SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.2(c) THEREUNDER

1. **February 28, 2020**
   Date of Report (Date of earliest event reported)

2. SEC Identification Number **AS093-8127**

3. BIR Tax Identification Number **002-834-075**

4. **APC Group, Inc.**
   Exact name of issuer as specified in its charter

5. **Metro Manila, Philippines**
   Province, country or other jurisdiction of incorporation

   [ ] (SEC Use Only)
   Industry Classification Code:

7. **G/F MyTown New York Building, General E. Jacinto Street corner Capas Street, Barangay Guadalupe Nuevo, Makati City** — **1212**
   Address of principal office — Postal Code

8. **(632) 8662-8888**
   Issuer's telephone number, including area code

9. **Not applicable**
   Former name or former address, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock	**7,504,203,997**

11. Indicate the item numbers reported herein:
    Item Number 11 (Please refer to the attached letter)

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

APC Group, Inc.
Issuer

for **Jackson T. Ongsip**
President, Chief Executive Officer,
and Chief Risk Officer

February 28, 2020
Date

APC GROUP INC.

28 February 2020

Securities and Exchange Commission
Secretariat Building, PICC Complex,
Roxas Boulevard, Pasay City

Attention	:	**Mr. Vicente Graciano P. Felizmenio, Jr.** Director, Markets and Securities Regulation Department
Subject	:	**2019 Audited Financial Statement**

Gentlemen :

In observance of best corporate governance standards and practices, we hereby submit to the Commission our Audited Financial Statements for the period ended December 31, 2019.

Thank you very much for your kind attention.

Very truly yours,

for Alwal Lanaria
Jackson T. Ongsip
President, Chief Executive Officer,
and Chief Risk Officer

G/F MyTown New York Building
General E. Jacinto St. corner Capas St.,
Baranagay Guadalupe Nuevo, Makati City 1212
Tel.: (632) 8662-8888 local 2101
Fax No.: (632) 8662-8898

C O V E R S H E E T

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

	A	S	-	0	9	3	8	1	2	7

C O M P A N Y N A M E

APC GROUP, INC. AND SUBSIDIARIES

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

G/F MyTown New York Bldg, General E. Jacinto St. corner Capas St., Brgy Guadalupe Nuevo, Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AACFS	SEC	NA

C O M P A N Y I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number
apcgrpinc@gmail.com	c/o 6628888 loc. 2144	–

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
593	Second Thursday of June	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
Jackson T. Ongsip	apcgrpinc@gmail.com	c/o 6628888 loc. 2144	–

CONTACT PERSON's ADDRESS

G/F MyTown New York Bldg, General E. Jacinto St. corner Capas St., Brgy Guadalupe Nuevo, Makati City

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.*

APC GROUP INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **APC Group, Inc. and Subsidiaries** (the Company) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

WILLY N. OCIER
Chairman of the Board

JACKSON T. ONGSIP
President and
Chief Executive Officer

IAN JASON R. AGUIRRE
Executive Vice President and
Chief Finance Officer

February 28, 2020

SUBSCRIBED AND SWORN to before me this 28 FEB 2020 at MAKATI CITY City, affiants who are personally known to me or identified through competent evidence of identity, to wit:

Name	Passport or ID No.	Date of Expiry	Place of Issue
Willy N. Ocier	[redacted]	[redacted]	[redacted]
Jackson T. Ongsip	[redacted]	[redacted]	[redacted]
Ian Jason R. Aguirre	[redacted]	[redacted]	[redacted]

Doc. No. 361
Page No. 79
Book No. 67
Series of 2020

ATTY. JOSHUA P. LAPUZ
Notary Public for and in Makati City
Appointment No. M-66 until 12/31/2021
PTR No. 8116016, Jan, 2, 2020, Makati City
Roll No. 45790, IBP, Lifetime N. 04897
MCLE No. VI-0016565 / Jan. 14, 2019
G/F Fedman Suites, 199 Salcedo Street,
Legaspi Village, Makati City

G/F MyTown New York Bldg.
General E. Jacinto St. cor. Capas St.
Brgy. Guadalupe Nuevo, Makati City
Tel.: (632) 662-8888 loc 2101

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
APC Group, Inc.
G/F MyTown New York Bldg.
General E. Jacinto St. corner Capas St.
Brgy. Guadalupe Nuevo, Makati City

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Recoverability of Deferred Exploration Costs

As at December 31, 2019, the carrying value of the Group's deferred exploration costs amounted to ₱111.5 million. These deferred exploration costs pertain to the Aragorn Power and Energy Corporation (APEC)'s participating interest in Geothermal Renewable Service Contract (GRESC) and the expenditures incurred by APEC for the Kalinga Geothermal Project. Under PFRS 6, *Exploration for and Evaluation of Mineral Resources*, these deferred exploration costs shall be assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. The ability of APEC 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 about deferred exploration costs are included in Notes 1, 3 and 10 to the consolidated financial statements.

Audit Response

We obtained management's assessment on whether there is any indication that deferred exploration costs may be impaired. We inspected the license/permit of the exploration period of GRESC to determine that the period for which APEC has the right to explore in the specific area has not expired. We reviewed the summary of the status of APEC's exploration project as at December 31, 2019, as certified by APEC's President, and compared it with the disclosures submitted to regulatory agencies. We reviewed the contracts and agreements, and budget for GRESC exploration costs. We checked the work program and corresponding budget furnished to the Department of Energy. We also read the minutes of the meetings of the Group's Board of Directors for the discussion of management plans.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Johnny F. Ang.

SYCIP GORRES VELAYO & CO.

Johnny F. Ang
Partner
CPA Certificate No. 0108257
SEC Accreditation No. 1284-AR-2 (Group A),
May 16, 2019, valid until May 15, 2022
Tax Identification No. 221-717-423
BIR Accreditation No. 08-001998-101-2018,
November 6, 2018, valid until November 5, 2021
PTR No. 8131119, January 9, 2020, Makati City

February 28, 2020

APC GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 18 and 19)	**₱137,491,340**	₱144,787,138
Receivables (Notes 6, 18 and 19)	**1,585,194**	300,718
Other current assets	**2,585**	11,515
Total Current Assets	**139,079,119**	145,099,371
Noncurrent Assets		
Property and equipment (Note 8)	**62,234**	15,620
Investment property (Notes 9 and 19)	**10,028,870**	10,028,870
Financial assets at fair value through other comprehensive income (FVOCI) (Notes 7, 18 and 19)	**3,624,630**	5,172,121
Deferred exploration costs (Note 10)	**111,520,001**	110,878,886
Input value added tax (VAT)	**8,962,888**	8,704,647
Other noncurrent assets (Notes 18 and 19)	**23,822**	23,822
Total Noncurrent Assets	**134,222,445**	134,823,966
	₱273,301,564	₱279,923,337
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 11, 18 and 19)	**₱28,627,801**	₱28,449,031
Advances from a related party (Notes 16, 18 and 19)	**79,978,631**	80,047,381
Total Current Liabilities	**108,606,432**	108,496,412
Noncurrent Liabilities		
Accrued retirement costs (Note 14)	**3,441,697**	3,170,606
Other noncurrent liabilities (Notes 18 and 19)	**–**	161,959
Total Noncurrent Liabilities	**3,441,697**	3,332,565
Total Liabilities	**112,048,129**	111,828,977
Equity Attributable to Equity Holders of the Parent Company		
Capital stock (Notes 12 and 18)	**6,388,078,749**	6,388,078,749
Additional paid-in capital (Notes 12 and 18)	**1,613,942,096**	1,613,942,096
Cumulative change in fair value of financial assets at FVOCI (Note 7)	**2,776,629**	4,324,120
Remeasurement loss on defined benefit obligation (Note 14)	**(2,237,878)**	(2,237,878)
Equity reserves (Note 2)	**(3,140,235)**	(3,140,235)
Deficit	**(7,801,877,957)**	(7,796,603,339)
Treasury shares - 7,606,000 shares (Notes 12 and 17)	**(29,435,220)**	(29,435,220)
Total Equity Attributable to Equity Holders of the Parent Company	**168,106,184**	174,928,293
Non-controlling Interests	**(6,852,749)**	(6,833,933)
Total Equity	**161,253,435**	168,094,360
	₱273,301,564	₱279,923,337

See accompanying Notes to Consolidated Financial Statements.

APC GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2019	2018	2017
REVENUES			
Interest income (Note 5)	**₱4,651,666**	₱3,569,449	₱3,900,176
Dividend income (Note 7)	**319,476**	279,224	178,688
	4,971,142	3,848,673	4,078,864
EXPENSES			
General and administrative expenses (Note 13)	**(10,264,576)**	(12,350,727)	(20,510,625)
OTHER INCOME (EXPENSES)			
Loss on:			
Sale of investment property (Note 9)	**–**	(3,015,807)	–
Disposal of property and equipment (Note 8)	**–**	–	(26,684)
Other income - net	**–**	–	44,500
	–	(3,015,807)	17,816
LOSS BEFORE INCOME TAX	**(5,293,434)**	(11,517,861)	(16,413,945)
PROVISION FOR INCOME TAX (Note 15)	**–**	–	890
NET LOSS	**(5,293,434)**	(11,517,861)	(16,414,835)
OTHER COMPREHENSIVE INCOME (LOSS)			
Item not to be reclassified to profit or loss in subsequent periods:			
Change in fair value of financial assets at FVOCI (Note 7)	**(1,547,491)**	(3,497,450)	–
Remeasurement gain on defined benefit obligation (Note 14)	**–**	–	625,727
Item to be reclassified to profit or loss in subsequent periods:			
Unrealized gain on available for sale financial assets	**–**	–	1,144,620
	(1,547,491)	(3,497,450)	1,770,347
TOTAL COMPREHENSIVE LOSS	**(₱6,840,925)**	(₱15,015,311)	(₱14,644,488)
Net Loss Attributable to:			
Equity holders of the Parent Company (Note 17)	**(₱5,274,618)**	(₱11,470,031)	(₱16,324,751)
Non-controlling interests	**(18,816)**	(47,830)	(90,084)
	(₱5,293,434)	(₱11,517,861)	(₱16,414,835)
Total Comprehensive Loss Attributable to:			
Equity holders of the Parent Company	**(₱6,822,109)**	(₱14,967,481)	(₱14,554,404)
Non-controlling interests	**(18,816)**	(47,830)	(90,084)
	(₱6,840,925)	(₱15,015,311)	(₱14,644,488)
Basic/Diluted Loss Per Common Share (Note 17)	**(₱0.000703)**	(₱0.001528)	(₱0.002175)

See accompanying Notes to Consolidated Financial Statements.

