



PACERM-1 ENERGY CORPORATION

(A company incorporated under the laws of the Republic of the Philippines)

**Registration in the Philippines of up to
8,566 Primary Common Shares and
18,325 Secondary Common Shares
both at an Offer Price of up to ₱ 2,100 per Share
Minimum investment of 100 shares**

To be sold directly by the Company (issuer) over the counter

This Prospectus is dated September 20, 2023.

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.

PACERM-1 ENERGY CORPORATION

Zone-1 Brgy., Kibonbon

El Salvador City, 2017 Misamis Oriental

Telephone Numbers : 991-3718758, 906-2757702, 977-6914189

Corporation email: pacerm1energycorp@gmail.com

This Preliminary Prospectus (the “**Prospectus**”) relates to the offer and sale by **PACERM-1 Energy Corporation (“PACERM-1”, the “Company” or the “Issuer”)**, a corporation organized under the laws of the Republic of the Philippines, of up to [Twenty Six Thousand Eight Hundred Ninety One (26,891)] common shares with a par value of [One Thousand Peso (₱1,000.00)] per share (“**Offer shares**”) is hereby offered at the price of up to [Two thousand One Hundred Pesos (₱2,100.00)] per share (“**the Offer Price**”). Up to [Twenty Six Thousand Eight Hundred Ninety One (26,891)] shares are being issued by the Company from its authorized and treasury shares (after divestment from majority Stockholders) capital stock by way of a primary offer (“**the Offer**”). This represents 11.14% of outstanding shares. The Offer Shares shall be sold over the counter directly by the Issuer at its Principal Office.

This offer is made in compliance with the requirements of Section 43 (t) of Republic Act No. 9136 [Electric Power Industry Reform Act of 2001 (EPIRA)] and Rule 3, Section 4 (m) of its Implementing Rules and Regulation (IRR) and further adopted by Resolution No. 9 Series of 2011 and amended by Resolution No. 4 Series of 2019 of the Energy Regulatory Commission (ERC) which requires generation companies and distribution utilities which are not publicly listed to offer and sell to the public a portion of not less than Fifteen Percent (15%) of their common shares of stock. Under said Resolution, there are other modes of public offer which are less tedious than listing in the Philippine Stock Exchange and this is provided in Rule 3.1.17 of the IRR of the Securities Regulations Code (SRC). However, under this Code, there is a requirement on the filing of registration statement (Rule 12-1) along with the company prospectus and corresponding subsequent approval of SEC prior to the publication on the required public offer.

The Company presently has an authorized capital stock of [Two Hundred Fifty Million Pesos (₱250,000,000.00)] divided into [Two Hundred Fifty Thousand (250,000)] common shares with a par value of [One Thousand Peso (₱1,000.00)] per share, which are fully issued. Of the total issued [Eight Thousand Five Hundred Sixty Six (8,566)] shares are held in Treasury. Of the total outstanding Capital Stock of [Two Hundred Forty One Thousand Four Hundred Thirty Four (241,434)] shares (number of issued shares less treasury shares), [Ten Thousand Six Hundred Fifteen (10,615)] shares are publicly owned comprising [Four Percent and 25/100 (4.25%)] of the total authorized capital stock. In order to meet the EPIRA law requirement, the Corporation should sell to the public its Treasury shares consisting of [Eight Thousand Five Hundred Sixty Six (8,566)] shares or 3.43% of the total authorized capital of 250,000 shares. In order to complete the 15% requirement under the EPIRA law, the company should offer additional 18,325 shares to the public. This will take a divestment from its major stockholders (MORESCO-1-14,144 shares and Juanito Sy Yu-4,181 shares) who presently owned 92.33% of the total authorized capital stock.

Upon completion of the offering, of ₱2,100.00 per share, the market capitalization of the company shall be ₱525 million.

All of the common shares of the Company which have been issued and are to be issued are unclassified and have identical rights and privileges. The common shares may be owned by any person

or entity regardless of citizenship or nationality subject to the limits prescribed by Philippine laws on foreign ownership for certain types of domestic companies. See “Terms and Conditions of the Offer” on page [20] of this Prospectus.

The Offer Shares shall be offered at the Offer Price of up to [Two thousand One Hundred Pesos (₱2,100.00)] per share. The Offer Price is determined based on a Discounted Cash Flow model and discussions between the Company, MORESCO-1 and its financial consultant. See the section “Determination of Offer Price” on page [36] of this Prospectus.

Through the Offer and based on the Offer Price set forth above, the Company expects to raise gross proceeds of up to [Seventeen Million Nine Hundred Eighty-Eight Thousand Six Hundred Pesos (₱17,988,600.00)]. After deducting from the gross proceeds, the documentary stamp tax, capital gains tax and other related expenses, the Company expects to raise net proceeds of approximately Fifteen Million Eight Hundred Ninety Three Thousand Three Hundred Ninety Pesos (₱15,893,390.00). The net proceeds from the Offer will be used by the Company for partial prepayment of long term-loan. See “Use of Proceeds” on page [30] of this Prospectus.

Each holder of the Shares will be entitled to dividends as may be declared by the Company’s Board of Directors. The Company has approved a dividend policy that would entitle stockholders to receive annual dividends equivalent to of 50% of the prior year net income after tax subject to (i) the availability of unrestricted retained earnings, (ii) implementation of business plans, (iii) contractual obligations, and (iv) working capital requirements. See the section on Dividend Policy on page [58].

Prior to making an investment decision, investors are advised to carefully consider the risks associated with an investment in the Offer Shares. See “Risk Factors” on page [25] for a more detailed discussion on the risks, which while not intended to be an exhaustive enumeration of all risks, must be considered in connection with an investment in the Offer Shares.

On May 25, 2023, The company filed an application with the SEC to register the Offer Shares (the “**Registration Statement**”) under the provisions of Republic Act No. 8799 (the “**Securities Regulation Code**”) and its implementing regulations (the “**SRC Rules**”). [The SEC is expected to issue an order rendering the Registration Statement effective and a corresponding permit to offer securities for sale covering the Offer Shares.]

Unless otherwise stated, the information contained in this document relating to the Company and its operations has been supplied by the Company, which accepts full responsibility for the accuracy of the information and confirms that to the best of its knowledge and belief, there are no other material acts the omission of which would make any statement in this document incorrect. Any subsequent transaction made shall not, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date hereof.

Unless otherwise indicated, all information in this Prospectus is as of the date of this prospectus. Neither the delivery of this Prospectus nor any sale made pursuant to this Prospectus shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Company since such date.

No dealer, salesman or any other person has been authorized to give any information or to make any representation not contained in this Prospectus. If given or made, any such information or representation must not be relied upon as having been authorized by the Company, selling agents, or any director, officer, employee, representative, agent, affiliate or adviser of any such person.

Market data and certain industry information used throughout this Prospectus were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state the information contained therein has been obtained from sources believed to be reliable, but the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified and the Company does make any representation as to the accuracy and completeness of such information.

This document does not constitute an offer or a solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized, or to any person to whom it is unlawful to make such offer or solicitation. Each investor in the Offer Shares must comply with all applicable laws and regulations in force in the jurisdiction in which it purchases, offers or sells such securities and must obtain the necessary consent, approval or permission for the purchase, offer or sale of such securities under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchase, offer or sales. Foreign investors interested in subscribing to or purchasing the Offer Shares should apprise themselves as to the applicable legal requirements under the laws and regulations of the countries of their nationality, residence, or domicile, and as to any relevant tax or foreign exchange control laws and regulations that may affect them. Prospective investors to the Offer Shares must conduct their own evaluation of the Company, and the terms and conditions of the Offer.

The Corporation was organized under Philippines Laws on March 4, 2013, its principal address is located at Zone-1, Brgy. Kibonbon, El Salvador City, Misamis Oriental. Corporation's email address is pacerm1energycorp@gmail.com.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED HEREIN IS TRUE AND CURRENT.

PACERM-1 ENERGY CORPORATION

By:


NONITO M. LABIS
President

20 SEPTEMBER 2023

SUBSCRIBED AND SWORN to before me this _____ day of _____ at Naawan, Mis. Ori exhibiting to
me his TIN issued on _____ at _____.

Doc.No.: 403 ;
PageNo.: 81 ;
BookNo.: 06 ;
Series of 2023

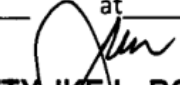

ATTY. IKE L. ROA
 Notary Public
 Not. Com No. 2022-016, Until December 31, 2024
 IBP No. 260351/Jan. 5, 2023/Cagayan de Oro City
 PTR No. 2090451/01-03-2023/Naawan, Misamis Oriental
 Roll No. 30082 / TIN No. 113-309-485
 MCLE Compliance No. (VI-0000-807 / October 27, 2016)
 Purok 3, Poblacion, Naawan, Misamis Oriental
 atty.keladraro@yahoo.com

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FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- known and unknown risks;
- uncertainties and other factors which may cause actual results, performance or achievements of PACERM-1 Energy Corp. (PACERM-1) to be materially different from any future results; and
- performance or achievements expressed or implied by forward-looking statements.

Such forward-looking statements are based on assumptions regarding the present and future business strategies and the environment in which PACERM-1 will operate in the future. Important factors that could cause some or all of the assumptions not to occur or cause actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- the ability of PACERM-1 to successfully implement its strategies;
- the historic and ongoing impact of the Corona Virus Disease 2019 (“**COVID-19**”) pandemic on the operations, financial condition, and cash flows of PACERM-1’s power generation facilities;
- changes in availability and prices of fuel used in the power plant of PACERM-1;
- adverse weather patterns and natural disasters;
- the ability of the PACERM-1 to successfully manage its growth;
- the condition of and changes in, the Philippine, Asian or global economies;
- any political instability in the Philippines;
- the ability of PACERM-1 to secure additional financing;
- changes in interest rates, inflation rates and the value of the Peso against the US Dollar and other currencies;
- price volatility in the wholesale energy spot market;
- other risks relating to the Philippines, including changes in laws, rules and regulations, including tax laws and licensing requirements;
- changes in power supply and demand dynamics in the Philippines; and
- the ability of PACERM-1 to competently engage in WESM operation.

Additional factors that could cause actual results, performance or achievements of PACERM-1 to differ materially from forward-looking statements include, but are not limited to, those disclosed under “*Risk Factors and Other Considerations*” (page 25) and elsewhere in this Prospectus.

These forward-looking statements speak only as of the date of this Prospectus. PACERM-1 expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the expectations of PACERM-1 with regard thereto or any change in events, conditions, assumptions or circumstances on which any statement is based or to reflect that PACERM-1 became aware of any such events or circumstances, that occur after the date of this Prospectus.

This Prospectus includes statements regarding the expectations and projections of the Issuer for future operating performance and business prospects. The words “believe”, “plan”, “expect”, “anticipate”, “estimate”, “project”, “intend”, “will”, “shall”, “should”, “may”, “could”, “would” and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Prospectus are forward-looking statements. Statements in this Prospectus as to the opinions, beliefs and intentions of PACERM-1 accurately reflect in all material respects the opinions, beliefs and intentions of its management as to such matters at the date of this Prospectus, although PACERM-1 can give no assurance that such opinions or beliefs will prove to be correct or that such intentions will not change. This Prospectus discloses, under the section “*Risk Factors and Other Considerations*” and elsewhere, important factors that could cause actual results to differ materially from the expectation of the Issuer. All subsequent forward-looking statements attributable to PACERM-1 or persons acting on behalf of PACERM-1 are expressly qualified in their entirety by cautionary statements.

Should one or more of such risks and uncertainties materialize, or should any underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated in the applicable forward-looking statements. Any forward-looking statement or information contained in this Prospectus speaks only as of the date the statement was made.

All of the forward-looking statements of PACERM-1 made herein and elsewhere are qualified in their entirety by the risk factors discussed in *“Risk Factors and Other Considerations”*. These risk factors and statements describe circumstances that could cause actual results to differ materially from those contained in any forward-looking statement in this Prospectus.

GLOSSARY OF TERMS

“Actual Energy Generated”	Actual output of the power plant measured in MWh or KWh attributable to the contracted capacity of the PACERM-1 Power Plant.
“Affiliates”	With respect to any Person, any other Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person or any Subsidiary of such Person. For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling”,

	“controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.
“Applicant”	Any Person who submits a duly accomplished Application to Purchase, together with all requirements set forth therein.
“Application to Purchase”	The application form accomplished and submitted by an Applicant for the purchase of a specified number of shares, together with all the other requirements set forth in such application form.
“Articles”	Articles of Incorporation
“Banking Day”	A day on which banks and financial institutions are open for business in Cagayan de Oro City.
“BIR”	Bureau of Internal Revenue of the Philippines
“Board” or “BOD”	Board of Directors of the Company
“BSP”	Bangko Sentral ng Pilipinas, the central banking authority of the Republic of the Philippines.
“Business Days”	Every official working day of the week. These are the days between and including Monday to Friday and do not include public holidays and weekends.
“COC”	Certificate of Compliance issued by ERC
“Company” or “PACERM1” or “Issuer”	PACERM-1 Energy Corporation
“Constitution”	The 1987 Constitution of the Philippines.
“Corporation Code”	Batas Pambansa Blg. 68, otherwise known as the Corporation Code of the Philippines.
“DENR”	Department of Environment and Natural Resources
“DCF” or “Discounted Cash Flow”	A method of determining estimated intrinsic value per share using the Company’s expected future cash flow.
“DOE”	Department of Energy
“Earnings per Share”	Net income after tax divided by total issued and outstanding number of shares
“EPIRA Law” or “RA 9132”	Refers to Republic Act No. 9132 or the Electric Power Industry Reform Act.
“ERC”	The Energy Regulatory Commission
“Government”	The government of the Republic of the Philippines.
“IEMOP”	Independent Market Electricity Operator of the Philippines
“Intrinsic Value per Share”	A measure of what a share is worth that is arrived at by means of objective calculation such Discounted Cash Model.
“IPO”	Initial direct public offering of up to 26,891 shares of PACERM-1 Energy Corporation.
“MORESCO-1”	Misamis Oriental-1 Rural Electric Service

	Cooperative, Inc.
“MW”	Megawatt, a unit of electrical power equivalent to 1,000 kilowatts.
“Offer”	The offer for subscription to the Offer Shares, subject to the terms and conditions stated herein.
“Offer Period”	The period commencing 10 business days from the effectivity of the Registration and ending at 12:00 noon, Manila time, on [30 November 2023].
“Offer Price”	The price of up to ₱ [2,100] per Offer Share.
“Offer Shares”	A total of up to 26,891 common shares to be issued by the Company from its authorized and unissued capital stock at the Offer Price.
“PACERM-1”	PACERM-1 Energy Corporation, the Company and Issuer
“PBB”	Philippine Business Bank, main depository bank of PACERM-1 and loan creditor/lender
“P/E” or “Price Earnings Ratio”	This is the ratio of price per share over earnings per share during the year.
“₱” or “PHP”	Philippine Peso
“Philippines”	The Republic of the Philippines
“PSA”	Power Supply Agreement between PACERM-1 and MORESCO-1
“Shares”	Shares of Capital Stock
“Stockholder”	A Person whose name appears, at any time, as the registered owner of the common shares in the Stock and Transfer Book of the Corporation.
“WESM”	Wholesale Electricity Spot Market

EXECUTIVE SUMMARY

The following information is derived from, and should be read in conjunction with, the full text of this Prospectus. For a discussion of certain matters that need to be considered in evaluating an investment in the Offer Shares, see the section entitled “Risk Factors” beginning on page [25] of this Prospectus. The readers are advised to read this entire Prospectus carefully, including the financial statements and related notes contained herein.

COMPANY OVERVIEW

PACERM-1 Energy Corporation is an electric power generation company incorporated and registered with the **SEC** on March 4, 2013 under Registration No. CS201328892. Its primary purpose is to generate power through the use of diesel power or other non-renewable and renewable energy resources such as wind, solar, ocean and biomass energy. The Company's principal place of business is at its plant located in Zone-1 Brgy., Kibonbon, El Salvador City, Misamis Oriental.

On June 13, 2013, the Company entered into a **Power Supply Agreement (PSA)** with its major stockholder, **MORESCO-1** for the supply of its peaking load requirement consisting of 10.5 MW of diesel power generated electricity covering a term of fifteen (15) years commencing from the start of its commercial operations. This plant is embedded in MORESCO-1's distribution system. On June 25, 2013, this contract was jointly filed by MORESCO-1 and PACERM-1 for approval by **ERC**. The latter provisionally approved the **PSA** on October 7, 2013. This includes the rates that will be regularly billed to MORESCO-1 on a monthly basis and this consists of a) Capital Recover Fee of ₱ 823.56/kW b) Fixed Operating and Maintenance Fee of ₱ 327.43/kW c) Variable Operating and Maintenance Fee of ₱ 0.55/kWh and d) Fuel Fee – passed through subject to limit of ₱ 0.26/ltr/kWh.

In consideration of this PSA, PACERM-1 amended its Articles of Incorporation on August 20, 2013, to increase its authorized capital stock from ₱ 80 million to ₱ 250 million in order to provide equity for the acquisition of the 10.5MW diesel powered plant costing around ₱ 552 million. The SEC approved this increase on July 11, 2014.

On August 27, 2014, the Company entered into a contract with Ningbo CSI Power & Machinery Group Co., Ltd, a foreign company based in the Republic of China for the Engineering, Procurement and Construction of three (3) units diesel power generating plant with all its accessories costing around ₱ 552 million. The contract provides a duration of seven (7) months for the construction of the plant and additional thirty (30) days for delivery to the Company's plant site. The whole project was officially turned-over as completed to the Company on August 30, 2016. During the remaining months up to the end of 2016, the Company undertook the testing and commissioning in preparation for the start of its commercial operation. As required by ERC's regulation, the Company have applied for a **Certificate of Compliance (COC)** with the latter for it to be authorized to start its commercial operations. The COC was approved by ERC on December 26, 2016 and the Company officially started commercial operation on January 1, 2017 and started billing MORESCO-1 at power rate as already approved by ERC.

The Company is majority owned by MORESCO-1 and Mr. Juanito Yu who collectively own 95.60% of the Company's outstanding capital stock. The remaining 4.40% is owned by the public.

For a detailed discussion of the Company, please refer to section "The Company" starting on page [44] of this prospectus.

CUSTOMER

MORESCO-1 is the sole customer of the Company as covered by the PSA since the generation plant is fully embedded in MORESCO-1 distribution system.

INVESTMENT CONSIDERATIONS AND RISK FACTORS

Risks Relating to the Company and its Business

1. Volatility of the price of oil products, materials, equipment, machines may have a material adverse effect on the Company's business, results of operations and financial condition.
2. Being solely dependent on MORESCO-1 as the source of its revenue, the latter's business risks exposure would greatly affect the Company.
3. The Corporation's exposure to costs and liabilities arising from compliance with rules and regulations of the DOE, ERC, BIR and government regulators which may adversely affects its business, results of operations and financial condition such but not limited to non renewal of COC.
4. Any significant disruption in operations or casualty loss at the Corporation's storage and generation facilities could affect its business and results of operations and result in potential liabilities.
5. The Corporation may face operational risks, the risk of loss resulting from inadequate or failed internal processes, people, controls, systems or from external events.
6. Cyber attacks and computer viruses.

Risks Relating to the Offer

Due to the present COVID-19 pandemic and rising cost of fuel leading to increase in inflation rate , there maybe few investors who will subscribe to the public offer.

Risks Relating to the Philippines

- Slowdown in the Philippine economy as what is happening now due to the COVID-19 pandemic and rising cost of fuel;
- Political or social instability; and
- Natural calamities.

The detailed discussion on Risk Factors is presented on page 25.

SUMMARY OF THE OFFERING

The following do not purport to be a complete listing of all the rights, obligations and privileges of the Offer Shares. Some rights, obligations or privileges may be further limited or restricted by other documents and subject to final documentation. Prospective purchasers are enjoined to perform their own independent investigation and analysis of the Company and the Preferred Shares. Each prospective purchaser must rely on its own appraisal of the Company and the terms of the Offer Shares and its own independent verification of the information contained herein and any other investigation it may deem appropriate for the purpose of determining whether to purchase the Offer Shares and must not rely solely on any statement or the significance, adequacy or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective purchaser's independent evaluation and analysis. The following overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus. This overview may not contain all of the information that prospective purchasers should consider before deciding to invest in the Offer Shares. Accordingly, any decision by a prospective purchaser to invest in the Offer Shares should be based on a consideration of this

Prospectus as a whole. Should there be any inconsistency between the summary below and the final documentation, the final documentation shall prevail.

Issuer or the Company	PACERM-1 ENERGY CORPORATION
Instrument	Common shares with a par value of ₱ 1,000.00 per share (Common shares)
The Offer	8,566 primary shares of common stocks held in Treasury and 18,325 secondary shares from majority stockholders.
Offer Price	Treasury shares shall be offered at ₱2,100 per share
Offer Period	The offer period shall commence 10 business days from the effectivity of the Registration and will end on November 30, 2023.
Dividend Payment Dates	If declared by the Board of Directors of the Company in accordance with the terms and conditions of the Offer Shares, the cash dividends on the Offer Shares will be payable annually.
Minimum Subscription to the Offer Shares	Each application for subscription of the Offer Shares (an “ Application ”) shall be for a minimum of [100] Common Shares.
Eligible Investors	The common shares may be owned and subscribed by any person, partnership, cooperative, corporation, trust account.
Procedure for Application	Application to Purchase may be obtained through a Letter of Intent addressed to the Company with all the required documents.
Payment for the Offer Shares	<p>The Offer Shares must be paid for in full in Philippine Pesos upon submission of the Application to Purchase.</p> <p>Payment for the Offer Shares shall be payable in cash or check made by manager’s check/cashier’s check, corporate check or personal check drawn against any BSP authorized bank. All checks should be made payable to [“PACERM-1 Energy Corporation”], and dated on or before the date of the payment.</p>
Acceptance/Rejection of Applications	<p>The actual number of Common shares that an eligible investor will be allowed to subscribe for is subject to the confirmation of the BOD and it should be not less than [100] shares.</p> <p>An application if accepted shall be provided with a stockholder certificate for the after full</p>

	payment to the subscription to the Common Shares are received by the Company.
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INFORMATION RELATING TO THE SHARES

Set forth below is information relating to the Offer Shares. This description is only a summary and is qualified by reference to Philippine law and the Corporation's Articles of Incorporation and By-laws, copies of which are available at the SEC and from the Company.

