March 26, 2019, valid until March 25, 2022

Tax Identification No. 242-917-987

BIR Accreditation No. 08-001998-120-2019,  
January 28, 2019, valid until January 27, 2022

PTR No. 8534383, January 4, 2021, Makati City

March 10, 2021



**ACE ENEXOR, INC. (FORMERLY PHINMA PETROLEUM AND  
GEOHERMAL, INC.) AND SUBSIDIARY**

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**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	<b>₱27,515,014</b>	₱52,624,376
Receivables (Notes 5 and 14)	<b>226,443</b>	428,702
Other current assets	<b>24,399</b>	541,085
Total Current Assets	<b>27,765,856</b>	53,594,163
<b>Noncurrent Assets</b>		
Property and equipment (Note 6)	<b>619,189</b>	789,421
Deferred exploration costs (Note 7)	<b>66,546,216</b>	46,040,651
Total Noncurrent Assets	<b>67,165,405</b>	46,830,072
<b>TOTAL ASSETS</b>	<b>₱94,931,261</b>	₱100,424,235
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liability</b>		
Accrued expenses and other current liabilities (Note 8)	<b>₱41,964,130</b>	₱33,297,245
<b>Noncurrent Liability</b>		
Deferred income tax liability - net (Note 11)	–	11,583
Total Liabilities	<b>41,964,130</b>	33,308,828
<b>Equity</b>		
Attributable to Equity Holders of the Parent Company:		
Capital stock (Note 10)	<b>250,000,001</b>	250,000,001
Deficit	<b>(194,808,886)</b>	(183,042,321)
	<b>55,191,115</b>	66,957,680
Non-controlling interest (Note 13)	<b>(2,223,984)</b>	157,727
Total Equity	<b>52,967,131</b>	67,115,407
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱94,931,261</b>	₱100,424,235

*See accompanying Notes to Consolidated Financial Statements.*



**ACE ENEXOR, INC. (FORMERLY PHINMA PETROLEUM AND  
GEOHERMAL, INC.) AND SUBSIDIARY**

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**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2020	2019	2018
<b>EXPENSES</b>			
Management and professional fees	<b>₱6,059,290</b>	₱3,257,701	₱4,671,315
Training fund expense	<b>5,849,729</b>	13,773,166	–
Meetings	<b>268,138</b>	420,003	228,151
Filing and registration fees	<b>250,000</b>	289,767	4,750,730
Rent	<b>220,181</b>	87,524	87,524
Depreciation (Note 6)	<b>170,232</b>	34,091	6,188
Insurance	<b>80,974</b>	21,215	23,697
Supplies	<b>72,338</b>	408,991	895,237
Employee costs	<b>40,498</b>	955,095	2,947,468
Taxes and licenses	<b>13,536</b>	452,716	40,865
Transportation	<b>5,226</b>	17,263	760,424
Communication	<b>1,278</b>	126,303	42,812
Project development costs	–	500,000	6,131,837
Provision for probable losses (Note 7)	–	–	48,262,794
Others	<b>563,678</b>	750,045	1,073,576
	<b>13,595,098</b>	21,093,880	69,922,618
<b>OTHER CHARGES (INCOME) - NET</b>			
Foreign exchange loss (gain) loss - net	<b>629,758</b>	310,301	(10,691)
Interest income (Note 4)	<b>(64,997)</b>	(45,354)	(58,990)
Net gain on changes in fair value of financial assets at fair value through profit or loss (FVTPL)(Note 14)	–	(1,386,501)	(1,508,999)
	<b>564,761</b>	(1,121,554)	(1,578,680)
<b>LOSS BEFORE INCOME TAX</b>	<b>14,159,859</b>	19,972,326	68,343,938
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 11)</b>	<b>(11,583)</b>	(275,550)	176,082
<b>NET LOSS</b>	<b>14,148,276</b>	19,696,776	68,520,020
<b>OTHER COMPREHENSIVE INCOME</b>	–	–	–
<b>TOTAL COMPREHENSIVE LOSS</b>	<b>₱14,148,276</b>	₱19,696,776	₱68,520,020
Total Comprehensive Loss Attributable to:			
Equity holders of the Parent Company	<b>₱11,766,565</b>	₱19,137,926	₱66,838,225
Non-controlling interest (Note 13)	<b>2,381,711</b>	558,850	1,681,795
	<b>₱14,148,276</b>	₱19,696,776	₱68,520,020
<b>Basic/Diluted Loss Per Share (Note 12)</b>	<b>₱0.047</b>	₱0.077	₱0.267

*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, 2020, 2019 AND 2018**

	<u>Attributable to Equity Holders of the Parent Company</u>			Non-controlling	
	Capital Stock (Note 10)	Deficit	Total	Interest (Note 13)	Total Equity
<b>BALANCES AT JANUARY 1, 2018</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>
Total comprehensive loss/ net loss for the year	–	(11,766,565)	(11,766,565)	(2,381,711)	(14,148,276)
<b>BALANCES AT DECEMBER 31, 2020</b>	<b>₱250,000,001</b>	<b>(₱194,808,886)</b>	<b>₱55,191,115</b>	<b>(₱2,223,984)</b>	<b>₱52,967,131</b>