APC GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

	Equity Attributable to Equity Holders of the Parent Company									
	Capital Stock (Notes 12 and 18)	Additional Paid-in Capital (Notes 12 and 18)	Cumulative Change in Fair Value of Financial Assets at FVOCI (Note 7)	Remeasurement Loss on Defined Benefit Obligation (Note 14)	Equity Reserves	Deficit	Treasury Shares (Notes 12 and 17)	Total	Non-controlling Interests	Total
Balances at January 1, 2019	**₱6,388,078,749**	**₱1,613,942,096**	**₱4,324,120**	**(₱2,237,878)**	**(₱3,140,235)**	**(₱7,796,603,339)**	**(₱29,435,220)**	**₱174,928,293**	**(₱6,833,933)**	**₱168,094,360**
Net loss during the year	–	–		–	–	**(5,274,618)**	–	**(5,274,618)**	**(18,816)**	**(5,293,434)**
Other comprehensive loss	–	–	**(1,547,491)**	–	–	–	–	**(1,547,491)**	–	**(1,547,491)**
Total comprehensive loss	–	–	**(1,547,491)**	–	–	**(5,274,618)**	–	**(6,822,109)**	**(18,816)**	**(6,840,925)**
Balances at December 31, 2019	**₱6,388,078,749**	**₱1,613,942,096**	**₱2,776,629**	**(₱2,237,878)**	**(₱3,140,235)**	**(₱7,801,877,957)**	**(₱29,435,220)**	**₱168,106,184**	**(₱6,852,749)**	**₱161,253,435**
Balances at January 1, 2018	₱6,388,078,749	₱1,613,942,096	₱7,821,570	(₱2,237,878)	₱226,304	(₱7,785,133,308)	(₱29,435,220)	₱193,262,313	(₱10,152,642)	₱183,109,671
Net loss during the year	–	–	–	–	–	(11,470,031)	–	(11,470,031)	(47,830)	(11,517,861)
Other comprehensive income	–	–	(3,497,450)	–	–	–	–	(3,497,450)	–	(3,497,450)
Total comprehensive loss	–	–	(3,497,450)	–	–	(11,470,031)	–	(14,967,481)	(47,830)	(15,015,311)
Change in ownership interest in a subsidiary without loss of control (Note 2)	–	–	–	–	(3,366,539)	–	–	(3,366,539)	3,366,539	–
Balances at December 31, 2018	₱6,388,078,749	₱1,613,942,096	₱4,324,120	(₱2,237,878)	(₱3,140,235)	(₱7,796,603,339)	(₱29,435,220)	₱174,928,293	(₱6,833,933)	₱168,094,360
Balances at January 1, 2017	₱6,388,078,749	₱1,613,942,096	₱6,676,950	(₱2,863,605)	₱226,304	(₱7,768,808,557)	(₱29,435,220)	₱207,816,717	(₱10,062,558)	₱197,754,159
Net loss during the year	–	–	–	–	–	(16,324,751)	–	(16,324,751)	(90,084)	(16,414,835)
Other comprehensive income	–	–	1,144,620	625,727	–	–	–	1,770,347	–	1,770,347
Total comprehensive loss	–	–	1,144,620	625,727	–	(16,324,751)	–	(14,554,404)	(90,084)	(14,644,488)
Balances at December 31, 2017	₱6,388,078,749	₱1,613,942,096	₱7,821,570	(₱2,237,878)	₱226,304	(₱7,785,133,308)	(₱29,435,220)	₱193,262,313	(₱10,152,642)	₱183,109,671

See accompanying Notes to Consolidated Financial Statements.

APC GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax:	**(₱5,293,434)**	(₱11,517,861)	(₱16,413,945)
Adjustments for:			
Interest income (Note 5)	**(4,651,666)**	(3,569,449)	(3,900,176)
Dividend income (Note 7)	**(319,476)**	(279,224)	(178,688)
Retirement costs (Note 14)	**271,091**	505,320	490,513
Depreciation (Notes 8 and 13)	**15,868**	8,926	65,522
Loss on:			
Sale of investment property (Note 9)	**–**	3,015,807	–
Disposal of property and equipment (Note 8)	**–**	–	26,684
Operating loss before working capital changes	**(9,977,617)**	(11,836,481)	(19,910,090)
Decrease (increase) in:			
Receivables	**(1,299,988)**	640,959	80,828,202
Other current assets	**8,930**	5,513	(17,027)
Input VAT	**(258,241)**	(217,159)	(953,950)
Increase (decrease) in:			
Trade and other payables	**178,770**	(2,602,619)	(5,543,905)
Advances from a related party	**(68,750)**	42,845	232,530
Cash generated from (used for) operations	**(11,416,896)**	(13,966,942)	54,635,760
Interest received	**4,667,178**	3,569,449	3,900,176
Dividend received	**319,476**	279,224	178,688
Income taxes paid	**–**	–	(72,327)
Net cash provided by (used in) operating activities	**(6,430,242)**	(10,118,269)	58,642,297
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment (Note 8)	**(62,482)**	–	(26,777)
Proceeds from:			
Sale of investment property (Notes 9 and 20)	**–**	9,329,323	–
Disposal of property and equipment (Note 8)	**–**	–	35,610
Decrease (increase) in:			
Deferred exploration costs	**(641,115)**	(51,176,727)	(528,137)
Other noncurrent assets	**–**	166,577	(161,185)
Decrease in other noncurrent liabilities	**(161,959)**	–	–
Net cash used in investing activities	**(865,556)**	(41,680,827)	(680,489)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(7,295,798)**	(51,799,096)	57,961,808
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 5)	**144,787,138**	196,586,234	138,624,426
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱137,491,340**	₱144,787,138	₱196,586,234

See accompanying Notes to Consolidated Financial Statements.

APC GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **General Information**

<u>Corporate Information</u>
APC Group, Inc. (the Parent Company or APC) and subsidiaries (the Group) were all incorporated in the Philippines and are registered with the Philippine Securities and Exchange Commission (SEC). The Parent Company was incorporated in the Philippines on October 15, 1993 and was originally organized to engage in the oil and gas exploration and development in the Philippines.

On April 30, 1997, the Philippine SEC approved the change in the primary purpose of the Parent Company to that of a holding company. The Parent Company's shares of stock are publicly traded in the Philippine Stock Exchange (PSE).

The registered office address of the Parent Company is G/F MyTown New York Bldg, General E. Jacinto St. corner Capas St., Brgy Guadalupe Nuevo, Makati City.

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on February 28, 2020.

<u>Status of Operations</u>

As at February 28, 2020, the following are the status of operations of the Group.

a. Aragorn Power and Energy Corporation (APEC)

   - Kalinga Apayao Geothermal Service Project (Project)

   As at February 28, 2020, APEC is still in the exploration stage. It was established to engage in renewable energy resource exploration, development and utilization.

   In 2008, APEC was granted a Geothermal Service Contract (GSC) by the Republic of the Philippines, through Department of Energy (DOE), for the exploration, development and exploitation of geothermal resources covering a total area of 26,139 hectares located in the Province of Kalinga (the "Kalinga Geothermal Project" or "KGP"). The GSC was granted after a Certificate Precondition from the National Commission of Indigenous People, covering a major portion of the geothermal service area, was secured. The GSC was converted into a Geothermal Renewable Service Contract (GRESC) in March 2010 to avail of the incentives provided under the Renewable Energy (RE) Act of 2008. GRESC has a term of not exceeding 25 years (including the used term under the GSC) and renewable for not more than 25 years. The total period from pre-development stage to the development/commercial stage shall not exceed 50 years.

   In November 2010, APEC and its partner Guidance Management Corporation (GMC) forged a partnership with AllFirst Kalinga Ltd. (AKL, formerly Chevron Kalinga Ltd.), a wholly owned subsidiary of AllFirst Geothermal Philippines Holdings, Inc., (formerly Chevron Geothermal Philippines Holdings, Inc.) in developing the geothermal area. The parties signed a Farm-out Agreement (FOA) which gives APEC and GMC the option to take an equity position of up to 40% in the geothermal project. The parties also signed a Joint Operating Agreement. Under the agreement, AKL will be responsible for the exploration, development and operation of the steam field and power activities.

On August 13, 2018, APEC has secured an extension of the GRESC exploration period from DOE until September 23, 2020. On August 14, 2018, pursuant to Executive Order No. 30, the Energy Investment Coordinating Council (EICC), through the DOE, granted KGP a Certificate of Energy Project of National Significance (CEPNS) for Pre-Development Phase. The CEPNS entitles KGP to all the rights privileges provided for under Executive Order No. 30 series 2017.

On September 18, 2018, AKL has assigned its Farm-out interest, including all associated rights and obligations under the FOA, in favor of its affiliate, Allfirst Kalinga Holdings, Inc. (AKHI).

