

*Financial Statements, Required Supplementary
Information and Supplementary Information*

**Federated States of Micronesia
Petroleum Corporation**

*(A Component Unit of the Federated States of Micronesia
National Government)*

*Year ended December 31, 2023
with Report of Independent Auditors*



Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Year ended December 31, 2023

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Report of Independent Auditors

The Board of Directors
Federated States of Micronesia Petroleum Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of Federated States of Micronesia (FSM) Petroleum Corporation (the Company), as of and for the year ended December 31, 2023, and the related notes to the financial statements which collectively comprise the Company's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of business-type activities of FSM Petroleum Corporation at December 31, 2023, and the changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 to 14 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The information included in Schedules I and II are presented for the purpose of additional analysis of the financial statements rather than to present the financial position and results of operations of the individual companies and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2025, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Ernst + Young LLP

August 5, 2025

Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Management's Discussion and Analysis

Year ended December 31, 2023

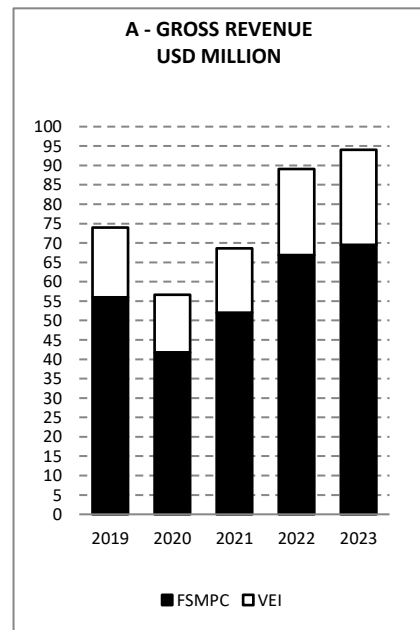


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PREFORMANCE OVERVIEW

2023 continued to witness notable movements in international oil product prices impacting regional and ultimately domestic energy prices throughout the year. For the first half of 2023, international trends showed decline in global prices for unleaded gasoline (ULP), diesel (ADO), and kerosene (DPK). Regional benchmark prices for ULSD and ULP remained steady during quarter 2, a detailed analysis of which is provided in our 2023 Annual Report.

We were successful in reducing our prices to consumers over the year and remained competitive against our regional and international benchmarks. The Pricing Policy Framework (PPF) in the FSM, and the Nauru Pricing Template (NPT) used in the RoN has proven to be effective in maintaining domestic price stabilization against international volatility. We continued to effectively manage price, supply chain and environmental risks with a reliable supply, with a stable price assisting in cushioning domestic inflation.



This MD&A is supplemented with additional information that is available in the FY 2023 Annual Report that is accessible via the QR code scan.

STRATEGIC OBJECTIVES

As our strategic plan Voyaging Together 2025 (VT2025) nears completion and we have begun a comprehensive review of our vision statement and strategic objectives and an assessment of tactical plans given a changing external environment. The threat of a '2024 fiscal waterfall' has now been removed with the renewal of the economic provisions under the compact of free association (CoFA) at levels higher than the current. This will have a material impact on the domestic environment and economy and will necessitate a pivot of company priorities and strategies.

Federated States of Micronesia Petroleum Corporation
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Management's Discussion and Analysis, continued

Our new strategic plan will maintain its familiar structure and will continue to comprise a logic map of strategic objectives. Strategic objective(s) will continue to have clear outcome(s), and each outcome will have unambiguous measures and targets that help guide the operational level planning in each business unit.

Professionals from the Balance Scorecard Institute (BSCI) (<https://balancedscorecard.org/aboutbsi/>) will again provide technical assistance and process expertise for our strategic planning exercises. The BSCI utilizes a disciplined, practical, and tested approach to developing a strategic planning and management system. Planning for the project commenced in Q3-2023, and structured workshops with BSI professional(s) will commence Q1-2024 with a target completion of the strategic document by Q3-2024.

SUMMARY OF OPERATIONS

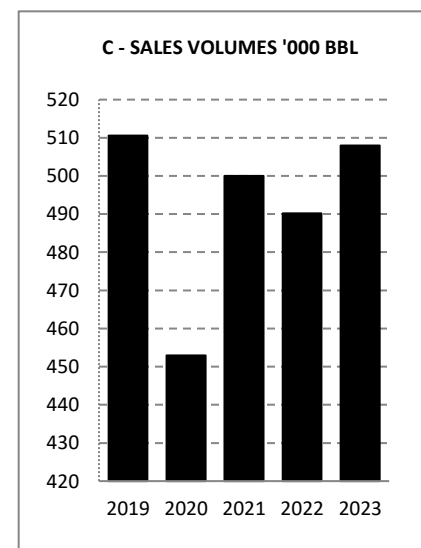
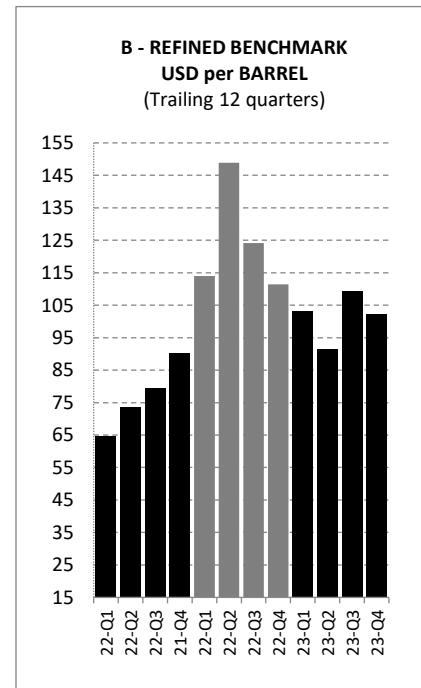
i. Revenues

Despite our best efforts, 95% of company revenue continues to be derived from businesses associated with petroleum fuels and terminal operations. Our revenues are directly linked to the international oil markets and the adjustment mechanisms in the Pricing Policy Framework (PPF), the Nauru Price Template (NPT), and the Energy Pricing Template (EPT) that accommodates the pass through of international oil price increases or decreases.

Prices were noted to be less volatile in 2023 compared to 2022 however, from May through to September 2023 prices did increase consecutively to an average maximum of \$120/BBL from a low point of \$90/BBL. Our international and domestic marine sales noted a drop of \$2.2m (28%) while aviation sales increased by \$4m (70%) that have been directly related to higher sales volumes from an increase in flight schedules.

Increased sales volumes and higher international oil prices resulted in a growth in total group revenues by US\$5m from US\$89m to US\$94m (refer graph A). Business unit contributions remained consistent with prior years. Automotive diesel oil (ULSD) remains the highest revenue component at 48%, followed by unleaded petrol (ULP or gasoline) 36%, and dual-purpose kerosene (DPK) of just 11%.

Our higher gross revenues had seen an increase in the amount of gross revenue tax, sales taxes and import duties collected and paid in the FSM in 2023 of approximately >US\$100,000 (refer graph G), with total tax burden >US\$3.66m for the FSM.



Federated States of Micronesia Petroleum Corporation
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Management's Discussion and Analysis, continued

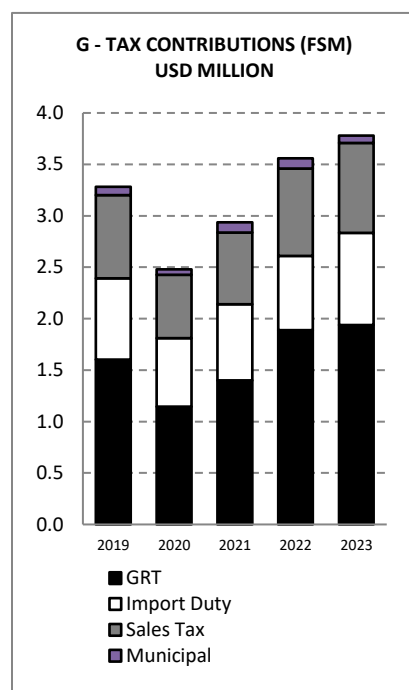
Our non-fuel related revenues from power plant electricity sales, as well as coconut related products, remained at approximately 3.4% of the total revenues while non-FSM related revenues decreased from 31% of total revenues in 2022 to 26% of the total revenues in 2023.

Financial Condition

Our pricing practices remained the same throughout 2023. The PPF, NPT, and EPT maintained scheduled price adjustments in accordance with various price instruments for contract customers such as utilities and airlines.

Domestic inflation continued to be observed in basic products and services at both national and state levels. The company continues to absorb the increased cost of international freight and transshipment and decreased price of fuels on island by \$0.15 per gallon in August 2023. This was the only change in wholesale prices released for the year.