*See accompanying Notes to Consolidated Financial Statements.*



**ACE ENEXOR, INC. (FORMERLY PHINMA PETROLEUM AND  
GEOHERMAL, INC.) AND SUBSIDIARY**

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**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before income tax	<b>(₱14,159,859)</b>	(₱19,972,326)	(₱68,343,938)
Adjustments for:			
Unrealized foreign exchange (gain) loss - net	<b>444,274</b>	(265,029)	(4,912)
Depreciation (Note 6)	<b>170,232</b>	34,091	6,188
Interest income (Note 4)	<b>(64,997)</b>	(45,354)	(58,990)
Net gain on changes in fair value of financial assets at FVTPL (Note 14)	<b>—</b>	(1,386,501)	(1,508,999)
Provision for probable losses (Note 7)	<b>—</b>	—	48,262,794
Operating loss before working capital changes	<b>(13,610,350)</b>	(21,635,119)	(21,647,857)
Decrease (increase) in:			
Receivables	<b>202,259</b>	(337,138)	(33,321)
Other current assets	<b>143,827</b>	(504,006)	(12,680)
Increase (decrease) in accrued expenses and other current liabilities	<b>(6,633,115)</b>	15,831,237	8,371,573
Cash used in operations	<b>(19,897,379)</b>	(6,645,026)	(13,322,285)
Interest income received	<b>64,997</b>	49,180	57,556
Net cash used in operating activities	<b>(19,832,382)</b>	(6,595,846)	(13,264,729)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from redemption of financial assets at FVTPL	<b>—</b>	78,970,870	31,627,958
Additions to:			
Deferred exploration costs (Note 7)	<b>(4,832,706)</b>	(16,656,537)	(1,541,513)
Investment held for trading	<b>—</b>	(20,000,000)	(10,184,152)
Property and equipment (Note 6)	<b>—</b>	(800,000)	(29,700)
Net cash from (used in) from investing activities	<b>(4,832,706)</b>	41,514,333	19,872,593
<b>CASH FLOWS FROM A FINANCING ACTIVITY</b>			
Increase in due to a related party (Note 9)	<b>—</b>	7,577,272	—
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(24,665,088)</b>	42,495,759	6,607,864
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(444,274)</b>	265,029	(16,158)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)</b>	<b>52,624,376</b>	9,863,588	3,271,882
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	<b>₱27,515,014</b>	₱52,624,376	₱9,863,588

*See accompanying Notes to Consolidated Financial Statements.*





# **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.) (“ACEX” 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 AC Energy Corporation (“ACEN”, formerly AC Energy Philippines, Inc. or the Intermediate Parent Company). The ultimate parent company is Mermac, Inc. ACEN and Mermac, Inc. are both incorporated and domiciled in the Philippines. Both ACEX and Palawan55 are domiciled in the Philippines and have not yet started commercial operations as at March 10, 2021.

On August 14, 2014, the Philippine Securities and Exchange Commission (“SEC”) approved the registration of 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 and Infrastructure Corporation (“ACEIC”, formerly AC Energy, Inc.) signed an investment agreement for ACEIC’s acquisition of the PHINMA Group’s 51.476% stake in ACEN via a secondary share sale through the Philippine Stock Exchange (PSE). On June 24, 2019, the PSE confirmed the special block sale of ACEN shares to ACEIC.

ACEN conducted a Voluntary Tender Offer of ACEX shares on May 20, 2019 to June 19, 2019, with 3,332 ACEX public shares tendered during the tender offer period at ₱2.44 per share. On June 24, 2019, ACEN acquired the shares of PHINMA, Inc. and PHINMA Corporation in ACEX representing 25.18% of ACEX’s total outstanding stock. The transaction increased ACEN’s direct ownership over ACEX from 50.74% as at December 31, 2018 to 75.92% as at December 31, 2020 and 2019.

On July 23, 2019, the Board of Directors (BOD) of ACEX approved the following amendments to the articles of incorporation of ACEX:

- 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 4<sup>th</sup> 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 10, 2021.

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## 2. Summary of Significant Accounting 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. 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, 2020 and 2019 and for each of the three years in the period ended December 31, 2020. 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 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 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 statement of income and consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to holders of the Parent Company.

#### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as at January 1, 2020. Unless otherwise indicated, adoption of these new standards did not have an impact on the consolidated financial statements of the Group.

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*

The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*

The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

- Amendments to Philippine Accounting Standards (“PAS”) 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.



- Conceptual Framework for Financial Reporting issued on March 29, 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

- Amendments to PFRS 16, *COVID-19-related Rent Concessions*

The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted. This amendment had no impact on the consolidated financial statements of the Group.

#### Future Changes in Accounting Policies

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, 2021*

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform - Phase 2*

The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

- Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
- Relief from discontinuing hedging relationships



- Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

The Group shall also disclose information about:

- The about the nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
- Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply retrospectively, however, the Group is not required to restate prior periods. The amendments are not expected to have a material impact on the Group.

*Effective beginning on or after January 1, 2022*

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

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

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively. The amendments are not expected to have material impact to the Group.

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

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

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.



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

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. The amendments are not expected to have a material impact on the Group.

- *Annual Improvements to PFRSs 2018-2020 Cycle*

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

The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

- Amendments to PFRS 9, *Financial Instruments, Fees in the ‘10 per cent’ test for derecognition of financial liabilities*

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022, with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the Group first applies the amendment. The amendments are not expected to have a material impact on the Group.

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.



An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have an impact on the Group.

*Effective beginning on or after January 1, 2023*

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

- 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, 2023, with comparative figures required. Early application is permitted. The new accounting standard is not expected to have an impact on the Group.

*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 statement of comprehensive income).

#### Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/noncurrent classification. An asset 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 statement 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 14 to the consolidated financial statements.

#### Financial Instruments - Classification and Measurement

##### *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 fair value through profit or loss (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 amortized cost as at December 31, 2020 and 2019 (see Notes 4, 5 and 14).

#### *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 5).

#### *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 statement 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.

#### *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 accrued expenses and other current liabilities (excluding statutory payables) are classified as financial liabilities measured at amortized cost (see Note 8).

#### *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.

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

### *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

PFRS 9 introduces the single, forward-looking “expected loss” impairment model, replacing the “incurred loss” impairment model under PAS 39.

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-month ECL.

#### *Write-off policy*

The Group writes off a financial asset and any previously recorded allowance, in whole or in part, when the asset is considered uncollectible, it has exhausted all practical recovery efforts and has concluded that it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof.

#### Offsetting of Financial Instruments

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 2020 and 2019.

#### 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 statement 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 statement 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 statement 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 statement 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 is 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 statement 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 statement 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.