Through letter dated December 28, 2018, the DOE gave KGP the clearance to undertake a system impact study (SIS) of its proposed 120 MW Kalinga Geothermal Project. The SIS of the KGP is currently on-going.

In 2019, KGP completed securing all the remaining necessary permits from the regulatory agencies (i.e. DENR and NWRB), and maintained and complied with its commitments with each of the representative Council of Elders and Leaders (COEs) under the Memoranda of Agreements (MOAs) supporting the NCIP Certificates of Precondition. KGP has also engaged contractors and suppliers necessary for the construction of access roads, well pads, and well drilling activities.

With the completion of the negotiation for right-of-way, remaining regulatory permits, as well as the engagement of the needed contractors and suppliers, KGP has completed the construction of well pads and access roads, and continues to implement geo-hazard mitigation measures.

On October 12, 2019, the Project commenced drilling of the PAS-02 exploration well, and drilling operations are currently on-going. Consistent with and in compliance to the work program of the Project, KGP is preparing for the conversion of the Project from its pre-development phase to development phase.

The KGP continues to provide scholarship grants and educational assistance to deserving youths from the eight (8) ancestral domains within its contract area. As of school year 2019-2020, the KGP has already extended scholarships to 351 grantees and has produced 221 graduates in various courses. Three (3) scholar graduates in engineering and geology have been hired for the Project.

As at February 28, 2020, APEC has completed sub-phases 1 and 2 covering, geochemical and geophysical surveys. APEC is already in the sub-phase 3 stage of the project. In line with this, the consent of nine (9) out of eleven (11) ancestral domains has been secured covering 85% of the GRESC area. In addition, all of the Community Development (CD) Projects have been fully completed and turned over to the respective community beneficiaries.

This KGP involves the development of steam fields that can generate around 120 megawatts (MW) of new capacity, providing an additional source of clean, indigenous and reliable baseload power to the Luzon grid. A 120 MW geothermal project will approximately cost more than US$300.0 million.

b. APC Energy Resources Inc. (APC Energy)

APC Energy was established to engage in exploration, development and utilization of renewable energy resources. As at February 28, 2020, APC Energy is still in the pre-operating stage.

c. APC Mining Corporation (APC Mining)

APC Mining was organized to engage in mining, processing, manufacturing, buying and selling of all kinds of ores, metals and minerals. As at February 28, 2020, APC Mining is still in the pre-operating stage.

d. APC Cement Corporation (APC Cement)

APC Cement was established to engage in the manufacture of cement. As at February 28, 2020, APC Cement is still in the pre-operating stage.

e. PRC-Magma Energy Resources, Inc. (PRC Magma)

PRC Magma was established to engage in the business of exploration, development, and processing of renewable and non-renewable energy resources, including but not limited to wind power, solar power, hydropower, biofuels, biomass, and coal; exploration, mining and processing of metalliferous and non-metalliferous mineral and ore resources; trading and supply of energy and mineral resources; and generation of electric power using energy resources. As at February 28, 2020, PRC Magma is still in the pre-operating stage.

2. Basis of Preparation and Consolidation, Statement of Compliance and Summary of Significant Accounting Policies

Basis of Preparation
The accompanying consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income (FVOCI) and investment properties which are measured at fair value. The consolidated financial statements are presented in Philippine peso (₱), which is the Group's functional and presentation currency under Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance
The consolidated financial statements, which are prepared for submission to the SEC, have been prepared in compliance with PFRS.

Basis of Consolidation
The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries as at December 31, 2019 and 2018:

		Percentage of Ownership		
Subsidiaries	Nature of Business	Direct	Indirect	Total
APEC (1)	Energy	95.6	–	95.6(3)
PRC - Magma (1, 2)	Energy	–	85.0	85.0
APC Cement (1)	Manufacturing	100.0	–	100.0
APC Energy (1)	Mining	100.0	–	100.0
APC Mining (1)	Mining	83.0	–	83.0

(1) Still in the pre-operating stage
(2) A direct subsidiary of APEC
(3) On April 10, 2018, the Parent Company subscribed to additional shares of APEC through capital infusion amounting to ₱76.5 million which increased the ownership interest of the Parent Company from 90% to 95.6%. This resulted to change in ownership interests in APEC without loss of control and accounted for as deemed acquisition of NCI. Loss on dilution of NCI amounted to ₱3.4 million, presented as part of "Equity Reserves" in the Consolidated Statement of Financial Position.

All of the subsidiaries were incorporated in the Philippines.

Control is achieved when the Parent Company is exposed, or has right, to variable returns from its involvement with the investee. Specifically, the Parent Company controls an investee, if and only if, the Parent Company 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.

Generally, there is a presumption that a majority voting rights results in control. To support this presumption, and when the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangements with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company 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 Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income and expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

Non-controlling Interests (NCI)

NCI represent the portion of profit or loss and the net assets not held by the Group and are presented separately in the consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from equity attributable to owners of the Parent Company. Any losses applicable to a non-controlling shareholder of a consolidated subsidiary in excess of the non-controlling shareholder's equity in the subsidiary are charged against the NCI even if this results in NCI having a deficit.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2019: Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

- PFRS 16, *Leases*

  PFRS 16 supersedes Philippine Accounting Standard (PAS) 17, *Leases*, Philippine Interpretation IFRIC-4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases-Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet. Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in PAS 17 and distinguish two types of leases: operating lease and finance lease. Therefore, PFRS 16 does not have an impact for leases where the Group is the lessor.

  The Group adopted PFRS 16 using the modified retrospective approach and elected to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

  The Group has lease contracts for office space. Before the adoption of PFRS 16, the Group classified these leases (as lessee) at the inception date as operating leases. Refer to the accounting policy prior to January 1, 2019.

  Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases. Refer to the accounting policy on leases upon adoption of PFRS 16. The Group applied practical expedient wherein it applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application. The Group only has short-term lease. Thus, there is no significant impact on the adoption of PFRS 16.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:
  - Whether the Group considers uncertain tax treatments separately
  - The assumptions the Group makes about the examination of tax treatments by taxation authorities
  - How the Group determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How the Group considers changes in facts and circumstances

  The Group is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The Group shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the Group concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

The Group determined that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- *Annual Improvements to PFRSs* 2015-2017 Cycle
  - Amendments to PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Future Changes in Accounting Policies
Pronouncements issued but not yet effective are listed below. The Group intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Group's consolidated financial statements.

Effective beginning on or after January 1, 2020

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

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

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

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.The Group is currently assessing the impact of this amendment.

Summary of Significant Accounting Policies

Current versus Noncurrent Classification

The Group presents assets and liabilities in consolidated statements of financial position based on current/noncurrent classification. An asset is classified as current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 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 classified as current when it is:

- Expected to be settled in normal operating cycle;
- Held primarily for the purpose of trading;
- 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 terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent.

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

Determination of Fair Value
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:

a) In the principal market for the asset or liability, or
b) 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 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.

The Group determines the policies and procedures for both recurring and non-recurring fair value measurements. 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 assets or liability and the level of the fair value hierarchy.

The Group recognizes transfers into and transfers out of fair value hierarchy levels by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) as at the date of the event or change in circumstances that caused the transfer.

External valuers are involved for the valuation of significant assets, such as investment properties. Involvement of external valuers is decided upon annually. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. At each reporting date, the movements in the value of assets which are required to be re-measured or re-assessed as per accounting policies are analyzed. For the analysis, the major inputs applied in the latest valuation are verified by agreeing the information in the valuation computation to the contracts and other relevant documents.

In conjunction with the external valuers, the changes in the fair value of each assets and liabilities are compared with the relevant external sources to determine whether the change is reasonable. This includes a discussion of major assumptions used in the valuations. For the purpose of fair value disclosures, classes of assets and liabilities are determined 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.

'Day 1' Difference. When the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the consolidated statement of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial Instruments - Initial Recognition and Subsequent Measurement

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

Financial assets Starting January 1, 2018 (Upon Adoption of PFRS 9)

Initial recognition and measurement. Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI, and fair value through profit or loss (FVTPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15, *Revenue from Contracts with Customers*.

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

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

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

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

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

As at December 31, 2019 and 2018, the Group has no financial assets at FVOCI with recycling of cumulative gains and losses and financial assets at FVTPL.

Financial assets at amortized cost (debt instruments). This category is the most relevant to the Group.

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

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

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

The Group's cash and cash equivalents, receivables and deposits (presented under "Other noncurrent assets" account) are classified under this category.

Financial assets designated at FVOCI (equity instruments). Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Group elected to classify irrevocably its investments in equity instruments under this category.

Derecognition. 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; and either (a) the Group has transferred substantially all the risks and rewards of ownership of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of ownership 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 its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

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

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

For 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.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial Assets Prior to January 1, 2018 (Prior to Adoption of PFRS 9)

Date of Recognition of Financial Assets. The Group recognizes financial assets in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on trade date, i.e., the date the Group commits to purchase or sell the asset.

Initial Recognition and Subsequent Measurement of Financial Assets. Financial assets are recognized initially at fair value plus, in the case of investments not at FVTPL, transaction costs that are attributable to the acquisition of the financial asset.

Financial assets are classified as financial assets FVTPL, loans and receivables, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition and where allowed and appropriate, re-evaluates such classification every financial reporting date.

The Group has no financial assets at FVTPL and HTM investments as at December 31, 2017.

- *Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried 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 or costs that are not integral part of the EIR. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

  Loans and receivables are classified as current assets when the Group expects to realize the asset within 12 months from reporting date. Otherwise, these are classified as noncurrent assets.

  As at December 31, 2017, this category includes the Group's cash and cash equivalents, receivables and deposits (presented under "Other noncurrent assets" account).