The Board and Management continue to investigate options to outsource activities, enter equipment leasing arrangements, utilize joint ventures to meet the capital requirements of the business, as well as to transfer risks to entities that are more equipped to manage them. The 2025 Investment Appraisal Framework adopted by the Board remains in place. The appraisal framework provides clear guidelines for Management for all investments made by the Corporation.



The following table summarizes the Corporation's consolidated financial position and results of operations as of and for the years ended December 31, 2023 and 2022:

Assets	2023	2022
<i>Capital assets, net</i>	\$31,506,648	\$30,819,573
<i>Lease Assets</i>	3,030,998	3,495,488
<i>Time certificates of deposit</i>	401,396	401,396
<i>Cash and cash equivalents</i>	11,548,628	16,333,579
<i>Inventory, net</i>	16,321,127	18,099,137
<i>Investments</i>	13,684,040	7,628,741
<i>Receivables and other assets</i>	8,444,974	6,930,630
Total Assets	<u>\$84,937,811</u>	<u>\$83,708,544</u>
Liabilities and Net Position	2023	2022
<i>Current liabilities</i>	\$12,991,139	\$14,885,595
<i>Noncurrent liabilities</i>	8,008,772	9,929,495
Total Liabilities	20,999,911	24,815,090
<i>Net investment in capital assets</i>	27,721,813	24,168,714
<i>Unrestricted</i>	36,216,087	34,724,741
Total Net Position	63,937,900	58,893,455
Total Liabilities and Net Position	<u>\$84,937,811</u>	<u>\$83,708,545</u>

Federated States of Micronesia Petroleum Corporation
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Management's Discussion and Analysis, continued

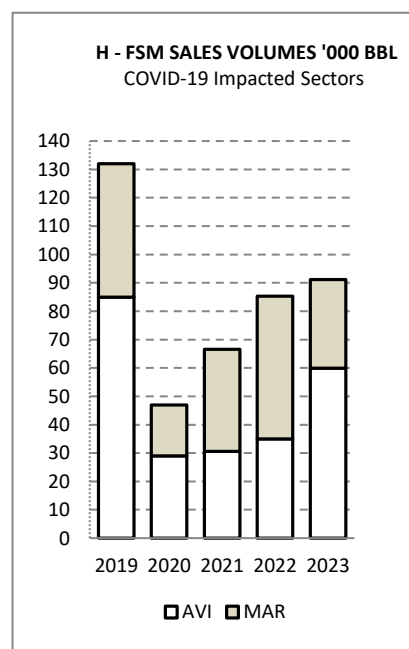
Operating revenue	\$93,744,609	\$88,618,965
Cost of goods sold	(67,539,578)	(69,940,904)
Gross Profit	26,205,031	18,678,061
Operating expenses	(21,510,813)	(19,743,405)
Nonoperating (expenses) revenue	350,227	(1,807,804)
Change in Net Position	<u>\$ 5,044,445</u>	<u>\$ (2,873,148)</u>

Major changes in profit and loss and statement of net position component for the year 2023 are result of:

1. The Corporation maintained its one-year term Line of Credit with Bank of Guam (BOG) of US\$11M. The short-term notes with banks remained at a zero balance in CY2023 as a result of prudent cash management.

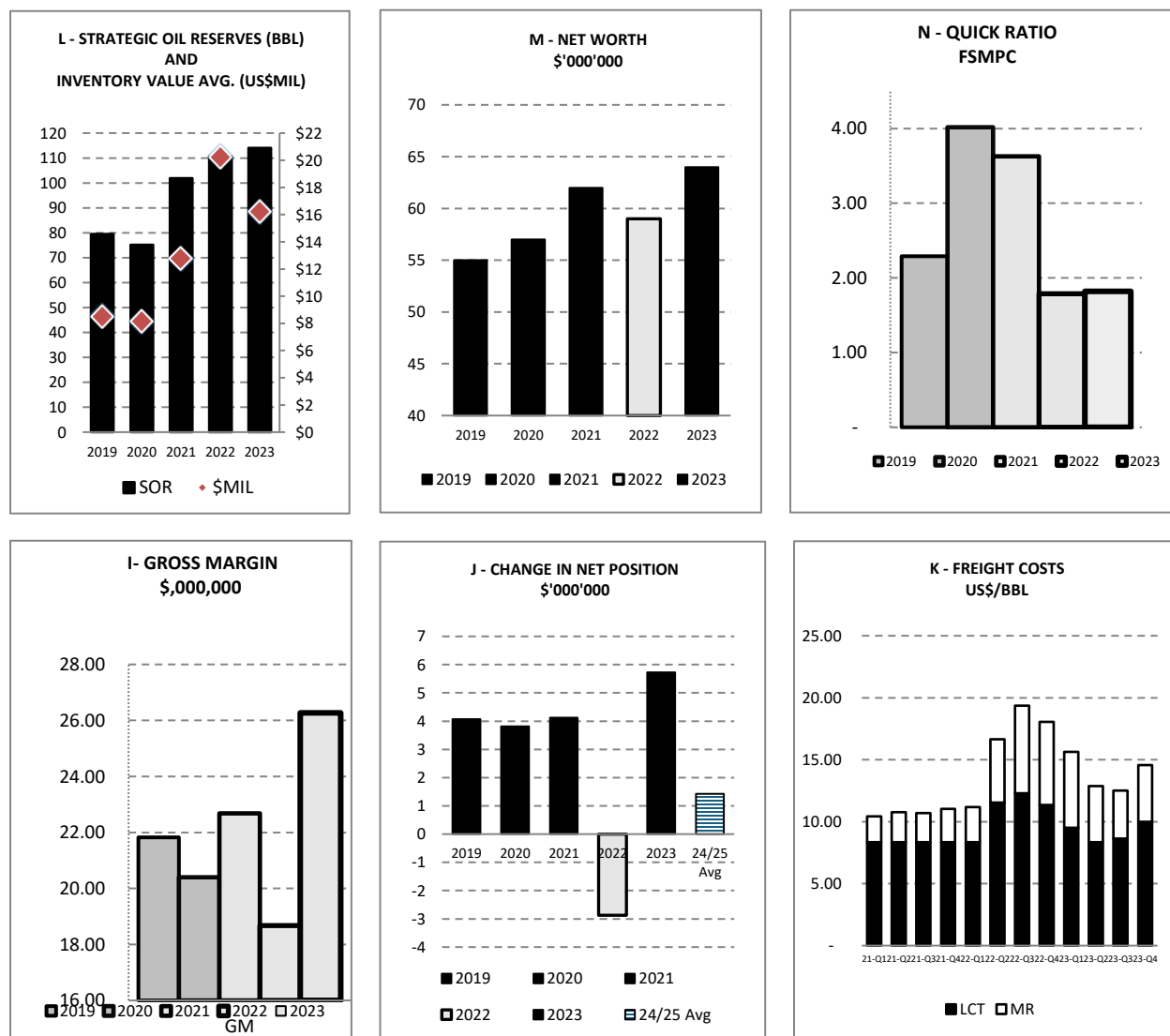
2. The PPF and the EPT are based on an ex-ante type regulatory model. The model was designed in 2009 and was the basis of pricing structures implemented across sectors and states. The PPF and EPT used long-term average costs (LRAC) allowances based on a fifteen (15) year investment profile, and a targeted a return of more than 10% - the benchmark standard for state owned enterprises (SOEs) of the time. The consistent use of this model has resulted in a gradual erosion in the return on capital employed (RoCE) and return-on-investment (ROI) ratios. A complete revision of the ex-ante PPF and EPT models are needed within two (2) years to enable financial performance at appropriate benchmark and acceptable returns for state owned enterprises (SOE's) and to avoid a fossil fuel subsidy that future delays the transition to a low carbon economy.

3. Supply chain and transshipment cost inflation due to dis-economy of isolation and a loss of economy-of-scale.



Federated States of Micronesia Petroleum Corporation
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Management's Discussion and Analysis, continued



ii. Capital Assets and Debt Management

As of December 2023, the Corporation had \$32 million invested in capital assets noting an increase of \$1 million from 2022. The Corporation's long-term debt decreased from US\$6.7million in 2022 to \$5.3million in 2023 (decrease of \$1.4million).

Federated States of Micronesia Petroleum Corporation
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Management's Discussion and Analysis, continued

iii. Risk and Compliance

A risk and compliance function has been organized and formalized within the company. The team provides value to our organization and our customers by reducing the frequency / costs of mitigation associated with avoidable incidents and accidents and natural disasters. The team continuously improves and strengthens the enterprise risk management framework (ERMF) and get greater alignment to international standards. Compliance programs identify deficiencies against regulations, laws, benchmark standards and ensure corrective actions are implemented as appropriate. The team also assists the Board and the executive identify, assess, monitor, and report on material risks at operational, tactical and strategic levels.