#### Value-added Tax (VAT)

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.



When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

#### *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 statement 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 statement 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.

### Income Taxes

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

Basic loss per share 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 loss per share 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 loss per share is the same as basic loss per share.

#### 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 15 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 PFRS 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:
  - o The legal form of the separate vehicle
  - o The terms of the contractual arrangement
  - o 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, 2020 and 2019, the Group's SCs are assessed as joint arrangements in the form of joint operations (see Note 7).

#### 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 uneconomic. 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 in 2020 and 2019, and ₱48,262,794 in 2018 (presented as “Provision for probable losses” under “Expenses” in the consolidated statements of comprehensive income). The carrying value of deferred exploration costs amounted to ₱66,546,216 and ₱46,040,651 as at December 31, 2020 and December 31, 2019, respectively (see Notes 7 and 17).

*Recognition of Deferred Income Tax Asset.*

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 income will be available to allow all or part of the deferred income 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 income tax assets to be utilized.

Unrecognized deferred tax assets as at December 31, 2020 and 2019 amounted to ₱41,668,734 and ₱40,194,754, respectively (see Note 11).

*Estimating Provision for Credit Losses of Receivables*

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 any previously assessed significant increase in credit risk also reverses since origination, then the loss allowance measurement reverts from lifetime ECL to 12-month ECL (see Note 5).

Provision for credit losses amounted to nil in 2020, 2019 and 2018. As at December 31, 2020 and 2019, the allowance for credit losses on receivables amounted to ₱20,000,000 (see Note 5).

The carrying value of receivables amounted to ₱226,443 and ₱428,702 as at December 31, 2020 and 2019, respectively (see Note 5).

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#### 4. Cash and Cash Equivalents

	2020	2019
Cash on hand and in banks	<b>₱27,515,014</b>	₱23,124,376
Short-term deposits	—	29,500,000
	<b>₱27,515,014</b>	<b>₱52,624,376</b>

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 ₱64,997, ₱45,354 and ₱58,990 in 2020, 2019 and 2018, respectively.



## 5. Receivables

This account consists of the following:

	2020	2019
Due from third party	<b>₱20,000,000</b>	₱20,000,000
Trade receivables	<b>30,750</b>	31,863
Others	<b>195,693</b>	396,839
	<b>20,226,443</b>	20,428,702
Less allowance for credit losses	<b>20,000,000</b>	20,000,000
	<b>₱226,443</b>	₱428,702

Due from third party pertains to advance payment made pursuant to the Memorandum of Agreement with Frontier Energy and Frontier Oil and is due and demandable.

Trade receivables mainly represent return of cash call from the service contract operator. The Group's receivables are noninterest-bearing and are due and demandable.

Others pertain to advances to employees and a service provider subject to liquidation.

The Group's due from third party and trade receivables have been reviewed for indicators of impairment. Assessment is undertaken each financial year by examining based on the Group's established ECL model as fully disclosed in Note 14. In 2016, the Group recognized a provision for credit losses amounting to ₱20,000,000 on its advance payment to Frontier Oil. As at December 31, 2020 and 2019, no additional provision was recognized.

## 6. Property and Equipment

Details and movement of this account follow:

	2020		
	Equipment	Miscellaneous Assets	Total
Cost:			
Balance at beginning and 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>271,667</b>	<b>108,127</b>	<b>379,794</b>
Depreciation	<b>162,807</b>	<b>7,425</b>	<b>170,232</b>
Balance at end of year	<b>434,474</b>	<b>115,552</b>	<b>550,026</b>
Net book value	<b>₱610,526</b>	<b>₱8,663</b>	<b>₱619,189</b>





	2019		
	Equipment	Miscellaneous Assets	Total
Cost:			
Balance at beginning of year	₱245,000	₱124,215	₱369,215
Additions	800,000	—	800,000
Balances at end of year	1,045,000	124,215	1,169,215
Less accumulated depreciation:			
Balance at beginning of year	245,000	100,703	345,703
Depreciation	26,667	7,424	34,091
Balance at end the year	271,667	108,127	379,794
Net book value	₱773,333	₱16,088	₱789,421

Miscellaneous assets pertain to software and licenses.

## 7. Deferred Exploration Costs

Details of deferred exploration costs are as follows:

	2020	2019
Palawan55		
SC 55 (Southwest Palawan)	₱43,308,343	₱23,062,963
ACEX		
SC 6 (Northwest Palawan):		
Block A	23,237,873	22,977,688
Block B	4,892,178	4,892,178
SC 50 (Northwest Palawan)	11,719,085	11,719,085
	39,849,136	39,588,951
Less allowance for probable losses	16,611,263	16,611,263
	23,237,873	22,977,688
	₱66,546,216	₱46,040,651

Below is the rollforward analysis of the deferred exploration costs:

	2020	2019
Cost:		
Balances at beginning of year	₱62,651,914	₱94,258,171
Additions	20,505,565	16,656,537
Write-offs	—	(48,262,794)
Balance at end of year	83,157,479	62,651,914
Allowance for a probable loss:		
Balances at beginning of year	16,611,263	64,874,057
Write-offs	—	(48,262,794)
Balance at end of year	16,611,263	16,611,263
Net book value	₱66,546,216	₱46,040,651



The foregoing deferred exploration costs represent the Group's share in the expenditures incurred under petroleum SCs with the 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.

The following summarizes the status of the foregoing projects:

*ACEX*

a. SC 6 (Northwest Palawan)

Block A

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 has 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.

The Partners submitted to the DOE the proposed 2019 work program composed of geological and geophysical evaluation and engineering study. The DOE approved the said program in January 2019.

ACEX 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.

As at December 31, 2020, farm-in negotiations are ongoing for the development of the Octon oil discovery and technical studies over the northern part of the block progressed.