The Corporation's Share Capital

A Philippine corporation may issue common or preferred shares, or such other classes of shares with such rights, privileges or restrictions as may be provided for in the articles of incorporation and the by laws of the corporation.

As of 31st of December 2022, the Company had an authorized capital stock of ₱250,000,000.00, consisting of:

- (a) 250,000 common shares with a par value of ₱1,000.00 per share; and
- (b) 8,566 treasury shares with acquired cost of ₱1,300.00 per share.

The Offer Shares

Source:	No. of Shares
Treasury Shares (100%)	8,566
From divestment of the major stockholders	18,325
Total shares to be offered at ₱2,100 per share	26,891
Shares outstanding before the offer	241,434
Shares outstanding after the offer	250,000
Market Capitalization at the Offer Price of up to [₱ 2,100.00] per Offer Share	₱ 525,000,000

Information or inquiry on the Company and on the shares offer may be obtained thru the Company's website at www.pacerm1.com or by email request at pacerm1energycorp@gmail.com or by contacting Ms. Flor Marba, Corporate Secretary at mobile phone number (0906)2757702. (Note: The company still have no landline phone since the installation of a web-based phone network is still in process).

PERMITS AND LICENSES:

The Company holds various government-mandated permits and licenses required by its business. These permits and licenses include, but limited to, the following:

Government Agency	Entity	Required Permits/ Licenses/ Certificates	Issuance Date	Expiry Date
Securities and Exchange Commission (SEC)	PACERM-1 Energy Corporation	Articles of Incorporation	February 21, 2013	N/A
		Certificate of Incorporation	March 4, 2013	N/A
		Certificate of Filing of Amended Articles of Incorporation	July 11, 2014	N/A
		Certificate of Filing of Amended Articles of Incorporation	March 16, 2018	N/A
Energy Regulatory Commission	PACERM-1 Energy Corporation	Certificate of Compliance	December 20, 2016	December 20, 2021
		Provisional Authority to Operate	February 28, 2023	December 19, 2022 (extended to August 27, 2023)
Relevant government unit	PACERM-1 Energy Corporation	Mayor's Permit	January 26, 2023	December 31, 2023
		Business Permit		
Bureau of Internal Revenue	PACERM-1 Energy Corporation	Certificate of Registration	January 2017	N/A
Department of Environment and Natural Resources (DENR)	PACERM-1 Energy Corporation	Environmental Compliance Certificate	December 23, 2013	N/A

		Certificate of Accreditation to Ian C. Luis as Pollution Control Officer	May 21, 2020	July 11, 2026
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SUMMARY OF FINANCIAL INFORMATION

Prospective purchasers of the Offer Shares should read the summary financial data below together with the financial statements, including the notes thereto, included in this Prospectus and "Management's Discussion and Analysis of Results of Operations and Financial Condition" (page 67). The summary financial data for the three years ended December 31, 2022, 2021 and 2020 are derived

from the audited financial statements of PACERM-1, including the notes thereto, which are found as “Exhibit 2” of the Registration Statement (Form 12-1). The detailed financial information for the three years ended December 31, 2022, 2021 and 2020 are found on the same Exhibit as well as for the three months ended March 31, 2023 and 2022.

The summary of financial and operating information presented below as of and for the years ended December 31, 2022, 2021 and 2020 were derived from the financial statements of PACERM-1, audited by Moore Roxas Cruz Tagle and Co., CPAs for 2022 and by Quilab and Garsuta, CPAs for 2021 and 2020 and prepared in compliance with the Philippine Financial Reporting Standards (“PFRS”). The financial and operating information presented below as of and for the three months ended March 31, 2023 and 2022 were also audited by Moore Roxas Cruz Tagle and Co., CPAs prepared in compliance with Philippine Accounting Standards (“PAS”) 34, “Interim Financial Reporting”. The information below should be read in conjunction with the financial statements of PACERM-1 and the related notes thereto, which are included “Exhibit 2” of the Registration Statement (Form 12-1). The historical financial condition, results of operations and cash flows of PACERM-1 are not a guarantee of its future operating and financial performance.

STATEMENT OF FINANCIAL POSITION

	As of December 31		As of
<i>In million pesos</i>	2021	2022	March 31
			2023
ASSETS			
Current Assets			
Cash	59.86	61.16	60.78
Trade and other receivables	16.34	12.82	52.58
Fuel inventory	10.60	5.12	15.63
Other assets	1.24	1.17	4.85
Total Current Assets	88.04	80.27	133.84
Non-Current Assets			
Property, plant & equipment	430.86	386.89	375.75
Deferred tax asset	0.63	0.68	0.68
Total Non-Current Assets	431.49	387.57	376.43
Total Assets	519.53	467.84	510.27
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	15.20	14.15	74.92
Current portion of loans payable	40.02	40.02	40.02
Total Current Liabilities	55.22	54.17	114.94
Non-Current Liabilities			
Long Term Loans	150.12	70.10	60.09
Total Liabilities	205.34	124.27	175.03
EQUITY			
Common shares	250.00	250.00	250.00
Treasury shares	(13.36)	(11.13)	(11.13)

Additional Paid in on Treasury Shares sold	0.06	0.12	0.12
Retained earnings - Unappropriated	77.49	93.45	85.12
Retained earnings - Appropriated		11.13	11.13
Total Equity	314.19	343.57	335.24
Total Liabilities and Equity	519.53	467.84	510.27

STATEMENT OF INCOME

<i>In million pesos, except for per share amounts</i>	For the Years Ended December 31			For the Period Ended March 31	
	2020	2021	2022	2022	2023
Revenue	149.72	145.47	190.82	37.05	92.77
Direct Cost	57.31	(51.13)	(93.15)	(13.31)	(66.44)
Gross Profit	92.41	94.34	97.67	23.74	26.33
General & Administrative Expenses	(27.24)	(25.14)	(32.11)	(8.40)	(8.10)
Operating Income	65.17	69.20	65.56	15.34	18.23
Fixed and Financial Income (Charges)	(22.12)	(21.10)	(10.75)	(3.91)	(1.82)
Income before Tax	43.05	48.10	54.81	11.43	16.41
Income Tax	(13.16)	(12.00)	(13.81)	(2.85)	(4.09)
NET INCOME	29.89	36.10	41.00	8.58	12.32
Earnings per Share	125.71	151.22	171.04	35.53	51.41

STATEMENT OF CASH FLOW

<i>In million pesos, except for per share amounts</i>	For the Years Ended December 31			For the Period Ended March 31	
	2020	2021	2022	2022	2023
Net cash provided by operating activities	77.22	82.73	93.52	29.71	30.28
Cash flows for investing activities	(0.34)	(1.35)	(0.57)	(0.05)	-
Cash flows for financing activities	(95.02)	(57.44)	(91.65)	(43.91)	(30.66)
NET INCREASE (DECREASE) IN CASH	(18.14)	23.94	1.30	(14.25)	(0.38)
OPENING CASH	54.06	35.92	59.86	59.86	61.16
CASH END OF YEAR	35.92	59.86	61.16	45.61	60.78

KEY PERFORMANCE INDICATORS

	For the Year Ending December 31			For the Period Ending March 31	
	2020	2021	2022	2022	2023
	Current Ratio (x) (1)	1.12x	1.59x	1.48x	*
Liquidity Ratio (x) (2)	0.88x	1.38x	1.39x	*	1.03x
Working Capital to Total Assets (3)	1.04%	6.32%	5.58%	*	3.70%
Solvency Ratio (x) (4)	0.32x	0.41x	0.42x	0.16x	0.13x
Debt to Equity Ratio (x) (5)	0.84x	0.65x	0.36x	*	0.52x
Asset to Equity Ratio (x) (6)	1.84x	1.65x	1.36x	*	1.52x
Interest Rate Coverage Ratio (x) (7)	3.32x	4.45x	6.43x	4.89x	9.76x
Return on Assets (8)	4.95%	6.80%	8.31%	3.67%	2.52%
Return on Equity (9)	10.00%	11.84%	12.47%	4.99%	3.63%
Gross Profit Margin (10)	61.72%	64.85%	51.18%	64.09%	28.38%
Net Income Margin (11)	19.20%	24.82%	21.49%	23.16%	13.28%

*Not included in the comparative balance sheet

Notes:

(1) Current ratio [Current assets/Current liabilities]

(2) Liquidity ratio (Liquid assets/Current Liabilities)

(3) Working Capital to Total Assets (Working Capital/Total Assets)

(4) Solvency Ratio (Net Profit (loss) before depreciation)/Total Liabilities)

(5) Debt to equity ratio [Total Liabilities/Total Equity]

(6) Asset to Equity ratio (Total Assets/Total Equity)

(7) Interest Rate Coverage Ratio (Pre-tax profit (loss) before interest/ Interest Expense)

(8) Return on Assets [Net Income/Average Total Assets]

(9) Return on Equity [Net Income/ Average Total Equity]

(10) Gross Profit Margin (Gross Profit/Revenue)

(11) Net Income Margin (Net Income/Revenue)

TERMS AND CONDITIONS OF THE OFFER

The following is a general summary of the Offer. This summary is derived from and should be read in conjunction with the rest of the information in this Prospectus.

Issuer PACERM-1 Energy Corp. is a corporation duly organized and existing under Philippine laws.

The Offer The Company is offering for subscription up to Twenty Six Thousand Eight Hundred Ninety One (26,891) common shares with a par value of One Thousand Pesos (PHP 1,000) per share. After the completion of the Offer, the Offer Shares will comprise 10.76% of the Company's outstanding capital stock of Two Hundred Fifty Thousand (250,000) shares.

Out of the Offer Shares, up to Eight Thousand Five Hundred Sixty Six (8,566) Shares will be sourced from the Company's Treasury Stock and up to Eighteen Thousand Three Hundred Twenty Five (18,325) Shares will be sourced from divestment of the Company's major stockholders.

This offer is made in compliance to the requirements of Section 43 (t) of Republic Act No. 9136 [Electric Power Industry Reform Act of 2001 (EPIRA)] and Rule 3, Section 4 (m) of its Implementing Rules and Regulation (IRR) and further adopted by Resolution No. 9 Series of 2011 and amended by Resolution No. 4 Series of 2019 of the Energy Regulatory Commission (ERC) which requires generation companies and distribution utilities which are not publicly listed to offer and sell to the public a portion of not less than Fifteen Percent (15%) of their common shares of stock. Under said Resolution, there are other modes of public offer which are less tedious than listing in the Philippine Stock Exchange and this is provided in Rule 3.1.17 of the IRR of the Securities Regulations Code (SRC). However under this Code, there is a requirement on the filing of registration statement (Rule 12-1) along with the company prospectus and corresponding subsequent approval of SEC prior to the publication on the required public offer.

Thus, the offer shares will not be listed in the Philippine Stock Exchange but instead will be directly offered to the public without availing the service of an underwriter nor selling agents through mere publication in a newspaper of general circulation.

Offer Price The Offer Shares are being offered at the price of up to Two Thousand One Hundred Pesos (₱ 2,100)] per share, which was established using Discounted Cash Flow model.

Offer Period The Offer Period shall commence 10 business days from the effectivity of the Registration and end on [30 November 2023] at 12:00 noon, Manila time, or on such other dates as the Company may decide. Duly accomplished “Application to Subscribe” forms and signature cards together with the supporting documents and corresponding payments must be received by the Company not later than 12:00 noon, Manila time, on [30 November 2023].

If for any reason the aforementioned date for the end of the Offer Period should fall on a day when Philippine banks are closed, the Offer Period will expire on the Banking Day immediately succeeding the end of the Offer Period.

Use of Proceeds The Company expects to raise gross proceeds of approximately ₱ 17,988,600.00 all sourced from the sale of the treasury shares. After deducting all estimated expenses related to the Offer the estimated net proceeds is ₱ 15,893,390. The Company intends to use the net proceeds from the Offer to partially preterminate its long term loan. For a more detailed discussion on the Company’s proposed use of proceeds, see “Use of Proceeds” on page [30] of this Prospectus.

Dividends The Company has approved a dividend policy that would entitle stockholders to receive dividends equivalent to up to 50% of the prior year’s net income after tax subject to (i) availability of unrestricted retained earnings, (ii) implementation of business plans, (iii) contractual obligations, and (iv) working capital requirements. The declaration and payment of dividends is subject to compliance with regulatory requirements of the SEC. The Company is allowed to declare dividends, annually or as often as the Board of Directors may deem appropriate, in cash

or in kind and/or in additional shares from its surplus profits. The ability of the Company to pay dividends will depend on its retained earnings level and financial condition.

Eligible Applicants The Offer Shares may be subscribed by any individual of legal Age or any corporation, association, partnership or trust, regardless of citizenship or nationality.

Minimum Subscription Offer Applications shall be for a minimum of [One Hundred (100)] Shares. Applications in excess of this minimum shall be in multiples of One Hundred (100) shares. No subscription for multiples of any other number shall be considered.

Procedure for Application Application forms and signature cards may be obtained from The Company's corporate secretary. Applicants shall fill up the application to purchase form, indicating all pertinent information such as the applicant's name, address, taxpayer's identification number, citizenship and all other information as may be required in the application form. Applicants shall sign all documents and do all necessary acts to enable them to be registered as holders of the Offer Shares applied for or any portion thereof. Failure to completely fill up the application form may result in the rejection of the Application.

The purchase price must be paid in full in Philippine Pesos upon The submission of the duly accomplished and signed application form and signature card together with the perquisite attachments.

Payment for the Offer Shares shall be made either in cash or a personal or corporate check/s drawn against an account with a BSP authorized bank at any of its branches located in Metro Manila; or (ii) a manager's or cashier's check issued by such authorized bank.

All checks should be made payable to "PACERM-1 ENERGY CORPORATION," crossed "Payee's Account Only," and dated the same date as the application.

The applications and the related payments will be received at Company's office.

Requirements for Applications

If the applicant is an individual, the application form must be accomplished in quadruplicate and accompanied by the following documents: (i) corresponding cash/check payments; and (ii) a fully executed signature card; (iii) containing specimen signatures of the signatories.

Representation and Warranty of Foreign Investors

If the applicant is a corporation, partnership or trust account, the application must be accompanied by the following documents: (a) certified true copy of the applicant's Articles of Incorporation or other constitutive document and By-Laws, as amended; (b) certified true copy of the applicant's SEC Certificate of Registration or equivalent document in case of a foreign corporation; and (c) duly notarized secretary's certificate: (i) setting forth the resolutions of the applicant's Board of Directors or equivalent body authorizing the subscription to the Offer Shares and designating signatories for the purpose; (ii) specifying the percentage holdings of Filipinos in the corporation; and,

Foreign investors, both corporate and individual, shall represent and warrant that their purchase of the Offer Shares will not violate the laws of their jurisdiction, and that they have the capacity and authority to acquire, purchase, and hold the Offer Shares.

Registration of Foreign Investments

Registration of foreign investments with the proper government authorities shall be the responsibility of the foreign investor. While registration of foreign investments with the BSP is not required, it will be necessary in order to source the foreign exchange needed to service the repatriation of the proceeds of sale of the investments and remittance of dividends and other distributions from the Philippine banking system.

Acceptance or

Rejection of Application to Purchase and Reduction of Allotment of Offer Shares

“Application to Purchase” forms are subject to confirmation by the Corporation

the Secretary and the final approval of the Company’s Board of Directors. The Company reserves the right to accept, reject or scale down the number and amount of shares covered by any application. The Company has the right to reallocate available Offer Shares in the event that the Offer Shares are insufficient to satisfy the total applications received. The Offer Shares will be allotted in such a manner as the Company may, in their sole discretion, deem to be appropriate. Applications with checks dishonored upon first presentation and “Application to Purchase” forms which do not comply with terms of the Offer will be automatically be rejected.

Refunds

Refunds of payments for any application not accepted in whole or in part shall be made without interest within five (5) Banking Days after the end of the Offer Period. Each refund check shall be made in favor of the respective applicant, crossed “Payee’s Account Only,” and mailed by registered mail or delivered, at the applicant’s risk, to the address specified by the applicant.

Documentary Stamp Taxes (DST)

All DST on the issuance of the Offer Shares and any other taxes on the Offer shall be for the account of the Company.

Timetable The tentative

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Timetable

Investor’s Briefing	:	30 August 2023
Notice of the Final Offer Price	:	30 August 2023
Start of the Offer	:	10 business day from the effectivity of the Registration
End of the Offer	:	30 November 2023
Deadline of Submission of Application and Payment of TPs	:	30 November 2023

RISK FACTORS

Prospective investors should carefully consider the risks described below, in addition to the other information contained in this Prospectus, including the Company's consolidated financial statements attached hereto and incorporated herein by reference, before making any investment decision relating to the Offer Shares. However, this section does not purport to disclose all the risks and other significant aspects of investing in the Offer Shares. Additional risk factors and uncertainties not at present known to the Company, or which the Company currently deems immaterial, may also adversely affect the Company's business, financial condition or results of operations. The Company's past performance is not an indication of its future performance. Investors deal in a range of investments, each of which may carry a different level of risk. The occurrence of any of the events discussed below and any additional risks and uncertainties not presently known to the Company or that are currently considered immaterial could have a material adverse effect on the Company's business, results of operations, financial condition and prospects and cause the market price of the Offer Shares to fall significantly and investors may lose all or part of their investment.

This Prospectus contains forward-looking statements that involve risks and uncertainties. The Company adopts what it considers conservative financial and operational controls and policies to manage its business risks. The actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences, thereby making any investment in the Offer Shares speculative or risky, may be summarized into those that pertain to the business and operations of the Company, in particular, and those that pertain to the over-all political, economic and business environment in general. These risk factors and the manner by which these risks may be managed are presented below. The risk factors discussed in this section are of equal importance and are only separated into categories for easy reference.

GENERAL RISK WARNING

The price or Net Book Value of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profits made as a result of buying and selling securities. Past performance is not a guide to future performance. There is an extra risk of losing money when securities are bought from smaller companies. There may be a big difference between the buying price and the selling price of these securities. An investor deals in a range of investments each of which may carry a different level of risk.

PRUDENCE REQUIRED

The risk disclosure does not purport to disclose all the risks and other significant aspects of investing in these securities. An investor should undertake his/her/its own research and study on the trading of securities before commencing any trading activity. Investors may request information on the securities and Issuer thereof from the SEC which are available to the public.

PROFESSIONAL ADVICE

Investors should seek professional advice regarding any aspect of the securities such as the nature of the risks involved in the trading of the securities, especially in the trading of high-risk securities. Each investor should consult his/her/its own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of an investment in the Offer.

RISKS RELATING TO THE COMPANY AND ITS BUSINESS

Risks Associated with Event of Client Default

Economic or political pressures in the Philippines, including those arising from local market disruptions or currency crises, may adversely affect the ability of its sole customer, MORESCO-1 to perform their obligations to the Company. Internally, the latter may experience cash flow problems arising from loss of major customers, causing stranded cost on power purchases. In addition, rising cost may not be able to be recovered by MORESCO-1 on its present distribution rate since it was approved by the ERC based on past years operational cost without profit markup since the latter is non-profit non-stock electric cooperative.

Mitigating Factors:

1. MORESCO-1 owns 74.89% of the Company's outstanding shares where 3 out of 5 Board of Directors are also directors of the former. Hence the element of diligence and care is present.
2. MORESCO-1 is a top performing pioneer electric cooperative supported technically, financially and institutionally by the National Electrification Administration along with proper management by competent officers and employees.
3. WESM which have started commercial operation on January 26, 2023 in Mindanao is now providing opportunity to PACERM-1 to sell its generated power to the spot market.
4. With WESM also comes the establishment of Retail Competition Open Access (RCOA) which means that PACERM-1 can now do business as a Retail Electricity Supplier to other consumers.

Risks on Compliance with Long Term Loan Agreements including Real Estate Mortgage

Liquidity or cash flow problems in reference to the other risks factors discussed may result in the Company's default on its long term loan obligations and the subsequent foreclosure of real estate properties (see page 49). In the worst scenario that foreclosure will happen, the offered shares would not be affected since only the land would be transferred in full payment of debt.

Mitigating Factors:

The Company's good financial performance as shown on "Summary of Financial Information" (pages 17-19) along with the Company's able to advance payment of its long term loan by ₱ 96 million as of June 30, 2023 is enough assurance in mitigating this risk.

Risks on Legal Case (refer to page 63)

As explained on page 63 on the Legal Proceeding topic, the Deed of Absolute Sale might be rescinded and the 10,765 shares will be transferred from MORESCO-1 back to the estate of the late Dir. Arcol. This will have the effect of reducing MORESCO-1's percentage ownership from 66.67% to 62.36 % after the divestment of 14,144 shares for secondary offer. There will be no impact in the number of shares being offered.

Risks on Regulatory Compliance

The Philippine power industry is governed by regulations that encompass all aspects of the power supply business which must be observed by power suppliers. Any new laws, rules or regulations as decreed by the SEC, the Department of Energy ("DOE"), the Energy Regulatory Commission ("ERC"), the Bureau of Internal Revenue ("BIR"), and the Department of Environment and Natural Resources ("DENR"), and any modifications, amendments or changes in the interpretations of the existing laws, rules and regulations of the Philippines may have an adverse effect on the Company's business and operations.

As of the date of this Prospectus, the Company has been fully compliant with existing and applicable laws, rules or regulations and shall continue to maintain such compliance. However, as of present, the Company was still not able to obtain a permanent Certificate of Compliance (COC) from ERC pending compliance with public offering requirements as discussed above (see TERMS AND CONDITIONS of the offer "the Offer").

Mitigating Factor: The Company is financially liquid as proven in its performance during since it started commercial operation in 2017.

RISKS RELATING TO THE COMPANY'S OFFER SHARES

There may be no liquidity in the market for the Offer Shares and the prices of these may fall.

The Offer Shares may not be readily availed as of present considering the rising inflation, the COVID-19 pandemic and the depreciation of the dollar.

The Offer Price is determined through a treasury cost plus expense process. Any subsequent value of the offer shares will be highly dependent on the Net Book Value per share.

Market risk is the possibility that changed in equity prices or interest rates will adversely affect the value of the Company's assets, liabilities or expected future cash flows. The Company has no exposure arising from complex investments, forward contracts, hedging and the likes whether local or foreign transactions.

Price risk

The Company is exclusively supplying energy to MORESCO-1, its major stockholder covered by a Power Supply Agreement. As such, it is not exposed to the volatility of spot prices as supply and demand of energy changes. Factors, such as expected outages, weather conditions, transmission constraints and changes in fuel prices may cause variability in operating results but management considers these factors manageable.