Supply Chain Risk. The team has proactively managed the supply chain and maintained strategic oil reserves (SOR) at appropriate levels (Graph L). In 2023 the SOR remained at approximately 110kB at an investment of approximately \$16m.

Price Risk. For the year 2023, monthly contract price re-statements were completed as planned without issue and Authorized Resellers Price Review (ARPR) papers completed. One price reduction was implemented in August 2023 following review of global trends. Complete summary of the pricing and energy security activities facilitated in 2023 compared to the same period in 2022 are available via our 2023 Annual Report. The increase in international freight – Graph K – was largely absorbed in 2023 as the team waited for these cost components to stabilize after the observed shocks of 2022.

Throughout the year, domestic prices and supply in the FSM remained stable and uninterrupted, and by and large slightly below the regional benchmarks such as Guam. Our domestic prices continued to be slow to rise and equally as slow to fall. Providing this stability meant proactive price monitoring and modelling, and an awareness of market conditions and circumstances whilst providing prices as low as reasonably and prudently practical.

Operations and Distribution

iv. Operations

Management of the internal and external customer interface is at the forefront of the fuel terminal operations and distribution responsibilities. A primary function is to also ensure product quality that meets a defined specification, delivery operations that meets customer needs reducing the potential for and magnitude of customer complaints about product availability and quality.

There are approximately fifty-five (55) employees directly involved with the operations of fuel terminal facilities ensuring its operational safety standards are attained, operational inspections completed, product quality and accountability requirements met, and that people are competent in safety and operational critical roles.

Federated States of Micronesia Petroleum Corporation
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Management's Discussion and Analysis, continued

In 2023, we continued to operate without significant lost time injury (LTI). All non-routine work was facilitated by a safe work permit (SWP). Business control reviews (BCR) were completed with an increased focus on safety and higher-risk operations awareness. Staff were encouraged to report incidents and near misses as they occur, and investigations and remedial action plans are reviewed on a weekly basis. An increased number of BCRs noted in comparison to 2022 confirms that staff are becoming more risk aware and are actively reporting. Improved reporting, effective remedial action planning, and execution of those plans as scheduled demonstrate that operational risks are being managed.

In 2023, we managed to maintain and replenish stock levels appropriately with no critical levels being reached requiring urgent consignment or diversion of vessel to meet product needs. We continued to work on our key product and service delivery process to improve delivery scheduling, quality control and people skills for an improved customer experience.

In terms of throughput (sales) in 2023, we had an increase of 4.69% compared to 2022 throughput. An increase in DPK product by 67% when compared to 2022 throughput.

v. Maritime

Our maritime logistics team focusses on initiating, developing and implementing sustainable shipping solutions in FSM resulting in improved quality of life, meeting our communities' evolving needs and generating sufficient revenue to assist sustain our operations.

In 2023, our maritime services generated \$256,780.70 in revenues and while this was below the target sum of \$370,000 it was notable given no revenue being generated for the year 2022 due to covid restrictions in place.

Further details on operations and maritime are available in the 2023 Annual Report.

Production and Manufacturing

vi. Coconut Industry Development Unit

As of December 2023, Coconut Industry Development Unit (CIDU) Team comprised of 21 staff members and operating under a customer-centric production model, The core responsibility lies in manufacturing operations, primarily supporting increased household and community incomes, and for revenue generation through the production of Isla Nesia products. Throughout the year CIDU achieved significant milestones across various fronts despite challenges. Notably, the Team successfully implemented initiatives to reduce operational costs, resulting in a commendable 6% decrease in operational expenses compared to the previous year (2022). Additionally, in line with the company's corporate social responsibility and sustainability objectives, the CIDU trialed the utilization of used oil as a fuel source reducing dependency on traditional fuels.

Federated States of Micronesia Petroleum Corporation
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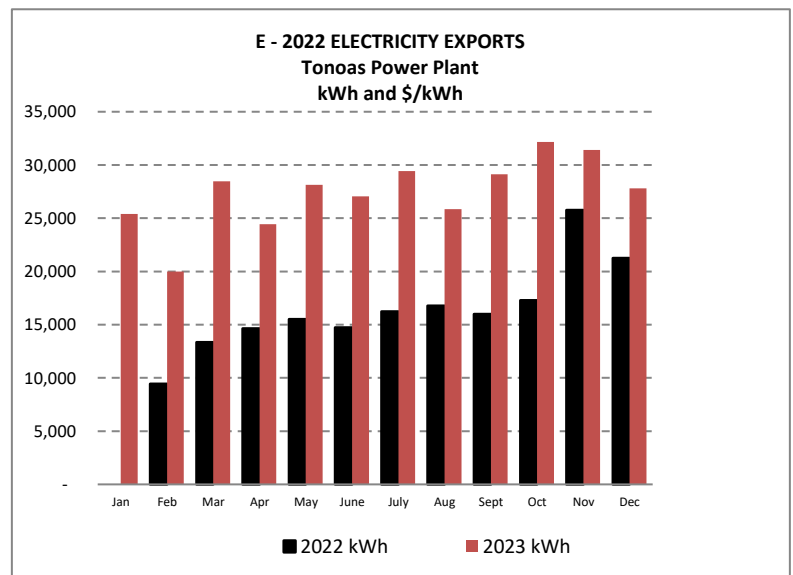
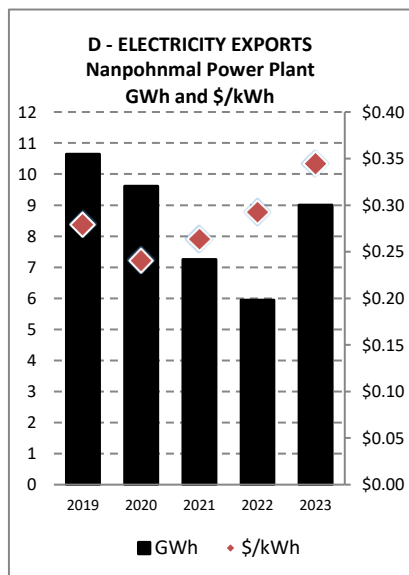
Management's Discussion and Analysis, continued

Equipment and machinery failures were encountered during the year however, this did not have a significant impact on the production levels. This was expected and inevitable, as decisions to defray investments in the old Pohnpei plant in favor of a new integrated coconut processing facility (ICPF) came to the fore as extended delays were incurred in the Tonoas ICPF project. Risks associated with product quality and operational downtime were mitigated through rigorous quality audits and preventative maintenance efforts. However, to ensure long term solution for downtime, projects have been initiated to upgrade equipment and improve infrastructure and operational efficiency. The Team also procured equipment and implemented quality control measures to enhance product quality and minimize contamination risks.

The outlook for CIDU for 2024 is focused on driving sustainable growth and improved efficiency. Key priorities include cost reduction strategies and enhancing operational efficiency through preventative maintenance and technology upgrades and replacement.

vii. The Production Unit

Throughout 2023, the Production Team demonstrated commendable operational effectiveness, with consistent availability of the Nannpohmmal Power Plant (NPP) generators at 92% after the planned maintenance and unplanned maintenance interventions, when compared to 88% in 2022. Generator utilization rates were 34% higher than 2022. This increase was due to utilities corporations requesting the units to be operational 100% of the time throughout the year. Overall power generation efficiency exceeded targets, indicating effective maintenance practices and operational discipline throughout the year.



Federated States of Micronesia Petroleum Corporation
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Management's Discussion and Analysis, continued

The average price of electricity to Pohnpei Utilities Corporation (PUC) for the year was US\$0.35/kWh (refer graph D), reflecting increasing overall international oil prices.

The performance of the second smaller independent power plant, Tonoas Power Plant (TPP) in Chuuk maintained a production capacity of 1.5GWh. The number of houses wired and connected to the grid noted an increase from 120 homes in 2022 to 250 in 2023 (increase by 108% in demand). Electricity exported to the grid in Tonoas (refer graph E) continued to grow and mature throughout 2023.

The increase in utilization of our units contributed to 17% increase in revenue from energy sales compared to 2022. However, despite achieving operational milestones, the Production Team did encounter challenges in terms of operational disruptions, but these were managed well through discipline maintenance practices.

Operating expenses in 2023 were 25% lower than 2022 with planned efforts in the repair and maintenance activities for NPP resulting in lower maintenance costs, and improvement in resource planning and communication.

Heading into 2024 the Team plans to further build on its achievements for 2023 by:

- Maintaining operational efficiency through targeted maintenance and optimization efforts.
- Strengthening energy security measures to mitigate risks and ensure uninterrupted power supply.
- Expanding revenue streams through strategic partnerships and market diversification initiatives.
- Investing in infrastructure upgrades to support future growth and scalability.

Shared Services

Our overall group operations are efficient which a number of essential support services being maintained at a corporate level. These include the assets maintenance management office (AMMO), portfolio/program/project management office (P3MO), key accounts management (KAM), knowledge management (KM), human capital management (HCM), information and computing technology (ICT) and other support services team reports are also explicitly detailed in the 2023 Annual Report.

Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Management's Discussion and Analysis, continued

ECONOMIC OUTLOOK

The major change in the domestic environment is the successful negotiations between the FSM and the United States of the economic provisions under the compact of free association (CoFA). The economic provisions have been materially and significantly increased. However, given that spending under the infrastructure program of the amended Compact period was less than half of annually available funds. The country needs to get better at spending sector funds, as well as development partner grants to see an improvement in the construction industry contribution to gross domestic product (GDP).

The private sector remains small and relatively underdeveloped. The structure of the economy has remained largely unchanged, and this can be seen in the energy demand and sales volumes profile. This economic structure is not expected to change significantly in the near future, and questions on its need to make structural changes need to be evaluated given the extensions of the CoFA economic provisions. While extensive work has occurred throughout the year on organizing and formalizing the first sectoral national export strategy – the Coconut National Export Strategy (CocoNES) and its associated plan of action (PoA), the pressure for increased contribution of the agricultural sector to support the economic growth is not so intense, and a pivot of this strategy towards subsistence and food security may be more appropriate.

Two main forms of energy are supplied in the FSM: fossil fuels by FSM Petroleum Corporation and electricity by four State owned power utilities, namely: Pohnpei Utility Corporation (PUC), Kosrae Utilities Authority (KUA), Yap State Public Services Corporation (YSPSC) and Chuuk Public Utility Corporation (CPUC). The 2018 FSM Energy Master Plan projects hundreds of millions of dollars needed to structurally reform the sector and drive the FSM to a low carbon economy. The current grant pipeline is approximately US\$100MM, that will need to be increase at least twofold to increase renewable generation capacity and improve reliability to a point that it has a material impact on the energy security of the nation.

The corporation continues to maintain a position – given the challenges that face government led infrastructure and grant spending in the FSM as well as the ongoing strategies to maintain and sustain critical engineering assets - that the private sector with independent power producer (IPP) and outsourced operation and maintenance models are the most viable pathway to step changes in energy generation, distribution and demand. A strategic plan and renewable energy plan of action and pipeline are being developed for commercially viable models under the Transformation Act. The willingness of state governments and their utility corporations to progress alternative business models will be pivotal.

Maintaining and enhancing commercial resilience will continue to remain the challenge for most local organizations moving into the next decade. The brain drain and low growth rates will continue to challenge unit costs of operations. Technological advancement, external interventions that fund a rapid transition to a low carbon economy, and the ever-growing threat of extreme weather events require both capital reserves and strong insurance programs. Insurance providers and their standard offer within Micronesia are limited, and likely to remain so into the future.

Federated States of Micronesia Petroleum Corporation
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Management's Discussion and Analysis, continued

Management's Discussion and Analysis for the year ended December 31, 2022 is set forth in the report on the audit of FSMPC's financial statements. This Management Discussion and Analysis, coupled with the 2023 FSMPC Annual Report explains the major factors impacting the 2023 financial statements and may be obtained from the contact shown below.

CONTACT

Questions associated with the above Management's Discussion and Analysis may be sent by post, addressed to Ms. Cherish Mendiola, Acting Chief Financial Officer, P.O. Box 1762, Kolonia, Pohnpei, FSM 96941 or via email to petrocorp@fsmnpc.com



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Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Statement of Net Position

December 31, 2023

Assets

Current assets:

Cash and cash equivalents	\$11,548,628
Time certificates of deposit	401,396
Trade receivables	3,849,055
Other receivables	265,161
Inventory, net	16,321,127
Prepaid expenses	3,596,128
Investments	<u>13,684,040</u>

Total current assets 49,665,535

Lease assets 3,030,998

Other noncurrent assets 734,630

Capital assets:

Non depreciable capital assets	10,316,365
Other capital assets, net of accumulated depreciation	<u>21,190,283</u>

84,937,811

Liabilities

Current liabilities:

Current portion of long-term debt	1,412,502
Current portion of lease liabilities	439,479
Accounts payable - fuel	3,715,472
Accounts payable - other	2,761,548
Accrued liabilities and others	<u>4,662,138</u>

Total current liabilities 12,991,139

Lease liabilities 2,361,683

Long-term debt, net of current portion 3,899,706

Due to States and the FSM National Government 1,747,383

Total liabilities 20,999,911

Commitments and contingencies

Net position:

Net investment in capital assets	27,721,813
Unrestricted	<u>36,216,087</u>

Total net position \$63,937,900

See accompanying notes.

Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Statement of Revenue, Expenses, and Changes in Net Position

Year ended December 31, 2023

Operating revenues:	
Sales and service income	\$92,878,668
Other	<u>865,941</u>
	93,744,609
Cost of goods sold	<u>67,539,578</u>
Gross profit	<u>26,205,031</u>
Operating expenses:	
Salaries and benefits	4,790,641
Repairs and maintenance	3,396,031
Depreciation and amortization	3,247,893
Taxes	2,561,593
Professional fees	1,606,870
Rent	967,650
Insurance	885,803
Staff travel, training and development	872,604
Communications	692,721
Office supplies	476,413
Corporate governance, travel and entertainment	432,835
Contracted services	431,109
Fuel	403,566
Utilities	346,365
Miscellaneous	300,656
Bank charges	<u>98,063</u>
Total operating expenses	<u>21,510,813</u>
Operating income	<u>4,694,218</u>
Nonoperating income (expenses), net:	
Foreign exchange losses, net	(104,632)
Investment income	1,055,300
Interest expense, net	<u>(600,441)</u>
Total nonoperating income, net	<u>350,227</u>
Change in net position	5,044,445
Net position at beginning of year	<u>58,893,455</u>
Net position at end of year	<u>\$63,937,900</u>

See accompanying notes.

Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Statement of Cash Flows

Year ended December 31, 2023

Cash flows from operating activities:	
Cash received from customers	\$92,808,220
Cash paid to suppliers for goods and services	(82,311,929)
Cash paid to employees for services	(4,790,641)
Net cash provided by operating activities	<u>5,705,650</u>
Cash flows from capital and related financing activities:	
Interest paid on long-term debt	(635,441)
Repayment of long-term debt	(1,338,651)
Acquisition of capital assets	(3,551,509)
Net cash used in capital and related financing activities	<u>(5,525,601)</u>
Cash flows from investing activities:	
Investment purchases	(5,000,000)
Interest received on investments and bank accounts	<u>35,000</u>
Net cash used in investing activities	<u>(4,965,000)</u>
Net change in cash and cash equivalents	(4,784,951)
Cash and cash equivalents at beginning of year	<u>16,333,579</u>
Cash and cash equivalents at end of year	<u>\$11,548,628</u>
Reconciliation of operating income to net cash provided by operating activities:	
Net operating income	\$ 4,694,218
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	3,247,893
Foreign exchange losses	(104,632)
(Increase) decrease in assets	
Trade receivables	(936,389)
Other receivables	41,457
Inventory and related deposit with supplier	1,778,010
Prepaid expenses	(594,875)
Other assets	(24,537)
Decrease in liabilities:	
Accounts payable	(2,302,882)
Accrued liabilities and others	<u>(92,613)</u>
Net cash provided by operating activities	<u>\$ 5,705,650</u>

See accompanying notes.

Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Notes to Financial Statements

Year ended December 31, 2023

1. Organization and Basis of Presentation

Federated States of Micronesia Petroleum Corporation (FSMPC or the Company) is a component unit of the Federated States of Micronesia (FSM) National Government (FSMNG). FSMPC was created under Public Law 15-08, as passed by the FSM Congress and which was signed into law on September 11, 2007, for the purpose of providing oil and gas distribution for the entire FSM.

FSMPC is governed by a seven-member Board of Directors appointed as follows:

- 1 member appointed by the President with the advice and consent of the FSM Congress to represent the FSMNG.
- 4 members appointed by each State governor to represent each of the States.
- 2 members from the private sector, appointed by the President with the advice and consent of the FSM Congress.

Coconut Development Unit (CDU) was established through Public Law No. 18-68 enacted on June 16, 2014, which dissolved the FSM Coconut Development Authority (CDA) and transferred the responsibility of coconut development to FSMPC. Effective January 1, 2015, CDU started operations and was created as a division of FSMPC; therefore, its financial position and activities are included in FSMPC's financial statements.

Vital Energy, Inc. (VEI) was incorporated on February 10, 2012 in Guam for the purpose of carrying on the operation of importation and sale of petroleum products, and operation, management and maintenance of petroleum storage terminals, international marine bunkering services, operation of road and aviation bridging tankers, and aviation refueling operations. On May 22, 2015, VEI established Vital Energy, Inc. (Nauru) (the "Nauru Branch"), a foreign branch operation in the Republic of Nauru for the purpose of providing fuel supply and distribution in Nauru under an agreement with the Government of Nauru (GON). VEI's main operations are in Nauru during the year ended December 31, 2023. VEI is presented as a blended component unit of FSMPC as 1) their governing bodies are substantively the same, 2) there is a financial benefit or burden relationship between the primary government (FSMPC) and the component unit (VEI), and 3) management of the primary government has operational responsibility for the component unit.