On January 27, 2021, the ACEX Executive Committee approved the Parent Company's withdrawal from the SC 6 Block A consortium. SC 6A does not have any commercial operations (see Note 17). However, no provision for probable loss was recognized for SC 6A as at December 31, 2020 as the withdrawal from the consortium was proposed and approved subsequent to December 31, 2020 and no indicator of impairment nor withdrawal was determined as at December 31, 2020.

Block B

On February 20, 2017, ACEX gave notice to the consortium of relinquishment of its 14.063% participating interest in SC 6 Block B (SC 6B) and the Operating Agreement but said relinquishment shall not include its 2.475% carried interest. The retained carried interest would entitle the Group to a share in the gross proceeds from any production in the block, once all exploration costs have been recovered. The carried interest will be revalued should the project obtain commercial viability.



In 2017, the Parent Company recognized full provision for probable losses on deferred exploration costs pertaining to SC 6B amounting to ₱4,892,178 due to the Parent Company's relinquishment of its participating interest, but not the carried interest to its partners.

SC 6 will expire in February 2024.

b. SC 50 (Northwest Palawan)

In 2013, ACEX negotiated 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.

Frontier Oil Corporation, the Operator, applied for a Force Majeure in view of the unilateral cancellation of its rig contract by the other partners in the consortium, which was subsequently denied by the DOE on October 5, 2015 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 Group recognized full provision for probable loss on SC 50 amounting to ₱11,719,085 due to the expiration of the SC's term and denial by the DOE of the request for Force Majeure.

c. SC 51/GSEC 93 (East Visayas)

On May 15, 2018, ACEX notified the DOE of its withdrawal from SC 51. On July 4, 2018, the SC 51 Consortium notified the DOE of their decision to relinquish SC 51 block.

In 2018, ACEX recognized a 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, ACEX received the DOE's approval of the relinquishment of SC 51. In 2019, the deferred exploration costs and related allowance for probable losses of SC 51 amounting to ₱32,665,864 were written off.

d. SC 69 (Camotes Sea)

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 (LGUs) and non-government organizations, making the conduct of petroleum exploration business in the area very challenging, if not impossible.

In 2018, the Group recognized a 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 SC 69. In 2019, the deferred exploration costs and related allowance for probable losses of SC 69 amounting to ₱15,596,930 were written off.



In 2020 and 2019, the Group neither incurred nor capitalized share in various expenses to deferred exploration costs due to its operatorship in SC69.

*Palawan55*

e. SC 55 (Southwest Palawan)

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. 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. 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.

On November 19, 2018, Palawan55 requested for an extension of the SC 55 Moratorium Period up to December 31, 2019 since the Quantitative Interpretation Study and Resource Assessment will only be completed after April 2019. The said request was approved by the DOE on April 22, 2019.

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 ₱3.66 million. This shall be applied to the third party's share in the subsequent expenditure of SC 55. Palawan55 also accrued its share in the training obligations for SC55 payable to the DOE amounting to ₱3.49 million.

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.

On September 26, 2019, Palawan55 informed the DOE of Century Red Pte. Ltd.'s ("Century Red") withdrawal from SC 55 and accordingly requested for the approval of the transfer of Century Red's entire 37.50% participating interest to Palawan55.

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%.



On April 15, 2020, Palawan55 received a letter from the DOE confirming the entry of SC 55 into the Appraisal Period effective April 26, 2020. In the said letter, the DOE stated that after the review and evaluation of the Hawkeye discovery report, “we hereby confirm that the ‘Hawkeye-1 well’ did encounter a significant volume of movable natural gas and is deemed to be a Non-Associated Gas Discovery under Section 13.02 of SC 55.”

On July 2, 2020, SC 55 Consortium submitted to the DOE its 5-year Work Program and Budget for the Appraisal Period. Said program is divided into firm (CY 1 & 2) and contingent (CY 3-5). The firm commitment consists of Geological and Geophysical studies and drilling of a well within the next two years.

On August 28, 2020, Palawan55 received a letter from the DOE approving SC 55’s Appraisal Period Work Program and Budget with the firm amount of US\$1,702,020.00. Further, the DOE stated that it expects the submission of the proposed budget for the drilling of one (1) well after the drilling proposal has been approved by the DOE.

On September 23, 2020, the Consortium requested for the declaration of a one-year Force Majeure in view of the far-reaching adverse effects of the COVID-19 pandemic and the induced low oil price, on the global upstream petroleum industry. The request is currently being evaluated by the Department of Energy.

Palawan55 interpreted reprocessed data to mature two prospects to drillable status. Resource Assessment of these prospects has been completed. Well Planning and Drilling preparations are ongoing.

As at December 31, 2020 and 2019, Palawan 55 holds 75.00% and 37.50% participating interests in SC 55, respectively, and has no pending violation with the DOE.

No impairment was recognized for SC 55 as at December 31, 2020 and 2019 as there are no indicators for impairment.

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## 8. Accrued Expenses and Other Current Liabilities

This account consists of:

	2020	2019
Accrued expenses	<b>₱1,564,901</b>	₱5,052,202
Accounts payable	—	10,515,130
Due to:		
Related parties (see Note 9)	<b>27,446,233</b>	7,577,272
Third party	<b>9,847,155</b>	10,146,443
Withholding taxes	<b>3,105,841</b>	6,198
	<b>₱41,964,130</b>	₱33,297,245

Accrued expenses include accrual for professional fees and training obligations for SC 6A and SC 55 payable to the DOE. Accruals for professional fee are noninterest-bearing and are settled on 30 to 60-day terms. Training obligations payable to the DOE are due and demandable.



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. Accounts payable are trade payables to suppliers and service providers. In 2020, the Group settled a significant amount of training commitment pertaining to SC 69 which was previously presented under the “Accounts payable” account.

Due to a third party is an advance payment made by a partner in the consortium to be applied to SC 55’s work program.