- *AFS Financial Assets.* AFS financial assets are non-derivative financial assets that are designated as AFS or do not qualify to be classified as loans and receivables, financial assets at FVTPL or HTM investments. AFS financial assets include equity investments. Equity investments classified as AFS are those which are intended to be held for an indefinite period of time and are neither classified as held for trading nor designated as at FVTPL.
  After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized under other comprehensive income until the financial asset

is derecognized or determined to be impaired at which time the accumulated gains or losses previously reported under other comprehensive income are reclassified to profit or loss. AFS financial assets that are not quoted in an active market and whose fair value cannot be measured reliably are measured at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of investment. If a reliable measure ceases to be available, AFS financial assets are thereafter measured at cost, which is deemed to be the fair value carrying amount at that date. Assets under this category are classified as current assets if expected to be realized within 12 months from reporting date. Otherwise, these are classified as noncurrent assets.

The Group designates financial instruments as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions.

As at December 31, 2017, this category includes the Group's investments in shares of stock.

Impairment of Financial Assets. The Group assesses at each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

- *Financial Assets at Amortized Cost.* For financial assets carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

  If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original EIR. The carrying amount of the financial asset is reduced through use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the EIR of the asset.

  The Group provides an allowance for loans and receivables which they deemed to be uncollectible despite the Group's continuous effort to collect such balances from the respective clients. The Group considers those past due receivables as still collectible if they become past due only because of a delay on the fulfillment of certain conditions as agreed in the contract and not due to incapability of the customers to fulfill their obligation. However, for those receivables associated with pre-terminated contracts, the Group directly writes them off from the account since there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other income in the profit or loss. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed what its amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

- *AFS Financial Assets.* For equity investments classified as financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

  In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income) is removed from other comprehensive income and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through profit or loss. Increases in their fair value after impairment are recognized directly in other comprehensive income.

  The determination of what is "significant" or "prolonged" required judgment. In making this judgment, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

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

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

As at December 31, 2019 and 2018, the Group has no financial liabilities at FVTPL and derivatives designated as hedging instruments in an effective hedge.

Subsequent measurement. The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at amortized cost (Loans and borrowings). This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

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

Derecognition. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. 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 profit or loss.

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.

Property and Equipment
Property and equipment are stated at cost excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. The initial cost of property and equipment consists of its purchase price, including import duties and any directly attributable costs, including borrowing cost, in bringing the property and equipment to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to operations in the period such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Depreciation are computed using the straight-line method over one (1) to five (5) years for office and other equipment.

An item of property and equipment 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 item) is included in the consolidated statements of comprehensive income in the year the asset is derecognized.

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

The property and equipment’s residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each financial year-end.

Investment Property
Investment property represents land measured initially at cost, including related transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the reporting date and have been determined based on the latest valuations performed by an independent firm or appraisers. Gains or losses arising from changes in the fair values of investment property are included in the consolidated statements of comprehensive income in the year in which the gains or losses arise.

The standard requires all entities to measure the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model). An entity is encouraged, but not required, to measure the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

Investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition. In determining the amount of consideration from the derecognition of investment property, the Group considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the buyer (if any).

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. These transfers are recorded using the carrying amount of the investment property at the date of change in use.

Deferred Exploration Costs

Expenditures for exploration works on geothermal properties (i.e., acquisition of rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling, trenching, sampling, and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource) are deferred as incurred and presented under "Deferred exploration costs" account in the consolidated statement of financial position.

A provision for impairment is provided for unrecoverable deferred exploration costs based on the Group's assessment of the future prospects of the exploration project. Full provision is made for the impairment unless it is probable that such costs are expected to be recouped through successful exploration and development of the area of interest, or alternatively, by its sale. If the project does not prove to be viable, all revocable costs associated with the project and the related impairment provisions are written off. When a project is abandoned, the related deferred exploration costs are also written off.

Capital Stock and Additional Paid-in Capital (APIC)

Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as APIC.

Treasury Shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognized as APIC.

Deficit

The amount included in deficit includes cumulative amount of loss attributable to the Group's equity holders.

Revenue Recognition Starting January 1, 2018 (Upon adoption of PFRS 15)
The Group is organized to engage in the oil and gas exploration and development in the Philippines. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements.

The Group is still in the pre-operating stage as at December 31, 2019 and 2018.

Interest Income. Revenue is recognized as the interest accrues, taking into account the effective yield on the assets.

Dividend Income. Revenue is recognized when the Group's right to receive the payment is established.

Revenue Recognition Prior to January 1, 2018 (Prior to Adoption of PFRS 15)
Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Interest Income. Revenue is recognized as the interest accrues, taking into account the effective yield on the assets.

Dividend Income. Revenue is recognized when the Group's right to receive the payment is established.

Expenses
General and administrative expenses are recognized as incurred.

Employee Benefits

Retirement Costs. The Group has an unfunded, noncontributory defined benefit retirement plan covering substantially all of its employees.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation at the end of the reporting period. The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Interest on the defined benefit liability
- Remeasurements of defined benefit liability

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

Interest on the defined benefit liability is the change during the period in the defined benefit liability that arises from the passage of time which is determined by applying the discount rate based on government bonds to the defined benefit liability. Interest on the defined benefit liability is recognized as expense in profit or loss.

Remeasurements comprising actuarial gains and losses (excluding interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Actuarial valuations are made with sufficient regularity that the amounts recognized in the consolidated financial statements do not differ materially from the amounts that would be determined at the reporting period.

Other Employee Benefits. Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

<u>Leases Starting January 1, 2019 (Upon Adoption of PFRS 16)</u>
Leases. The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as Lessee. The Group applies a single recognition and measurement approach for all leases, except for short-term leases. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

- *Short-term Leases.* The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date or initial application of PFRS 16 and do not contain a purchase option). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

<u>Leases Prior to January 1, 2019 (Prior to Adoption of PFRS 16)</u>
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the agreement;
b. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether the fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a, c or d and the date of renewal or extension period for scenario b.

Group as a Lessee. Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statements of comprehensive income on a straight-line basis over the lease term.

Taxes

Current Tax. Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to item recognized directly in equity is recognized in equity and not in the profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

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

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

Deferred tax assets are recognized for all deductible temporary differences the carry forward benefits of unused tax credits and any unused tax losses from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and net operating loss carryover (NOLCO) to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry forward benefits of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and deferred tax 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 as at the reporting date.

Deferred tax relating to items recognized in OCI are included in the related OCI in the consolidated statement of comprehensive income and not in profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

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 part of "Trade and other payables" account in the consolidated 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 under "Input value added tax" account in the consolidated statement of financial position to the extent of the recoverable amount.

Foreign Currency-Denominated Transactions

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated using the closing exchange rate at the reporting date. All differences are taken to the consolidated statements of comprehensive income. Nonmonetary items are translated using the closing exchange rate as at the date of initial transaction.

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. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes to consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to consolidated financial statements 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 financial position at the reporting period (adjusting events), if any, are reflected in the consolidated financial statements. Post financial year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

Earnings (Loss) per Common Share

Earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares issued and outstanding during each year after giving retroactive effect to stock dividends declared during the year and after deducting the treasury shares, if any. The Group has no dilutive potential common shares outstanding.

3. Significant Judgment, Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgment, estimates and assumptions that affect certain reported amounts and disclosures. In preparing the consolidated financial statements, management has made its best judgment and estimates of certain amounts, giving due consideration to materiality. The judgment, estimates and assumptions used in the 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 those estimates, and such estimates will be adjusted accordingly.

Judgment, estimates and assumptions are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group believes that the following represent a summary of these significant judgment, estimates and assumptions and related impact and associated risks in its consolidated financial statements.

Judgments
In the process of applying the accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognized in the consolidated financial statements:

Recoverability of Deferred Exploration Costs. The Group recognizes all project related costs as part of deferred exploration costs. An impairment review is performed when there are indicators that the carrying amount of the deferred exploration costs may exceed their recoverable amount. The deferred exploration costs are reassessed on a regular basis and these costs are carried forward provided that all of the following conditions are met:

- the period for which the entity has the right to explore in the specific area has not expired during the period or will not expire in the near future, and is expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is budgeted or planned;
- the exploration for and evaluation of mineral resources in the specific area led to the discovery of commercially viable quantities of mineral resources and the entity has not decided to discontinue such activities in the specific area;
- and sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset will be recovered in full from successful development or by sale.

There were no indicator of impairment of deferred exploration costs in 2019, 2018 and 2017. The carrying value of deferred exploration costs amounted to ₱111.5 million ₱110.9 million as at December 31, 2019 and 2018, respectively (see Notes 8 and 10).

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

assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Recoverability and Impairment of Nonfinancial Assets (Excluding Deferred Exploration Cost). The Group's other nonfinancial assets include deferred exploration cost, input VAT and property and equipment. 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.

Input VAT is regularly assessed considering certain indications such as validity of the input VAT to be applied against output tax, decline in the usage of asset and significant underperformance relative to the expected historical or future operating results and significant negative industry or economic trends.

The carrying values of the Group's nonfinancial assets (excluding deferred exploration costs) that are subject to impairment testing when certain impairment indicators are present are as follows:

	2019	2018
Input VAT	**₱8,962,888**	₱8,704,647
Property and equipment (see Note 8)	**62,234**	15,620

There were no indicators of impairment as at December 31, 2019 and 2018.

Fair Value of Investment Property. The Group engaged an independent valuation specialist to determine the fair value of investment property. The appraiser used a valuation technique based on Market Data Approach. In this approach, the value of the land is based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires the adjustments of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject property. The comparison was premised on the factors of location, size and shape of the lot and time element.

Based on the Group's assessment, there are no significant changes in the fair value of the investment property from the 2016 appraisal report until the latest financial reporting date. The fair value of investment property amounted to ₱10.0 million as at December 31, 2019 and 2018 (see Note 9).