The financial statements include the accounts of FSMPC and its blended component unit VEI. All significant intercompany transactions and balances have been eliminated.

FSMPC's financial statements are incorporated into the financial statements of the FSM National Government as a component unit.

Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies

Basis of Accounting

The accounts of FSMPC are organized as a discretely presented component unit - proprietary fund of the FSM National Government. Proprietary funds are used by governmental units to account for operations that are financed and operated in a manner similar to a private business. This accounting is appropriate when costs of providing goods or services to the general public are to be financed primarily through user charges or where the periodic determination of net income is appropriate for accountability purposes. The accrual basis of accounting is utilized by proprietary funds. Under the accrual basis, revenues are recorded when earned, and expenses are recorded at the time the liabilities are incurred.

FSMPC utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Statement of Net Position presents all of the FSMPC's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position. Net position is classified for accounting and reporting purposes into the following three net position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets as well as deferred outflows of resources and deferred inflows of resources that are attributable to those assets or related debt.
- Restricted - restricted assets reduced by liabilities and deferred inflows of resources related to those assets that are subject to externally imposed stipulations.
- Unrestricted - the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When both restricted and unrestricted resources are available for use for the same purposes, it is FSMPC's policy to use unrestricted resources first, then restricted resources as they are needed.

Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Basis of Accounting, continued

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Operating revenues and expenses generally result directly from the operation and maintenance of the Company. Non-operating revenues and expenses result from capital and related financing activities as well as certain other non-recurring income and expense items.

Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents and Time Certificates of Deposit

Custodial credit risk is the risk that in the event of a bank failure, the Company's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Company does not have a deposit policy for custodial credit risk.

For purposes of the statement of net position and cash flows, cash and cash equivalents represent cash on hand, cash in bank accounts and time certificates of deposit with original maturity term up to ninety days. Time certificates of deposit with original maturity term over ninety days are separately classified. As of December 31, 2023, total carrying amounts of USD denominated cash and cash equivalents and time certificates of deposit were \$8,135,242 and the corresponding bank balances were \$8,959,211 which were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of December 31, 2023, bank deposits in the amount of \$500,000 were subject to FDIC insurance. Bank balances in excess of FDIC insurance are not collateralized.

Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents and Time Certificates of Deposit, Continued

Additionally, as of December 31, 2023, cash and cash equivalents include deposits in AUD denominated accounts with Bendigo Adelaide Bank Limited (Bendigo), an authorized deposit-taking institution (ADI) subject to the Australian Government Financial Claims Scheme (FCS) of \$3,814,782. FCS provides guarantee on deposits up to a limit of AUD\$250,000 for each account holder, which was extended to branches of Bendigo in Nauru. As of December 31, 2023, bank deposits of approximately \$170,000, were subject to FCS guarantee. Balances in excess of FCS guarantee are not collateralized.

Investments

Investments held by the Company consist of money market funds, fixed income securities, exchange-traded funds, and common stock. Investments and related investment earnings or loss are recorded at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date of which the fair value of an asset or liability is determined.

Accounts Receivable

Accounts receivable are due from businesses and individuals located primarily in the FSM and Nauru and are interest free and uncollateralized, except those from utility companies. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb potential losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. Bad debts are written-off against the allowance based on the specific identification method. No allowance for doubtful accounts was recorded as of December 31, 2023.

Inventory

Fuel inventories and materials and supplies inventory on hand are substantially state at the lower of cost (moving average cost) or net realizable value. Inventory in transit is recorded at invoiced cost.

An allowance for inventory obsolescence is provided for inventory items with no movement or determined to be potentially unusable.

Prepaid Expenses

Advance payments relating to goods and services not yet received are recorded as prepaid expenses.

Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Property, Plant and Equipment

The Company capitalizes individual items with estimated useful lives of more than one year without regard to a capitalization threshold. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives of property and equipment are as follows:

Buildings	15 years
Leasehold improvements	11 years
Motor vehicles	5 years
Plant and equipment	3 to 15 years
Furniture and fixtures	4 to 7 years
Office equipment	4 to 8 years
Machinery and equipment	4 to 7 years
Boats and vessels	5 to 10 years

Taxes

FSMPC is responsible for gross receipt taxes, sales taxes and import taxes on its operations in the FSM.

VEI is taxed and files its income tax return in Guam. The Guam income tax code is similar to that of the United States of America. The Company also pays a Business Profits Tax (BPT) in Nauru under the Republic of Nauru Business Tax Act (the “Act”). BPT is calculated as 25% of taxable income effective June 30, 2019, as defined in the Act, for non-resident companies conducting business in Nauru through Permanent establishment. BPT is taken as a foreign tax credit (FTC) on the Guam income tax return, with certain limitations. BPT and provisions for Guam income taxes are presented as a component of taxes in the statement of revenues, expenses and changes in net position. No income tax expense was recognized for 2023 due to the recognition of FTC.

For VEI’s income tax returns on Guam, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. As of December 31, 2023, the majority of VEI’s deferred income tax assets relate to FTC carryovers of approximately \$102,000 and \$19,000, respectively, expiring through 2029 and 2030, respectively, and are included as a component of other noncurrent assets in the accompanying statement of net position.

Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Revenue Recognition

The Company's revenues are derived mainly from sale of fuel. Fuel sales are recognized when charged to customers' charge accounts and when merchandise is delivered to customers and title is passed and collectability is reasonably assured. Other income, mainly representing into plane fee and other delivery and service fee, is billed and accrued upon sale of related fuel.

Recently Adopted Accounting Pronouncements

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. The adoption of GASB Statement No. 94 during the year ended December 31, 2023 did not have an effect on the accompanying financial statements.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The adoption of GASB Statement No. 96 during the year ended December 31, 2023 did not result in a material effect on the accompanying financial statements.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied more easily. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of local government financial statements. The adoption of GASB Statement No. 99 during the year ended December 31, 2023 did not have an effect on the accompanying financial statements.

Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. The adoption of GASB Statement No. 100 during the year ended December 31, 2023 did not have an effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending December 31, 2024.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The primary objective of this Statement is to provide users of the government financial statements with essential information about risks related to a government's vulnerabilities due to ascertain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. GASB Statement No. 102 will be effective for fiscal year ending December 31, 2025.

Management is currently evaluating the effects the above upcoming accounting pronouncements might have on the financial statements.

Federated States of Micronesia Petroleum Corporation
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Notes to Financial Statements, continued

3. Investments

As of December 31, 2023, investments at fair value are as follows:

Fixed income securities:

Domestic fixed income \$ 7,331,655

Other investments:

Common equities 2,477,358

Exchange traded funds 1,066,776

Money market funds 2,808,251

6,352,385

\$13,684,040

As of December 31, 2023, the Company's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Fair value</u>	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>5 to 10 years</u>	<u>More than 10 years</u>
Corporate bonds	\$1,590,130	\$ ---	\$ 787,457	\$ 732,492	\$ 70,181
U.S. treasury securities	2,200,818	74,530	1,359,484	642,462	124,342
Certificate of deposits	<u>3,540,707</u>	<u>3,540,707</u>	<u>---</u>	<u>---</u>	<u>---</u>
	<u>\$7,331,655</u>	<u>\$3,615,237</u>	<u>\$2,146,941</u>	<u>\$1,374,954</u>	<u>\$194,523</u>

The Company's exposure to credit risk as of December 31, 2023, was as follows:

Moody's Rating

AAA	\$2,224,030
A1	437,554
A2	140,629
A3	140,934
BAA1	261,423
BAA2	563,117
BAA3	23,261
Not rated	<u>3,540,707</u>
	<u>\$7,331,655</u>

The Company categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Notes to Financial Statements, continued

3. Investments, continued

The Company has the following recurring fair value measurements as of December 31, 2023:

	December 31, 2023	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income securities	\$ 7,331,655	\$ ---	\$7,331,655	\$---
Equity securities	2,477,358	2,477,358	---	---
Exchange-traded funds	<u>1,066,776</u>	<u>1,066,776</u>	<u>---</u>	<u>---</u>
Total investments by fair value level	<u>10,875,789</u>	<u>\$3,544,134</u>	<u>\$7,331,655</u>	<u>\$---</u>
Investments measured at amortized cost:				
Money market funds	<u>2,808,251</u>			
	<u>\$13,684,040</u>			

4. Inventory

At December 31, 2023, inventory consists of the following:

