MAM & Co.

M. A. MERCADO & Co.
Certified Public Accountants

ACCESS TO SUSTAINABLE ENERGY PROJECT (ASEP)

Administered by:
THE WORLD BANK

Funded by:
THE EUROPEAN UNION (EU) AND
THE GLOBAL PARTNERSHIP FOR OUTPUT-BASED AID (GPOBA)

Managed by:
LGU GUARANTEE CORPORATION (LGUGC)

AUDITED FINANCIAL STATEMENTS
December 31, 2018 and 2017
with Report of Independent Auditors

- AUDIT
- TAX
- ADVISORY

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
LGU Guarantee Corporation
Unit 2801, 28F Antel Corporate Center
121 Valero Street, Salcedo Village
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Access To Sustainable Energy Project (ASEP) ("the Project") administered by The World Bank, funded by the European Union (EU) and the Global Partnership For Output-Based Aid (GPOBA) and managed by LGU Guarantee Corporation**, which comprise the statements of financial position as at December 31, 2018 and 2017, and the related statements of profit or loss and other comprehensive income, statements of changes in fund balance and statements of cash flows for the year ended December 31, 2018 and for the period June 14, 2016 to December 31, 2017, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Access To Sustainable Energy Project (ASEP), as at December 31, 2018 and 2017, and its financial performance and its cash flows for the year ended December 31, 2018 and for the period June 14, 2016 to December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

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

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

M.A. MERCADO & CO.

MERIAM F. COMIA
Partner
CPA License No. 074629
Tax Identification No. 102-920-894
P.T.R. No. 7338291; Issued on January 04, 2019, Makati City
SEC Accreditation No. 1533-AR-1 (Group C)
Issued January 15, 2019; Valid until January 14, 2022
BIR Accreditation No. 08-006173-001-2018
Issued March 22, 2018; Valid until March 22, 2021
Firm's BOA/PRC Cert. of Reg. No. 5658
Issued September 18, 2017; Valid until September 17, 2020
Firm's SEC Accreditation No. 0320-FR-1
Issued January 15, 2019; Valid until January 14, 2022
Firm's BIR Accreditation No. 08-006173-000-2018
Issued March 22, 2018; Valid until March 22, 2021

March 13, 2019

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STATEMENTS OF FINANCIAL POSITION
(Amounts in U.S. Dollars)

		As at December 31, 2018			As at December 31, 2017		
	Notes	GPOBA	EU	TOTAL	GPOBA	EU	TOTAL
ASSET							
Cash	2,4,9	$ 169	$ 43,563	$ 43,732	$ 120,499	$ 30,718	$ 151,217
Receivable - LGUGC	2,5,9	-	-	-	2,346	4,813	7,159
Equipment	2,3,6	-	-	-	3,634	-	3,634
		$ 169	$ 43,563	$ 43,732	$ 126,479	$ 35,531	$ 162,010
LIABILITY AND FUND BALANCE							
Advances from LGUGC	2,7,9	$ -	$ -	$ -	$ 500	$ 500	$ 1,000
Advances from suppliers	8	-	4,609	4,609	-	-	-
Fund balance	2	169	38,954	39,123	125,979	35,031	161,010
		$ 169	$ 43,563	$ 43,732	$ 126,479	$ 35,531	$ 162,010

See Accompanying Notes To Financial Statements.

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STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(Amounts in U.S. Dollars)