RISKS RELATING TO THE PHILIPPINES

The Company is exposed to risks associated with the Philippines, including the performance of the Philippine economy.

The Philippine economy remains exposed to significant economic and political risks. The performance of the Philippine economy may influence, in general, the results of the Company's operations. Any deterioration in the economic conditions in the Philippines may adversely affect consumer sentiment. There can be no assurance that current or future Governments will adopt economic policies conducive to sustaining economic growth.

The Company's results of operations depend on the performance of the Philippine economy. Movement in interest rates will affect the Company's cost of capital as well as the financial viability of its projects. Any deterioration in the Philippine economy could materially and adversely affect the Company's financial condition and results of operations.

Mitigating Factor: Electricity supply is a basic commodity and consumers would always purchase the same at whatever cost rather than the burden of having no electricity at all.

Update of the Corona Virus (2019) (COVID-19) pandemic

Though the pandemic is not yet over, the government had already reopened the national economy. As of April 10, 2023, the country has fully vaccinated 74 million people (70.3% of population).

The government relaxed international travel restrictions and temporarily suspended its COVID-19 country risk classifications (green-red list system) allowing the entry of fully vaccinated travelers from most countries. Foreign national traveling to the Philippines for

business and tourism purposes may enter the Philippines without visas, subject to certain conditions.

Economic Recovery and Prospect

ADB's flagship economic publication, *Asian Development Outlook* forecasts the Philippine economy to grow by 6.0% in 2023 climbing further by 6.2% in 2024. A recovery in employment and retail trade, sustained expansion in the manufacturing sector, and rising public infrastructure spending will support growth.

Inflation is expected to average 6.2% in 2023 before easing to 4.0% in 2024, according to the report. Local food supply constraints and rising global commodity prices led to high inflation rates in early 2023. Inflation is projected to decelerate in the second half of 2023 and through 2024 as the series of monetary policy tightening take effect and global commodity prices ease.

The country's unemployment rate improved to 4.8% in January 2023 from 6.4% in the same period a year earlier, even lower than pre-pandemic levels. Some 4.1 million jobs were added over the year, mainly from the services sector as the tourism started to rebound from the COVID-19 pandemic. This bodes well for sustained private consumption, which should get an additional boost from steady remittances from overseas Filipino workers (OFWs).

Natural calamities could adversely affect the business of the Company.

The Philippines has experienced a number of major natural catastrophes in recent years including typhoons, volcanic eruptions, earthquakes, mudslides, and droughts. Natural catastrophes may disrupt the Company's ability to deliver its services and impair the economic conditions in the affected areas, as well as the overall Philippine economy. These types of events may materially disrupt and adversely affect the Company's business and operations as it may also affect the Company's sole customer, MORESCO-1.

There can be no assurance that the Company can deal with these situations and that the insurance coverage they maintain will fully compensate them for all the damages and economic losses resulting from natural catastrophes and blackouts.

Foreign Exchange Risk

The Company is not exposed to foreign currency risks as it has no assets nor liabilities denominated in foreign currency.

USE OF PROCEEDS

The Company expects to raise gross proceeds of approximately Seventeen Million Nine Eighty Eight Thousand Six Hundred Pesos (₱ 17,988,600) from the Offer based on an Offer Price of up to Two Thousand One Hundred Pesos (₱ 2,100.00) per share on the sale of Eight Thousand Five Hundred Sixty Six (8,566) treasury shares out of total 26,891 offer shares. The selling major stockholders (MORESCO-1 and Juanito Yu will get a gross proceeds of ₱38,482,500 on the divestment of 18,325 offer shares. After deducting all estimated expenses related to the Offer, the estimated net proceeds is [Fifteen Million Eight Hundred Ninety Three Thousand Three Hundred Ninety Pesos (₱ 15,893,390)]. The computation is presented below:

Gross proceeds from sale of treasury shares	₱ 17,988,600
Less Estimated expenses:	
Capital gains tax	1,027,920
Documentary stamp tax	134,914
SEC filing and legal research fee	282,376
Professional fees	100,000
Publication Fees	400,000
Other out-of-pocket expenses	150,000
Total	2,095,210
Net Total Proceeds	15,893,390

Out of this net proceeds, the Company intends to advance payment of ₱ 14 million of its long-term loan as discussed on page 44 below under “The Company” section and on page 49 under “Description of Property” section. From January to July 2023, the Company made an additional advance payment of ₱ 20 million coming from its net savings. After payment of ₱ 14 million, loan balance would be reduced to ₱ 52.77 million at the current interest rate of 7% p.a.

No proceeds are to be used to reimburse any officer, director, employee or shareholder for service rendered, assets previously transferred, money loaned or advance or otherwise."

In the event of any deviation or adjustment in the planned use of proceeds, the company shall inform its shareholders and the SEC in writing at least 30 days before such deviation or adjustment is implemented. Any material or substantial adjustment to the use of proceeds, as indicated above, should be approved by the company's Board of Directors and disclosed to the SEC."

No compensation/brokers' fees will be paid in relation to the sale of the offered shares.

DESCRIPTION OF SECURITIES TO BE REGISTERED

Information relating to the common shares is set forth below. The description is only a summary and is qualified by reference to Philippine law and the Company's Articles of Incorporation ("Articles") and By-Laws ("By-Laws"), both as amended, copies of which are available at the SEC.

THE COMPANY'S SHARE CAPITAL

A Philippine corporation may issue common or preferred shares, or such other classes of shares with such rights, privileges or restrictions as may be provided for in its Articles and the By-Laws.

The Company's original authorized capital stock consists of Eighty Million Pesos (₱ 80,000,000.00) divided into Eighty Thousand shares, with a par value of One Thousand Pesos (₱ 1,000.00). Of the authorized capital stock, Twenty Million Pesos (₱ 20,000,000.00) divided into Twenty shares, with a par value of One Thousand Pesos (₱ 1,000.00) per share have been subscribed and Five Million Pesos (₱ 5,000,000.00) paid up.

The Company may increase or decrease its authorized capital stock upon approval by majority of the Board of Directors and ratification by the shareholders owning or representing at least two-thirds (2/3) of the Company's issued and outstanding capital stock, subject only to the approval of the SEC.

On 20 August 2013, the Company increased its authorized capital stock to Two Hundred Fifty Million Pesos (₱ 250,000,000.00) divided into Two Hundred Fifty Thousand (250,000) shares, with a par value of One Thousand Pesos (₱ 1,000.00) per share. Out of the said net increase in authorized capital stock of One Hundred Seventy Million Pesos (₱ 170,000,000.00) divided into One Hundred Seventy Thousand (170,000) shares, Seventy One Million Ninety Nine Thousand Pesos (₱ 71,099,000.00) divided into Seventy One Thousand Ninety Nine (71,099) shares have been subscribed and Seventeen Million Seven Hundred Seventy Five (₱ 17,775,000.00) paid up. This additional paid in capital was mostly provided by more infusion from MORESCO-1 - ₱2.4 million, Edelisio Arcol - ₱ 5.6 million, MORESCO-1 Employees - ₱ 5.0 million and Melvin Eballe - ₱ 4.8 million.

The SEC approved this increase on July 11, 2014.

In 2017, in order to complete the remaining balance due, the supplier of diesel plant, MORESCO-1 invested another One Hundred Seventy Thousand Eight Hundred Nineteen (170,819) shares or the equivalent of One Hundred Seventy Million Eight Hundred Nineteen Pesos (₱ 170,819,000.00) at ₱1,000.00 par value price. MORESCO-1 also bought-out the Ten Thousand (10,000) shares from Edelisio Arcol at a price of ₱ 1,300 per share thus increasing its shareholdings to One Hundred Eighty Thousand Eight Hundred Nineteen (180,819) shares or 72.33%. In addition, Fifty Thousand (50,000) Shares was invested by Juanito Yu at the par value price of ₱ 1,000.00 making 20% owner of the Company. Thus, all the Company's authorized capital stock was fully issued. Later on, the Company bought back the shares owned by Melvyn Eballe equivalent to Twelve Thousand Two Hundred (12,216) shares at a price of ₱ 1,300 per share taking it as Treasury shares.

Prior to the Offer, there has been no public trading market for the Company's common shares.

RIGHTS RELATING TO THE COMMON SHARES

Voting Rights

The Company has only one class of shares; common shares. Each common share is equal in all respects to every other common share. All the common shares have full voting and dividend rights. The rights of the Company's shareholders include the right to notice of shareholders' meetings, the right of inspection of the Company's corporate books and other shareholders' rights contained in the Corporation Code.

Fundamental Matters Requiring Stockholder Approval

The Corporation Code considers certain matters as significant corporate acts that may be implemented only with the approval of shareholders, including those holding shares denominated as non-voting in the Articles. These acts, which require Board approval and the approval of shareholders representing at least two-thirds (2/3) of the issued and outstanding capital stock of the Company in a meeting duly called for the purpose (except for the amendment of By-Laws and approval of management contracts in general, which require approval of shareholders representing a majority of the Company's outstanding capital stock), include:

- Amendment of the Articles of Incorporation;
- An increase or decrease of capital stock and incurring, creating or increasing bonded indebtedness;
- Delegation to the Board the power to amend or repeal or to adopt new By-Laws;
- Sale, lease, exchange, mortgage, pledge or other disposition of all or a substantial part of the Company's assets;
- Merger or consolidation of the Company with another corporation or corporations;
- Investment of corporate funds in any other corporation or for a purpose other than the primary purpose for which the Company was organized;
- Dissolving the Company;
- Declaration or issuance of stock dividends;
- Ratifying a contract between the Company and a Director or officer where the vote of such Director or officer was necessary for approval;
- Entering into a management contract where (a) a majority of Directors of the managing corporation constitutes the majority of the board of the managed company or (b) stockholders of both the managing and managed corporations represent the same interest and own or control more than one third of the outstanding capital stock entitled to vote;
- Removal of Directors;
- Ratification of an act of disloyalty by a Director; and

- Ratification of contracts with corporations in which a Director is also a member of the board, where the interest of the Directors is substantial in one corporation and nominal in the other.

Pre-emptive Rights

The Corporation Code confers pre-emptive rights on shareholders of a Philippine corporation entitling such shareholders to subscribe for all issues or other dispositions of equity related securities by the corporation in proportion to their respective shareholdings, regardless of whether the equity related securities proposed to be issued or otherwise disposed of are identical to the shares held. A Philippine corporation may provide for the denial of these pre-emptive rights in its articles of incorporation.

Derivative Suits

Philippine law recognizes the right of a shareholder to institute, under certain circumstances, proceedings on behalf of the corporation in a derivative action in circumstances where the corporation itself is unable or unwilling to institute the necessary proceedings to redress wrongs committed against the corporation or to vindicate corporate rights, as for example, where the directors themselves are the malefactors.

Appraisal Rights

The Corporation Code grants a shareholder a right of appraisal in certain circumstances where he has dissented and voted against a proposed corporate action, including:

- An amendment of the articles of incorporation which has the effect of adversely affecting the rights attached to his shares or of authorizing preferences in any respect superior to those of outstanding shares of any class or of extending or shortening the term of corporate existence;
- The sale, lease, exchange, transfer, mortgage, pledge or other disposal of all or substantially all the assets of the corporation;
- The investment of corporate funds in another corporation or business or for any purpose other than the primary purpose for which the corporation was organized; and
- A merger or consolidation.

In these circumstances, the dissenting shareholder may require the corporation to purchase his shares at a fair value which, in default, is determined by three disinterested persons, one of whom shall be named by the stockholder, one by the corporation, and the third by the two thus chosen. In the event of a dispute, the Philippine SEC will resolve any question relating to a dissenting shareholder's entitlement to exercise the appraisal rights. The dissenting shareholder will be paid if the corporate action in question is implemented and the corporation has unrestricted retained earnings sufficient to support the purchase of the shares of the dissenting shareholders.

Dividends

Under Philippine law, a corporation can only declare dividends to the extent that it has unrestricted retained earnings. Unrestricted retained earnings represent the undistributed earnings of the corporation which has not been allocated for any managerial, contractual or legal purposes and which are free for distribution to the shareholders as dividends. A corporation may pay dividends in cash, by the distribution of property, or by the issuance of shares. Board approval suffices for the approval of payment of cash and property dividends. Stock dividends may be paid and distributed only upon the approval of the shareholders at a meeting called for that purpose.

The Philippine Corporation Code generally requires a Philippine corporation with surplus profits in excess of 100% of its paid-in capital to declare and distribute such surplus to its shareholders in the form of dividends. Notwithstanding this general rule, a Philippine corporation may retain all or any portion of such surplus when: (i) justified by definite expansion plans approved by its Board of Directors; (ii) the required consent of any financing institution or creditor for the declaration of dividends pursuant to a loan agreement which prohibits such declaration without said creditor's consent has not yet been secured; or (iii) it can be clearly shown that such retention is necessary under special circumstances.

The Company has approved a dividend policy that would entitle stockholders to receive dividends equivalent to up to 50% of the prior year's net income (incremental over previous dividends paid) after tax subject to (i) the availability of unrestricted retained earnings, (ii) implementation of business plans, (iii) contractual obligations, and (iv) working capital requirements.

Disclosure Requirements / Right of Inspection

Philippine stock corporations are required to file a general information sheet which sets forth data on their management and capital structure and copies of their annual financial statements with the SEC. Corporations must also submit their annual financial statements to the BIR. Corporations whose shares are listed on the PSE are also required to file current, quarterly and annual reports with the SEC and the PSE. Shareholders are entitled to require copies of the most recent financial statements of the corporation, which include a balance sheet as of the end of the most recent tax year and a profit and loss statement for that year. Shareholders are also entitled to inspect and examine the books and records that the corporation is required by law to maintain.

The Board is required to present to shareholders at every annual meeting a financial report of the operations of the corporation for the preceding year.

Change in Control

The Company's Articles and By-laws do not contain any provision that will delay, deter or prevent a change in control of the Company except restrictions on foreign ownership, because the Company owns land. Philippine laws limit foreign shareholdings in the Company to a maximum of 40% of its issued and outstanding capital stock. Any transfer of the Company's shares by Filipinos to non-Filipinos will be subject to the limitation that any such transfers will not cause foreign shareholdings in the Company to exceed 40% of the Company's issued and outstanding capital stock. In the event that foreign ownership of the Company's issued and outstanding capital stock will exceed 40%, the Company has the right to reject a transfer request to persons other than Philippine Nationals or corporations organized under Philippine laws and whose capital stock is at least 60% owned by Filipinos and has the right not to record such purchases in the books of the Company.

Other Features and Characteristics of Common Shares

The common shares are neither convertible nor subject to mandatory redemption. All of the Company's issued common shares are fully paid and non-assessable and free and clear from any and all liens, claims and encumbrances. All documentary stamps taxes ("DST") due on the issuance of all common shares have been fully paid.

RECENT ISSUANCE OF EXEMPT SECURITIES

The Company, as of the date of this Prospectus, has not issued any exempt securities.

DETERMINATION OF THE OFFER PRICE

The Offer Price range is up to [Two Thousand One Hundred Pesos Only (₱ 2,100.00)] per share, as determined using the Discounted Cash Flow (DCF) model and multiple valuation method approach.

In an article titled “How do Investment Banks Price Initial Public Offerings? An Empirical Analysis of Emerging Markets” published by the International Journal of Financial Studies on September 5, 2018, it is said that investment banks are more likely to use DCF when valuing young firms but could also use multiple valuation method such as Price Earnings Ratio (P/E) for firms having more assets as fixed that expect to generate more revenues in the future.

Below is the projected Net Cash Flow for the years 2023 – 2031 (9 years remaining period of the PSA with MORESCO-1) and the computation of the discounted cash flow to arrive at the intrinsic value per share.

(In Thousand Pesos)	Net Cash Flow	Net Present Value
2023	₱ 14,754	₱ 10,938
2024	19,677	14,587
2025	20,176	14,957
2026	32,000	23,722
2027	34,632	25,673
2028	35,962	26,659
2029	35,045	25,979
2030	34,110	25,286
2031	33,035	24,489
2031 – Cash balance	341,422	253,100
Total Net Present Value		₱ 467,564
Intrinsic Value per Share		₱ 1,870

Among the factors considered in projecting the Company’s cash flow were the historical performance, the business potential, expansion plans, inflationary factors and the ability to generate earnings and cash flow of the Company. In computing for the Net Present Value, the Company used 16.14% as the discount rate which is the equivalent of the average Rate of Return of investment for the projected period 2022-31. The Offer Price may not have any correlation to the actual book value of the Offer Shares.

In correlating the result of the DCF analysis as shown above, with the Price Earnings (P/E) Ratio, the Company computed for the average Earnings per share for the projected income statement for the years 2022-2031 and came out with a figure of ₱157.62/share. Using the Intrinsic Value per share as

shown above, the equivalent P/E Ratio is 12 and is still below the Philippines Stock Exchange monthly P/E ratio of 14.51 for March 2023.

It is the desire of the divesting major stockholders to sell the 18,325 shares at a price close to its intrinsic value to have a fair profit on sale and the same time inclusive of taxes and selling expenses. So the amount of ₱ 2,100 per share was agreed upon by the BOD of the Company to be the price of the Offer shares.

CAPITALIZATION

The following table sets forth the Company's audited consolidated short-term and long-term debt and capitalization as of 31 December 2022 and as adjusted to reflect the sale of the Offer Shares. This table should be read in conjunction with the notes thereto located in "Exhibit 2" of the Registration Statement (Form 12-1).

For the purposes of arriving at the effect of the Offer on capitalization, it is estimated that the Offer will generate net proceeds of [Fifteen Million Eight Hundred Ninety Three Thousand Three Hundred Ninety Pesos (₱ 15,893,390)] from the sale of [Eight Thousand Five Hundred Sixty Six (8,566) Offer Shares after deducting an estimated capital gains and documentary stamp tax in connection with the Sale of the Treasury Shares. The actual expenses may vary from the estimated amounts. The Offer Price and the estimated amounts used to determine the estimated net proceeds are presented in this Prospectus for convenience only.

As of 31 December 2022, and as adjusted after giving effect to the Offer, the total liabilities and total equity of the Company are as follows:

<i>In Philippine ₱</i>	Audited as of 31 Dec 2022	After giving effect to the Offer
Current Liabilities	54,176,292	54,176,292
Non-Current Liabilities	70,092,634	70,092,634
Capital Stock	250,000,000	250,000,000
Treasury Stock	(11,135,390)	-
Share Premium (Note)	124,177	4,882,177
Retained Earnings	104,583,247	104,583,247
Total Capitalization	467,840,960	483,734,350

Note: Additional premium is due to the sale of treasury stock at Php 2,100/share against its cost of Php 1,300/share ([2,100-1,300] x 8,566 shares) deducted by estimated selling expenses of Php 2,095,210.

Following is the impact of the offer to the selling stockholders:

	No of Shares Before the Offer	%	No. of Shares to Sell	No of Shares After the Offer	%
MORESCO-1	180,819	72.33	14,144	166,675	66.67
Juanito Yu	50,000	20.00	4,181	45,819	18.33

DILUTION

The net tangible book value of the Company as of 31 December 2022 was ₱ 343,572,034 or ₱ 1,423.05 per share. The net tangible book value represents the amount of the Company's Total Assets less its Total Liabilities and Intangible Assets. The Company's net tangible book value per share represents its net tangible book value divided by the number of common shares outstanding. Since the Company had no Intangible Assets, net tangible book value is equal to its Total Shareholders' Equity.

After giving effect to the increase in the Company's Total Assets to reflect its receipt of the net proceeds from the Offer estimated to amount to [Fifteen Million Eight Hundred Ninety Three Thousand Three Hundred Ninety Pesos (₱ 15,893,390)] and the addition of [Eight Thousand Five Hundred Sixty Six] (8,566) common shares subject of the Offer back from Treasury, the Company's adjusted net tangible book value would be [₱ 359,465,424] or [₱ 1,437.86] per share. This represents an immediate increase of [₱ 14.81] per share to existing shareholders and a dilution of [₱ 662.14] per share to the investors participating in the Offer.

The dilution in book value per share represents the estimated difference between the Offer Price and the approximate adjusted tangible book value per share immediately following the completion of the Offer.

The dilution effects are presented in the following summary:

<i>In Philippine ₱</i>	Before Offer	After Offer	Increase(Decrease)
Total Tangible Assets	467,840,960	483,734,350	15,893,390
Less Total Liabilities	124,268,926	124,268,926	-
Net Tangible Book Value	343,572,034	359,465,424	15,893,390
Book Value per Share	1,423.05	1,437.86	14.81
Outstanding Shares	241,434	250,000	8,566
Offer Price/share	2,100	1,437.86	(662.14)

Percentage Ownership Impact:

	Before Offer		After Offer	
	No of Shares	Percent	No of Shares	Percent
Stockholders				
Existing	230,819	96%	212,494	85%
Public	10,615	4%	37,506	15%
Total Outstanding	241,434	100%	250,000	100%

PLAN OF DISTRIBUTION

The Company will not list the Offer share in the Philippine Stock Exchange (PSE) since it is merely complying with the ERC order to offer not less than 15% of its outstanding Capital Stock to the public as discussed above. There is an available mode much convenient and is provided in the 2015 Implementing Rules and Regulations of the Securities Regulation Code as follows:

- i. Publication in any newspaper, magazine or printed reading material which is distributed within the Philippines;
- ii. Presentation in any public or commercial place;
- iii. Advertisement of announcement on radio, television, telephone, electronic communications, information communication technology or any other forms of communication (e.g. social media);
- iv. Distribution and/or making available flyers, brochures or any offering material in a public or commercial place or to prospective purchasers through the portal system, information communication technology and other means of information distribution.

With only these means, the sale will not be coursed through an underwriter and/or selling agents. The Company have filed a request for exemption relief on the hiring of an underwriter and the SEC Commissioners approved EN BANC the grant of this exemption on August 24, 2023 for the reason that the parent Company, MORESCO-1 is an active member of the Association of Mindanao Rural Electric Cooperatives (AMRECO) and hence, the distribution/sale of the offered shares can easily be promoted to the officers/employees and members of AMRECO's cooperatives.