## 9. 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 for the period 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 balances and transactions of accounts as at and for the years ended December 31, 2020 and 2019 with related parties are as follows:

As at and for the Year Ended December 31, 2020						
Company	Amount/ Volume	Nature	Outstanding Balance		Terms	Conditions
			Receivable	Payable		
<b>Intermediate Parent Company</b>						
<b>ACEN</b>						
Accrued expenses and other current liabilities - Due to related parties (see Note 8)	<b>₱2,448,000</b>	Management fees	<b>₱–</b>	<b>₱2,448,000</b>	30–60 day terms; noninterest-bearing	Unsecured
Accrued expenses and other current liabilities - Due to related parties (see Note 8)	<b>15,300,000</b>	Management fees capitalized as deferred exploration cost	<b>–</b>	<b>12,240,000</b>	30–60 day terms; noninterest-bearing	Unsecured
Accrued expenses and other current liabilities - Due to related parties (see Note 8)	<b>5,100,000</b>	Management fees charged to consortium partner	<b>–</b>	<b>5,100,000</b>	30–60 day terms; noninterest-bearing	Unsecured
Accrued expenses and other current liabilities - Due to related parties (see Note 8)	<b>–</b>	Advances	<b>–</b>	<b>7,577,272</b>	30–60 day terms; noninterest-bearing	Unsecured
<b>Entities Under Common Control of Intermediate Parent Company</b>						
<b>ACE Shared Services, Inc. (ACES)</b>						
Accrued expenses and other current liabilities - Due to related parties (see Note 8)	<b>134,400</b>	Management fees	<b>–</b>	<b>80,961</b>	30–60 day terms; noninterest-bearing	Unsecured
Due to related parties (see Note 8)			<b>₱–</b>	<b>₱27,446,233</b>		



	As at and for the Year Ended December 31, 2019					
	Amount/ Volume	Nature	Outstanding Balance		Terms	Conditions
Company			Receivable	Payable		
<b>Intermediate Parent Company</b>						
<b>ACEN</b>						
Accrued expenses and other current liabilities – Due to related parties (see Note 8)	₱8,577,272	Advances	₱–	₱7,577,272	30–60 day terms; noninterest-bearing	Unsecured

#### ACEN

ACEN billed management fees to Palawan55 in 2020 which included ₱9.0 million pertaining to compensation of officers. ACEN also provided advances to the Group in 2019 to fund expenditures related to the SC work programs.

#### ACES

ACES provided to the Group a full range of business process outsourcing services, such as, but not limited to, financial and general accounting/ bookkeeping services (without engaging in the practice of accountancy), human resources management, manpower related services and other related functions.

#### Compensation of Key Management Personnel

Compensation of key management personnel of the Group are as follows:

	2020	2019	2018
Short-term employee benefits	₱–	₱928,083	₱3,216,688

Starting January 1, 2020, the compensation of the Group's key management personnel are paid by the Intermediate Parent Company and as such, the necessary disclosures required by PAS 24, *Related Party Disclosures*, are included in the financial statements of the Intermediate Parent Company.

#### Identification, Review and Approval of Related Party Transactions

All (1) SEC-defined material related party transactions, i.e., related party transaction/s, either individually or in aggregate over a twelve (12)-month period of the Group with the same related party, amounting to ten percent (10%) or higher of the Group's total consolidated assets based on its latest audited consolidated financial statements; and (2) any related party transaction/s that meet the threshold values approved by the Risk Management and Related Party Transactions Committee (the Committee), i.e., ₱50.00 million or five percent (5%) of the Group's total consolidated assets, whichever is lower, shall be reviewed by the Committee and approved by the BOD before its commencement, except transactions that are explicitly excluded/exempted by the SEC and transactions delegated to management.

For SEC-defined material related party transactions, the approval shall be by at least 2/3 vote of the BOD, with at least a majority vote of the independent directors. In case that the vote of a majority of the independent directors is not secured, the material related party transactions may be ratified by the vote of the stockholders representing at least 2/3 of the outstanding capital stock.



## 10. Capital Stock

Following are the details of the Parent Company's capital stock as at December 31, 2020 and 2019:

	2020	2019
Authorized - ₱1 par value	<b>1,000,000,000</b>	1,000,000,000
Issued and outstanding - ₱1 par value	<b>250,000,001</b>	250,000,001

The issued and outstanding shares as at December 31, 2020 and 2019 are held by 2,899 and 2,903 equity holders, respectively.

## 11. Income Taxes

- There was no provision for current tax in 2020 and 2019 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:

	2020	2019	2018
Income tax at statutory rate	<b>(₱4,247,958)</b>	(₱5,991,698)	(₱20,503,181)
Tax effects of:			
Movement in temporary differences, NOLCO and MCIT for which no deferred income tax assets were recognized	<b>4,200,462</b>	5,880,607	20,551,183
Nondeductible expenses	<b>58,497</b>	127,707	264,238
Interest income subject to final tax	<b>(22,584)</b>	(13,606)	(17,697)
Realized losses (gains) on changes in fair value of financial assets at FVTPL	—	(278,560)	(21,979)
Effect of difference in tax rates	—	—	(96,482)
	<b>(₱11,583)</b>	(₱275,550)	₱176,082

- The Group recognized benefit from income tax amounting to ₱11,583 and ₱275,550 in 2020 and 2019, respectively, and provision for income tax amounting to ₱176,082 in 2018.
- Deferred tax liability amounted to ₱11,583 as at December 31, 2019 and recognized an additional deferred tax liability amounting to ₱46,177 in 2020. The deferred tax liability as at December 31, 2020 relates to unrealized gain on foreign exchange translation. The Group recognized deferred tax asset up to the extent of the deferred tax liability in 2020.





- e. Deferred income tax assets related to the following temporary differences, including NOLCO were not recognized because management believes that it is not probable that sufficient future taxable income will be available to allow deferred income tax assets to be utilized.