		For the year ended December 31, 2018			For the period June 14, 2016 to December 31, 2017			AMOUNT TO-DATE		
	Notes	GPOBA	EU	TOTAL	GPOBA	EU	TOTAL	GPOBA	EU	TOTAL
INCOME	2									
Grant income		$ 482,655	$ 265,542	$ 748,197	$ 449,347	$ 195,838	$ 645,185	$ 932,002	$ 461,380	$ 1,393,382
Finance income		190	182	372	280	322	602	470	504	974
Miscellaneous income		-	-	-	-	1,500	1,500	-	1,500	1,500
		482,845	265,724	748,569	449,627	197,660	647,287	932,472	463,384	1,395,856
EXPENSES	2									
SHS installation costs		439,205	-	439,205	-	-	-	439,205	-	439,205
Administrative support		65,138	82,455	147,593	4,919	-	4,919	70,057	82,455	152,512
Transaction/verification		40,783	35,708	76,491	-	-	-	40,783	35,708	76,491
Professional fees		39,069	98,227	137,296	303,477	158,677	462,154	342,546	256,904	599,450
Transportation and travel		13,966	31,392	45,358	5,141	-	5,141	19,107	31,392	50,499
Depreciation		3,634	-	3,634	5,933	-	5,933	9,567	-	9,567
Seminar and training		1,919	2,374	4,293	808	1,280	2,088	2,727	3,654	6,381
Postage, telephone and communication		1,800	464	2,264	202	510	712	2,002	974	2,976
Meeting expenses		1,197	3,735	4,932	821	-	821	2,018	3,735	5,753
Light, water and power		658	862	1,520	336	721	1,057	994	1,583	2,577
Office supplies and stationaries		647	4,510	5,157	1,825	349	2,174	2,472	4,859	7,331
Promotion and advertisement		289	-	289	-	1,024	1,024	289	1,024	1,313
Notarial fees		189	78	267	-	-	-	189	78	267
Bank charges		117	187	304	186	68	254	303	255	558
Printing and reproduction		44	176	220	-	-	-	44	176	220
Taxes and licenses		-	87	87	-	-	-	-	87	87
Repairs and maintenance		-	46	46	-	-	-	-	46	46
		608,655	260,301	868,956	323,648	162,629	486,277	932,303	422,930	1,355,233
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAX		(125,810)	5,423	(120,387)	125,979	35,031	161,010	169	40,454	40,623
PROVISION FOR INCOME TAX		-	-	-	-	-	-	-	-	-
NET INCOME (LOSS) FOR THE PERIOD		(125,810)	5,423	(120,387)	125,979	35,031	161,010	169	40,454	40,623
OTHER COMPREHENSIVE INCOME		-	-	-	-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		$ (125,810)	$ 5,423	$ (120,387)	$ 125,979	$ 35,031	$ 161,010	$ 169	$ 40,454	$ 40,623

See Accompanying Notes To Financial Statements.

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STATEMENTS OF CHANGES IN FUND BALANCE
(Amounts in U.S. Dollars)

		For The Year Ended December 31, 2018		
	Notes	GPOBA	EU	TOTAL
Balance at January 1, 2018	2	$ 125,979	$ 35,031	$ 161,010
Prior period adjustment	11	-	(1,500)	(1,500)
As restated		125,979	33,531	159,510
Net (loss) income for the period		(125,810)	5,423	(120,387)
Other comprehensive income		-	-	-
Total comprehensive (loss) income for the period		(125,810)	5,423	(120,387)
Balance at December 31, 2018		$ 169	$ 38,954	$ 39,123

		For the Period June 14, 2016 to December 31, 2017		
	Notes	GPOBA	EU	TOTAL
Balance at June 14, 2016	2	$ -	$ -	$ -
Net income for the period		125,979	35,031	161,010
Other comprehensive income		-	-	-
Total comprehensive income for the period		125,979	35,031	161,010
Balance at December 31, 2018		$ 125,979	$ 35,031	$ 161,010

See Accompanying Notes To Financial Statements.