Inventory on hand:	
Fuel	\$13,767,280
Engineering parts	1,366,360
Lubricants	376,057
Chemicals	26,135
Others	<u>835,882</u>
	16,371,714
Less allowance for obsolescence	<u>(50,587)</u>
	<u>\$16,321,127</u>

Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Notes to Financial Statements, continued

5. Capital Assets

Capital asset activities for the years ended December 31, 2023 are as follows:

	Balance at <u>January 1, 2023</u>	Transfers and Additions	Transfers and Deletions	Balance at <u>December 31, 2023</u>
Buildings	\$ 2,713,294	\$ 138,178	\$ ---	\$ 2,851,472
Leasehold improvements	26,191	---	---	26,191
Motor vehicles	2,170,287	1,348,853	---	3,519,140
Plant and equipment	23,994,199	2,208,610	---	26,202,809
Furniture and fixtures	576,389	91,990	---	668,379
Office equipment	8,614,879	443,236	(900)	9,057,215
Machinery and equipment	3,498,086	120,394	---	3,618,480
Boats and vessels	<u>2,278,895</u>	<u>46,304</u>	<u>---</u>	<u>2,325,199</u>
	43,872,220	4,397,565	(900)	48,268,885
Less accumulated depreciation	<u>(24,296,076)</u>	<u>(2,783,403)</u>	<u>877</u>	<u>(27,078,602)</u>
	19,576,144	1,614,162	(23)	21,190,283
Construction-in-progress	<u>11,243,429</u>	<u>3,233,531</u>	<u>(4,160,595)</u>	<u>10,316,365</u>
	<u>\$30,819,573</u>	<u>\$4,847,693</u>	<u>\$(4,160,618)</u>	<u>\$31,506,648</u>
Lease assets	<u>\$ 3,495,488</u>	<u>\$ ---</u>	<u>\$(464,490)</u>	<u>\$ 3,030,998</u>

6. Due to States and the FSM National Government

In 2008, the FSMNG was extended a ¥200,000,000 grant by the Government of Japan (“the Grant”). The Grant and accrued interest shall be used by the FSMNG properly and exclusively for the purchase of products enumerated in a list to be mutually agreed upon between the two governments. The Grant shall be received by the FSMNG in Yen currency, shall be used as described above within a period of twelve months and any excess amounts shall be refunded to the Government of Japan thereafter. The FSMNG is required to deposit in Micronesian currency (US dollars) all the proceeds from the sale and lease of the products purchased referred to above. The amount of the proceeds to be deposited shall not be less than half of the total yen disbursement paid with respect to the purchase of the products. The deposit shall be made within the period of three years from the date of entry into force of the understanding between the two governments. The deposited fund shall be utilized for economic and social development purposes in the FSM.

In 2009, FSMPC signed a memorandum of agreement with the FSMNG that the Grant be utilized for the supply of petroleum fuels to FSMPC to assist in the implementation of a number of initiatives aimed at mitigating the social and economic difficulties caused by volatile and sustained high oil prices. The Grant was paid directly by the Government of Japan through an independent procurement agent, Crown Agents, to FSMPC’s supplier of fuel instead of to the FSMNG. FSMPC received the equivalent gallons of fuel from the supplier, and this is now maintained as strategic inventory in each State. As of December 31, 2023, FSMPC recognized a liability to the States and the FSMNG of \$1,247,383.

Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Notes to Financial Statements, continued

6. Due to States and the FSM National Government, continued

As of December 31, 2023, the remaining \$500,000 represents a non-interest bearing advance payable to the FSMNG. There is no specific repayment terms and management has classified the advance as long-term since it has no expectation that such will have to be repaid before December 31, 2023.

7. Short-Term Borrowings

As of December 31, 2023, the Company has a bank standby letter of credit (LC) of \$3,000,000, with maturity date on September 13, 2025, in favor of Mobil Oil Guam in relation to its fuel purchase agreement. Additionally, the Company has a standby LC of \$4,396,900 for the coconut production facility contractor, with maturity date on March 31, 2025.

Additionally, as of December 31, 2023, the Company has bank line of credit (LOC) facility of \$11,000,000 for working capital and support LCs. The facility was subsequently renewed to mature on April 20, 2027.

The LOCs and the related long-term obligations are secured and collateralized by an executed Pledge and Security Agreement for the assignment of the Reserve Bank Account and Revenue, an executed Notice of Security Interest and Chattel Mortgage and are guaranteed by the FSM National Government.

Borrowings against the LOCs bear interest at the bank's effective reference rate plus 0.75%, with minimum rate of 5.75% per annum, with interest payable monthly and principal due within 180 days. No borrowings are outstanding against the LOCs as of December 31, 2023.

8. Long-term Debt

Long-term debt consists of the following as of December 31, 2023:

A \$5,000,000 bank note from the Bank of Guam (BOG), dated December 2017, for capital asset projects. The loan bore interest fixed at 5.75% per annum and was payable in monthly installments of \$55,214 beginning January 20, 2018. On June 27, 2019, an amendment included deferment of principal payments from June 2019 to June 2020, changes in interest rate to variable rate at bank reference rate plus 0.75%, with minimum rate of 5.75% (effective rate of 9.25% as of December 31, 2023) and monthly installments of \$61,865 through December 2027. The loan is collateralized by an executed Pledge and Security Agreement for the assignment of the Reserve Bank Account and Revenue, an executed Notice of Security Interest and Chattel Mortgage and are guaranteed by the FSM National Government.

\$2,643,938

Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Notes to Financial Statements, continued

8. Long-term Debt, Continued

A \$3,000,000 bank note from the FSM Development Bank (FSMDB), dated August 2017, a component unit of the FSM National Government, for capital asset projects. The loan bears interest fixed at 5% per annum and is payable in quarterly installments of \$170,461 beginning August 31, 2017 to September 25, 2022. On May 1, 2018, FSMDB approved FSMPC's request for deferment of principal payment from June 2018 to June 2019. On June 24, 2019, FSMDB approved another principal payment deferment up to June 2020. Maturity date has been extended through December 2024. The loan is collateralized by the Company's inventories and related petroleum products.

668,985

A \$3,000,000 bank note from the Bank of FSM (BFSM) drawn in March 2020, to finance earthwork/civil site preparation portion for Integrated Coconut Processing Facility. The loan bears variable interest at bank reference rate (effective 8.5% as of December 31, 2023) and is payable in monthly installments of \$32,558 beginning March 2020 to April 25, 2025. The loan is collateralized by future buildings, equipment, furniture and fixtures, inventory, vehicle and accounts receivables.

1,999,285

Total long-term debt

5,312,208

Less current portion

1,412,502

\$3,899,706

As of December 31, 2023, future minimum loan repayments are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$1,412,502	\$410,948	\$1,823,450
2025	2,340,055	224,778	2,564,833
2026	623,382	118,994	742,376
2027	<u>936,269</u>	<u>57,951</u>	<u>994,220</u>
	<u>\$5,312,208</u>	<u>\$812,671</u>	<u>\$6,124,879</u>

Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Notes to Financial Statements, continued

8. Long-term Debt, Continued

Loan Covenants

The BOG loan includes covenants relating to timely submission of audited financial and other information as the lender may reasonably request. The Company is also covenanted to, at all times, permit lender through its agents and representatives to visit and inspect properties; maintain and keep in full force and effect its existence, rights and franchise and comply with all laws applicable to the Company; pay or cause to be paid all taxes, assessments and other governmental charges levied upon any of the Company's properties, obtain hazard and liability insurance and other covenants.

The FSMDB loan requires the Company to purchase credit life insurance for its Chief Executive Officer for the coverage of the entire loan, assigning the lender as first beneficiary. The Company is also required to maintain insurance for on security for the loan and to maintain aggregate loan value of at least 120% of loan amount.

The BFSM loan requires the loan to be secured by the highest security interest possible over all existing and future accounts receivables, inventory, equipment, furniture and fixture and buildings comprising the entire interest of the Company.

Events of default - the debt agreements specify number of events of default and related remedies. Generally, in the event for default, the lenders reserve the right to accelerate the loan maturities in order to protect their interest or demand immediate settlement. The lenders collateral position must be a first lien on the Company's assets.

Management believes that the Company is in compliance with all covenants as of and for the year ended December 31, 2023, and no event of default has been declared by the lenders.