Following is the marketing/distribution plan of activities:

Activities	Timetable
Publication of SEC approval of effectivity date	Within 5 days from SEC set of effective date
Publication of Public Offer	Within 10 business days from effectivity of the Registration
Advertisement on website and social media	Within 7 days from SEC set of effective date
Radio announcement – MORESCO-1 radio and MAGNUM radio	Within 7 days from SEC set of effective date, plug in advertisement (2 months)
Presentation at MORESCO1 forums with consumers	Schedule still to be set – not later than 15 days from effectivity date
Roadshow presentation at NORMECA and AMRECO meetings	Next meeting following date of effectivity
ZOOM presentation for interested investors	Schedule still to be set – not later than 15 days from effectivity date

Any questions relating to the public offering maybe be addressed to the Corporate Secretary or Administrative Officer with the following contact information:

Contact Officer	Position	Contact Number	Email Address
Flor Marba	Corporate Secretary	09062757702	flormarbaflor@gmail.com
Jezza Mae Dacu	Administrative Officer	09913718758	pacerm1energycorp@gmail.com

Above mentioned officers do not receive any additional compensation for doing their services in relation to the sales of the offered shares.

INTERESTS OF NAMED EXPERTS AND COUNSEL

The financial statements of the Company were audited by Moore Roxas Cruz Tagle and Co., CPAs for the year ended December 31, 2022, and by Quilab and Garsuta, CPAs for the year ended December 31, 2021. Said external auditors have no shareholdings in the Company, or any right, whether legally enforceable or not, to nominate persons or to subscribe to securities of the Company, in accordance with the professional standards on independence set by the Board of Accountancy and the Professional Regulation Commission.

The Registration Statement for filing with SEC on the public offer along with all the attachments such as the preliminary prospectus and other documents were prepared by Eugenio Velasco, CPA, the Company's Financial Consultant who also has no shareholdings in the Company, or any right, whether legally enforceable or not, to nominate persons or to subscribe to securities of the Company, in accordance with the professional standards on independence set by the Board of Accountancy and the Professional Regulation Commission.

The validity of the Offer Shares, and other matters concerning the Offer were passed upon for the Company by Atty Jimmarie G. Udang, the independent legal counsel of the Company while the tax matters concerning the offer was passed upon for the Company by Rosel Buna, the tax consultant of the Company. The independent legal counsel and tax consultant has no shareholdings or any interest, direct or indirect, in the Company, or any right, whether legally enforceable or not to nominate persons or to subscribe to the securities of the Company in accordance with the standards on independence required in the Code of Professional Responsibility and as prescribed by the Supreme Court of the Philippines.

The named external auditors, financial consultant, independent legal counsel and tax consultant have not acted and will not act as promoter, underwriter, voting trustee, officer or employee of the Company.

EXTERNAL AUDIT FEES AND SERVICES

The following table sets out the aggregate fees billed for each of the last two (2) fiscal years for the professional services rendered by the Company's external auditors:

Particulars	Nature	Audit Fees (amounts in ₱)	
		For the years ended December 31	
		2021	2022
Quilab and Garsuta, CPAs	Audit of Financial Statements	110,000.00	
Moore Roxas Cruz Tagle and Co., CPAs	Audit of Financial Statements		113,800.00

Except for the audit of the financial statements required for the Company's annual filing with the SEC and the submission of the required financial statements in relation to the registration of its securities, the afore-cited independent public accountants provide no other type of services.

In relation to the audit of the Company's annual financial statements, the Company's Board of Directors Finance Committee shall, among other activities, (i) evaluate significant issues reported by the external auditors in relation to the adequacy, efficiency and effectiveness of the Company's policies, controls, processes and activities; (ii) ensure that other non-audit work provided by the external auditors, if any, are not in conflict with their functions as external auditors; and (iii) ensure the Company's compliance with acceptable auditing and accounting standards and regulations.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS

The Company has not had any disagreements with its internal auditor/independent accountant on any matter of accounting principles or practices, financial statements, disclosure or auditing scope or procedure.

THE COMPANY

HISTORY AND DEVELOPMENT

The idea of setting up a power generation company originated from MORESCO-1's management. Under Republic Act No. 10531, Electric Cooperatives are encouraged to put their own generating plant for sustainability of power supply. At the onset of 2011, the MORESCO-1's management had foreseen the need for the peaking load requirement with the experience in Mindanao power curtailment/rotational black out due to supply deficiency where most of the power distribution utilities including MORESCO-1 was affected and among the result thereof NGCP's billed an exorbitant ancillary charge. Hence, in order to address the rotational blackout, MORESCO-1 had implemented the Interruptible Load Program (ILP) and acquire a modular genset as the short-term solution until such time that the additional capacities shall have been installed in late 2016 to early 2017.

Moreover, as part of MORESCO-1's management planning preparation through its Annual Distribution Development Plan and of Power Supply Procurement Plan submitted to the National Electrification sometime in 2015, the management had been evaluating and monitoring the capacity & energy requirements of MORESCO-1 for its base load, intermediate load and peaking load for a long term solution as power and energy demand continue to grow, especially with the operation of the Laguindingan International Airport and expanding business activities within the franchise area of MORESCO-1 in western Misamis Oriental. Thus, several Power Supply Contracts were entered into by MORESCO-1 with different power supplier intended to supply its baseload and intermediate power requirement to have an optimal generation mixed rate and to ensure to its member consumer owners that its power supply is secured, reliable, efficient, reasonable & affordable. However, for its peaking power supply, MORESCO-1 had already awarded a contract to a certain company, owned by its neighbor distribution utility but for undisclosed reason, it just withdrawn on the engagement. Hence, setting up its own peaking power company that will be embedded in MORESCO-1's distribution system (i.e without passing NGCP's transmission system) was finally decided upon.

PACERM-1 Energy Corporation was incorporated and registered with the **SEC** on March 4, 2013, under Registration No. CS201328892. Its primary purpose is to generate power through the use of diesel power or other non-renewable and renewable energy resources such as wind, solar, ocean and biomass energy. The Company's principal place of business is at its plant located in Zone-1 Brgy., Kibonbon, El Salvador City, Misamis Oriental. The Company is utilizing a diesel power plant with a maximum 10.5MW capacity. This power plant is used for regional national power grid peak shaving, consisted of three 3500kw diesel generating set burning heavy fuel oil. This generator set adopts elastic installation mode, in accordance with current international trends, compared meanwhile decreases the noise and vibration during the operation of diesel generating set.

On June 13, 2013, the Company entered into a **Power Supply Agreement (PSA)** with its major stockholder, **MORESCO-1** for the supply of its peaking load requirement consisting of 10.5 MW of diesel power generated electricity covering a term of fifteen (15) years commencing from the start of its commercial operations. This plant is embedded in MORESCO-1's distribution system. On June 25,

2013, this contract was jointly filed by MORESCO-1 and PACERM-1 for approval by **ERC**. The latter provisionally approved the **PSA** on October 7, 2013. This includes the rates that will be regularly billed to MORESCO-1 on a monthly basis.

In consideration of this PSA, PACERM-1 amended its Articles of Incorporation on August 20, 2013, to increase its authorized capital stock from ₱ 80 million to ₱ 250 million in order to provide equity for the acquisition of the 10.5MW diesel powered plant costing around ₱ 552 million. The SEC approved this increase on July 11, 2014. The acquisition of the diesel plant was originally financed by a 10-year loan from RCBC savings and commercial banks amounting to ₱ 386.8 million at 6% floating rate that was partially released in September 2016. However, due to the delay in RCBC's release of the remaining loan amounting to ₱ 66.9 million, the Company decided to settle these loans with RCBC by a 10-year loan from Philippine Business Bank (PBB) amounting to ₱ 400 million at 5% p.a. repricable rate in last quarter 2017. The loan is secured by a Real Estate Mortgage (refer to page 47 under "Description of Property"). By virtue of the loan agreement, the loan is subject to positive and negative covenants, including financial ratios (current ratio and debt to equity ratio). However, PBB did not specifically identified the financial ratios in the loan agreement. As at March 31, 2023 and December 31, 2022, the Company had not received any notice from PBB that it had violated any provisions of the debt covenant.

On August 27, 2014, the Company entered into a contract with Ningbo CSI Power & Machinery Group Co., Ltd, a foreign company based in the Republic of China for the Engineering, Procurement and Construction of three (3) units diesel power generating plant with all its accessories costing around ₱ 552 million. The contract provides a duration of seven (7) months for the construction of the plant and additional thirty (30) days for delivery to the Company's plant site. The whole project was officially turned over as completed to the Company on August 30, 2016. During the remaining months up to the end of 2016, the Company undertook the testing and commissioning in preparation for the start of its commercial operation. As required by ERC's regulation, the Company have applied for a **Certificate of Compliance (COC)** with the latter for it to be authorized to start its commercial operations. The COC was approved by ERC on December 26, 2016 and the Company officially started commercial operation on January 1, 2017 and started billing MORESCO-1 at power rate as already approved by ERC. The COC will be effective for the next five years and have already expired on December 31, 2021. The Company had already filed for renewal for another five years but ERC have only issued a provisional COC until August 27, 2023 pending compliance of the 15% public offering which needs to be registered and approved by the SEC.

The Company is majority owned by MORESCO-1 and Mr. Juanito Yu who collectively own 95.60% of the Company's outstanding capital stock. MORESCO-1, is one of the pioneer electric cooperatives in the Philippines and is still a leading electric cooperative in the country after around 54 years in operation with exemplary consistent performance in terms of low system loss, high collection efficiency, among other performance standards. Mr. Juanito Yu is also an outstanding businessman as supplier of mostly electrical equipment, poles, transformers, etc. The remaining 4.40% is owned by the public mostly present and retired MORESCO-1 employees.

CUSTOMER

MORESCO-1 is the sole customer of the Company as covered by the PSA since the generation plant is fully embedded in MORESCO-1 distribution system.

CORPORATE STRUCTURE

The Company's corporate structure is as follows:

Shareholder	Citizenship	No of Shares Held	Percent Held
MORESCO-1	Filipino	180,819	72.33%
JUANITO SY YU	Filipino	50,000	20.00%
ELMI C JANOBAS	Filipino	500	0.20%
GLORIA T. JANOBAS	Filipino	927	0.37%
NORMA C GALAGNARA	Filipino	1,005	0.40%
CHRISTINE MORALES	Filipino	300	0.12%
JEAN KIMBERLY JAMES O. YU	Filipino	265	0.11%
ELISEO G. ENERIO	Filipino	279	0.11%
JOSIE M. LLAMIS	Filipino	286	0.11%
RENATO A. ODIADA	Filipino	265	0.11%
RONIE P. PADERO	Filipino	265	0.11%
RUTH M. PATES	Filipino	265	0.11%
JONATHAN L RATUNIL	Filipino	265	0.11%
JEANETTE B. ROSALES	Filipino	300	0.12%
JUANITO TAGAYLO	Filipino	379	0.15%
JOCELYN E. SAPLOT	Filipino	265	0.11%
AIDA M. TAGAYLO	Filipino	379	0.15%
LEONIDES S. VILLASTIQUE	Filipino	289	0.12%
NILO B. GALLOGO	Filipino	272	0.11%
ADELINA Q. REAL	Filipino	197	0.08%
FLORENCIA M. MARBA	Filipino	225	0.09%
SATURNINO S. SOLIS	Filipino	180	0.07%
SOLOMON S. BUASAG	Filipino	171	0.07%
NASSER M. LACANG	Filipino	171	0.07%
JOMEL A. GAID	Filipino	171	0.07%
ELMER C. DADOLE	Filipino	171	0.07%
EDNA P. DIANGO	Filipino	180	0.07%
IVY GRACE S. FABRIGAS	Filipino	171	0.07%
ELIZUR P. PATIS	Filipino	171	0.07%
VENICE M. CERIALES	Filipino	171	0.07%
VIRGIL FRANCIS MARK LABIS	Filipino	500	0.20%
NICOLE CHRISTINE LABIS	Filipino	500	0.20%
TONI ROSE SANDRA TUMULAK	Filipino	400	0.16%
ARIES A. LABIS	Filipino	220	0.09%
RUBEN V. GALAGNARA	Filipino	360	0.14%

JUDITH UBAY-UBAY CUADRA	Filipino	150	0.06%
Held in treasury		8,566	3.43%
Total		250,000	100.00%

WHOLESALE ELECTRICITY SPOT MARKET (WESM)

Under a directive from the Department of Energy (DOE) dated November 22, 2018, all Mindanao electric power industry participants including embedded generators are required to register to the WESM. Since then, after undergoing through the registration and system development processes and several trials, WESM in Mindanao finally started commercial operation on January 26, 2023. The Company was already fully registered with WESM as of June 30, 2022 and is now participating in the market as an energy trader. The Company's participation in the WESM operation will provide an opportunity as well as risk in terms of gains or loss in the spot prices in the market. However since it's only the energy kwh that is being traded in the market, the Company's revenue stream in terms of fixed capacity fees will not be affected by WESM.

HUMAN RESOURCE

The Company presently had 12 staff in its plantilla as follows:

Officers:	
Engr. Julie B. Real	Chief Operating Officer/General Manager
Engr. Ian San Luis	Supervisor Engineer/WESM Enforcement Officer
Engr. Warner Oco	Control Engineer/WESM Trading Officer
Jezza Mae Dacu	Admin Officer WESM Enforcement Officer
Mitzi Cimeni	Finance Officer/Accountant/Bookkeeper/ WESM Billing & Settlement Officer
Jay Albert Balan	Mechanical Engineer-Maintenance
Carl Sherwin Francis Llenares	WESM Trading Officer
Rank & File:	
Marvin Valledor	Plant Operator/Engine Mechanic
Teofilo Bariñan	Plant Operator / Engine Mechanic
Renante Encio	Plant Operator / Engine Mechanic
Dexter Marba	Utility Personnel
Wilejon Tabios	Driver/Liaison

The Company will hire a Compliance Officer as mandated by ERC by January 2024.

DESCRIPTION OF PROPERTY

As of the date of this Prospectus, the Company owns parcels of land as described below. The said properties are the subject of a Real Estate Mortgage (REM) partly to secure its long-term loan with PBB. The long-term loan is originally P 400 million but as of July 31, 2023, outstanding balance is only P 66.77 million with current interest rate of 7% per annum and will end on August 15, 2027. The major restriction under the REM is the sale or lease of any property subject of the mortgage.

Land

Quibonbon, El Salvador, Misamis Oriental

The Company owns the real estate property with all its improvements located at Zone 1, Quibonbon, El Salvador City, with Lot No. 9071. The property has a total area of 5,107 square meters. The property is now under the name of the Company.

The Company's properties consist mainly of its head office building, and the power plant. The properties disclosed under this section are the principal properties of the Company. There are no principal properties aside from the properties mentioned in this section. Aside from acquisitions done in the ordinary course of its businesses, the Company does not foresee any significant acquisition within the next three (3) years.

Operating Sites

The Company operates a network of generator sets as distribution point throughout Misamis Oriental to facilitate its operations.

Corporate Offices

El Salvador City Office (Owned)	PACERM-1 Bldg., Zone 1, Brgy. Kibonbon El Salvador City, Misamis Oriental 9017
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Insurance

The Company's insurance policies cover its power plant including its machineries and equipment and head office building improvements and betterments against any incidents of fire/lighting, earthquake, typhoon, floods, riot, strike and malicious damage and extended coverage to include loss or damage directly caused by explosion, falling aircraft, vehicle impact and smoke. Insurance coverage adequately provided against these unforeseen events as required by its lender, PBB and is subject to annual appraisal by the latter. The present coverage of this policy is from May 3, 2023 to May 3, 2024 subject to annual renewal.

All the trucks and vehicles owned by the Company are covered with third party liability and comprehensive insurance. The Company believes that its insurable assets are adequately covered. The Company considers its insurance coverage to be in accordance with industry standards.

LEGAL PROCEEDINGS ON PROPERTIES

As of the date of this Prospectus, with the exception of the pending legal case as discussed on page 62, there are no other pending legal proceedings to which the Company is a party or to which any of its properties is the subject of.

INDUSTRY OVERVIEW

The information in this section has been derived from various government and private publications or obtained from other publicly available information and has not been prepared or independently verified by the Company, or any of their respective affiliates or advisors. The Company does not have any knowledge that such information from such sources is inaccurate in any material respect. The information may not be consistent with other information compiled within or outside the Philippines.

The Electric Power Industry Reform Act (EPIRA) is one of the landmark pro market reforms implemented to achieve reliable and competitively priced electricity in the Philippines. Due to its perceived ineffectiveness, however, the law has been subjected to a number of criticisms with some calling for its review, if not an outright repeal.

Current arrangements and restructuring

Generally, EPIRA adopted the “ideal” textbook architecture of the competitive energy markets found to be historically successful in Argentina, Canada, Brazil, and Australia, among others (Joskow 2005). Such adoption led to the creation of institutional arrangements and restructuring intended to provide long-term benefits and ensure that prices reflect the efficient economic cost of supplying electricity and service quality attributes. As shown in Figures 1 and 2, these include the following:

Restructuring of the generation segment

Pursuant to Section 6 of EPIRA, the generation segment of the power sector was made competitive and open to all qualified generation companies.

Generation utilities are also no longer required to secure franchise authority from Congress to operate. A maximum permissible market share for participants in the generation segment was also established to foster competition in the power generation sector.

Integration of transmission facilities and network operations

In 2001, the National Transmission Corporation was created. It assumed the electrical transmission function of the National Power Corporation (NPC), which used to dominate the transmission sector. It was also designated as the single independent system operator to manage the operation of the network.

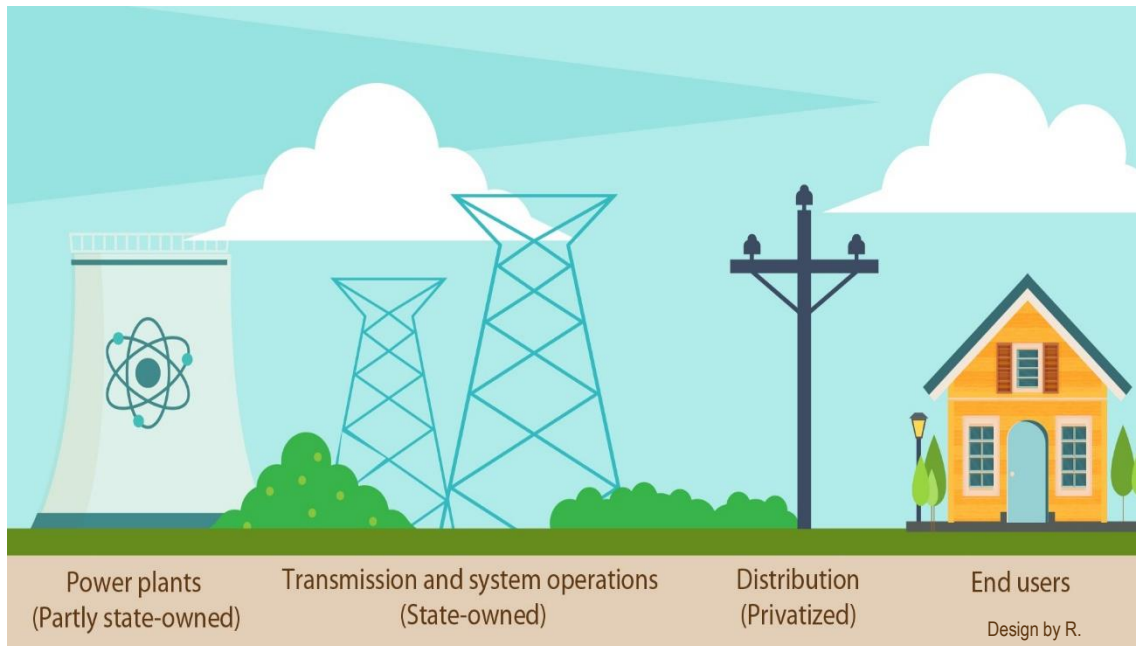


Figure 1. The electric power industry prior to the passing of the Electric Power Industry Reform Act (EPIRA)

Separation of competitive and regulated segments

From a two-sector industry, EPIRA divided the electric power industry into four, namely, generation, transmission, distribution, and supply. Generation became competitive and open. The transmission and distribution of electric power remained regulated, subject to the rate making powers of the Energy Regulatory Commission (ERC). Meanwhile, supply of electricity to the contestable market was deemed not a public utility operation and suppliers were not required to secure national franchise. Prices charged by the suppliers were subjected to ERC regulation.

Unbundling of retail tariffs

EPIRA seeks to separate prices for retail power supplies and associated customer services that will be supplied competitively from the regulated delivery charges. The target was to have all the distribution utilities (DUs) apply for tariffs unbundling by December 2002. However, it was only in December 2008 that almost all of the unbundling applications of 120 electric cooperatives, 20 private utilities, and the NPC were decided by ERC.

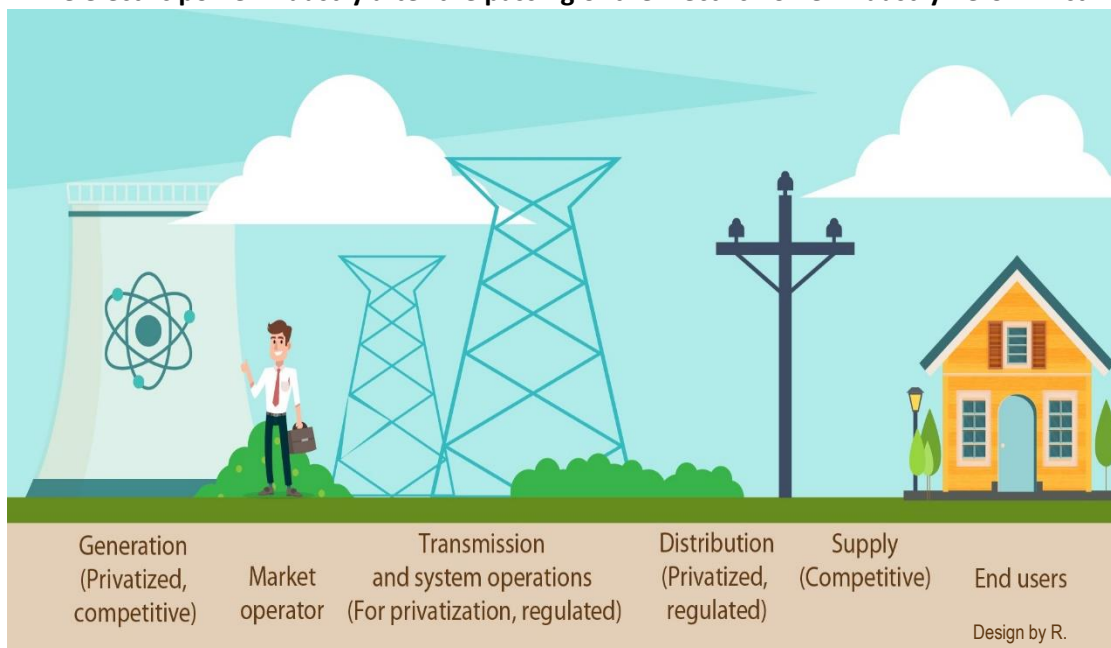
Elimination of cross-subsidies

In 2002 and 2005, the intergrid (between Luzon and Visayas) and intragrid (within Luzon) subsidies were removed, respectively. Meanwhile, the interclass subsidies (between industrial and residential) were removed in 2005. This was done primarily to reflect the true cost of service delivery in the power sector. Such removal of interclass subsidies was done in two phases to allow for smooth adjustment, where 40 percent of the subsidies was removed in 2004 and 60 percent was taken out in 2005.