	2020	2019
NOLCO	<b>₱101,686,318</b>	₱97,057,960
Provisions for:		
Credit losses (see Note 5)	<b>20,000,000</b>	20,000,000
Probable losses (see Note 7)	<b>16,611,263</b>	16,611,263
Unrealized foreign exchange loss - net	<b>598,199</b>	313,290
	<b>₱138,895,780</b>	₱133,982,513
Unrecognized deferred income tax asset	<b>₱41,668,734</b>	₱40,194,754

Movements in the NOLCO are shown in the table below:

Year Incurred	Availment Period	Amount	NOLCO Applied Previous Year/s	NOLCO Expired	NOLCO Applied Current Year	NOLCO Unapplied
2017	2018-2020	₱8,813,592	₱—	(₱8,813,592)	₱—	₱—
2018	2019-2021	20,765,862	—	—	—	20,765,862
2019	2020-2022	67,478,506	—	—	—	67,478,506
2020*	2021-2025	13,595,875	—	—	—	13,595,875
		<b>₱110,653,835</b>	<b>₱—</b>	<b>(₱8,813,592)</b>	<b>₱—</b>	<b>₱101,840,243</b>

\*RR-15-20 Bayanihan Act 2: NOLCO incurred for the taxable years 2020 and 2021 can be carried over as a deduction from gross income for the next five (5) consecutive years

## 12. Basic/Diluted Loss Per Share

Basic/diluted loss per share is computed as follows:

	2020	2019	2018
(a) Net loss attributable to equity holders of the Parent Company	<b>₱11,766,565</b>	₱19,137,926	₱66,838,225
(b) Weighted average number of common shares outstanding	<b>250,000,001</b>	250,000,001	250,000,000
Basic/diluted loss per share (a/b)	<b>₱0.047</b>	₱0.077	₱0.267

As at December 31, 2020, 2019 and 2018, 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.

## 13. Material Partly Owned Subsidiary

Financial information of Palawan55 is provided below:

	2020	2019
Equity interest held by NCI	<b>30.65%</b>	30.65%
Accumulated balances of NCI	<b>(₱2,223,984)</b>	₱157,727
Net loss allocated to NCI	<b>(2,381,711)</b>	(558,850)



The summarized financial information of Palawan55 is provided below.

Statements of Comprehensive Income

	2020	2019	2018
Other loss (income)	(P123,896)	P198,010	(P34,986)
Expenses	7,894,568	1,631,217	5,516,429
Provision for (benefit from) deferred income tax	—	(5,839)	5,839
Total comprehensive loss	P7,770,672	P1,823,388	P5,487,282
Attributable to NCI	P2,381,711	P558,850	P1,681,795

Statements of Financial Position

	2020	2019
Total current assets	P7,462,931	P16,541,678
Total noncurrent assets	43,308,343	23,062,963
Total current liabilities	(58,029,005)	(39,089,963)
Total equity	(P7,257,731)	P514,678
Attributable to equity holders of the Parent Company	(P5,032,010)	P356,951
NCI	(P2,223,984)	P157,727

Cash Flow Information

	2020	2019	2018
Net cash flows provided by (used in):			
Operating activities	(P4,287,292)	P4,264,783	2,757,451
Investing activities	(4,572,521)	(16,246,978)	(1,102,775)
Financing activity	—	22,464,670	1,950,000

There were no dividends paid to NCI in 2020, 2019 and 2018.

#### 14. Financial Risk Management Objectives and Policies

Objectives and Investment Policies

The funds of the entities are held directly by the Group and are managed by ACEIC's Risk, Corporate Finance, Investor Relations and Treasury Group (RCITG). 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



RCITG 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.

RCITG focuses on the following major risks that may affect its transactions:

- Foreign exchange risk
- Credit or counterparty risk
- Liquidity risk
- Market 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 in US\$ as at December 31, 2020 and 2019 are as follows:

	2020		2019	
	In US\$	In Philippine Peso	In US\$	In Philippine Peso
<i>Financial Assets</i>				
Cash and cash equivalents	US\$298,907	₱14,358,297	US\$69,610	₱3,532,275
Trade receivable under 'Receivables'	—	—	628	31,863
	298,907	14,358,297	70,238	3,564,138
<i>Financial Liability</i>				
Due to third party under 'Accounts payable and other current liabilities'	—	—	408,823	20,745,314
	US\$298,907	₱14,358,297	(US\$338,585)	(₱17,181,176)



Exchange rates used were ₱48.036 to \$1.00 and 50.744 to \$1.00 as at December 31, 2020 and 2019, 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 RCITG before it is executed subject to the Chief Financial Officer (CFO) approval. Exposure limits are tracked for every transaction and RCITG Finance Managers supervise 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.

	2020					
	Neither Past Due nor Impaired			Past Due but not Impaired	Past Due Individually Impaired	Total
	Class A	Class B	Class C			
Trade receivables	₱—	₱—	₱—	₱30,750	₱—	₱30,750
Due from third party	—	—	—	—	20,000,000	20,000,000
Others	—	—	—	195,693	—	195,693
	₱—	₱—	₱—	₱226,443	₱20,000,000	₱20,226,443

	2019					
	Neither Past Due nor Impaired			Past Due but not Impaired	Past Due Individually Impaired	Total
	Class A	Class B	Class C			
Trade receivables	₱—	₱—	₱—	₱31,863	₱—	₱31,863
Due from third party	—	—	—	—	20,000,000	20,000,000
Others	—	—	—	396,839	—	396,839
	₱—	₱—	₱—	₱428,702	₱20,000,000	₱20,428,702

The Group uses the following criteria to rate credit risk as to class:

Class	Description
Class A	Collateralized accounts with excellent paying habits
Class B	Secured accounts 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, 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.

The cash balance of the Group as at December 31, 2020 is more than enough to pay its accrued expenses and withholding taxes totaling ₱4.67 million (see Note 8) and operating expenses. The consortium requested the DOE for the declaration of a one-year force majeure due to the adverse effects of the COVID-19 pandemic. ACEN as the intermediate parent will provide support to the Group as needed.

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 does 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 rate 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 at December 31, 2020 and 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 re-challenged based on current and forecasted developments on the financial and political events.
- Weekly market 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 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 its capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes in 2020 and 2019.