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STATEMENTS OF CASH FLOWS
(Amounts in U.S. Dollars)

				For the year ended December 31, 2018			For the period June 14, 2016 to December 31, 2017
	Notes	GPOBA	EU	TOTAL	GPOBA	EU	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES							
(Loss) Income from operations		$ (125,810)	$ 5,423	$ (120,387)	$ 125,979	$ 35,031	$ 161,010
Adjustments for:							
Prior year's adjustment	11	-	(1,500)	(1,500)	-	-	-
Depreciation expense		3,634	-	3,634	5,933	-	5,933
Operating (loss) income before working capital changes		(122,176)	3,923	(118,253)	131,912	35,031	166,943
Changes in assets and liabilities							
Receivable - LGUGC	2,5,9	2,346	4,813	7,159	(2,346)	(4,813)	(7,159)
Advances from LGUGC	2,7,8	(500)	(500)	(1,000)	500	500	1,000
Advances from suppliers	8	-	4,609	4,609	-	-	-
Net cash (used in) provided by operating activities		(120,330)	12,845	(107,485)	130,066	30,718	160,784
CASH FLOW FROM INVESTING ACTIVITY							
Purchase of office equipment	2,3,6	-	-	-	(9,567)	-	(9,567)
NET (DECREASE) INCREASE IN CASH		(120,330)	12,845	(107,485)	120,499	30,718	151,217
CASH, BEGINNING		120,499	30,718	151,217	-	-	-
CASH, ENDING	2,4,8	$ 169	$ 43,563	$ 43,732	$ 120,499	$ 30,718	$ 151,217

See Accompanying Notes To Financial Statements.

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STATEMENT OF DESIGNATED ACCOUNTS
(Amounts in U.S. Dollars)

	As at December 31, 2018			
	GPOBA BPI Account 3774-0124-42	**EU BPI Account 3774-0124-34**	**TOTAL**	**Remarks**
DESIGNATED ACCOUNTS, BEGINNING	$ **120,499**	$ **30,718**	$ **151,217**	
ADD: RECEIPTS				
Applications for withdrawal				
Fourth	$ -	$ 51,877	$ 51,877	
Fifth		56,308	56,308	
Sixth		13,642	13,642	
Seventh		13,574	13,574	
Eight		45,049	45,049	
Nineth		6,968	6,968	
Tenth		39,056	39,056	
Eleventh	316	27,629	27,945	
Twelfth	16,719	19,432	36,151	
Thirteenth	-		-	*Deleted*
Fourteenth	70,681		70,681	
Fifteenth	38,135		38,135	
Sixteenth	54,635		54,635	
Seventeenth	-		-	*Draft* (17-a)*
Eighteenth	-		-	*Deleted* (18-a)*
Nineteenth	152,257		152,257	
Twentieth	-		-	*Deleted*
Twenty-first	152,257		152,257	
Interest income, net of final tax	190	182	372	
	$ 485,190	$ 273,717	$ 758,907	
WITHDRAWALS MADE FROM THE ACCOUNTS				
January	$ 170	$ 18,528	$ 18,698	
February	-	8,346	8,346	
March	51	13,384	13,435	
April	16,682	43,865	60,547	
May	69	6,968	7,037	
June	-	39,828	39,828	
July	-	27,225	27,225	
August	70,623	23,508	94,131	
September	99,897	26,333	126,230	
October	76,516	-	76,516	
November	186,930	3,165	190,095	
December	153,965	47,535	201,500	
	604,903	258,685	863,588	
Bank service charges	117	187	304	
Wihdrawal of bidding fees on PVM Window 1	-	1,500	1,500	
Withdrawal of initial deposits made by LGUGC	500	500	1,000	
	$ 605,520	$ 260,872	$ 865,392	
DESIGNATED ACCOUNTS, ENDING	$ **169**	$ **43,563**	$ **43,732**	

* *The Seventeenth and eighteenth applications for withdrawal referenced by 17-a and 18-a amounting to $50,286.78 and $68,184.94, respectively were recovered by World Bank.*

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Amounts in U.S. Dollars)

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1. PROJECT INFORMATION

Access to Sustainable Energy Project (ASEP) "the Project" administered by The World Bank, funded by the European Union (EU) and Global Partnership on Output-based Aid (GPOBA) and managed by LGU Guarantee Corporation (LGUGC) is a $23.4 million fund intended to increase household access to solar powered electricity within cooperative service areas.