Contrary to the pursuit of having prices reflect the true cost of service delivery, the government instituted two distortionary pricing mechanisms, namely, (1) the lifeline rate and (2) the Universal Charge for Missionary Electrification (UCME). Both of these mechanisms are meant to support underprivileged consumers' additional charges paid by all other consumers.

Pursuant to Section 73 of EPIRA on lifeline pricing scheme, residential consumers in the higher consumption bracket would have to pay extra cost as subsidy to their poorer counterparts. In 2011, Republic Act 10150 was signed, extending the implementation of the lifeline rate for another 10 years, which was supposed to be phased out in 10 years upon the implementation of the EPIRA. Meanwhile, the missionary electrification is heavily subsidized through UCME, which was financed primarily through extra costs incurred by all other end users.

Figure 2. The electric power industry after the passing of the Electric Power Industry Reform Act



Creation of an independent regulatory body and a body to oversee implementation of the law

Pursuant to Section 38 of the EPIRA, the ERC was created as an independent, quasi-judicial, and regulatory body that promotes competition, encourages market development, ensures customer choice, and penalizes abuse of market power. EPIRA also created the Joint Congressional Power Commission (JCPC) tasked to oversee the proper implementation of the law. For example, the plan of the Power Sector Assets and Liabilities Management Corporation to privatize NPC assets is subject to endorsement of the JCPC before it is approved by the president of the Philippines.

Creation of a wholesale electricity spot market for energy trading

Section 30 of the EPIRA provides for the creation of the Wholesale Electricity Spot Market (WESM) by which competitive market forces would establish generation tariffs and make costs more transparent. WESM commenced commercial operations in the Luzon grid in June 2006. The Visayas grid was integrated into WESM and commenced commercial operations in December 2018. WESM for Mindanao is established by way of a directive from DOE. Lot of measures and steps were taken, and the Independent Electricity Mindanao Operator Power (IEMOP) was established to oversee its implementation. Start of commercial operation was finally launched on January 26, 2023.

Implementation of retail competition and open access

The pinnacle of EPIRA is the full implementation of the Retail Competition and Open Access (RCOA)— the landmark policy designed to give consumers the option to choose their own supplier of electricity. In 2012, or 11 years after the passing of EPIRA, ERC commenced RCOA. Nonetheless, there were legal issues raised in relation to its implementation, one of which is the requirement for certain consumers to participate in RCOA. To address legal issues raised in 2017, which hampered the full implementation of RCOA, the Department of Energy (DOE) issued two circulars that allowed qualified consumers to voluntarily choose their suppliers instead of being mandated to switch from their DUs to a retail electricity supplier.

Achievements under EPIRA

The reforms resulted in significant improvements in the Philippine electric industry, which include the following:

Improved reliability, quality, and affordability of electric supply

Since the passage of EPIRA, the supply of electricity has been adequate to ensure consumers' continuous access to electricity (DOE 2017). The proportion of households experiencing power outages has also _dropped dramatically (NSO 1995, 2004). Moreover, the country has seen a generally declining electric price in real terms after the passing of EPIRA (Meralco 2015). In 2015 alone, said price declined by 8.38 percent relative to its 2000 level (Meralco 2015). In general, while the power rates in the post-EPIRA regime are still higher relative to their levels before EPIRA was implemented, the rate at which these prices increases is much lower in the post-EPIRA regime. The real electricity prices have also diverged across customers starting in 2001, driven by the removal of cross-customer subsidies (Figure 3), which is in line with the pursuit to have prices reflecting the true cost of service delivery in the power sector. Commercial and industrial prices also posted a decline of 11.07 and 21.75 percent, respectively, relative to their 2000 level. In contrast, residential prices increased by 3.87 percent during the 2000–2015 period, although their growth rate is significantly lower compared to its 1990–2000 rate.

Increased number of electrified households

Before EPIRA, only 76 percent of families had access to electricity (NSO 2000). The figure went up to 91.1 percent in 2015, up by 15 percentage points (PSA 2015).

Improved efficiency both in the generation and transmission sector

Using the data from National Electrification Administration (2018), this study noted a negative correlation between average power cost and load factors⁴ for all electric cooperatives, suggesting that an optimal structure of resource mix is in place.⁵ Meanwhile, the situation is different in Mindanao, where the government continues to be the dominant player in the generation sector. Moreover, the transmission and distribution losses have significantly declined since 2005 (WB 2018). Specifically, their share to total power output declined, from 17 percent in 1995 to 9 percent in 2014 (WB 2018). Despite this declining trend, the Philippines still ranks among select Asian countries with the highest transmission and distribution losses, placing third in 2014 (WB 2018). This implies that investments in transmission and distribution systems are still warranted.

Improved fiscal condition

Under EPIRA, the country's power industry has transformed from a fiscally dependent industry to a net taxpayer, which reduced high levels of debt that had been incurred by the government prior to the reform (ADB 2016). Interestingly, looking at the data from the Department of Finance reveals that the country had budget surplus in 2006, coinciding with the initial operation of WESM (DOF 2016). This budget surplus has remained positive, except during the 2009 global recession, whose impact was felt even up to 2012.

Lessons and challenges under EPIRA

While the power sector has progressed under EPIRA, this is not to say that everything worked perfectly. For instance, Joskow (2005) warned of the potential risk that may emerge when the energy sector reform is done incompletely or incorrectly. In the case of the implementation of EPIRA, this includes the incomplete elimination of the cross-subsidization. Consequently, the associated costs of this policy are currently being shouldered by the ratepayers in the form of universal charges. As such, it would be very useful to determine how this policy is being valued at the locality to assess whether the current efforts to boost electrification increase or reduce social welfare (Lee et al. 2018).

EPIRA also missed some of its major targets. This includes the delayed creation of a competitive retail sector under RCOA. At present, the mandatory migration of large electric consumers to RCOA is halted by a temporary restraining order issued by the Supreme Court. This signals uncertainties and the lack of commitment on the part of the government to implement its agenda of having a competitive power sector. This can have far-reaching implications particularly on the pursuit to secure adequate private sector-led investments in the energy sector.

The Philippine power sector can also push for stronger political commitment to the reform. Any increase in competition is anchored on how effective a sector can attract additional players. This will ensure that no huge markups of the incumbent can be maintained in the long run. However, the long-run tendency of the market to have more competition in the market is hampered by the uncertainties brought about by sudden interventions of the government. A case in point is when ERC imposed a cap of PHP 62/kWh in 2013 as a result of a price spike in the WESM. Felder (2007) warned that such immediate response to reduce prices through sudden regulatory mandates can undercut price signals, which later on can get worse and result in a vicious cycle of regulatory uncertainty, unfriendly investment climate, and counterproductive policies. Clearly, the government needs to first determine the consequences of such intervention and assess if the perceived benefits outweigh the costs to the entire industry.

Recommendations

Thus far, two major findings stood out. First, the EPIRA appears to be a well-thought power sector reform design, having followed most of the features of the kind of reform structuring found to be successful historically (Joskow 2005). Second, significant progress has been attained, although a number of measures should be in place to sustain the progress and promote more competitive power supply and retail rates for all consumers. In 2014, the Task Force to Study Ways to Reduce the Price of Electricity has published its recommendations, which this study reviewed and supports in line with the findings of the assessment. Nonetheless, other recommendations include the following:

Generation

DOE needs to undertake generation mapping, as a policy and regular practice, and implement optimal decision making on the location of the generation plants. It should likewise develop a sustainable and optimal energy mix policy and demand-side management practices, such as dynamic pricing or the provision of economic nudges that seek to lower peak consumption. An initiative to develop an optimization model that has both supply- and demand-side measures, e.g., incorporating low- cost yet intermittent renewable power source while shifting peak demand where power cost is lesser through dynamic pricing, is being discussed between the University of the Philippines College of Engineering and the University of Hawaii. Results of this initiative should inform the DOE in carving out what the optimal investment portfolio in the sector.

Transmission and system operation

The National Grid Corporation of the Philippines must undertake capital expenditures to further strengthen transmission, and even distribution, systems; resolve transmission congestions; and modernize the infrastructure. Modernizing the grid can incorporate more renewables, which, at the pace of their wholesale price relative to that of fossil fuel, can be more competitive in the future.

Distribution

DUs must continue improving the generation mix at the DU level, particularly in Mindanao. On the same hand, ERC must streamline and fast-track the approval of power supply agreements to encourage more investments in the sector. This may entail building additional capacities and government funding to perform the task.

System losses

With the help from the industry players and academic institutions, DOE must carefully examine the components of the systems loss, with the view to identify ways of reducing them. Consequently, this exercise may lead to a review of the ERC-set cap on systems losses. ERC must also strictly enforce Anti- Electricity Pilferage Law and aim for a long-term goal of single-digit losses.

Universal charges

With the help from the industry players and academic institutions, DOE must also review the cost effectiveness of the universal charges and determine ways of attaining the same objective with less distortions in the power sector. Meanwhile, NPC must improve the missionary electrification implementation to reduce these charges. NPC can partner with the private sector and academic entities to evaluate the cost effectiveness of missionary electrification. Moreover, the group can look into the prospect of the national government absorbing universal charges and how they influence overall welfare.

Taxes

DOE must review whether or not the government is overtaxing the energy sector. This may include reviewing the legislations on taxes on electric power and whether or not these can be gradually reduced or phased out.

Demand management

Lastly, DOE must develop and implement demand-side measures (e.g., dynamic pricing). This may entail conducting an analysis of the potential of these measures and opportunities that the country can exploit.

MARKET INFORMATION, DIVIDENDS AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

At present, the Company has an authorized capital stock of Two Hundred Fifty Million Pesos (₱ 250,000,000.00) divided into Two Hundred Fifty Thousand (250,000) common shares with a par value of One Thousand Pesos (₱ 1,000.00) per share, out of which Two Hundred Forty One Thousand Four Hundred Thirty (241,434) shares are issued and outstanding and Eight Thousand Five Hundred Sixty Six (8,566) shares held in Treasury. The Offer Shares are Twenty-Six Thousand Eight Hundred Ninety One (26,891) common shares with a par value of [One Thousand Pesos ₱ 1,000.00] at an Offer Price of up to Two Thousand One Hundred Pesos (₱ 2,100.00) per share. After the completion of the Offer, the Company will have a total of Two Hundred Fifty Thousand (250,000) issued and outstanding common shares.

Prior to the Offer, the Company's Shares are not registered and not publicly traded. The common shares are not subject to outstanding options or warrants to purchase, or securities convertible into common shares.

Stockholder shall have a right to purchase or subscribe to any additional share of the capital stock of the Company whether such shares of capital stock are now or hereafter authorized, whether or not such stock is convertible into or exchangeable for any stock of the Company or of any other class, and whether out of the number of shares authorized by the Articles of Incorporation of the Company as originally filed, or by any amendment thereof, or out of shares of the capital stock of any class of the Company acquired by it after the issue thereof; or any holder of any such stock of any class, as such holder, have any right to purchase or subscribe for any obligation which the Company may issue or sell that shall be convertible into, or exchangeable for, any shares of the capital stock of any class of the Company or to which shall be attached or appertain any warrant or warrants or any instrument or instruments that shall confer upon the owner of such obligation, warrant or instrument the right to subscribe for, or to purchase from the Company, any shares of its capital stock of any class. The movement of shares since 2021-2022 only pertains to sale of treasury shares mostly purchased by MORESCO-1's employees (present and retired) and their direct relatives (existing and new stockholders). 1,936 shares are sold in 2021 and 1,714 shares sold in 2022 at a price of P 1,334/share (equivalent to cost plus taxes).

The Board of Directors may, from time to time, grant stock options, issue warrants or enter into stock purchase or similar agreements for purposes necessary or desirable for the Company and allocate, sell or otherwise transfer, convey or dispose of shares of stock of the Company of a class or classes and to such persons or entities to be determined by the Board of Directors including, but not limited, to employees, officers and directors of the Company.

Further, no transfer of stock which will reduce the ownership of Filipino citizens to less than the required percentage of the capital stock as may be required by law shall be allowed or permitted to be recorded in the proper books of the Company.

STOCKHOLDERS

As of the date of this Prospectus, the following are the shareholders of the Company:

Shareholder	Citizenship	No of Shares Held	Percent Held
MORESCO-1	Filipino	180,819	72.33%
JUANITO SY YU	Filipino	50,000	20.00%
ELMI C JANOBAS	Filipino	500	0.20%
GLORIA T. JANOBAS	Filipino	927	0.37%
NORMA C GALAGNARA	Filipino	1,005	0.40%
CHRISTINE MORALES	Filipino	300	0.12%
JEAN KIMBERLY JAMES O. YU	Filipino	265	0.11%
ELISEO G. ENERIO	Filipino	279	0.11%
JOSIE M. LLAMIS	Filipino	286	0.11%
RENATO A. ODIADA	Filipino	265	0.11%
RONIE P. PADERO	Filipino	265	0.11%
RUTH M. PATES	Filipino	265	0.11%
JONATHAN L RATUNIL	Filipino	265	0.11%
JEANETTE B. ROSALES	Filipino	300	0.12%
JUANITO TAGAYLO	Filipino	379	0.15%
JOCELYN E. SAPLOT	Filipino	265	0.11%
AIDA M. TAGAYLO	Filipino	379	0.15%
LEONIDES S. VILLASTIQUE	Filipino	289	0.12%
NILO B. GALLOGO	Filipino	272	0.11%
ADELINA Q. REAL	Filipino	197	0.08%
FLORENCIA M. MARBA	Filipino	225	0.09%
SATURNINO S. SOLIS	Filipino	180	0.07%
SOLOMON S. BUASAG	Filipino	171	0.07%
NASSER M. LACANG	Filipino	171	0.07%
JOMEL A. GAID	Filipino	171	0.07%
ELMER C. DADOLE	Filipino	171	0.07%
EDNA P. DIANGO	Filipino	180	0.07%
IVY GRACE S. FABRIGAS	Filipino	171	0.07%
ELIZUR P. PATIS	Filipino	171	0.07%
VENICE M. CERIALES	Filipino	171	0.07%
VIRGIL FRANCIS MARK LABIS	Filipino	500	0.20%
NICOLE CHRISTINE LABIS	Filipino	500	0.20%
TONI ROSE SANDRA TUMULAK	Filipino	400	0.16%
ARIES A. LABIS	Filipino	220	0.09%
JUDITH UBAY-UBAY CUADRA	Filipino	360	0.14%
RUBEN V. GALAGNARA	Filipino	150	0.06%
Held in treasury	Filipino	8,566	3.43%
Total		250,000	100.00%

DIVIDEND

The Company's board of directors is authorized to declare cash or stock dividends or a combination thereof. A cash dividend declaration requires the approval of the Board, and no shareholder approval is necessary. A stock dividend declaration requires the approval of the Board and shareholders representing at least two-thirds (2/3) of the Company's outstanding capital stock. Holders of outstanding shares on a dividend record date for such shares will be entitled to the full dividend declared without regard to any subsequent transfer of shares.

Under the Philippine Corporation Code, the Company may not make any distribution of dividends other than out of its unrestricted retained earnings.

The Company has approved a dividend policy that would entitle stockholders to receive dividends equivalent to up to 50% of the prior year net income after tax subject to (i) the availability of unrestricted retained earnings, (ii) implementation of business plans, (iii) contractual obligations, and (iv) working capital requirements. The declaration and payment of dividends is subject to compliance with regulatory requirements of the SEC. The Company is allowed to declare dividends, annually or as often as the Board of Directors may deem appropriate, in cash or in kind and/or in additional shares from its surplus profits. The ability of the Company to pay dividends will depend on its retained earnings level and financial condition. To date, the Company have declared and paid dividends amounting to ₱ 99.17 million. It paid ₱ 20.50 million in 2022 pertaining to 2021 earnings while it paid ₱ 18.53 million in 2023 pertaining to 2022 earnings.

INVESTOR RELATIONS PROGRAM

The Company had thirty five (36) stockholders including two (2) major stockholders. Most of the minor stockholders were employees including retirees of MORESCO-1 and some relatives. Notwithstanding however, the management of the Company is very generous when it comes to dealing with its stockholders. In 2020, after the start of the COVID-19 pandemic, the Company have extended cash assistance of ₱ 20,000 per stockholder. For MORESCO-1, the Company started its Corporate Social Responsibility (CSR) Program by providing steel poles worth ₱ 2.81 million in 2020, ₱ 3.82 million in 2021 and ₱ 4.02 million in 2022. In 2021 and 2022 additional benefits totaling ₱ 9.06 million and ₱ 10.02 million respectively were allocated to the stockholders in proportion to their investment holdings. For MORESCO-1, its share of ₱ 6.83 million in 2021 and ₱ 5.06 million in 2022 were given in the form of prompt payor incentives while the balance of ₱ 2.23 million in 2021 and ₱ 4.94 million in 2022 were released as financial assistance due to COVID-19 pandemic.

The Company can be reached for inquiries through Ms. Flor Marba, Corporate Secretary, at telephone number (0906)2757702 and through email address flormarbaflor@gmail.com.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The Company's By-Laws provide for the election of five (5) directors. The Company's Board of Directors is responsible for the direction and control of the business, affairs and management of the Company, and the preservation of its assets and properties. No person can be elected as a director of the Company unless he/she is a registered owner of at least one (1) share of the capital stock of the Company. Directors are elected by the shareholders entitled to vote during the annual meeting of the shareholders. Each director has a term of one (1) year and until his/her successor is elected and qualified and is eligible for re-election every year. Each director beneficially owns at least one share of the capital stock of the Company.

By resolution passed by the majority of the Board, the Directors may designate one or more committees which, to the extent provided by said resolution, shall have and may exercise any of the powers of the Board which may lawfully be delegated in the management of the business and affairs of the Company.

The officers of the Company are elected or appointed by the Board of Directors. The Chairman of the Board/CEO and the President are elected from the members of the Board.

BOARD OF DIRECTORS

The members of the Board and Principal Officers of the Company are as follows:

Name	Nationality	Position	Age
Juanito S. Yu	Filipino	Board Chairman/Chief Executive Officer (CEO)	67
Nonito M. Labis	Filipino	Director/President	60
Edwin M. Igloria	Filipino	Director	67
Joar J. Dy	Filipino	Director/Vice President	60
Saturnino Solis	Filipino	Independent Director	70

The members of the Board of Directors are elected during each regular annual meeting of the stockholders and shall hold office for one (1) year and until successors are elected and qualified.

The table below sets forth the Company's executive officers in addition to its executive directors listed above as of the date of this Prospectus:

Name	Nationality	Position	Age
Julie B. Real	Filipino	Chief Operating Officer	66
Flor M. Marba	Filipino	Corporate Secretary	70

Following are descriptions of the business experience of the Company's directors and officers:

JUANITO SY YU - *Chief Executive Officer*

Juanito S. Yu, 67 years old, Filipino citizen, is a co-founder and has been a member of the Board of Directors of the Company since 2016. Mr. Yu was elected CEO of the Company in December 2016 during the Company Annual Stockholder's Meeting. He is also the Chief Executive Officer of YUEQING CHI FU COMPANY INC. that deals on electricity, gas, steam and air conditioning supply companies in Philippines.

NONITO MAGDALE LABIS - *President and Director*

Nonito M. Labis, 60 years old, Filipino citizen, veterinarian, has been a Director of the Company since 2016 which has businesses in the retail industry. He was elected as Board of Directors President on March 2021 during the Company's Annual Stockholder's Meeting. He sits as the current BOD President of Misamis Oriental - 1 Rural Electric Service Cooperative (MORESCO-1) the mother company of the Corporation.

JOAR JAMOROL DY - *Vice President and Director*

Joar J. Dy, 60 years old, Filipino citizen, has newly joined the Company and was elected as the Board of Directors Member on March 2021 during the Special Stockholder's Meeting. Currently he is the Vice President of Misamis Oriental - 1 Rural Electric Service Cooperative (MORESCO-1) Board of Directors.

EDWIN MAGPULONG IGLORIA - *Director*

Edwin M. Igloria, 67 years old, Filipino citizen, has newly joined the Company and was elected as the Board of Directors Vice President on March 2022 during the 4th Annual Stockholder's Meeting. Currently he is also one of Misamis Oriental - 1 Rural Electric Service Cooperative (MORESCO-1) Board of Directors as El Salvador District representative.

SATURNINO S. SOLIS – *Independent Director*

Saturnino S. Solis, 70 years old, Filipino citizen, has joined the Company and was elected an Independent Director during the Special Stockholder's Meeting last June 16, 2023. He graduated with a degree of Bachelor of Science in Commerce from the University of Bohol. He then served as Clerk/ Supervisor under the Institutional Services Department (ISD) with Misamis Oriental - 1 Rural Electric Service Cooperative (MORESCO-1) for 38 years.

KEY OFFICERS

JULIE BALABAT REAL - *Chief Operating Officer*

Julie B. Real, 66 years old, Filipino citizen, a Professional Electrical Engineer (PEE), was appointed Chief Operating Officer of the company on January 2017 since the start of PACERM-1's commercial operations. Prior to this, he served as General Manager of Misamis Oriental - 1 Rural Electric Service Cooperative (MORESCO-1) for 37 years. Currently he is also a member of William T. Crisp Foundation Inc. He is now a businessman in the farming and education industries in El Salvador

City.

FLORENCIA MICABALO MARBA - Corporate Secretary

Florencia M. Marba, 70 years old. Filipino citizen is concurrently the Corporate Secretary of the Company elected since September 2017. She is also the Corporate Secretary of Northern Mindanao Electric Cooperative Association. She has previously worked with MORESCO-1 as Meter Reading Billing and Collection Supervisor.