Capital includes all the items appearing in the equity section of the Group's consolidated statements of financial position totaling to ₱52,967,131 and ₱67,115,407 as at December 31, 2020 and 2019, respectively.

#### Fair Value of Financial Assets and Financial Liabilities

*Cash and Cash Equivalents, Receivables and Accrued Expenses 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 2020 and 2019, 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, 2020 and December 31, 2019.

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## 15. 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 period 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 2020 and 2019 were as follows:

	2020	2019
Deferred exploration cost (Note 7)	<b>₱20,505,565</b>	₱16,656,537
Property and equipment (Note 6)	—	800,000
	<b>₱20,505,565</b>	<b>₱17,456,537</b>

As at March 10, 2021, the Group has not started commercial operations yet and has no revenue or gross profit. The total assets of the segment of ₱94,931,261 and ₱100,424,235 and liabilities amounting to ₱41,964,130 and ₱33,308,828 as at December 31, 2020 and 2019, respectively, are the same as that reported in the consolidated statements of financial position.



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## 16. Impact of the Coronavirus Disease 2019 (COVID-19) Outbreak

In December 2019, an outbreak of the novel coronavirus disease (“COVID-19”) occurred in China and spread to other countries, including the Philippines. COVID 19 adversely affected economic activity in the Philippines, and could materially and adversely affect the Group’s business, financial condition and results of operations.

In a move to contain the spread of COVID-19, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six months and imposing an enhanced community quarantine (“ECQ”) throughout the island of Luzon until April 12, 2020, which was extended until May 15, 2020. Since then, various community quarantine measures or modifications of the ECQ have been imposed throughout the country.

As part of its measures to address the impact of the pandemic, the Philippine Congress passed Republic Act No. 11469, the Bayanihan to Heal as One Act (the “Bayanihan Act”) into law, which confers emergency powers on the President of the Philippines and subsequently, the Bayanihan to Recover as One Act (the “Bayanihan 2 Act”). The Bayanihan 2 Act seeks to provide a stimulus package to struggling sectors as part of the country’s COVID-19 response and recovery plan, and to review the government’s implementation of programs related to the pandemic. Similar to the Bayanihan Act, the Bayanihan 2 Act confers emergency powers to the President which was in effect until December 19, 2020. Such powers include the authority to adopt measures to “conserve and regulate the distribution and use of power, fuel, energy and water, and ensure adequate supply of the same.”

### *Business Impact*

COVID-19 and the various measures to contain it have caused disruptions to businesses and economic activities globally. The resulting drop in demand for electricity drove oil prices lower in the global upstream petroleum industry, adversely affected the businesses of oil players and service providers, and limited transport of goods and services and movement of personnel. This prompted the SC55 consortium to request for a one-year Force Majeure declaration from the DOE to extend the period for the drilling activity required during the Appraisal Period (see Note 7).

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## 17. Events After the Reporting Period

### *Withdrawal from SC 6 consortium by ACEX*

On January 27, 2021, the Executive Committee approved the Parent’s withdrawal from the SC 6A consortium. The Parent holds 7.78% participating interests in SC 6 Block A, located in offshore North Palawan. SC 6A does not have any commercial operations (see Note 7).

The Group has determined that such subsequent event is not considered as an adjusting event since withdrawal from the consortium was proposed and approved subsequent to December 31, 2020. Accordingly, its impact was not reflected in the Group’s consolidated financial statements as at and for the year ended December 31, 2020 as there is no indication of impairment nor was withdrawal determined as at December 31, 2020.



*House of Representatives ratifies Corporate Recovery and Tax Incentives for Enterprises (“CREATE”) Act*

The House of Representatives on February 3, 2021 ratified the bicameral conference committee report on the proposed CREATE Act. The bicameral committee has reconciled the provisions of House Bill No. 4157 and Senate Bill No. 1357 or the two chambers’ respective versions of CREATE Act, previously called the Corporate Income Tax and Incentives Reform Act (CITIRA) bill. The measure seeks to reform corporate income taxes and incentives in the country.

The chamber approved the final version of the CREATE bill, which seeks to lower corporate income tax from 30% to 25% for large corporations and 20% for small and medium corporations, to align the income tax rates with the ASEAN region’s average rate and that of neighboring countries.

As at report date, the Group is assessing the possible impact of the Act, should it pass into Law, subsequently.





## ANNEX “F”

### 2021 ANNUAL STOCKHOLDERS’ MEETING OF ACE ENEXOR, INC. (THE “MEETING”)

### REQUIREMENTS AND PROCEDURE FOR ELECTRONIC VOTING IN ABSENTIA AND PARTICIPATION BY REMOTE COMMUNICATION

Electronic voting *in absentia* and participation by remote communication shall be allowed only through complete registration and successful validation in the Voting *in Absentia* & Shareholder (VIASH) System.

#### **I. ELECTRONIC VOTING IN ABSENTIA**

1. Stockholders as of 19 March 2021 (“Stockholders”) have the option of electronic voting *in absentia* on the matters in the Agenda, after complete registration and successful validation in the VIASH System. Stockholders with e-mail addresses on record shall be sent an e-mail with a link to the VIASH System. To register in the VIASH System, Stockholders shall simply follow the instructions sent in the e-mail.
2. Otherwise, Stockholders may access the link <http://www.ayalagroupshareholders.com/> to create an account and register in the VIASH System. Stockholders should complete the online registration form and submit for validation together with the requirements provided in Item 4 below.
3. All registered accounts shall be subject to the validation process set forth. The deadline for registration to vote *in absentia* is 14 April 2021. The VIASH System will be open for registration on 26 March 2021.
4. The following are needed for registration:
  - 4.1 For individual Stockholders –
    - 4.1.1 A recent photo of the Stockholder, with the face fully visible (in JPG or PNG format). The file size should be no larger than 5MB;
    - 4.1.2 A scanned-copy of the Stockholder’s valid government-issued ID showing photo and personal details, preferably with residential address (in JPG or PDF format). The file size should be no larger than 5MB;
    - 4.1.3 A valid and active e-mail address;
    - 4.1.4 A valid and active contact number;
  - 4.2 For Stockholders with joint accounts –