Realizability of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that sufficient future taxable profit will be generated to allow all or part of the deferred tax assets to be utilized. The Group's assessment on recognition of deferred tax assets on deductible temporary differences and carryforward benefits of MCIT and NOLCO is based on the forecasted taxable income. This forecast is based on the Group's past results and future expectations on revenue and expenses.

Unrecognized deferred tax assets amounted to ₱46.8 million and ₱51.2 million as at December 31, 2019 and 2018, respectively (see Note 15).

Retirement Costs. The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and mortality rates. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

Retirement costs amounted to ₱0.3 million in 2019 and ₱0.5 million in 2018 and 2017. Accrued retirement costs amounted to ₱3.4 million and ₱3.2 million as at December 31, 2019 and 2018, respectively (see Note 14).

4. Segment Information

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

As discussed in Note 1, the Group is engaged in mining and exploration activities. The Management assessed that the Group is just considered as one business segment as it does not have other activities other than the exploration projects. The classification of business segment is regularly reviewed by Management Committee, which is the Chief Operating Decision Maker, to make decisions about how resources are to be allocated to each of the segments and to assess their performances, and for which discrete financial information is available.

Group revenue, segment expenses and segment results include transfers among entities within the segments. Those transfers are eliminated in the consolidation. The amounts of segment assets and liabilities and segment profit or loss are based on measurement principles that are similar to those used in measuring the assets and liabilities and profit or loss in the consolidated financial statements, which is in accordance to PFRS.

Information with regard to the significant business segments of the Group are shown below.

	Years Ended December 31		
Segment Operations	**2019**	2018	2017
Segment expenses	**(₱10,264,576)**	(₱12,350,727)	(₱20,510,625)
Loss on disposal of property and equipment	–	–	(26,684)
Loss on sale of investment property	–	(3,015,807)	–
Interest income	**4,651,666**	3,569,449	3,900,176
Dividend and other income	**319,476**	279,224	223,188
Provision for income tax	–	–	(890)
Net loss	**(₱5,293,434)**	(₱11,517,861)	(₱16,414,835)

	2019	2018	2017
As at December 31			
Other information:			
Segment assets	**₱273,301,564**	₱279,923,337	₱296,993,102
Segment liabilities	**112,048,129**	111,828,977	113,883,431
Depreciation	**15,868**	8,926	65,522

5. **Cash and Cash Equivalents**

This account consists of:

	2019	2018
Cash on hand and in banks	**₱4,476,781**	₱4,026,348
Short-term investments	**133,014,559**	140,760,790
	₱137,491,340	₱144,787,138

Cash in banks earn interest at the prevailing bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates.

Interest income earned from cash in banks and short-term investments amounted to ₱4.7 million, ₱3.6 million, and ₱3.9 million in 2019, 2018, and 2017, respectively.

6. **Receivables**

This account consists of:

	2019	2018
Advances to AKHI	**₱1,462,640**	₱197,770
Advances to officers and employees	**83,836**	46,168
Others	**38,718**	56,780
	₱1,585,194	₱300,718

The terms and conditions of the above receivables are as follows:

- Advances to AKHI are noninterest-bearing and are normally settled within a 30-day term.
- Advances to officers and employees are noninterest-bearing and are normally settled within a 30-day term.
- Other receivables consist of advances to contractors and suppliers.

7. Financial assets at Fair Value Through Other Comprehensive Income

This account consists of:

	2019	2018
Premium Leisure Corp. (PLC)	**₱3,624,630**	₱5,087,200
Others	**–**	84,921
	₱3,624,630	₱5,172,121

Movements of financial assets at FVOCI as at December 31 are as follows:

	2019	2018
Balance at beginning of year	**₱5,172,121**	₱8,669,571
Change in fair value of financial assets at FVOCI	**(1,547,491)**	(3,497,450)
Balance at end of year	**₱3,624,630**	₱5,172,121

Changes in fair value of financial assets at FVOCI attributable to the shareholders of the Parent Company (presented in the equity section of the consolidated statements of financial position) follow:

	2019	2018
Balance at beginning of year	**₱4,324,120**	₱7,821,570
Cumulative change in fair value of financial assets at FVOCI	**(1,547,491)**	(3,497,450)
Balance at end of year	**₱2,776,629**	₱4,324,120

The Group received dividend income from PLC shares amounting to ₱0.3 million in 2019 and 2018, and ₱0.2 million in 2017.

8. Property and Equipment

This account consists of office and other equipment:

	2019	2018
Cost		
Balance at beginning and end of year	**₱1,614,133**	₱1,614,133
Additions	**62,482**	–
	1,676,615	1,614,133
Accumulated Depreciation		
Balance at beginning of year	**₱1,598,513**	₱1,589,587
Depreciation (see Note 13)	**15,868**	8,926
Balance at end of year	**1,614,381**	1,598,513
Net book value	**₱62,234**	₱15,620

There were no idle assets as at December 31, 2019 and 2018.

9. **Investment Property**

The movement of this account follows:

	2019	2018
Balance at beginning of year	**₱10,028,870**	₱22,374,000
Disposal	–	(12,345,130)
Balance at end of year	**₱10,028,870**	₱10,028,870

Investment property consists of parcels of land which is being held by the Group for capital appreciation.

In 2018, the Group sold parcels of land for a total consideration amounting to ₱9.3 million which resulted to a loss on sale of investment property of ₱3.0 million.

The fair value of the remaining investment property as at December 31, 2019 was determined by Colliers International Philippines, Inc., an independent appraiser, on October 12, 2016. The appraiser is an industry specialist in valuing these types of investment property. Fair value represents 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 values of investment property are determined using the market data approach by gathering available market evidences.

The Group has no limitations to any particular class of heirs or restrictions, but subject to the limitations of eminent domain, police power and taxation.

Fair value hierarchy disclosures for investment property has been provided in Note 19.

Description of valuation techniques used and key inputs to valuation on investment property are as follows:

<u>Highest and Best Use</u>
Based on analysis of prevailing land usage in the neighborhood and the property itself, *diversified agro-industrial land development* would represent the highest and best use of the property.

Highest and Best Use is defined as the most profitable likely use to which a property can be put. The opinion of such use may be based on the highest and most profitable continuous use to which the property is adapted and needed or that use of land which may reasonably be expected to produce the greatest net return to land over a given period of time. Alternatively, it is that use, from among reasonably probable and legal alternative uses, found to be physically possible, appropriately supported, financially feasible, and which results in highest land value.

<u>Market Data Approach</u>
The value of the land was arrived at using the *Market Data Approach*. In this approach, the value of the land was based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires the adjustments of comparable property by reducing reasonable comparative sales and listings to a common denominator. This was done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as bases of comparison are situated within the immediate vicinity of the subject property. The comparison was premised on the factors of locations, size and shape of the lot, time element and others.

The sensitivity analysis of the market value of the investment properties are as follows:

Increase (decrease) in sales adjustment	**Increase (decrease) in fair value of investment property**
10.0%	**₱523,536**
(10.0%)	**(523,536)**

While fair value of the investment property was not determined as at December 31, 2019, the Group's management believes that there were no conditions present in 2019 that would significantly reduce the fair value of the investment properties from that determined in 2016.

10. Deferred Exploration Costs

This account consists of:

	2019	2018
Cost:		
KGP	**₱111,520,001**	₱110,878,886
Other exploration costs	**63,664,924**	63,664,924
Mining rights	**48,254,908**	48,254,908
Balance at end of year	**223,439,833**	222,798,718
Less allowance for impairment	**111,919,832**	111,919,832
Net book value	**₱111,520,001**	₱110,878,886

The movement of KGP are as follows:

	2019	2018
Balance at beginning of year	**₱110,878,886**	₱59,702,160
Additions	**641,115**	51,176,726
Balance at end of year	**₱111,520,001**	₱110,878,886

Deferred exploration costs relate to geothermal projects. The ability of the Group to recover its deferred exploration cost would depend on the success of exploration activities and on the commercial viability of the reserves (see Note 1).

The Group incurred exploration costs amounting to ₱0.6 million and ₱51.2 million in 2019 and 2018, respectively, in connection with the exploration activities, engineering design and technical feasibility of its Geothermal Kalinga Project.

11. Trade and Other Payables

This account consists of:

	2019	2018
Trade	**₱4,974,345**	₱4,825,199
Payable to third parties	**12,978,971**	12,978,972
Nontrade payables	**8,735,254**	8,735,254
(Forward)		

	2019	2018
Accrued expenses:		
Professional fees	**₱1,304,826**	₱1,308,826
Others	**562,384**	575,703
Payable to government agencies	**72,021**	25,077
	₱28,627,801	₱28,449,031

The terms and conditions of the above payables are as follows:

- Trade payables are noninterest-bearing and are normally settled on a 30-day term.
- Payable to third party mostly pertain to payables that are noninterest-bearing and are due and demandable.
- Nontrade payables are noninterest-bearing and payable on demand.
- Accrued expenses mainly pertain to payable to utility and other service providers which are normally settled within the next financial year.
- Payable to government agencies mainly pertain to statutory liabilities such as withholding taxes and premiums on Social Security System (SSS), Philhealth and Pag-IBIG fund which are normally settled within the next financial year.