SIGNIFICANT EMPLOYEES

While the Company values the contribution of each executive and non-executive employee, there is no non-executive employee that the resignation or loss of whom would have a significant adverse effect on the business of the Company since the Company considers the collective efforts of all its employees as instrumental to the success of the Company. Other than standard employment contracts, there are no arrangements with non-executive employees that will assure the continued stay of these employees with the Company.

FAMILY RELATIONSHIP

There are no family relationships between any Directors and any members of the Company's senior management as of date of this Prospectus.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

To the best of the Company's knowledge and as reported by Atty. Ike L. Roa, the Company's legal counsel handling the case, hereunder is the latest update:

There is only one case pending over PACERM-1 ENERGY CORPORATION is involved and the case is entitled "***EDELISIO M. ARCOL representing Himself and of PACERM L ENERGY CORPORATION as a minority stockholder, Petitioner versus JUANITO S. YU, AGUSTIN D. CABERTE, NONITO M. LABIS, BERNARD R. BENAVIDEZ, JULIE B. REAL AND MISAMIS ORIENTAL-I RURAL ELECTRIC SERVICE COOPERATIVE, INC. (MORESCO-1), Defendants, CIVIL CASE NO. CV-COM 2018-857, FOR; QUO WARRANTO, CANCELLATION OF ISSUANCE OF SHARES, ACCOUNTING, AND DAMAGES ISSUANCE OF SHARES, pending before Regional Trial Court of Misamis Oriental, Branch 18.***"

In this case, petitioner Edelisio M. Arcol, now deceased, appeared to have filed this case for his personal right and on behalf of PACERM-1 as a derivative suit against current and former officers of PACERM-1. In the said case, being of derivative kind, PACERM-1 seems to be a petitioner as the right of the corporation is allegedly being protected by the said petitioner.

Petitioner wanted to annul the Deed of Absolute he executed between him as the seller and MORESCO-1 as the buyer with respect to his fully paid PACERM-1 shares with a total number of 10,765 and with a value of Php 1,300.00 per share or a total of THIRTEEN MILLION NINE HUNDRED NINETY-FOUR AND FIVE HUNDRED (Php 13, 994, 500.00) or a premium price over that of the par value of Php 1,000.00. He alleged that he was forced and intimidated to execute the said Deed of

Absolute and that is the reason he wanted it voided. As far as PACERM-1 is concerned there is no intimidation because at this time he was the President of PACERM-1, and it was him who set the price for the sale.

He also claimed that he subscribed to 20,612 shares in addition to the 10,765 shares that he fully paid and sold to MORESCO-1. He was also asserting ownership over the said 20,612 shares. But this was a baseless claim because while he was still president of PACERM-1, he expressly declared that these unpaid shares of 20,612 would be added to the original MORESCO-1's subscription of 138,842. Thus, the total number of shares bought by MORESCO-1 is 159,054 shares. This sale transaction with MORESCO-1 was signed by the petitioner, the late Edelisio Arcol on behalf of PACERM-1.

As of this date, the respondents namely Johnny Yu, MORESCO-1 and other previous directors of MORESCO-1 have filed an affirmative defenses with motion to dismiss the said this case. The presiding judge handling the said court is in the process of resolving the issue whether to dismiss the case or not. Although we cannot conclude with certainty that the Judge will favor us the respondents and dismiss the case but we have a very strong arguments to support our motion that the case filed by the late Arcol has no basis in law and facts. A pre-trial hearing was conducted last July 28, 2023 at RTC Branch 18, along with legal counsels of PACERM-1, M1 & Arcol. The presiding judge moved to reset the trial to September 18, 2023 due to the opposing party failed to receive the Order from Branch 18.

As can be gleaned from the foregoing, there is no jeopardy that PACERM-1 will be financially impacted by this case because, the aforementioned case has no merit. Granting the court will decide otherwise, there will be no impact on the shares being offered since only the shares of MORESCO-1 will be affected. This means that the Deed of Absolute Sale referred to above will be rescinded and the 10,765 shares will be transferred from MORESCO-1 back to the estate of the late Dir. Arcol. This will have the effect of reducing MORESCO-1's percentage ownership from 66.67% to 62.36 % after the divestment of 14,144 shares for secondary offer. There will be no impact in the number of shares being offered.

Aside from the said Arcol case, there is no other case or litigation involving PACERM-1 or any litigation that PACERM-1 admitted any liability.

All members of the Board of Directors , Company's Chief Operating Officer and Corporate Secretary are free from any final conviction of any criminal offence cases nor have pending court cases including bankruptcy petition case filed against the businesses they are engaged to.

PACERM-1 is not subject to any ongoing investigation by any government agency such as but not limited to Securities and Exchange Commission and the Bureau of Internal Revenue.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The Corporation's executives are paid a compensation package of 12 months' pay. They also receive performance bonuses similarly to that of the managerial, supervisory and technical employees. The members of the Board of Directors who are not employees of the company are elected for a period of one year. They receive compensation on a per meeting participation. There are no other arrangements for which the members of the Board of Directors are compensated. The aggregate

compensation paid or estimated to be paid to the executive officers and directors of the Company during the periods indicated below is as follows (in thousands of pesos):

YEAR 2022

Name/Position	Year	Salary	Bonus	Other Annual Compensation
Julie Real/COO	2022	₱ 905,628.00	₱ 301,876.00	₱75,000.00
Juanito Yu/CEO	2022	₱ 207,000.00	₱ 160,000.00	₱75,000.00
Nonito Labis/President	2022	₱ 207,000.00	₱ 160,000.00	₱75,000.00
Joar Dy/Vice President	2022	₱ 207,000.00	₱ 160,000.00	₱75,000.00
Allan Sofocado/Treasurer	2022	₱ 207,000.00	₱ 160,000.00	₱75,000.00
Florencia Marba/Secretary	2022	₱ 207,000.00	₱ 160,000.00	₱75,000.00

YEAR 2023

Name/Position	Year	Salary	Bonus	Other Annual Compensation
Julie Real/COO	2023	₱ 996,180.00	₱ 332,063.00	₱10,000.00
Juanito Yu/CEO	2023	₱ 227,700.00	₱ 160,000.00	₱10,000.00
Nonito Labis/President	2023	₱ 227,700.00	₱ 160,000.00	₱10,000.00
Joar Dy/Vice President	2023	₱ 227,700.00	₱ 160,000.00	₱10,000.00
Allan Sofocado/Treasurer	2023	₱ 227,700.00	₱ 160,000.00	₱10,000.00
Saturnino Solis/ Independent Dir.	2023	₱ 227,700.00	₱ 160,000.00	₱10,000.00
Florencia Marba/Secretary	2023	₱ 227,700.00	₱ 160,000.00	₱10,000.00

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT AND CHANGE-IN-CONTROL ARRANGEMENTS

There are no special employment contracts between the Company and its named executive officers. There is also no existing arrangement for compensation to be received by any executive officer from the Company in the event of a change in control of the Company.

WARRANTS AND OPTIONS OUTSTANDING

As of the date of this Prospectus, there are no outstanding warrants and options held by any of the Company's directors and executive officers.

None of the Company's common shares are subject to outstanding warrants or options.

SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS AND MANAGEMENT

SECURITY OWNERSHIP OF RECORD AND BENEFICIAL OWNERS

The table below shows the people known to the Company to be directly or indirectly the record and/or beneficial owners of more than five percent (5%) of the Company's voting securities as of the date of this Prospectus:

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No of Shares Held	Percent Held
Common	Juanito S. Yu Quezon City Director/Chairman	Juanito S. Yu (Direct)	Filipino	50,000	20%

Aside from the foregoing officers, as of the date of this Prospectus, no other Director or executive officer of the Company owns at least five percent (5%) of the Company's issued and outstanding shares.

SHAREHOLDERS SUBJECT TO THE LOCK-UP REQUIREMENTS OF THE PSE LISTING RULES

Lockup requirements under the PSE rules are not applicable in the case of the Company since it is not listing its Offer shares in the PSE.

SECURITY OWNERSHIP OF MANAGEMENT

The table below shows the securities beneficially owned by all of the directors, nominees and executive officers of the Company as of the date of this Prospectus. The directors were elected during the last Annual Meeting of Stockholders held on 24th March 2023 while the Independent Director, Saturnino Solis was elected during the Special Stockholders meeting held on June 16, 2023 to fill up the vacancy left due to the resignation of Dir Joy Gil Mahinay on June 9, 2023.

Title of Class	Name of Beneficial Owner	Citizenship	Amount and Nature of Beneficial Ownership	Percent Held
Common	Juanito S. Yu	Filipino	50,000,000	20.00%
	Nonito M. Labis	Filipino	1,000	negligible
	Edwin Igloria	Filipino	1,000	negligible
	Joar J. Dy	Filipino	1,000	negligible
	Saturnino Solis (I)	Filipino	180,000	0.07%
	Julie B. Real	Filipino	0	0.00%
	Florencia M. Marba	Filipino	205,000	0.08%

(I) *Independent director*

VOTING TRUST HOLDERS OF 5% OR MORE

The Company has no knowledge of any voting trust agreement or any other similar arrangement which may result in a change of control of the Company.

CHANGES IN CONTROL

No change in control of the Company has occurred since the beginning of its last fiscal year. The Company has no knowledge of any existing arrangements that may result in a change in control of the Company.

For information on Changes in Control, see the section "*Description of Securities*" on page [31] of this Prospectus.

REPRESENTATIVE OF SELLING SHAREHOLDER – MORESCO-1

Engr Jovel B. Ubay Ubay – General Manager

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following management's discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's audited financial statements for the fiscal years ended 31 December 2020, 2021 and 2022, and for the periods ended 31 March 2023 and 2022 including the related notes, as examined and audited by Quilab & Garsuta, CPAs for 2020 and 2021 and Moore Roxas Cruz Tagle and Co., CPAs for 2022 and the interim period ending March 31, 2023 and 2022 contained in this Prospectus. This Prospectus contains forward-looking statements that involve risks and uncertainties. The Company cautions investors that its business and financial performance is subject to substantive risks and uncertainties. The Company's actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set out in "Risk Factors." In evaluating the Company's business, investors should carefully consider all of the information contained in "Risk Factors."

OVERVIEW

PACERM-1 ENERGY CORPORATION is a power generation company that operates a diesel-powered plant with 10.5 Megawatts capacity that is embedded in the MORESCO-1 power distribution system. It provides the peaking load and ancillary power requirements exclusively for MORESCO-1, its major stockholder. This is backed up by a 25-year power supply contract duly approved by ERC.

It started commercial operation in January 2017 as authorized by ERC in a five (5) Certificate of Compliance (COC) license. As approved by ERC, the Company charges MORESCO-1 a fixed capacity fee at the rate of ₱ 823.56/KW, fixed operation maintenance fee of ₱ 327.43/kW(subject to price index adjustments), variable operation maintenance fee of ₱ 0.55/KWh and fuel fee pass through subject to ₱0.26 liters/kWh limit.

The Board Treasurer regularly reports the Company's financial position, results of operations and cash flow as prepared by the Company's accountant, reviewed by the Company's financial consultant on a monthly basis during the regular monthly meeting of the Company's Board of Directors. These monthly reports included analysis of performance vs budget and year to date year to year comparison. Variances if are explained and any unfavorable result, investigated and corrected. Considering the simplicity of the Company's operations with only one customer and manageable expenses, there's no issues on the accounting implementation of standards.

Financial Condition as of 31 December 2022 compared to 31 December 2021

Assets

The total assets of the Company decreased by 9.95% or ₱ 52.69 million from ₱ 519.53 million in 31 December 2021 to ₱ 467.84 Million in 31 December 2022. This was mostly due to depreciation of ₱ 44.54 million in 2022 and reduction in current assets by ₱ 7.77 million mainly due to decrease in fuel inventory by ₱ 5.48 million and accounts receivable by ₱ 3.51 million. Cash balance increased by only ₱ 1.3 million due to advance loan payment of ₱ 40 million in 2022. The significant decrease in fuel inventory was the increase in power supplied for MORESCO-1, the company's sole customer since it will result in lower generation rate for the latter considering that the fuel stock was still bought at lower cost in previous years.

Liabilities

The total liabilities of the Company decreased by 39.48% or ₱ 81.07 Million from ₱ 205.34 million in 31 December 2021 to ₱ 124.27 million in 31 December 2022. This was mostly due the annual loan payment of ₱ 40 million and another loan advance payment of ₱ 40 million in 2022.

Stockholders' Equity

The total stockholders' equity of the Company increased by 9.35% or ₱ 29.38 million from ₱ 314.19 million in 31 December 2021 to ₱ 343.57 million in 31 December 2022. This was purely attributable to net increase in retained earnings by ₱ 27.09 million and sale of treasury stock by ₱ 2.29 million in 2022.

Results of Operation for year ending 31 December 2022 compared to year ending 31 December 2021

Revenue

In 2022, total revenue from operations increased by ₱ 45.35 million or 31.17% as compared to total revenue generated in 2021 mainly due to the sale of replacement power of ₱ 35.54 million made only in 2022. In addition, variable operating maintenance and fuel charge increased by ₱ 9.56 million or 382.6% due to increase in power generation supplied to MORESCO-1 since it will result in lower generation rate for the latter considering that the fuel stock was still bought at lower cost in previous years. Special prompt payor rebates extended to MORESCO-1 decreased by ₱ 1.78 million or 26%.

From 2020 to 2022, the Company generated the following revenues:

<i>(in million pesos)</i>	2020	2021	2022
Capital Recovery Fee	103.77	103.77	103.77
Fixed Operation Maintenance	45.02	46.03	44.50
Variable Operation Maintenance	0.08	2.35	10.81
Fuel Fee	0.85	0.15	1.25
Prompt Payment Rebates		(6.83)	(5.06)
Gain on disposal of vehicle			
Recovery of impairment loss	1.57	-	-
Interest income	0.29	0.12	0.12
Other Income	2.14	0.03	3.10
Total	153.72	145.62	158.49

Other Income

The significant increase in other income by ₱ 3.10 million is due to the service fee/trading fee on the sale of replacement power amounting to ₱ 1.91 million and recovery of fuel in a dead tank which was previously expensed amounting to ₱ 1.19 million.

Expenses

<i>(in million pesos)</i>	2021	2022
Direct Cost	51.13	93.15
General and Administrative	25.13	32.11
Total	76.26	125.26

The Company's direct cost increased by 82.19% or ₱ 42.02 million in 2022 compared to 2021 while general and administrative expenses increased by 27.75% or ₱ 6.97 million for the same comparative year.

For direct cost pertaining to plant operations and maintenance, the increase is mainly due the cost of replacement power sold amounting to ₱ 35.54 million and fuel cost on generated power amounting to ₱ 8.28 million as explained in “Revenue” section above.

In the case of general and administrative expenses, the increase is brought about by the additional COVID-19 financial assistance to stockholders, officers and employees amounting to ₱ 2.71 million, increase in cost pertaining to meetings and conferences by ₱ 1.79 million due to WESM related trainings and increase in outside service expense by ₱ 1.61 million due to additional staff hirings for WESM trading operations.

Results of Operation for year ending of 31 December 2021 compared year ending 31 December 2020

Revenue

In 2021, total revenue from operations decreased by ₱ 4.25 Million or 2.84% as compared to total revenue generated in 2020 mainly due to the special prompt payor rebates of ₱ 6.84 million extended to MORESCO-1.

There was however an increase in the fixed and variable operations and maintenance revenue by ₱ 2.58 million in 2021 compared to 2020.

Expenses

The Company’s direct cost decreased by 10.78% or ₱ 6.18 million in 2021 compared to 2020 while general and administrative expenses decreased by 7.74% or ₱ 2.11 million for the same comparative year.

For direct cost pertaining to plant operations and maintenance, the decrease is caused by the purchase of inline heating equipment which was attached to the main plant in 2020 costing around ₱ 13 million of which ₱ 8 million was paid in 2020 and the balance in 2021.

In the case of general and administrative expenses, there was a tax assessment settled by the Company for 2017 and 2018 amounting to around ₱ 4.5 million paid in 2020. However, in 2021, the Company extended COVID-19 financial assistance to its stockholders, officers and employees amounting to ₱ 2.23 million.

<i>(in million pesos)</i>	2019	2020	2021
Direct Cost	63.27	57.31	51.13
General and Administrative	28.32	27.24	25.13
Total	91.59	84.55	76.26

Financial Condition as of 31 March 2023 compared to 31 December 2022

Assets

The total assets of the Company increased by 9.07% or ₱ 42.43 million from ₱ 467.84 million in 31 December 2022 to ₱ 510.27 Million in 31 March 2023. This was mostly due to significant increase in accounts receivable by ₱ 39.75 million or 310%. This increase was brought about by additional receivable on replacement power of ₱ 23.65 million and on WESM billings of ₱ 26.93 million. In addition, fuel inventory significantly increased by ₱ 10.52 million or 205% due to increase in fuel reserve for WESM operation. These increases were offset by decrease in fixed assets due to depreciation of ₱ 11.13 million for the first quarter of 2023.

Liabilities

The total liabilities of the Company increased by 40.85% or ₱ 50.76 million from ₱ 124.27 million in 31 December 2022 to ₱ 175.03 million in 31 March 2023. This was mostly due to the significant increase in accounts payable on energy purchases and fuel supplier by around ₱ 57.83 million. Of this increase, ₱ 8.44 million is payable to EDC, supplier of replacement power, and ₱ 12.30 million on WESM billing from IEMOP. ₱ 11.41 million is payable to fuel supplier. In addition, income tax payable increased by ₱ 2.93 million from last quarter of 2022 to first quarter of 2023 due to increase in net income subject to tax. Loans payable was reduced due to amortization of long-term loan amounting to ₱ 10 million for the first quarter of 2023.

Stockholders' Equity

The total stockholders' equity of the Company decreased by 2.42% or ₱ 8.33 million from ₱ 343.57 million in 31 December 2022 to ₱ 335.24 million in 31 March 2023. This was purely attributable to net increase in retained earnings by ₱ 8.33 million. Net income for the first quarter of 2023 amounted to ₱ 12.32 million while cash dividend pertaining to 2022 net income but declared/paid in March 2023 amounted to ₱ 20.65 million.

Results of Operation for quarter ending 31 March 2023 compared to quarter ending 31 March 2022

Revenue

During first quarter of 2023, total revenue from operations significantly increased by ₱ 55.72 million or 150% as compared to first quarter of 2022 mainly due to the sale of replacement power of ₱ 27.34 million and sales to WESM of ₱ 27.91 million made in first quarter of 2023.

For quarters ending 31 March 2023 and 2022, the Company generated the following revenues:

<i>(in million pesos)</i>	2022	2023
Capital Recovery Fee	25.94	25.94
Fixed Operation Maintenance	11.10	11.58
Sales of Replacement Power	-	27.34
Sales to WESM	-	27.91
Interest income	0.02	0.09
Other Income	0.01	0.92
Total	37.07	93.78

Interest Expense and Other Income

The large decrease in interest on borrowed funds by ₱ 1.10 million or 36% is due to the advance payment of long term loan by another ₱ 40 million made in 2022. The significant increase in other income by ₱ 0.91 million is due to the service fee/trading fee on the sale of replacement power amounting to ₱ 0.92.

Expenses

<i>(in million pesos)</i>	Jan - March	
	2022	2023
Direct Cost	13.30	66.44
General and Administrative	8.41	8.09
Total	21.71	74.53

The Company's direct cost tremendously increased by 399% or ₱ 53.14 million in first quarter of 2023 compared to 2022 while general and administrative expenses decreased by 3.65% or ₱ 0.32 million for the same comparative quarter. The increase in direct cost is mostly due to purchases in

WESM of ₱ 27.82 million and purchase of replacement power of ₱ 27.34 million made during the first quarter of 2023 to cover similar sales as explained in “Revenue” above.

Earnings Per Share

The Company’s earnings per share for the full years 2020 to 2022 and first quarters of 2022 and 2023 are as follows:

	2020	2021	2022	First quarter	
				2022	2023
Net profit for the year/qtr	₱ 29,892,587	₱ 36,103,731	₱ 41,002,767	₱ 8,578,488	₱ 12,322,814
Number of common shares outstanding as of period end	237,784	238,752	239,720	239,720	241,434
Earnings per share:	₱ 125.71	₱ 151.22	₱ 171.04	₱ 35.79	₱ 51.04

Other Information

Other material events and uncertainties known to management that would address the past and would have an impact on the Company’s future operations are discussed below.

1. Except as disclosed in the management discussion and notes to the financial statements, there are no other known events that will trigger direct or contingent financial obligation that is material to the Company.
2. Except as disclosed in the management discussion and notes to the financial statements, the Company is not aware of any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on revenues or income from operations.
3. All significant elements of income or loss from continuing operations are already discussed in the management discussion and notes to financial statements. The Company is not aware of any significant elements of income or loss that did not arise from the Company’s continuing operations.
4. There is no material off-balance sheet transaction, arrangement, obligation, and other relationship of the Company with unconsolidated entities or other persons created during the reporting period.
5. The Company does not expect any liquidity or cash problem within the next twelve (12) months.