Changes in long-term debt for the year ended December 31, 2023 are as follows:

	Balance at January 1 <u>2023</u>	<u>Additions</u>	<u>Repayments</u>	Balance at December 31 <u>2023</u>	Due Within <u>One Year</u>
Long-term debt	<u>\$6,650,859</u>	<u>\$ ---</u>	<u>\$ (1,338,651)</u>	<u>\$5,312,208</u>	<u>\$1,412,502</u>

Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Notes to Financial Statements, continued

9. Changes in Other Long-Term Liabilities

Changes in other long-term liabilities for the year ended December 31, 2023 are as follows:

	Balance at January 1 <u>2023</u>	<u>Additions</u>	<u>Repayments</u>	Balance at December 31 <u>2023</u>	Due Within <u>One Year</u>
Due to States and the FSM					
National Government	\$1,747,383	\$ ---	\$ ---	\$1,747,383	\$ ---
Lease liabilities	2,882,194	---	(81,032)	2,801,162	439,479
Other noncurrent liability	<u>165,097</u>	<u>---</u>	<u>(165,097)</u>	<u>---</u>	<u>---</u>
	<u>\$4,794,674</u>	<u>\$---</u>	<u>\$(246,129)</u>	<u>\$4,548,545</u>	<u>\$439,479</u>

10. Risk Management

Insurance Risk

FSMPC purchases commercial insurance to cover its potential risks from refueling operations, inventory and facilities. It also maintains workmen's compensation coverage. It is substantially self-insured for all other risks.

VEI purchases commercial insurance to cover potential risks from managing, operating and maintaining the Government of Nauru bulk fuel facilities. VEI is substantially self-insured for all other risks.

Management is of the opinion that no material losses have been sustained as a result of this practice.

Foreign Currency Risk

VEI's transactions through its Nauru branch are settled in a foreign currency. VEI is exposed to the risk of unfavorable changes in the exchange rate that may occur.

11. Concentration Risk

The Company's revenue from three major customers approximated 25% of the Company's revenues for the year ended December 31, 2023. Receivables from the three major customers totaled \$2,072,023 as of December 31, 2023, which are secured with deposits maintained with the Company included as a component of accrued liabilities and others in the accompanying statements of net position.

FSMPC and VEI purchased substantially all fuel from two suppliers in 2023. VEI purchases fuel under a Fuel Supply Contract which expires on October 31, 2026.

Federated States of Micronesia Petroleum Corporation
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Notes to Financial Statements, continued

11. Concentration Risk, continued

Government of Nauru (GON)

Effective June 1, 2015, VEI entered into a Petroleum Supply and Facility Management Agreement (the Agreement) with the GON for a period of five years, with an option to extend for another five years. The Company was appointed to perform: (a) procure the supply of fuel and delivery to the facilities, (b) operate and maintain the facilities for the receipt, storage and distribution of products, (c) sell and distribute products to meet all inland demand, and (d) provide expert advice, technical assistance and other services as GON may reasonably require in related to the matters of the agreement. The Company uses nine tankers in GON's facilities at the storage terminal located in Aiwo District, Republic of Nauru.

Upon expiration on May 31, 2020, the Agreement remained in holdover status. The parties entered into a new agreement ("New Agreement") effective December 3, 2021 and expires December 3, 2026. The New Agreement contains similar terms and conditions.

Virtually all of the VEI's revenues, of approximately \$24,331,000 are earned in connection with the new Agreement for the year ended December 31, 2023.

The Agreement and the New Agreement allows VEI to charge prices based on Nauru Price Template (NPT). For the year ended December 31, 2023, Vital recorded fuel sales of \$23.6 million. As of December 31, 2023, Vital recorded throughput and rehabilitation fee liability of \$0, for the purpose of funding the facilities' mooring system repairs and improvements and Compliance and Integrity Projects, which is included in the other noncurrent liability account in the accompanying statements of net position.

12. Retirement Plan

The Company's retirement plan (the Plan) is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees receive from the FSM Social Security System. The Plan is a contributory plan in which the Company matches 100% of the participants' contributions up to a maximum of 15% of the participant's annual salary, if the participant contributes 3% or more of his or her annual salary. Participation is optional. Vesting of the Company's contributions occurs over a six-year period. The Company's Human Resources Manager is designated as the Plan administrator. Contributions to the Plan during the year ended December 31, 2023 were \$245,824. Management is of the opinion that the Plan does not represent an asset or a liability of the Company. As of December 31, 2023, plan assets were \$3,888,270.

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Notes to Financial Statements, continued

13. Leases

FSMPC leases land, warehouse, airport facilities and other such space through various leases expiring through 2038. Certain lease agreements contain options to renew with rent escalations. Three lease agreements require additional lease payments contingent on the level of gallons sold by the Company from that leased facility. In 2019, an additional lease agreement was entered into by the Company for land situated on Tonoas Island, Chuuk State, for the new CDU project site. The agreements have an initial term of twenty-years, with certain options to renew, and require an initial seven-year prepayment. As of December 31, 2023 lease assets are as follows:

<u>Lease Description</u>	<u>Classification</u>	<u>Gross Balance</u>	<u>Accumulated Amortization</u>	<u>Net Balance</u>
Land leases - project site	Land	\$1,942,362	\$ 213,739	\$1,728,623
Land leases - facilities	Land and Building	1,052,779	313,406	739,373
Land leases - bulk plant	Land and Building	<u>1,097,319</u>	<u>534,317</u>	<u>563,002</u>
		<u>\$4,092,460</u>	<u>\$1,061,462</u>	<u>\$3,030,998</u>

The future lease payments for this transaction are as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 439,479	\$ 209,218	\$ 648,697
2025	205,961	181,087	387,048
2026	217,484	164,040	381,524
2027	259,162	144,762	403,924
2028	246,226	125,298	371,524
2029 through 2033	814,855	416,520	1,231,375
2034 through 2038	<u>617,995</u>	<u>88,692</u>	<u>706,687</u>
	<u>\$2,801,162</u>	<u>\$1,329,617</u>	<u>\$4,130,779</u>

In connection with the VEI's exclusive right to access, use and occupy the GON bulk fuel facilities, rental fee is waived and replaced by land use levy built on NPT effective January 2022 through the expiration of the new agreement in December 2026.

Federated States of Micronesia Petroleum Corporation
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Notes to Financial Statements, continued

14. Commitments and Contingencies

Sales

The Company has entered into agreements to sell fuel at an agreed pricing method. The agreements are for one year and automatically renew at the end of their respective terms every 30 days unless terminated by either party.

Litigation

The Company is a defendant in several legal actions. The ultimate outcome is presently undeterminable; however, Company management is of the opinion that resolution of these matters will not have a material effect on the accompanying financial statements.

15. Related Parties

FSMPC sells fuel to the four utility companies in the FSM namely: Pohnpei Utilities Corporation (PUC), Chuuk Public Utility Corporation (CPUC), Kosrae Utility Authority, and Yap State Public Service Corporation. Total fuel sales of \$18.4 million were generated from the four utility companies for the year ended December 31, 2023. As of December 31, 2023, FSMPC has total receivables of \$1.7 million due from the four utility companies. In addition, as of December 31, 2023, FSMPC has accrued liabilities in the form of letters of credit to PUC and CPUC totaling \$1,037,343, in connection with fuel purchases price variances, which are included as a component of accrued liabilities and others in the accompanying statement of net position.

As of December 31, 2023, trade receivables include balances due from the components of FSM National and State Governments totaling \$395,418.

FSMPC also sells power generated to PUC under a Power Purchase Agreement (PPA). The PPA has an initial term of thirty-six months, which expired in June 2017. Under the PPA, FSMPC is responsible to acquire, install and operate a 2.0 MW diesel generator, and PUC is committed to purchase available capacity up to the contract capacity, which means an average of 1,600 kW in any given month throughout the PPA term. The PPA is operating in the holdover status as the parties negotiate for renewal or termination. Total revenues under the PPA approximated \$3.2 million for the year ended December 31, 2023.

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Notes to Financial Statements, continued

16. Condensed Financial Information

The condensed financial information for as of and for the year ended December 31, 2023 are as follows:

Condensed Statement of Net position:

	<u>FSMPC</u>	<u>VEI</u>	<u>Elimination</u>	<u>Total Condensed</u>
Assets:				
Current assets	\$36,115,741	\$13,549,794	\$ ---	\$49,665,535
Receivable from component unit	8,051,944	---	(8,051,944)	---
Other non-current assets	613,630	121,000	---	734,630
Capital assets and leased assets, net	<u>34,387,222</u>	<u>150,424</u>	<u>---</u>	<u>34,537,646</u>
Total assets	<u>\$79,168,537</u>	<u>\$13,821,218</u>	<u>\$ (8,051,944)</u>	<u>\$84,937,811</u>
Liabilities:				
Current liabilities	\$11,316,525	\$ 4,358,595	\$(2,683,981)	\$12,991,139
Due to primary government	---	5,367,963	(5,367,963)	---
Due to other FSM government entities	1,747,383	---	---	1,747,383
Non-current liabilities	<u>6,261,389</u>	<u>---</u>	<u>---</u>	<u>6,261,389</u>
Total liabilities	<u>19,325,297</u>	<u>9,726,558</u>	<u>(8,051,944)</u>	<u>20,999,911</u>
Net Position:				
Net investment in capital assets	27,571,389	150,424	---	27,721,813
Unrestricted	<u>32,271,851</u>	<u>3,944,236</u>	<u>---</u>	<u>36,216,087</u>
Total net position	<u>59,843,240</u>	<u>4,094,660</u>	<u>(---)</u>	<u>63,937,900</u>
	<u>\$79,168,537</u>	<u>\$13,821,218</u>	<u>\$ (8,051,944)</u>	<u>\$84,937,811</u>