12. **Equity**

a. Details of authorized and issued capital stock both for December 31, 2019 and 2018 follow:

	Number of Shares	Amount
Authorized:		
Preferred stock - ₱1 par value	6,000,000,000	₱6,000,000,000
Common stock - ₱1 par value	14,000,000,000	14,000,000,000

	Number of Shares	Amounts
Issued - Common shares	5,998,149,059	₱5,998,149,059
Subscribed - Common shares	1,513,660,938	1,513,660,938
	7,511,809,997	7,511,809,997
Less subscription receivable	1,123,731,248	1,123,731,248
	6,388,078,749	₱6,388,078,749

b. As at December 31, 2019 and 2018, the Group has 7,606,000 treasury shares with cost amounting to ₱29.4 million.

c. The cumulative, convertible preference shares are redeemable and may be issued from time to time by the Parent Company's BOD, which is authorized to adopt resolutions authorizing the issuance thereof in one or more series for such number of shares and relative rights and preferences, as it may deem beneficial to the Parent Company. As at February 28, 2020, the Parent Company's BOD has not authorized any issuance of preferred shares.

d. The following summarizes the information on the Parent Company's registration of securities under the Securities Regulation Code:

Date of SEC Approval	Type of Issuance	Authorized Shares	Issue/ Offer Price
January 7, 1994	Initial public offering	80,000,000,000	₱0.01
July 9, 1996	Additional public offering	100,000,000,000	0.01
July 12, 1996	Stock option	5,300,000,000	0.01

The total number of shareholders is 593 and 595 as at December 31, 2019 and 2018, respectively.

On August 9, 2017, the Parent Company's BOD approved the reduction of the par value of the Parent Company's capital stock from ₱1 par value per share to ₱0.01 par value per share. The authorized capital stock of the Parent Company will be ₱200.0 million, divided into 140.0 million common shares and 60.0 million preferred shares. This was approved by the Parent Company's stockholders on September 27, 2017.

The reduction in par value will generate sufficient APIC to wipe out the Group 's deficit. On February 20, 2020, the SEC approved the Company's equity restructuring, the decrease of capital stock and the Company's amended articles of incorporation.

13. General and Administrative Expenses

This account consists of:

	2019	2018	2017
Salaries and employee benefits	**₱4,441,668**	₱4,899,059	₱4,933,334
Professional fees and outside services	**2,302,035**	2,366,669	6,147,392
Entertainment, amusement and recreation	**1,293,790**	1,298,363	1,495,626
Transportation and travel	**987,307**	852,331	660,685
Taxes and licenses	**335,566**	1,775,476	5,430,419
Retirement costs (see Note 14)	**271,091**	505,320	490,513
Dues and subscriptions	**140,590**	346,412	283,609
Rental	**53,571**	53,571	405,054
Depreciation (see Note 8)	**15,868**	8,926	65,522
Others	**423,090**	244,600	598,471
	₱10,264,576	₱12,350,727	₱20,510,625

14. Retirement Plan

The Group has an unfunded, noncontributory defined benefit retirement plan covering substantially all of its employees. The plan provides for a lump sum benefit payment upon retirement.

Under the existing regulatory framework, Republic Act (RA) No. 7641, an act amending Article 287 of Presidential Decree (PD) No. 442, as amended, otherwise known as the *Labor Code of the Philippines*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The latest valuation of retirement plan was performed by E.M. Zalamea Actuarial Services, Inc., an independent actuarial, on January 19, 2018.

Changes in accrued retirement costs are as follows:

	2019	2018	2017
Balance at beginning of year	**₱3,170,606**	₱2,665,286	₱2,800,500
Retirement costs (Note 13):			
Current service cost	**108,845**	351,000	331,165
Interest cost	**162,246**	154,320	159,348
	271,091	505,320	490,513
Remeasurement loss (gain) in other comprehensive income:			
Actuarial changes due to experience adjustments	–	–	(1,209,385)
Actuarial changes arising from changes in financial assumptions	–	–	583,658
	–	–	(625,727)
	₱3,441,697	₱3,170,606	₱2,665,286

The principal assumptions used to determine retirement obligations for the Group's plan are shown below:

Discount rate	**5.79%**
Future salary increase rate	**8.00%**

The following are other defined benefit plan information:

	2019	2018
A. Weighted average duration of present value of defined benefit obligation	**7.90 years**	8.90 years
B. Maturity analysis of undiscounted retirement benefit payments		
More than one year up to 5 years	**₱517,628**	₱517,628
More than 5 years up to 10 years	**2,087,323**	2,087,323
C. Plan membership information		
Number of active plan members	**5**	7
Average attained age	**47.2 years**	41.9 years
Average past service	**11.1 years**	7.8 years
Average future service	**12.7 years**	18.1 years

15. **Income Tax**

a. In 2017, the current provision for income tax is computed using MCIT. There were no provision for income tax in 2018 and 2019.

b. The reconciliation of benefit from income tax computed at the statutory income tax rate to provision for income tax shown in the consolidated statements of comprehensive income follows:

	2019	2018	2017
Benefit from income tax at statutory income tax rate	**(₱1,588,030)**	(₱3,455,358)	(₱4,924,184)
Increase (decrease) in income tax resulting from:			
Expired NOLCO and MCIT	**7,078,825**	5,143,848	2,748,167
Change in unrecognized deferred tax assets	**(4,387,804)**	(936,656)	2,951,878
Interest income subjected to final tax	**(1,395,500)**	(1,070,835)	(1,170,053)
Nondeductible expenses	**388,137**	402,768	448,688
Dividend income exempt from income tax	**(95,843)**	(83,767)	(53,606)
Others	**215**	–	–
Effective income tax	**₱–**	₱–	₱890

c. Following are the deductible temporary differences and carryforward benefits of the excess of MCIT over RCIT and NOLCO for which no deferred tax assets were recognized:

	2019	2018	2017
Allowance for impairment of deferred exploration costs and mining rights (see Note 10)	**₱111,919,832**	₱111,919,832	₱111,919,832
NOLCO	**40,725,019**	55,383,285	59,009,651
Accrued retirement costs	**3,441,697**	3,170,606	2,665,286
Excess of MCIT over RCIT	**890**	72,327	72,669
Others	–	714	714
	₱156,087,438	₱170,546,764	₱173,668,152
Unrecognized deferred tax assets	**₱46,826,854**	₱51,214,658	₱52,151,314

Deferred tax assets were not recognized as at December 31, 2019 and 2018 as management believes it is not probable that future taxable profits will be sufficient against which these can be utilized.

d. As at December 31, 2019, the Group's NOLCO and MCIT, which can be carried forward and claimed as deductions against regular taxable income and as tax credit against regular corporate income tax due, respectively, are as follows:

Year Incurred / Paid	Expiry Date	NOLCO	MCIT
2017	2020	₱18,506,671	₱890
2018	2021	13,518,653	–
2019	2022	8,699,695	–
		₱40,725,019	₱890

The movements in NOLCO and MCIT follow:

	2019	2018
NOLCO:		
Balance at beginning of year	**₱55,383,285**	₱59,009,651
Additions	**8,699,695**	13,518,653
Expirations	**(23,357,961)**	(17,145,019)
Balance at end of year	**₱40,725,019**	₱55,383,285

	2019	2018
MCIT:		
Balance at beginning of year	**₱72,327**	₱72,669
Expirations	**(71,437)**	(342)
Balance at end of year	**₱890**	₱72,327

16. **Related Party Transactions**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals owning, directly or indirectly through one or more intermediaries; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group, key management personnel, including directors and officers of the Group and close members of the family of any such individual and; (d) affiliate, which is a party that, directly or indirectly through one or more intermediaries, control, is controlled by, or is under common control with the Group. Transactions with related parties are normally settled in cash. There have been no guarantees provided or received for any related party receivables or payables and settlement occurs in cash.

Related party transactions pertain to the availment of noninterest-bearing advances from a stockholder and other related parties. The details of advances from related parties are as follows:

Category	Year	Amount/ Volume of Transactions	Advances from a Related Party	Terms	Conditions
Stockholder					
Belle					
(1) Advances	**2019**	**₱–**	**(₱79,406,947)**	On demand;	Unsecured
	2018	–	(79,406,947)	Noninterest-bearing	
(2) Share in expenses	**2019**	–	**(571,684)**	On demand;	Unsecured
	2018	(42,845)	(640,434)	Noninterest-bearing	
Total					
Advances from a related party	**2019**	**₱68,750**	**(₱79,978,631)**		
	2018	₱42,845	(₱80,047,381)		

Compensation and benefits of key management personnel of the Group for the year ended December 31 consists of the following:

	2019	2018	2017
Salaries and short-term employee benefits	**₱3,770,000**	₱3,480,000	₱3,480,000
Retirement costs	**190,543**	190,543	190,543
	₱3,960,543	₱3,670,543	₱3,670,543

17. Basic/Diluted Loss Per Common Share

The calculation of loss per share for the years ended December 31 follows:

	2019	2018	2017
Loss attributable to equity holders of the Parent Company (a)	**(₱5,274,618)**	(₱11,470,031)	(₱16,324,751)
Weighted average number of common shares	**7,511,809,997**	7,511,809,997	7,511,809,997
Treasury shares	**(7,606,000)**	(7,606,000)	(7,606,000)
Divided by weighted average common shares (b)	**7,504,203,997**	7,504,203,997	7,504,203,997
Basic/diluted loss per share	**(₱0.000703)**	(₱0.001528)	(₱0.002175)

There were no dilutive potential common shares for purposes of calculation of loss per share in 2019, 2018 and 2017.

18. Financial Risk Management Objectives and Policies

The Group's principal financial liabilities comprise trade and other payables and advances from related parties. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include cash and cash equivalents and receivables that derive directly from its operations. Other financial instruments consists of financial assets at FVOCI and deposits.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and equity price risk. The BOD and management review and approve policies of managing each of the risks and they are summarized below.

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligation under a financial instrument or customer contract, leading to a financial loss.

Exposure to credit risk is monitored on an ongoing basis, credit checks are performed on all clients requesting credit over certain amounts. Credit granted is subject to regular review, to ensure it remains consistent with the customers' current credit worthiness and appropriate to the anticipated volume of business. The investment of the Group's cash resources is managed so as to minimize risk while seeking to enhance yield. The Group is exposed to credit risk, if the counterparty is unwilling or unable to fulfill its obligations and the Group consequently suffers financial loss. Credit risk management involves entering into financial transactions only with counterparties with acceptable credit rating.