Plan of Operation:

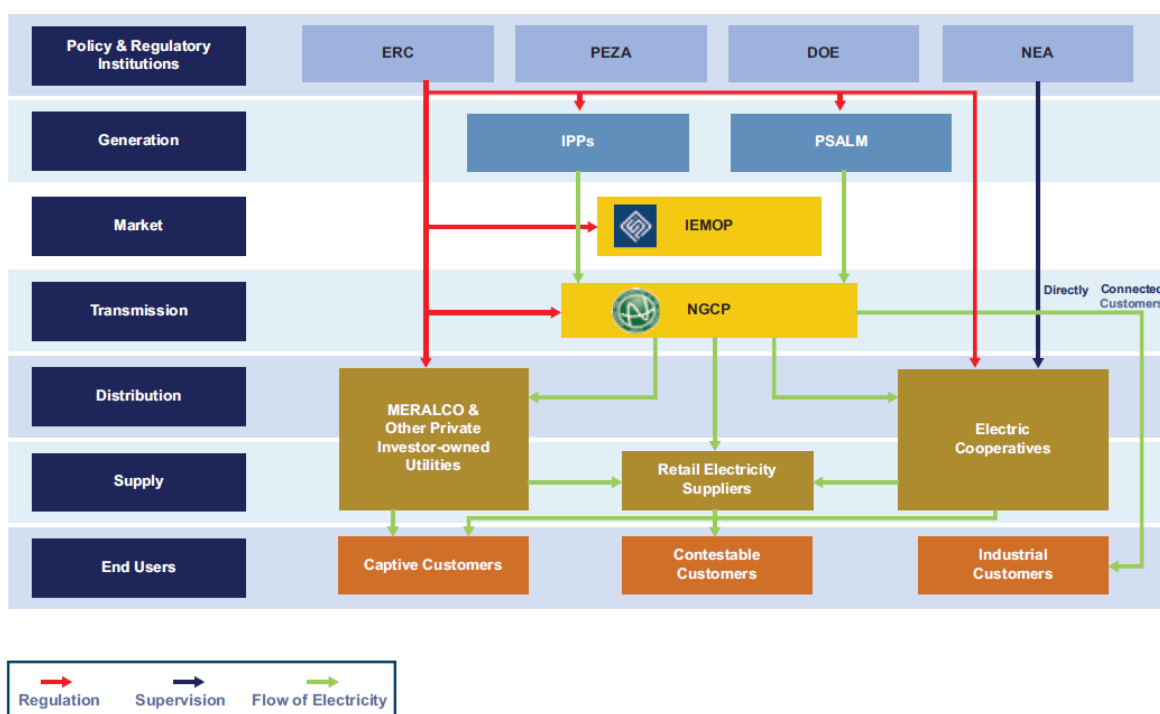
1. The Company do not have any short term plan during the next 12 months of operation.
2. Long term plan may include registration as retail electricity supplier under the present WESM environment and engagement on renewable energy supply.

REGULATORY FRAMEWORK

ORGANIZATION AND OPERATION OF THE POWER INDUSTRY

Republic Act No. 9136 or the Electric Power Industry Reform Act of 2001 (“EPIRA”) established a framework for the organization, operation and restructuring of the electric power industry, with the industry divided into four sectors: generation, transmission, distribution and supply. The following diagram shows the current structure of the electric power industry under the EPIRA.

Industry structure under the EPIRA:



Through the EPIRA, the Government instituted major reforms with the goal of fully privatizing all aspects of the power industry. The principal objectives of the EPIRA are:

- to ensure and accelerate the total electrification of the country;
- to ensure the quality, reliability, security and affordability of the supply of electric power;
- to ensure transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency and enhance the competitiveness of Philippine products in the global market;
- to enhance the inflow of private capital and broaden the ownership base of the power generation, transmission and distribution sectors;
- to ensure fair and non-discriminatory treatment of public and private sector entities in the process of restructuring the electric power industry;
- to protect the public interest as it is affected by the rates and services of electric utilities and other providers of electric power;
- to assure socially and environmentally compatible energy sources and infrastructure;
- to promote the utilization of indigenous and new and renewable energy resources in power generation in order to reduce dependence on imported energy;
- to provide for an orderly and transparent privatization of the assets and liabilities of NPC;
- to establish a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market; and

- to encourage the efficient use of energy and other modalities of demand side management.

With a view to implementing these objectives, the DOE, in consultation with the relevant Government agencies, electric power industry participants, non-Government organizations and electricity consumers, promulgated the Implementing Rules and Regulations (the “IRR”) of the EPIRA on February 27, 2002 (subsequently amended in 2007).

The IRR governs the relations between, and respective responsibilities of, the different electric power industry participants as well as the particular Governmental authorities involved in implementing the structural reforms in the industry, including, but not limited to, the DOE, NPC, NEA, ERC and PSALM.

Reorganization of the Electric Power Industry

Of the many changes initiated by the EPIRA, of primary importance is the reorganization of the electric power industry by segregating the industry into four sectors: (i) the generation sector;

- (ii) the transmission sector; (iii) the distribution sector; and (iv) the supply sector. The goal is for the generation and supply sectors to be fully competitive and open, while the transmission sector will be a regulated common electricity carrier business and the distribution sector will be a regulated common carrier business requiring a national franchise, thus both the transmission and distribution sectors will be regulated as public utilities. Prior to the EPIRA, the industry was regulated as a whole, with no clear distinctions between and among the various sectors and/or services.

The Generation Sector

Under the EPIRA, power generation per se is not a public utility operation. Thus, generation companies are not required to secure congressional franchises, and there are no restrictions on the ability of non-Filipinos to own and operate generation facilities. However, generation companies must obtain a certificate of compliance from the ERC, as well as health, safety and environmental clearances from appropriate Government agencies under existing laws. Furthermore, PPAs and PSAs between generation companies and distribution utilities are subject to the review and approval of the ERC. Generation companies are also subject to the rules and regulations of the ERC on abuse of market power and anticompetitive behavior. In particular, the ERC has the authority to impose price controls, issue injunctions, require divestment of excess profits and impose fines and penalties for violation of the EPIRA and the IRR policy on market power abuse, cross-ownership and anti-competitive behavior.

The goal of the EPIRA is for the generation sector to be open and competitive, while the private sector is expected to take the lead in introducing additional generation capacity. Generation companies will compete either for bilateral contracts with various RESs, electric cooperatives and private distribution utilities, or through spot sale transactions in the WESM. With the implementation of RCOA in Luzon and Visayas, generation companies are already able to sell electricity to eligible end-users. “Open Access” is defined under the IRR as the system of allowing any qualified person the use of electric power transmission and distribution systems and associated facilities subject to the payment of transmission and/or distribution retail wheeling rates; while “Retail Competition” is defined as the provision of electricity to a contestable market (which, under prevailing regulations, refer to electricity end-users with monthly average peak demand of at least 500 KW) by persons licensed by the ERC to engage in the business of supplying electricity end-users through Open Access.

To prevent monopolies and anti-competitive behavior, House Bill No. 9260 was filed in the House of Representatives on April 27, 2021. The bill, which seeks to prohibit ownership by distribution

utilities in generation companies and retail electricity suppliers, has been pending in the House of Representatives Committee on Energy since May 17, 2021.

Recovery by distribution utilities of their purchased power cost is subject to review by the ERC to determine reasonableness of the cost and to ensure that the distribution utilities do not earn any revenue therefrom. With the commencement of the RCOA, generation rates, except those intended for such end-users who may not choose their supplier of electricity (the “**Captive Market**”), ceased to be regulated.

The generation sector converts fuel and other forms of energy into electricity. It consists of the following: (i) NPC-owned-and-operated generation facilities; (ii) NPC-owned plants, which consist of plants operated by IPPs, as well as IPP-owned-and-operated plants, all of which supply electricity to NPC; and (iii) IPP-owned-and-operated plants that supply electricity to customers other than NPC.

Under the EPIRA, generation companies are allowed to sell electricity to distribution utilities or to RESs through either bilateral contracts or the WESM as described below. With the implementation of RCOA on December 26, 2013, as supplemented by DOE Department Circular No. DC2015-06-0010, generation companies may likewise sell electricity to eligible end-users with an average monthly peak demand of 750 KW and certified by the ERC to be contestable customers. In 2016, the ERC issued the implementing rules governing the issuance and renewal of licenses to RESs and the rules governing contestability of qualified end-users (collectively, the “**2016 ERC RES Issuances**”). However, in February 2017, the Philippine Supreme Court, acting on the petition filed by certain entities, issued a temporary restraining order enjoining the DOE and the ERC from implementing DC 2015-06-0010 and the 2016 ERC RES Issuances.

In response to the temporary restraining order, and to provide guidance to relevant power industry players, the DOE issued DC2017-12-0013 and DC2017-12-0014 encouraging eligible contestable customers to voluntarily participate in RCOA.

Subsequently, the DOE issued DC 2019-07-11 (Amending Various Issuances on the Implementation of the RCOA), which provides that contestable customers may voluntarily register as a trading participant in the WESM and that it shall source its electricity supply requirements from ERC-licensed/authorized suppliers. On March 2, 2021, the Philippine Supreme Court promulgated its decision, a copy of which was made publicly available on September 24, 2021, finally declaring DC 2015-06-0010 and the 2016 ERC RES Issuances void for being bereft of legal basis. As a result, the temporary restraining order issued by the Philippine Supreme Court in February 2017, which enjoined the DOE and ERC from implementing DC 2015-06-0010 and the 2016 ERC RES Issuances, has been made final. In the same decision, the Philippine Supreme Court also directed the ERC to promulgate the supporting guidelines to DC 2017-12-0013 and DC 2017-12-0014.

In 2020, the ERC resumed the processing of RES license applications on the basis of a 2011 ERC resolution on RES licensing (the “**2011 ERC Resolution**”) in light of the temporary restraining order issued by the Philippine Supreme Court in 2017. As of date of this Prospectus, the ERC continues to process RES license applications on the basis of the 2011 ERC Resolution as it has yet to issue supporting guidelines to DC 2017-12-0013 and DC 2017-12-0014 in compliance with the directive of the Supreme Court.

The generation sector must observe the Market Share Limitations set in the EPIRA which states that no generation company or related group is allowed to own more than 30% of the installed generating capacity of the Luzon, Visayas or Mindanao Grids and/or 25% of the national installed generating capacity. Also, no generation company associated with a distribution utility may supply more than 50% of the distribution utility’s total demand under bilateral contracts, without prejudice to the bilateral contracts entered into prior to the effectivity of the said Act.

Historically, the generation sector has been dominated by NPC. To introduce and foster competition in the sector, and, more importantly, to lessen the debt of NPC, the EPIRA mandates the total privatization of the generation assets and IPP contracts of NPC, which exclude the assets devoted to missionary electrification through the small power utilities group of NPC. NPC is directed to transfer ownership of all the assets for privatization to a separate entity, PSALM, which is specially tasked to manage the privatization. Beginning early 2004, PSALM has been conducting public bidding for the generation facilities owned by NPC.

Based on latest available data from PSALM as of August 31, 2021, PSALM has privatized and turned over to the successor generating companies a combined capacity of 5,251.43 MW covering 32 generating assets, and assigned seven IPP contracts to IPP administrators with a combined contracted capacity of 3,610.25 MW. As of June 30, 2021, PSALM has transferred at least four decommissioned plants to winning bidders. Major generation assets sold include the 747.53 MW Tiwi-Makban geothermal power plant, the 600 MW Batangas (Calaca) coal-fired thermal power plant, the 600 MW Masinloc coal fired power plant, the 620 MW Limay combined cycle power plant, 360 MW Magat hydroelectric power plant, and the 305 MW Palinpinon-Tongonan geothermal power plant. Among the capacities privatized through IPPA Agreements include the 1,000 MW Sual coal-fired power plant, the 700 MW Pagbilao coal-fired power plant, the 345 MW of the San Roque Power Plant, the 70 MW Bakun hydroelectric power plant, the 40 MW Unified Leyte Geothermal Power Plant, and the 1,200 MW Ilijan combined-cycle gas-fired power plant. In 2018, PSALM also commenced the privatization of the 650 MW Malaya thermal power plant in Rizal and the 210 MW Mindanao coal-fired plant in Misamis Oriental.

Section 47(j) of the EPIRA prohibits NPC from incurring any new obligations to purchase power through bilateral contracts with generation companies or other suppliers. Also, NPC is only allowed to generate and sell electricity from generating assets and IPP contracts that have not been disposed of by PSALM.

Generation companies which are not publicly listed are required to offer and sell to the public a portion of not less than 15% of their common shares of stock. Under prevailing regulations, any offer of common shares of stock for sale to the public through any of the following modes shall be deemed as public offering:

- listing in the PSE;
- a public offering undertaken in accordance with the Securities Regulation Code and its implementing rules and regulations; and
- listing in any accredited stock exchange or direct offer of a portion of registered enterprises' capital stock to the public and/or their employees, when deemed feasible and desirable by the BOI.

Senate Bill No. 2217, filed in the Philippine Senate on May 24, 2021, aims to remove the public offering requirement of generation companies. The bill is currently pending in the Philippine Senate Committee on Energy.

On February 16, 2021, the ERC issued Resolution No. 03, series of 2021, dated November 11, 2020 entitled "A Resolution Adopting the Revised Guidelines for the Financial Capability Standards of Generation Companies" (the "**Revised Financial Guidelines**"). The Revised Financial Guidelines apply to all generation companies including IPPAs, except those which own only generation facilities exclusively for its own consumption or unless otherwise exempted by any law or statute. Under the Revised Financial Guidelines, a generation company is required, among others, to meet a minimum annual debt service capability ratio of 1.25x throughout the period covered by its ERC certificate of compliance, provided that if its financial or loan agreements require a higher debt service capability ratio, then such higher ratio shall serve as its minimum requirement. A generation company performing below the benchmark is required to submit its program to comply, setting forth the specific activities to be undertaken in order to meet the financial capability benchmark, within 60

days from receipt of an ERC directive. A generation company that fails to comply with the requirements set forth under the Revised Financial Guidelines shall be subject to imposition of fines and penalties. In addition, non-compliance with financial capability standards may result in the disclosure by the ERC of such fact, together with any mitigating or aggravating circumstances related thereto, via periodic bulletins.

The Supply Sector

The supply of electricity refers to the sale of electricity directly to end-users. The supply function used to be undertaken largely by franchised distribution utilities. However, with the commencement of the RCOA, the supply function has become competitive. The retail supply business is not considered a public utility operation and suppliers are not required to obtain franchises. However, the supply of electricity to a market of end-users who have a choice on their supplier of electricity is considered a business affected with public interest. As such, the EPIRA requires all RESs to obtain a license from the ERC and they are subject to the rules and regulations of the ERC on the abuse of market power and other anti-competitive or discriminatory behavior.

A RES may only sell up to 50% of its total capacity to all of its end-user affiliates.

With the RCOA already implemented, a RES license will allow a generation company to enter into retail electricity supply agreements with contestable customers. This will encourage competition at the retail level and it is planned that retail competition will gradually increase over time, provided that supply companies are sufficiently creditworthy to be suitable offtakers for generation companies.

Role of the DOE

DOE have given its endorsement for the Company on December 21, 2012 to organize and be registered with SEC as a generation company. As such, the Company operates under the regulatory framework of DOE.

In accordance with its mandate to supervise the restructuring of the electric power industry, the DOE exercises, among others, the following functions:

- preparation and annual updating of the Philippine Energy Plan and the Philippine Power Development Program, and thereafter integrate the latter into the former;
- ensuring the reliability, quality and security of the supply of electric power;
- exercise of supervision and control over all Government activities pertaining to energy projects;
- encouragement of private investment in the power industry and promotion of the development of indigenous and renewable energy sources for power generation;
- facilitation of reforms in the structure and operation of distribution utilities for greater efficiency and lower costs;
- promotion of a system of incentives to encourage industry participants, including new generating companies and end-users, to provide adequate and reliable electric supply; education of the public (in coordination with NPC, ERC, NEA and the Philippine Information Agency) on the restructuring of the industry and the privatization of NPC assets; and
- establishment of the WESM in cooperation with electric power industry participants and formulating rules governing its operations.

The Role of the ERC

The ERC is the independent, quasi-judicial regulatory body created under the EPIRA that replaced the Energy Regulatory Board. The ERC plays a significant role in the restructured industry environment, consisting of, among others, promoting competition, encouraging market development, ensuring consumer choice and penalizing abuse of market power by industry participants.

Among the primary powers and functions of the ERC are:

- to determine, fix and approve, after conducting public hearings, transmission and distribution wheeling charges and retail rates and to fix and regulate the rates and charges to be imposed by distribution utilities on their captive end-users, as well as the universal charge to be imposed on all electricity end-users, including self-generating entities;
- to grant, revoke, review or modify the certificates of compliance required of generation companies and the licenses required of suppliers of electricity in the contestable market;
- to enforce the Grid Code and Distribution Code, which shall include performance standards, the minimum financial capability standards, and other terms and conditions for access to and use of transmission and distribution facilities;
- to enforce the rules and regulations governing the operations of the WESM and the activities of the WESM operator and other WESM participants to ensure a greater supply and rational pricing of electricity;
- to ensure that the electric power industry participants and NPC functionally and structurally unbundled their respective business activities and rates and to determine the levels of cross-subsidies in the existing and retail rates until the same is removed in accordance with the different sectors;
- to set a lifeline rate for marginalized end-users;
- to promulgate rules and regulations prescribing the qualifications of suppliers which shall include, among others, their technical and financial capability and creditworthiness;
- to determine the electricity end-users comprising the contestable and Captive Markets;
- to fix user fees to be charged by TransCo/NGCP for ancillary services to all electric power industry participants or self-generating entities connected to the grid;
- to monitor and adopt measures to discourage or penalize abuse of market power, cartelization and any anticompetitive or discriminatory behavior by any electric power industry participant;
- to review and approve the terms and conditions of service of TransCo/NGCP and any distribution utility or any changes therein;

- to perform such other regulatory functions as are appropriate and necessary in order to ensure the successful restructuring and modernization of the electric power industry; and
- to have original and exclusive jurisdiction over all cases that involve the contesting of rates, fees, fines and penalties imposed in the exercise of its powers, functions and responsibilities and over all cases involving disputes between and among participants or players in the energy industry relating to the foregoing powers, functions and responsibilities except cases which involve abuse of market power, cartelization and any anticompetitive or discriminatory behavior by any electric power industry participant.

Under the EPIRA law, a generation company is deregulated by ERC unlike transmission and power distribution companies. However, despite of this, the Company is still required to get approval from ERC for its power supply contract with any distribution utility such as MORESCO-1. Likewise, before it could commercially starts to operate, the Company should obtain Certificate of Compliance (COC) from ERC for five (5) years, renewable every five years thereafter. All of these were complied with by the Company as discussed in “The Company” above. Considering that the Company can operate as a “Retail Electricity Supplier” (RES), it should also obtain a license from ERC before it could operate as such. At present, the Company is still working out preparing for the necessary requirements in applying for this license considering that ERC have suspended issuing licenses for quiet sometime. But with WESM which will start soon in Mindanao, RES can already operate.

Wholesale Electricity Spot Market (WESM)

The EPIRA mandates the establishment of the WESM, which is a pre-condition for the implementation of the RCOA, within one year from its effectivity. The WESM provides a venue whereby generators may sell power, and at the same time, suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two.

The rules and regulations of the WESM set the guidelines and standards for participation in the market, reflecting accepted economic principles and providing a level playing field for all electric power industry participants, and procedures for establishing the merit order dispatch for each time (hourly) trading period. These rules also provide for a mechanism for setting electricity prices that are not covered by bilateral contracts between electricity buyers and sellers.

On November 18, 2003, upon the initiative of the DOE, the PEMC was incorporated as a non-stock, non-profit corporation with membership comprising an equitable representation of electricity industry participants and chaired by the DOE. The PEMC acts as the autonomous market group operator and the governing arm of the WESM and was tasked to undertake the preparatory work for the establishment of the WESM, pursuant to Section 30 of the EPIRA and in accordance with the WESM Rules. Its primary purpose is to establish, maintain, operate and govern an efficient, competitive, transparent and reliable market for the wholesale purchase of electricity and ancillary services in the Philippines in accordance with relevant laws, rules and regulations.

The WESM commercial operations in the Luzon Grid started on June 26, 2006. The Visayas Grid was integrated into the WESM on December 26, 2010.

The PEMC and the IEMOP have executed an operating agreement to formalize the transfer of all functions, assets and liabilities associated with market operations from the PEMC to the IEMOP effective September 26, 2018. With the signing of the operating agreement, the IEMOP took over the market operations of the WESM, a function that was previously performed by the PEMC. Republic Act No. 9136 requires the PEMC to divest itself of this function in favor of a separate entity that is independent of the market participants. To comply with the requirement, on February 6, 2018, the market participants and the DOE Secretary approved the transition plan calling for the formation of an independent market operator and the transfer of the market operation functions to it. The IEMOP is a non-stock, non-profit corporation led by a board of directors, all of whom are independents and do not have any interest or connection to the WESM participants, that was incorporated and organized to implement the plan. Beginning on September 26, 2018, the IEMOP has been running the electricity market and, among other things, managing the registration of market participants, receiving generation offers, announcing market prices, dispatching schedules of the generation plants and handling billing, settlement and collections. Under the policy and regulatory oversight of the DOE and the ERC, the PEMC has remained as the governing body for the WESM to monitor compliance by the market participants with the market rules.

On February 24, 2021, the DOE adopted the WESM Industry Code of Ethics which is intended to supplement other regulatory issuances, promote professionalism and integrity, and prescribe general standards of behavior which ought to be followed by the WESM participants and members, IEMOP, the WESM governance arm, the PEMC board and the WESM governance committees. Through DOE Department Circular No. DC2021-06-0015 (“**DC2021-06-0015**”), the DOE declared the commercial operation of the Enhanced WESM Design and Operations (“**EWDO**”) effective June 26, 2021 in Luzon, Visayas and Mindanao. Except for certain instances where compliance with (i) dispatch conformance standards and (ii) posting of prudential requirements is relaxed, all WESM members and concerned electric power industry participants are required to comply with the provisions of DOE Department Circular No. DC2021-06-0015 and the WESM Rules and market manuals covering the EWDO.

In anticipation of the increase of supply condition in Mindanao, the DOE, through DOE Department Circular No. DC2017-05-0009, has declared the launch of the WESM. Similar to the operations in Luzon and Visayas, WESM’s primary function is to be the venue for efficient scheduling, dispatch, and settlement of energy withdrawal and injections in the Mindanao Grid.

The PEMC has already initiated some preparatory activities in the upcoming WESM in Mindanao. During the first quarter of 2017, PEMC have conducted a series of public consultations. The WESM Trial Operation Program commenced on June 26, 2017 where its

objective is to familiarize all Mindanao participants in the implementation of the WESM.

Under a directive from the Department of Energy (DOE) dated November 22, 2018, all Mindanao electric power industry participants including embedded generators are required to register to the WESM. Over the years since then, WESM in Mindanao is still on trial. Commercial operation finally started on January 26, 2023. The Company was already fully registered with WESM as of June 30, 2022 and is now participating in the market. The Company's participation in the WESM operation will not affect the revenue stream as it is already fixed in the power supply agreement with MORESCO-1. Trading will only focus on kwhr energy generated by the plant. However, there will be trading gains or loss depending on movement of the spot prices.

Government Approval Process

As set forth in the EPIRA, power generation is not considered a public utility operation. Thus, an entity engaged or intending to engage in the generation of electricity is not required to secure a national franchise. However, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a certificate of compliance from the ERC to operate facilities used in the generation of electricity. A certificate of compliance is valid for a period of five years from the date of issuance.