Condensed Statement of Change in Net position:

	<u>FSMPC</u>	<u>VEI</u>	<u>Elimination</u>	<u>Total Condensed</u>
Operating revenue:				
Sales and service income	\$69,257,888	\$23,620,780	\$ ---	\$92,878,668
Other operating revenue	<u>621,983</u>	<u>709,881</u>	<u>(465,923)</u>	<u>865,941</u>
	69,879,871	24,330,661	(465,923)	93,744,609
Cost of goods sold	<u>46,887,491</u>	<u>20,652,087</u>	<u>(---)</u>	<u>67,539,578</u>
Gross profit	<u>22,992,380</u>	<u>3,678,574</u>	<u>(465,923)</u>	<u>26,205,031</u>
Operating expenses:				
Depreciation and amortization	3,199,693	48,200	---	3,247,893
Other operating expenses	<u>16,216,779</u>	<u>2,512,064</u>	<u>(465,923)</u>	<u>18,262,920</u>
	19,416,472	2,560,264	(465,923)	21,510,813
Operating income	<u>3,575,908</u>	<u>1,118,310</u>	<u>---</u>	<u>4,694,218</u>

Federated States of Micronesia Petroleum Corporation
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Notes to Financial Statements, continued

16. Condensed Financial Information, continued

Condensed Statement of Change in Net position, continued

	<u>FSMPC</u>	<u>VEI</u>	<u>Elimination</u>	<u>Total Condensed</u>
Non-operating expenses:				
Interest and investments	\$ 454,859	\$ ---	\$ ---	\$ 454,859
Foreign exchange	<u>---</u>	<u>(104,632)</u>	<u>---</u>	<u>(104,632)</u>
	<u>454,859</u>	<u>(104,632)</u>	<u>---</u>	<u>350,227</u>
Change in net position	4,030,767	1,013,678	---	5,044,445
Net position at beginning of year	<u>55,812,473</u>	<u>3,080,982</u>	<u>---</u>	<u>58,893,455</u>
Net position at end of year	<u>\$59,843,240</u>	<u>\$4,094,660</u>	<u>\$ ---</u>	<u>\$63,937,900</u>

Condensed Statement of Cash flows:

	<u>FSMPC</u>	<u>VEI</u>	<u>Elimination</u>	<u>Total Condensed</u>
Net cash provided by (used in):				
Operating activities	\$ 3,778,244	\$1,927,406	\$ ---	\$ 5,705,650
Capital and related financing activities	(5,525,601)	---	---	(5,525,601)
Investing activities	<u>(4,887,337)</u>	<u>(77,663)</u>	<u>---</u>	<u>(4,965,000)</u>
Net (decrease) increase in cash	(6,634,694)	1,849,743	---	(4,784,951)
Cash and cash equivalents at beginning of year	<u>13,671,449</u>	<u>2,662,130</u>	<u>---</u>	<u>16,333,579</u>
Cash and cash equivalents at end of year	<u>\$ 7,036,755</u>	<u>\$4,511,873</u>	<u>\$ ---</u>	<u>\$11,548,628</u>

Supplementary Information

Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Combining Statement of Net Position

December 31, 2023

	FSMPC	VEI	Eliminations	Total
Assets				
Cash and cash equivalents	\$ 7,036,755	\$ 4,511,873	\$ ---	\$ 11,548,628
Time certificate of deposit	---	401,396	---	401,396
Trade receivables	2,946,938	902,117	---	3,849,055
Due from component unit	---	---	---	---
Other receivables	265,161	---	---	265,161
Inventory, net	9,817,023	6,504,104	---	16,321,127
Prepaid expenses and other assets	2,365,824	1,230,304	---	3,596,128
Investments	13,684,040	---	---	13,684,040
Total current assets	36,115,741	13,549,794	---	49,665,535
Due from related parties and employee, net of current portion	8,051,944	---	(8,051,944)	---
Lease assets	3,030,998	---	---	3,030,998
Other noncurrent asset	613,630	121,000	---	734,630
Other capital assets, net of accumulated depreciation	21,039,859	150,424	---	21,190,283
Nondepreciable capital assets	10,316,365	---	---	10,316,365
Total assets	\$ 79,168,537	\$ 13,821,218	\$ (8,051,944)	\$ 84,937,811
Liabilities				
Current portion of long-term debt	\$ 1,412,502	\$ ---	\$ ---	\$ 1,412,502
Current portion of lease liabilities	439,479	---	---	439,479
Accounts payable - fuel	3,715,472	---	---	3,715,472
Accounts payable - others	2,338,493	423,055	---	2,761,548
Accrued liabilities and others	3,410,579	1,251,559	---	4,662,138
Due to related parties	---	2,683,981	(2,683,981)	---
Total current liabilities	11,316,525	4,358,595	(2,683,981)	12,991,139
Lease liabilities	2,361,683	---	---	2,361,683
Long-term debt, net of current portion	3,899,706	---	---	3,899,706
Due to related parties, net of current portion	-	5,367,963	(5,367,963)	-
Due to states and primary government	1,747,383	---	---	1,747,383
Total liabilities	19,325,297	9,726,558	(8,051,944)	20,999,911
Net position:				
Net investment in capital assets	27,571,389	150,424	---	27,721,813
Unrestricted	32,271,851	3,944,236	---	36,216,087
Total net position	59,843,240	4,094,660	---	63,937,900
	\$ 79,168,537	\$ 13,821,218	\$ (8,051,944)	\$ 84,937,811

Federated States of Micronesia Petroleum Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Combining Statement of Revenue, Expenses, and Changes in Net Position

Year ended December 31, 2023

Sales and service income	\$ 69,257,888	\$ 23,620,780	\$ ---	\$ 92,878,668
Other	<u>621,983</u>	<u>709,881</u>	<u>(465,923)</u>	<u>865,941</u>
	69,879,871	24,330,661	(465,923)	93,744,609
Cost of goods sold	<u>46,887,491</u>	<u>20,652,087</u>	<u>---</u>	<u>67,539,578</u>
Gross profit	<u>22,992,380</u>	<u>3,678,574</u>	<u>(465,923)</u>	<u>26,205,031</u>
Operating expenses:				
Salaries and benefits	4,492,693	297,948	---	4,790,641
Repairs and maintenance	3,268,170	127,861	---	3,396,031
Depreciation and amortization	3,199,693	48,200	---	3,247,893
Taxes	1,953,336	608,257	---	2,561,593
Professional fees	1,482,728	124,142	---	1,606,870
Rent	824,874	142,776	---	967,650
Insurance	554,733	331,070	---	885,803
Staff travel, training and development	869,045	3,559	---	872,604
Communications	617,195	75,526	---	692,721
Office supplies	452,018	24,395	---	476,413
Corporate governance, travel and entertainment	363,761	69,074	---	432,835
Contracted services	343,273	87,836	---	431,109
Fuel	358,227	45,339	---	403,566
Utilities	302,519	43,846	---	346,365
Miscellaneous	250,136	50,520	---	300,656
Bank charges	84,071	13,992	---	98,063
Corporate office shared services	<u>---</u>	<u>465,923</u>	<u>(465,923)</u>	<u>---</u>
Total operating expenses	<u>19,416,472</u>	<u>2,560,264</u>	<u>(465,923)</u>	<u>21,510,813</u>
Operating income	3,575,908	1,118,310	---	4,694,218
Nonoperating (expenses) revenues:				
Grants and subsidies	---	---	---	-
Foreign exchange	---	(104,632)	---	(104,632)
Investment gain	1,055,300	---	---	1,055,300
Other income	---	---	---	-
Interest expense, net	<u>(600,441)</u>	<u>---</u>	<u>---</u>	<u>600,441</u>
Total nonoperating revenues (expense), net	<u>454,859</u>	<u>(104,632)</u>	<u>---</u>	<u>350,227</u>
Change in net position	4,030,767	1,013,678	---	5,044,445
Net position at beginning of year	<u>55,812,473</u>	<u>3,080,982</u>	<u>---</u>	<u>58,893,455</u>
Net position at end of year	<u>\$ 59,843,240</u>	<u>\$ 4,094,660</u>	<u>\$ ---</u>	<u>\$ 63,937,900</u>

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Federated States of Micronesia Petroleum Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Federated States of Micronesia Petroleum Corporation (the Company), which comprise the statement of net position as of December 31, 2023, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 5, 2025.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

August 5, 2025