There are no significant concentrations of credit risk within the Group. Since the Group trades only with recognized third parties, there is no requirement for collateral. The carrying values of the Group's financial assets represent the maximum exposure to credit risk as at the reporting date.

The aging analyses of financial assets as at December 31 are follows:

	2019				
	Neither Past Due nor Impaired	**Past Due but not Impaired 1-60 Days**	**>60 Days**	**Impaired**	**Total**
Cash and cash equivalents*	**₱137,481,340**	**₱–**	**₱–**	**₱–**	**₱137,481,340**
Receivables:					
Advances to AKHI	**1,431,578**	**–**	**31,062**	**–**	**1,462,640**
Advances to officers and employees	**83,836**	**–**	**–**	**–**	**83,836**
Others	**37,718**	**–**	**–**	**–**	**37,718**
Deposits**	**23,822**	**–**	**–**	**–**	**23,822**
Financial assets at FVOCI	**3,624,630**	**–**	**–**	**–**	**3,624,630**
	₱142,682,924	**₱–**	**₱31,062**	**₱–**	**₱142,713,986**

**Excluding cash on hand amounting to ₱10.0 thousand*
***Presented under "Other noncurrent assets" account.*

	2018				
	Neither Past Due nor Impaired	Past Due but not Impaired 1-60 Days	>60 Days	Impaired	Total
Cash and cash equivalents*	₱144,777,138	₱–	₱–	₱–	₱144,777,138
Receivables:					
Advances to AKHI	–	–	197,770	–	197,770
Advances to officers and employees	1,086	–	45,082	–	46,168
Others	15,512	–	41,268	–	56,780
Deposits**	23,822	–	–	–	23,822
Financial assets at FVOCI	5,172,121	–	–	–	5,172,121
	₱149,989,679	₱–	₱284,120	₱–	₱150,273,799

**Excluding cash on hand amounting to ₱10.0 thousand*
***Presented under "Other noncurrent assets" account.*

The financial assets are grouped according to stage whose description is explained as follows:

Stage 1 - Those that are considered current and up to 90 days past due, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk.

Stage 2 - Those that, based on change in rating, delinquencies and payment history, demonstrate significant increase in credit risk, and/or are considered more than 90 days past due but does not demonstrate objective evidence of impairment as of reporting date.

Stage 3 - Those that are considered in default or demonstrate objective evidence of impairment as of reporting date.

As at December 31, 2019, the credit quality of the Group's financial assets are as follows:

	2019			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Financial assets at amortized cost				
Cash and cash equivalents*	**₱137,481,340**	**₱–**	**₱–**	**₱137,481,340**
Receivables	**1,584,194**	**–**	**–**	**1,584,194**
Deposits**	**23,822**	**–**	**–**	**23,822**
Financial assets at FVOCI	**3,624,630**	**–**	**–**	**3,624,630**
Gross carrying amount	**₱142,713,986**	**₱–**	**₱–**	**₱142,713,986**

**Excluding cash on hand amounting to ₱10.0 thousand*
***Presented under "Other noncurrent assets" account*

As at December 31, 2018, the credit quality of the Group's financial assets are as follows:

	2018			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Financial assets at amortized cost				
Cash and cash equivalents*	₱144,777,138	₱–	₱–	₱144,777,138
Receivables	300,718	–	–	300,718
Deposits**	23,822	–	–	23,822
Financial assets at FVOCI	5,172,121	–	–	5,172,121
Gross carrying amount	₱150,273,799	₱–	₱–	₱150,273,799

**Excluding cash on hand amounting to ₱10.0 thousand*
***Presented under "Other noncurrent assets" account*

Liquidity Risk

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments. The Group's objective is to maintain continuity of funding. The Group's policy is to maximize the use of suppliers' credit for all its major purchases and limit major capital expenditures at a reasonable level. The Group monitors its cash position by a system of cash forecasting. All expected collections, check disbursements and other payments are determined on a weekly basis to arrive at the projected cash position to cover its obligations. The Group's financial assets, which are used to meet its short-term liquidity needs, include cash and cash equivalents, receivables and financial assets at FVOCI totaling ₱142.7 million and ₱150.3 million as at December 31, 2019 and 2018, respectively.

The table below summarizes the maturity profile of the Group's other financial liabilities based on contractual undiscounted payments as at December 31.

	2019				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**Over 1 Year**	**Total**
Trade and other payables*	**₱28,555,780**	**₱–**	**₱–**	**₱–**	**₱28,555,780**
Advances from a related party	**79,978,631**	**–**	**–**	**–**	**79,978,631**
	₱108,534,411	**₱–**	**₱–**	**₱–**	**₱108,534,411**

**Excluding statutory liabilities to the government.*

	2018				
	On Demand	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Trade and other payables*	₱28,423,954	₱–	₱–	₱–	₱28,423,954
Advances from a related party	80,047,381	–	–	–	80,047,381
Subscriptions payable	–	–	–	161,959	161,959
	₱108,471,335	₱–	₱–	₱161,959	₱108,633,294

**Excluding statutory liabilities to the government.*

Equity Price Risk

The Group's investments in equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's BOD reviews and approves all equity investment decisions.

The Group's exposure to quoted securities amounted to ₱3.6 million and ₱5.2 million as at December 31, 2019 and 2018, respectively (see Note 7).

The effect on the consolidated income or equity, depending on whether or not decline is significant or prolonged (as a result of a change in fair value of quoted equity instruments held as AFS financial assets as at December 31, 2019 and 2018) due to reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Change in Equity Price*	Effect on Equity
2019	**4%**	**₱161,095**
	(4%)	**(161,095)**
2018	7%	₱356,539
	(7%)	(356,539)

**Based on PSE market index*

Capital Management
The main objective of the Group is to maintain a strong and healthy financial position.

Presently, the cash requirements of the Group are financed mainly from internally generated sources. Major projects will be financed by debt and/or equity funds from strategic partnerships with investors (both foreign and local) who are willing to put a stake in the projects. Through a combination of debt and equity financing, the Group should be able to maintain a strong and solid capital structure.

The capital structure of the Group consists of capital stock and additional paid-in capital amounting to ₱7,972.6 million after deduction treasury shares at December 31, 2019 and 2018, respectively.

There were no changes in the objectives, policies or procedures during the years ended December 31, 2019 and 2018.

19. Financial Assets and Liabilities

A comparison by category of the carrying values and estimated fair values of the Group's financial instruments that are carried in the consolidated statements of financial position as at December 31, 2019 and 2018 are as follows:

Cash and Cash Equivalents, Receivables, Trade and Other Payables, and Advances from Related Parties
Due to the short-term nature of the transactions, the carrying values approximate the fair values at reporting dates.

Financial Assets at FVOCI
The fair values of quoted equity securities were determined by reference to market bid quotes as of reporting dates.

The following tables provide the fair value measurement hierarchy of the Group's assets and liabilities as at December 31, 2019 and 2018:

	2019			
	Valuation Date	**Total**	**Level 1**	**Level 3**
Assets measured at fair value:				
Investment property	**October 12, 2016**	**₱10,028,870**	**₱–**	**₱10,028,870**
Financial assets at FVOCI (Note 7)	**December 31, 2019**	**–**	**3,624,630**	**–**
Total financial assets		**₱10,028,870**	**₱3,624,630**	**₱10,028,870**

	2019			
	Valuation Date	**Total**	**Level 1**	**Level 3**
	2018			
	Valuation Date	Total	Level 1	Level 3
Assets measured at fair value:				
Investment property	October 12, 2016	₱10,028,870	₱–	₱10,028,870
Financial assets at FVOCI (Note 7)	December 31, 2018	5,172,121	5,172,121	–
Total financial assets		₱15,200,991	₱5,172,121	₱10,028,870

There were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements during the year ended December 31, 2019 and 2018.

20. Events after the Reporting Period

On February 20, 2020, SEC approved the Parent Company's application for equity restructuring, decrease in capital stock and amended articles of incorporation.

On January 29, 2020, APEC made a capital call in the amount of ₱118,000,000 to Parent Company and its shareholders. On February 26, 2020, the deadline of the capital call, Parent Company has paid its equivalent share in the capital call amounting to ₱112,813,182. As of February 28, 2020, no other shareholder has participated in the capital call. As a result, Parent Company's shareholding in APEC increased from 95.6% to 97.6%.