In addition to the certificate of compliance requirement, a generation company must comply with government-prescribed technical, financial capability, health, safety and environmental standards. A generation company must ensure that all its facilities connected to the grid meet the technical design and operational criteria of the Grid Code and Distribution Code promulgated by the ERC. In this connection, the ERC has issued guidelines setting the minimum financial capability standards for generation companies. Under the guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service capability ratio (which measures the ability of the power generation company to service its debts) of 1.5x throughout the period covered by its certificate of compliance. For certificate of compliance applications and renewals, the guidelines require the submission to the ERC of, among other things, a schedule of liabilities, and a five-year financial plan. For the duration of the certificate of compliance, the guidelines also require a generation company to submit audited financial statements and forecast financial statements to the ERC for the next two financial years, as well as other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be grounds for the imposition of fines and penalties.

With the introduction of RCOA, the rates charged by a generation company are no longer regulated by the ERC, except rates for Captive Markets (as determined by the ERC). In addition, since the establishment of the WESM, generation companies are now required to comply with the membership criteria and appropriate dispatch scheduling as prescribed under the WESM Rules.

In the course of developing a power plant, other permits, approvals and consents must also be obtained from relevant national, provincial and local Government authorities, relating to,

among others, site acquisition, construction and operation, including environmental-related licenses and permits.

Local Government Code

Republic Act No. 7160, otherwise known as the Local Government Code of 1991 (the “LGC”) establishes the system and powers of provincial, city, municipal, and barangay governments in the country. The LGC general welfare clause states that every local government unit (the “LGU”) shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

The power to tax and police power are exercised by the LGU through their respective legislative bodies. Specifically, the LGU, through its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of the prosperity, and the promotion of the morality, peace, good order, comfort, convenience, and general welfare of the locality and its inhabitants. Ordinances can reclassify land, impose real property taxes, regulate business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

Labor and Employment

The Department of Labor and Employment (“DOLE”) is the Philippine government agency mandated to formulate policies, implement programs and services, and serves as the policy-coordinating arm of the Executive Branch in the field of labor and employment. The DOLE has exclusive authority in the administration and enforcement of labor and employment laws such as the Labor Code of the Philippines and the Occupational Safety and Health Standards (which sets out, among others, the guidelines applicable to different establishments intended for the protection of every workingman against the dangers of injury, sickness or death through safe and healthful working conditions), as amended, and such other laws as specifically assigned to it or to the Secretary of the DOLE.

Social Security System, PHILHEALTH and the Pag-Ibig Fund

An employer or any person who uses the services of another person in business, trade, industry or any undertaking is required under Republic Act No, 11199, the Social Security Act of 2018 to ensure coverage of employees following procedures set out by the law and the Social Security System (“SSS”). Under the said law, an employer must deduct from its employees their monthly contributions in an amount corresponding to his salary, wage, compensation or earnings during the month in accordance with the monthly salary credits, the schedule and the rate of contributions as may be determined and fixed by the Social Security Commission, pay its share of contribution and remit these to the SSS within a period set by law and/ or SSS regulations.

Employers are likewise required to ensure enrollment of its employees in a National Health Insurance Program administered by the Philippine Health Insurance Corporation a government corporation attached to the Department of Health tasked with ensuring sustainable, affordable and progressive social health insurance pursuant to the provisions of Republic Act No. 10606, the National Health Insurance Act of 2013. On February 20, 2019, Republic Act No. 11223, the Universal Health Care Act, was enacted, which amended certain

provisions of the National Health Insurance Act of 2013. Under the said law, all Filipino citizens are now automatically enrolled into the National Health Program. However, membership is classified into two types, direct contributors and indirect contributors. Direct contributors refer to those who have the capacity to pay premiums, are gainfully employed and are bound by an employer-employee relationship, or are self-earning, professional practitioners, migrant workers, including their qualified dependents, and lifetime members. On the other hand, indirect contributors refer to all others not included as direct contributors, as well as their qualified dependents, whose premium shall be subsidized by the national government including those who are subsidized as a result of special laws. Every member is also granted immediate eligibility for health benefit package under the program.

Under Republic Act No. 9679, the Home Development Mutual Fund Law of 2009, all employees who are covered by the SSS must also be registered with and covered by the Home Development Mutual Fund, more commonly referred to as the Pag-IBIG Fund.

Revised Corporation Code

Republic Act No. 11232, also known as the Revised Corporation Code, was signed into law by President Duterte on February 20, 2019. The Revised Corporation Code took effect on February 23, 2019 upon completion of its publication in Manila Bulletin and the Business Mirror on February 23, 2019.

Among the notable amendments in the Revised Corporation Code are as follows: (i) corporations are now generally given a perpetual existence; (ii) a new section on one-person corporation was added; (iii) the requirement that at least 25% of the authorized capital stock must be subscribed, and at least 25% of the subscribed shares must be paid-up upon incorporation was removed; (iv) stockholders can now vote in absentia; (v) incorporators now include any person, partnership, association or corporation; and (vi) the powers of the SEC to prosecute and investigate offenses under the Revised Corporation Code has been expanded.

Environmental Matters

The operations of the businesses of PACERM-1 are subject to various laws, rules and regulations that have been promulgated for the protection of the environment.

The Philippine Environmental Impact Statement System (the “**EISS Law**”) established under Presidential Decree No. 1586, which is implemented by the DENR, is the general regulatory framework for any project or undertaking that is either (i) classified as environmentally critical or (ii) is situated in an environmentally critical area. The DENR, through its regional offices or through the Environmental Management Bureau (“**EMB**”), determines whether a project is environmentally critical or located in an environmentally critical area and possesses all applications for an ECC.

The law requires an entity that will undertake any such declared environmentally critical project or operate in any such declared environmentally critical area to submit an Environmental Impact Statement (the “**EIS**”) which is a comprehensive study of the significant impacts of a project on the environment. The EIS serves as an application for the issuance of an ECC, if the proposed project is environmentally critical or situated in an environmentally critical area; or for the issuance of a Certificate of Non-Coverage, if otherwise. An ECC is a

Government certification that, among others, (i) the proposed project or undertaking will not cause significant negative environmental impact; (ii) the proponent has complied with all the requirements of the EISS Law in connection with the project; and (iii) the proponent is committed to implement its approved Environmental Management Plan (the “EMP”) in the EIS. The EMP details the prevention, mitigation, compensation, contingency and monitoring measures to enhance positive impacts and minimize negative impacts and risks of a proposed project or undertaking.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents also required to establish an Environmental Monitoring Fund (the “EMF”) when an ECC is eventually issued. The EMF is to support the activities of the team monitoring the project proponent’s compliance with ECC conditions, EMP and applicable laws, rules and regulations.

Power plant operations are considered environmentally critical projects for which an EIS and an ECC are mandatory.

The Renewable Energy Act

The Renewable Energy Act of 2008 (Republic Act No. 9513) aims to promote development and commercialization of renewable and environment-friendly energy resources such as biomass, solar, and wind through various tax incentives. Some of the tax incentives granted to renewable energy developers under the said law include (i) a seven-year income tax holiday; (ii) duty free importation of renewable energy machinery, equipment, and materials; (iii) special realty tax rates on equipment and machinery; (iv) zero percent VAT rate for power generated from these energy sources; and (v) the imposition of a reduced corporate tax of 10% on its net taxable income after the income tax holiday.

The RE Act establishes the framework for the accelerated development and advancement of renewable energy resources as well as the development of a strategic program to increase its utilization. The RE Act defines renewable energy resources as energy resources that do not have an upper limit on the total quantity to be used. Such resources are renewable on a regular basis, and their renewal rate is relatively rapid to consider availability over an indefinite period of time. These include, among others, biomass, solar, wind, geothermal, ocean energy, and hydropower conforming to internationally accepted norms and standards on dams, and other renewable energy technologies.

The DOE is the lead agency mandated to implement the provisions of the law.

On October 1, 2019, the DOE issued DC 2019-10-0013 which provided the omnibus guidelines governing the award and administration of renewable energy contracts and the registration of renewable energy developers. DC 2019-10-0013 became effective on November 22, 2019, or 15 days after its publication in two newspapers of general circulation. DC 2019-10-0013 primarily harmonized the existing guidelines and procedures governing the transparent and competitive system of awarding renewable energy contracts and registration of renewable energy projects.

Under DC 2019-10-0013, renewable energy contracts (i.e., service agreements between the government and a renewable energy developer which grant to the developer the exclusive right to explore, develop, or utilize the renewable energy resource within a particular area) shall be awarded through open and competitive selection process or direct application. The open and competitive selection process shall be adopted for the selection and award of the service contracts for pre-determined areas covering any type of resource for commercial purposes. On the other hand, direct application shall be available for the selection and award of (i) renewable energy operating contracts (i.e., service agreements for the development and/or utilization of renewable energy resources which, due to their technical characteristics need not go through pre-development stage); (ii) service contracts covering pre-determined areas following a failed open and competitive selection process; and (iii) service contracts for areas identified by the applicant and verified with and confirmed by the DOE-Information Technology Management Services as available for exploration, development and/or utilization of the proposed renewable energy resource.

On December 24, 2021, DOE issued DC2021-12-0042 which prescribed amendments to the rules and regulations implementing the RE Act. Among the amendments introduced is the requirement for registered renewable energy developers to submit a sworn undertaking to pass on the savings, which are derived from income tax incentives under the RE Act, to the end-users in the form of lower power rates. For purposes of availing of incentives under the RE Act, renewable energy developers must remain in good standing as determined based on specific criteria, such as, but not limited to: (i) compliance with obligations under the RE Act, its implementing rules and regulations and other applicable law; (ii) compliance with directives of DOE; (iii) compliance with pre-registration/registration conditions required by DOE; (iv) compliance with reportorial requirements; and (v) remittance of government shares and payment of applicable financial obligations. Failure by renewable energy developers to comply with the abovementioned criteria shall be sufficient ground for termination or cancellation of its renewable energy contract and certificate of registration.

On August 16, 2021, the ERC issued Resolution No. 08, series of 2021, dated April 22, 2021 entitled "A Resolution Adopting the Rules for the Green Energy Option Program." Issued pursuant to DOE Department Circular No. 2018-07-0019, this Resolution provides the necessary regulatory framework to operationalize Section 9 of the RE Act which calls for the establishment of a Green Energy Option Program ("GEOP") which provides end-users the option to choose RE resources as their sources of energy. The GEOP allows eligible end-users to directly contract with a renewable energy supplier for their electricity needs. Eligible end-users currently include those with a monthly average peak demand of 100 KW and above, for the past 12 months.

Renewable Portfolio Standards and Requirements

Under the Renewable Energy Act (Republic Act No. 9513), Renewable Portfolio Standards refers to a market-based policy that requires electricity suppliers to source an agreed portion of their energy supply from eligible renewable energy resources. The mandated participants to the annual Renewable Portfolio Standards requirements include: (i) all distribution utilities for their captive customers; (ii) all suppliers of electricity for the contestable market; (iii) generating companies only to the extent of their actual supply to their directly connected

customers; and (iv) other entities as may be recommended by the National Renewable Energy Board and approved by the DOE.

Department Circular No. DC 2017-12-0015, which prescribes the rules and guidelines governing Renewable Portfolio Standards for on-grid areas, provides that the renewable energy share of electricity coming from renewable energy resources in the energy mix should be based on the aspirational target of 35% in the generation mix expressed in MWh by 2030, subject to regular review and assessment by the DOE. Non-compliance with the Renewable Portfolio Standards On- Grid Rules may result in administrative liability amounting to ₱100,000.00 to ₱500,000.00, criminal liability consisting of fine and/or imprisonment, or upon the DOE's discretion, the revocation of the mandated participant's license, franchise, or authority to operate.

CORPORATE GOVERNANCE

Considering that the Company is still not registered with SEC authorizing it to sell securities to the public, the Board of Directors of the Company had not yet approved and adopted the revised code of Corporate Governance (the “Manual”) in compliance with the requirements of the Revised Code of Corporate Governance under SEC Memorandum Circular No. 6, series of 2009, as amended.

Notwithstanding however three (3) out of five (5) members of the Board of Directors are also members of the Board of Directors of MORESCO-1, the majority stockholder that have adopted for quite a number of years the Manual of Good Governance under the mandate of the National Electrification Administration that has jurisdiction over the electric cooperatives. As discussed on pages 59-60 and 64, an independent director was already elected.

The Board of Directors have committed and undertaken to approve and strictly adopt an internally prepared Manual of Good Governance in accordance with ~~the~~ SEC Memorandum Circular 6, series of 2009 as it is now registering its common shares for sale to the public. [refer to “*Exhibit 11*” of the *Registration Statement (Form 12-1)*].

The said Manual shall include the designation of a compliance officer and the creation and operation of an Audit Committee by the board of directors.

TRANSACTIONS WITH AND/OR DEPENDENCE ON RELATED PARTIES

PACERM-1 Energy Corporation, being a subsidiary MORESCO-1 who owns 72.33% of its Capital Stock is exclusively supplying the peaking power requirements of the latter under a Power Supply Agreement duly approved by ERC. A party is considered to be related to the Corporation if it has the ability, directly or indirectly, to control the Corporation or exercise significant influence over the Corporation in making financial and operating decisions, or vice versa, or where the Corporation and the party are subject to common control or common significant influence. Amounts owed by/owed to related parties are collectible/will be settled in cash. Related parties may be individuals (being members of key management personnel, significant shareholders, and/or their close family members) or corporate entities. In the case of PACERM-1, three (3) out of five (5) members of its Board of Directors are also members of the Board of Directors of MORESCO-1.

The following are the transactions with MORESCO-1 and the outstanding balances as at December 31, 2022 and 2021:

<i>(In Thousands)</i>	December 31, 2022	December 31, 2021
Sales	₱ 190,816	₱ 145,467
Receivables	12,937	14,966
Terms	Due Jan 25, 2023	Due Jan 25, 2022
Conditions	No impairment	No impairment
Payables	4,379	4,379
Terms	No definite period/Non-interest bearing	No definite period/Non-interest bearing
Conditions	Unsecured/No impairment	Unsecured/No impairment

- a. Amounts owed by MORESCO-1 consist purely of trade receivables.
- b. Amounts owed to MORESCO-1 consist of trade and non-trade payables, management fees, purchases of fuel, reimbursement of expenses, rent, insurance, services rendered and customer's deposits
- c. Compensation of key management personnel which consisted of salaries and other benefits amounted to ₱ 4,726,732 for 2022 and ₱ 4,232,950 in 2021.

There were no known transactions with parties that fall outside the definition "related parties" under PAS 24, *Related Party Disclosures*, but with whom the Company or its related parties have a relationship that enables the parties to negotiate terms of material transactions that may not be available from other, more clearly independent parties on an arm's length basis.

TAXATION

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Offer Shares. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Offer Shares and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Offer Shares under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Offer Shares in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this Prospectus. The tax treatment applicable to a holder of the Offer Shares may vary depending upon such holder's particular situation, and certain holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a holder of the Preferred Shares.

PROSPECTIVE PURCHASERS OF THE OFFER SHARES ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF THE OFFER SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY LOCAL OR FOREIGN TAX LAWS.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen of the Philippines; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines." A non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a non-Philippine corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines. The term "dividends" under this section refers to cash or property dividends. "Tax Code" means the Philippine National Internal Revenue of 1997, as amended.

Taxes on Dividends of the Offer Shares

Individual Philippine citizens and resident aliens are subject to a final tax on dividends derived from the Offer Shares at the rate of 10.0%, which tax shall be withheld by the Company.

Non-resident alien individuals engaged in trade or business in the Philippines are subject to a final withholding tax on dividends derived from the Offer Shares at the rate of 20.0% on the gross amount thereof, subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile or residence of such non-resident alien individual. A non-resident alien individual not engaged in trade or business in the Philippines is subject to a final withholding tax on dividends derived from the Offer Shares at the rate of 25.0% of the gross amount, subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile or residence of such non-resident alien individual.

The term "non-resident holder" means a holder of the Offer Shares:

- who is an individual who is neither a citizen nor a resident of the Philippines or an entity which is a foreign corporation not engaged in trade or business in the Philippines; and
- should a tax treaty be applicable, whose ownership of the Offer Shares is not effectively connected with a fixed base or a permanent establishment in the Philippines.

Dividends derived by domestic corporations (i.e., corporations created or organized in the Philippines or under its laws) and resident foreign corporations from the Offer Shares shall not be subject to tax.

Dividends received from a domestic corporation by a non-resident foreign corporation are generally subject to final withholding tax at the rate of 30.0%, subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of such non-resident foreign corporation. The 30.0% rate for dividends paid to non-resident foreign corporations with countries of domicile having no tax treaty with the Philippines may be reduced to a special 15.0% rate if:

- the country in which the non-resident foreign corporation is domiciled imposes no taxes on foreign sourced dividends; or
- the country in which the non-resident foreign corporation is domiciled allows a credit against the tax due from the non-resident foreign corporation for taxes deemed to have been paid in the Philippines equivalent to 15.0%.

The BIR has prescribed, through an administrative issuance, procedures for the availment of tax treaty relief. The application for tax treaty relief has to be filed with the BIR by the non-resident holder of the Offer Shares (or its duly authorized representative) at least 15 calendar days (Revenue Memorandum Order 1-2000) prior to the first taxable event, or prior to the first and only time the income tax payor is required to withhold the tax thereon or should have withheld taxes thereon had the transaction been subject to tax.

The requirements for a tax treaty relief application in respect of dividends are set out in the applicable tax treaty and BIR Form No. 0901-D. These include proof of tax residence in the country that is a party to the tax treaty. Proof of residence consists of a consularized certification from the tax authority of the country of residence of the non-resident holder of Offer Shares which states that the non-resident holder is a tax resident of such country under the applicable tax treaty. If the non-resident holder of Offer Shares is a juridical entity, authenticated certified true copies of its articles of incorporation or association issued by the proper government authority should also be submitted to the BIR in addition to the certification of its residence from the tax authority of its country of residence.

If tax at the regular rate is withheld by the Company instead of the reduced rates applicable under a treaty, the non-resident holder of the Offer Shares may file a claim for refund from the BIR. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve the filing of a judicial appeal, it may be impractical to pursue obtaining such a refund. Moreover, in view of the requirement of the BIR that an application for tax treaty relief be filed prior to

the first taxable event as previously stated, the non-resident holder of the Offer Shares may not be able to successfully pursue a claim for refund if such an application is not filed before such deadline.

Stock dividends distributed pro rata to any holder of shares are not subject to Philippine income tax. However, the sale, exchange or disposition of shares received as share dividends by the holder is subject to either capital gains tax and documentary stamp tax or stock transaction tax.

Sale, Exchange or Disposition of Shares after the Offer Period

Net capital gains realized by a resident or non-resident individuals and domestic corporation other than a dealer in securities during each taxable year from the sale, exchange or disposition of shares outside the facilities of the PSE, unless an applicable treaty exempts such gains from tax or provides for preferential rates, are subject to tax of 15% on the gains. For foreign corporations, for gains not over P100,000, the rate is 5% while any amount in excess of P100,000 shall be at the rate of 10%. Gains or losses from the sale are determined by deducting the seller's cost basis for the shares sold or disposed plus expenses of sale/disposition, if any, from the amount of consideration contracted to be paid. Under current rules, the selling price cannot be lower than the fair market value (FMV) of the shares sold. Otherwise, the difference may be subject to donor's tax under certain circumstances. FMV for unlisted shares is the Book Value per share based on the latest available audited financial statements prior to the date of sale under BIR Revenue Regulations no. 20-2020.

An application for tax treaty relief must be filed (and approved) by the Philippine tax authorities to obtain an exemption under a tax treaty. Such application must be filed before the deadline for the filing of the documentary stamp tax return – otherwise, the tax treaty exemption cannot be availed of. The transfer of shares shall not be recorded in the books of the Company unless the BIR certifies that the capital gains and documentary stamp taxes relating to the sale or transfer have been paid or, where applicable, tax treaty relief has been confirmed by the International Tax Affairs Division of the BIR in respect of the capital gains tax or other conditions have been met.

Documentary Stamp Tax

The original issue of shares is subject to documentary stamp tax of ₱1.00 on each ₱200.00 par value, or fraction thereof, of the shares issued. On the other hand, the transfer of shares is subject to a documentary stamp tax at a rate of ₱1.50 on each ₱200.00, or fractional part thereof, of the par value of the Shares. The documentary stamp tax is imposed on the person making, signing, issuing, accepting or transferring the document and is thus payable either by the vendor or the purchaser of the shares.

Estate and Donor's Tax

The transfer by a deceased person, whether a Philippine resident or a non-Philippine resident, to his heirs of shares of stock shall be subject to an estate tax which is levied on the net estate of the deceased at a fixed rate of 6% based on the book value per share under BIR RR 12-2018.

Under Republic Act No. 10963, otherwise known as the Tax Reform for Acceleration and Inclusion, both estate and donor's tax are fixed at six percent (6%) of the value of the net estate or donation. The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor.

The estate tax and donor's tax, in respect of the shares, shall not be collected (i) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (ii) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

In case the share is transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the securities exceeded the value of the consideration may be deemed a gift and may be subject to donor's taxes. However, a sale, exchange, or other transfer made in the ordinary course of business (a transaction which is a bona fide, at arm's length, and free from any donative intent), will be considered as made for an adequate and full consideration in money or money's worth.

Corporate Income Tax

In general, a tax of 25.0% is imposed upon the taxable net income of a domestic corporation from all sources (within and outside the Philippines) pursuant to R.A. 11534 otherwise known as the "*Corporate Recovery and Tax Incentives for Enterprises Act*" (CREATE) , except, among other things, (a) gross interest income from Philippine currency bank deposits and yield from deposit substitutes, trust funds, and similar arrangements as well as royalties from sources within the Philippines which are generally taxed at the lower final withholding tax rate of 20.0% of the gross amount of such income; and (b) interest income from a depository bank under the expanded foreign currency deposit system which is subject to a final tax at the rate of 7.5% of such income.

Minimum Corporate Income Tax ("MCIT") of 1.0% (as amended by R.A. 11534) of the gross income as of the end of the taxable year is imposed on a domestic corporation beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, when MCIT is greater than the ordinary income tax for the taxable year.

Nevertheless, any excess of the MCIT over the ordinary corporate income tax shall be carried forward and credited against the latter for the three immediately succeeding taxable years. Furthermore, subject to certain conditions, the MCIT may be suspended with respect to a corporation which suffers losses on account of a prolonged labor dispute, force majeure, or legitimate business reverses.

Note that the above discussion is mostly prepared by Company's tax consultant, Rosel Buna, CPA.