A scanned copy of an authorization letter signed by all Stockholders, identifying who among them is authorized to cast the vote for the account (in JPG or PDF format). The file size should be no larger than 5MB;
  - 4.3 For Stockholders under Broker accounts –
    - 4.3.1 A broker’s certification on the Stockholder’s number of shareholdings (in JPG or PDF format). The file size should be no larger than 5MB;
    - 4.3.2 A recent photo of the stockholder, with the face fully visible (in JPG or PNG format). The file size should be no larger than 5MB;
    - 4.3.3 A scanned copy of the Stockholder’s valid government-issued ID showing photo and personal details, preferably with residential address (in JPG or PDF format). The file size should be no larger than 5MB;
    - 4.3.4 A valid and active e-mail address;
    - 4.3.5 A valid and active contact number;

#### 4.4 For corporate Stockholders –

- 4.4.1 A secretary's certificate attesting to the authority of the representative to vote for, and on behalf of the Corporation (in JPG or PDF format). The file size should be no larger than 5MB;
- 4.4.2 A recent photo of the Stockholder's representative, with the face fully visible (in JPG or PNG format). The file size should be no larger than 5MB;
- 4.4.3 A scanned copy of the valid government-issued ID of the Stockholder's representative showing photo and personal details, preferably with residential address (in JPG or PDF format). The file-size should be no larger than 5MB;
- 4.4.4 A valid and active e-mail address of the Stockholder's representative;
- 4.4.5 A valid and active contact number of the Stockholder's representative.

#### Important Notes:

- Stockholders who are also stockholders as of record date of the other publicly listed corporations in the Ayala group need only to register one account in the VIASH System. The digital absentee ballot for each corporation shall be separately accessed from the Stockholder's Dashboard in the VIASH System and votes shall be cast per corporation.
  - Considering the prevailing extraordinary circumstances in relation to COVID-19, the Company shall allow electronic signature for the required documents, as applicable. Notarization requirement shall also be dispensed with at this time. However, the Company reserves the right to request additional information, and original signed and notarized copies of these documents at a later time.
  - Incomplete or inconsistent information may result in an unsuccessful registration. As a result, Stockholders will not be allowed access to vote electronically *in absentia*, but may still vote through the Chairman of the Meeting as proxy, by submitting a duly accomplished proxy form, on or before 8 April 2021.
5. The validation process in the VIASH System will be concluded by the Corporation no later than three (3) business days from the date of the Stockholder's complete registration. The Stockholder's dashboard in the VIASH System will indicate the status of registration.
- Once validated, the Stockholder will receive an e-mail confirmation on their successful registration. Registered Stockholders have until the end of the Meeting to cast their votes *in absentia*.
6. All agenda items indicated in the Notice of the Meeting will be set out in the digital absentee ballot in the VIASH System and the registered Stockholder may vote as follows:
- 6.1 For items other than the Election of Directors, the registered Stockholder has the option to vote: For, Against, or Abstain. The vote is considered cast for all the registered Stockholder's shares.
  - 6.2 For the Election of Directors, the registered Stockholder may either: (1) vote for all nominees, (2) not vote for any of the nominees, or (3) vote for some nominees only, in such number of shares as preferred by the Stockholder, provided that the total number of votes cast shall not exceed the number of shares owned, multiplied by the number of directors to be elected.

Once voting on the agenda items is finished, the registered Stockholder can proceed to submit the accomplished ballot by clicking the 'Submit' button.

The VIASH System will prompt the Stockholder to confirm the submission of the ballot. The votes cast *in absentia* will have equal effect as votes cast by proxy.

After the ballot has been submitted, Stockholders may no longer change their votes except by submitting a duly accomplished proxy form within the set deadline.

7. The Office of the Corporate Secretary will tabulate all votes cast *in absentia* together with the votes cast by proxy, and a firm selected for this purpose will validate the results.

## **II. PARTICIPATION BY REMOTE COMMUNICATION**

1. Stockholders as of 19 March 2021 (“Stockholders”) are required to register in the VIASH System to participate in the Meeting on 19 April 2021 by remote communication. A Meeting livestreaming access button will be available in the Stockholder’s dashboard in the VIASH System on the date set for the Meeting as indicated in the Corporation’s Notice of the Meeting.
2. The procedure and requirements for registration in the VIASH System are found in the Electronic Voting *in Absentia* section in this Annex. The deadline for registration to participate by remote communication is on 14 April 2021.
3. In addition to their registration in the VIASH System, Stockholders are requested to notify the Company by e-mail to [corpsec.enexor@acenergy.com.ph](mailto:corpsec.enexor@acenergy.com.ph) by 14 April 2021 of their intention to participate in the Meeting by remote communication.
4. Only the Stockholders who have notified the Company of their intention to participate in the Meeting by remote communication, together with the Stockholders who voted *in absentia* and by proxy, will be included in the determination of quorum at the Meeting.
5. Stockholders participating by remote communication may vote anytime until the end of the Meeting using the digital ballot in the VIASH System.
6. Stockholders may send their questions and/or remarks prior to or during the Meeting by e-mail to [corpsec.enexor@acenergy.com.ph](mailto:corpsec.enexor@acenergy.com.ph).
7. A link to the recorded webcast of the Meeting will be posted on the Company’s website after the Meeting. Stockholders shall have two weeks from posting to raise to the Company any issues, clarifications and concerns on the Meeting conducted by e-mail to [corpsec.enexor@acenergy.com.ph](mailto:corpsec.enexor@acenergy.com.ph).

For any clarifications, please contact our Office of the Corporate Secretary through [corpsec.enexor@acenergy.com.ph](mailto:corpsec.enexor@acenergy.com.ph).