SGV
Building a better working world

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
APC Group, Inc.
G/F MyTown New York Bldg.
General E. Jacinto St. corner Capas St.
Brgy. Guadalupe Nuevo, Makati City

We have audited in accordance with Philippine Standards on Auditing the consolidated financial statements of APC Group, Inc. and subsidiaries (the Group) as at December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019 and have issued our report thereon dated February 28, 2020. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Revised Securities Regulation Code Rule 68 and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Johnny F. Ang
Partner
CPA Certificate No. 0108257
SEC Accreditation No. 1284-AR-2 (Group A),
May 16, 2019, valid until May 15, 2022
Tax Identification No. 221-717-423
BIR Accreditation No. 08-001998-101-2018,
November 6, 2018, valid until November 5, 2021
PTR No. 8131119, January 9, 2020, Makati City

February 28, 2020

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November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT ON
COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Stockholders and the Board of Directors
APC Group, Inc.
G/F MyTown New York Bldg.
General E. Jacinto St. corner Capas St.
Brgy. Guadalupe Nuevo, Makati City

We have audited in accordance with Philippine Standards on Auditing the consolidated financial statements of APC Group, Inc. and subsidiaries (the Group) as at December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated February 28, 2020. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Consolidated Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Johnny F. Ang
Partner
CPA Certificate No. 0108257
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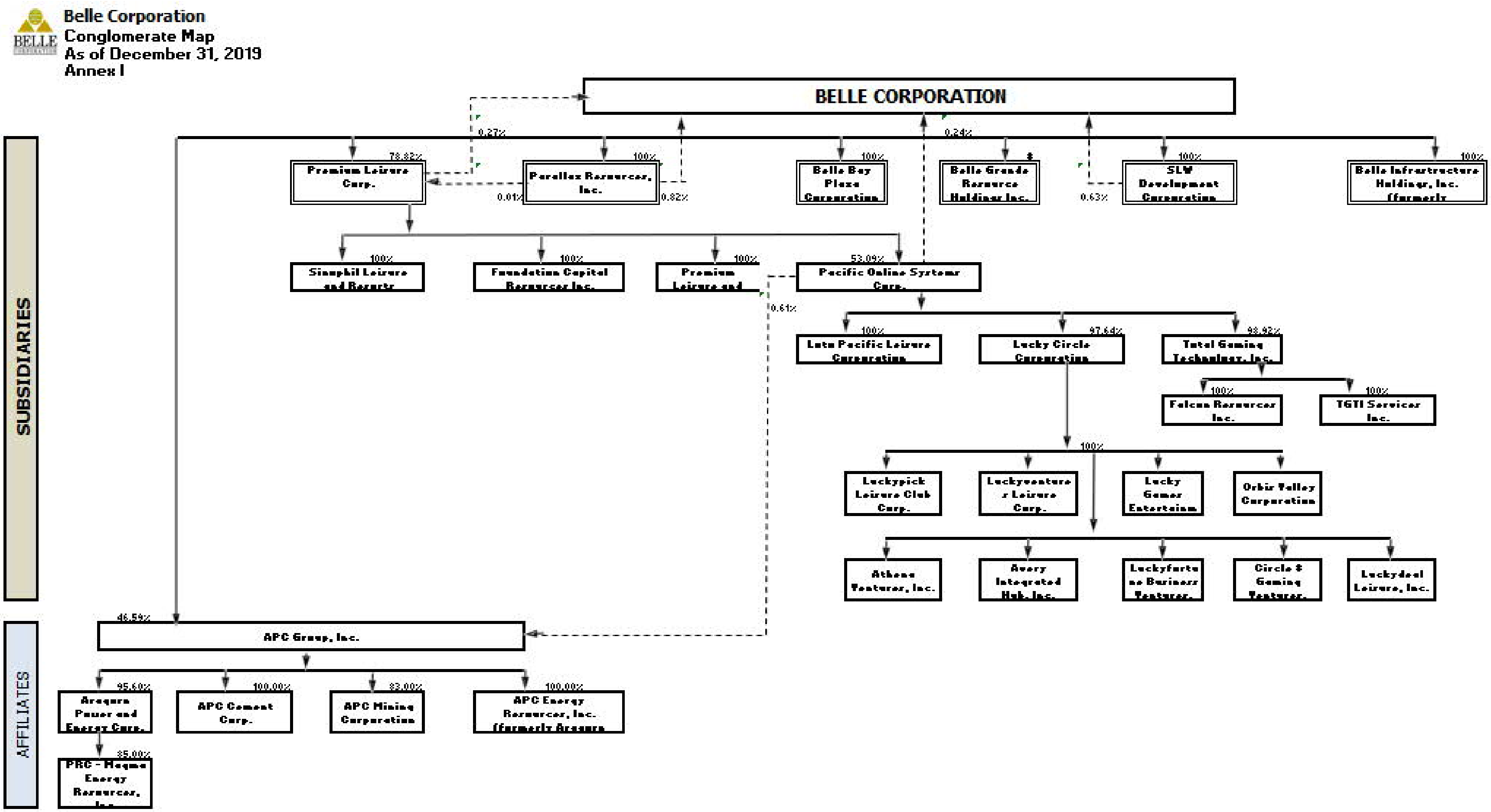
February 28, 2020

APC GROUP, INC. AND SUBSIDIARIES
Index to the Consolidated Financial Statements and Supplementary Schedules
December 31, 2019

APC GROUP, INC. AND SUBSIDIARIES

MAP OF THE RELATIONSHIP OF THE COMPANIES WITHIN THE GROUP

DECEMBER 31, 2019



APC GROUP, INC. AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULES REQUIRED BY REVISED SRC RULE 68
DECEMBER 31, 2019

Schedule A. Financial Assets

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the statement of financial position	Value based on market quotation at end of reporting period	Income received and accrued
Financial assets at amortized costs				
Cash and cash equivalents	₱137,491,340	₱137,491,340	N/A	₱4,651,666
Receivables	1,501,358	1,501,358	N/A	–
Advances to officers and employees	38,718	38,718	N/A	–
Deposits	23,822	23,822	N/A	–
	139,055,238	139,055,238		4,651,666
Financial assets at fair value through other comprehensive income				
Premium Leisure Corp	6,359,000	3,624,630	3,624,630	–
	6,359,000	3,624,630	3,624,630	–
		₱142,679,868	₱3,624,630	₱4,651,666

Schedule B. Amounts Receivable from Directors, Officers, Employees, and Principal Stockholders (Other than Related Parties)

Account	Balance at Beginning of Period	Additions	Amounts Collected	Amounts Written Off	Current	Not Current	Balance of end of Period
Officers and employees	₱46,168	₱504,000	(₱511,450)	₱–	₱38,718	₱–	₱38,718

Schedule C. Amounts of Receivable from Related Parties which are eliminated during the consolidation of financial statements

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Amounts Collected	Allowance for Doubtful Account	Current	Not Current	Balance at end of Period
APC Mining Corporation	₱78,558,106	₱17,501	₱–	(₱78,575,607)	₱–	₱–	₱–
APC Cement Corporation	5,675,698	19,711	–	(5,695,409)	–	–	–
APC Energy Resources, Inc.	7,593,901	48,222	–	(7,642,123)	–	–	–
Aragorn Power and Energy Corporation	4,991,185	2,038,634	–	–	538,634	6,491,185	7,029,819
	₱96,818,890	₱2,124,068	₱–	(₱91,913,139)	₱538,634	₱6,491,185	₱7,029,819

Schedule D. Long-term Debt

Title of Issue and Type of Obligation	Amount Authorized by Indenture	Amount Shown under caption "Current portion of long-term debt" the statement of financial position	Amount Shown under "Long-Term Debt" the statement of financial position
None	–	–	–

Schedule E. Indebtedness to Related Parties

Name of Related Parties	Balance at Beginning of Period	Additions	Amounts Paid	Current	Not Current	Balance at end of Period
Belle Corporation	₱80,047,381	₱–	(₱68,750)	₱79,978,631	₱–	₱79,978,631

Schedule F. Guarantees of Securities of Other Issuers

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of Guarantee
None	–	–	–	–

Schedule G. Capital Stock

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related statements of financial position caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers, and employees	Others
Common	14,000,000,000	7,511,809,997*	NA	3,665,722,334	2,452,706	3,843,634,957
Preferred	6,000,000,000	–	NA	–	–	–

**inclusive of Treasury shares - 7,606,000*

APC GROUP, INC. AND SUBSIDIARIES
Components of Financial Soundness Indicators
As of December 31, 2019

Financial Ratios	Formula		2019	2018
Current Ratio	Total Current Assets divided by Total Current Liabilities		**1.28**	1.34
	Total Current Assets	**₱139,079,119**		
	Divide by: Total Current Liabilities	**108,606,432**		
	Current Ratio	**1.28**		
Acid Test Ratio	Quick assets (Total Current Assets less Inventories and Other Current Assets) divided by Total Current Liabilities		**1.28**	1.34
	Total Current assets	**₱139,079,119**		
	Less: Other current assets	**(2,585)**		
	Quick assets	**139,076,534**		
	Divide by: Total Current Liabilities	**108,606,432**		
	Acid test ratio	**1.28**		
Solvency Ratio	After tax net income (loss) plus Depreciation divided by Total liabilities		**(0.05)**	(0.10)
	After tax net income (loss)	**(₱5,277,566)**		
	Add: Depreciation			
	Divide by: Total Liabilities	**112,048,129**		
	Solvency Ratio	**(0.05)**		
Debt-to-Equity Ratio	Total liabilities divided by Total stockholders' equity		**0.69**	0.67
	Total liabilities	**₱112,048,129**		
	Divide by: Total stockholders' equity	**161,253,435**		
	Debt-to-Equity Ratio	**0.69**		
Asset to Equity Ratio	Total assets divided by Total stockholders' equity		**1.69**	1.67
	Total assets	₱273,301,564		
	Divide by: Total stockholders' equity	161,253,435		
	Asset-to-Equity Ratio	**1.69**		
Return on Equity Ratio	Net income (loss) divided by Total stockholders' equity		**(0.03)**	(0.07)
	Net income (loss)	**(₱5,293,434)**		
	Divide by:Total stockholders' equity	**161,253,435**		
	Return on Equity Ratio	**(0.03)**		

Financial Ratios	Formula		**2019**	2018
Return on Assets Ratio	Net income (loss) divided by Total assets		**(0.02)**	(0.04)
	Net income (loss)	**(₱5,293,434)**		
	Total assets	**273,301,546**		
	Return on Assets Ratio	**(0.02)**		
Net Debt-to-Equity Ratio	Total interest-bearing debt less cash and cash equivalents divided by Total stockholders 'equity		Not Applicable	
Interest Rate Coverage Ratio	Earnings before interest and taxes divided by Interest Expense		Not Applicable	
Net Profit Margin	Net income (loss) divided by Net sales		Not Applicable	