The Project consists of the following parts:

- Part 1 – Photovoltaic ("PV") Mainstreaming of Solar Home System ("SHS") – involves giving support to LGUGC to manage the implementation of the PV mainstreaming of SHS and selection of Participating Organization to receive PV Grants in accordance with the procedures acceptable to the World Bank.

- Part 2 – Rural Network Solar ("RNS") – consists of provision of RNS Grants to selected Participating Organizations as a capital subsidy for the development of grid-connected solar plants and implementation of an RNS program in remote rural and isolated islands/islets in the Philippines.

- Part 3 – Prepaid Metering ("PPM") Pilot – consists of provision and installation of approximately 1000 pre-paid electricity meters in a variety of consumer situations as a pilot program.

To finance the Project, LGUGC has requested from the World Bank, the acting administrator of the GPOBA Grant Agreement, the amount of Three Million Dollars ($3,000,000) for assistance in the financing of the Part 1 of the Project.

LGUGC has also requested the World Bank, also the acting administrator of trust funds provided by EU, the amount of Eighteen Million Four Hundred Thousand Euros (€18,400,000) or Twenty Million Two Hundred Forty Thousand Dollars ($20,240,000) to assist in financing the Project.

The LGUGC declares its commitment to the objectives of the Project and shall carry out the Project in accordance with the provisions set forth in the Agreements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The financial statements of the Project have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). PFRSs are adopted by the Financial Reporting Standards Council (FRSC), formerly the Accounting Standards Council, from the pronouncement issued by the International Accounting Standards Board (IASB). PFRSs consist of:

(i) PFRSs – corresponding to International Financial Reporting Standards;

(ii) Philippine Accounting Standards (PASs) – corresponding to International Accounting Standards; and,

(iii) Interpretations to existing standards – representing interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee, of the IASB which are adopted by the FRSC.

The financial statements have been prepared on the historical cost basis. The measurement bases are more fully described in the accounting policies that follow.

These financial statements are presented in U.S. Dollars, the Project's functional currency, and all values represent absolute amounts except when otherwise indicated.

Changes in Accounting Policies
The following significant accounting policies unless otherwise mentioned were adopted in the preparation of the financial statements of the Project.

The accounting policies set out below have been applied in these financial statements, except for the changes in accounting policies as explained below.

New and Amended Standards Adopted by the Project
The Project has applied for the first time the following applicable new and revised accounting standards. Except for these standards and amended PFRS which were adopted as of January 1, 2018, the accounting policies adopted are consistent with those of the previous financial year.

The following standards and amendments have been issued effective as of January 1, 2018.

PFRS 9, *Financial Instruments*
In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments projects and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all version of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required, but comparative information is not compulsory.

These amendments are not applicable and have no significant impact on the Project's financial performance and financial position.

PFRS 15, *Revenue from Contracts with Customers*
This standard was issued on May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in an exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The new standard replaces PAS 11, Construction Contracts, PAS 18, Revenue, and their related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.)

Based on the Project's assessment, all the Project's contracts with customers generally undertake to provide single performance obligation at a fixed price which is mainly rendering of services. Thus, the allocation of transaction price to the single performance obligation is not applicable. The Project recognizes revenue as the services are rendered at a point in time.

Amendment to PFRS 15, *Revenue from Contract Customers – Clarification to PFRS 15* –
The amendments provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts.

Accordingly, the adoption of PFRS 15 has no significant on the Project's financial position and performance.

PFRS 10, *Consolidated Financial Statements,* PFRS 12, *Disclosure of Interests in Other entities*, and PAS 28, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception* (Amendments)

These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendment also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments are not applicable and have no significant impact on the Project since the Project is not an investment entity nor does it have investment entity associates.

IFRS 1 *First-time Adoption of International Financial Reporting Standards - Deletion of short-term*
exemptions for first-time adopters
Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose.

These amendments are not applicable and have no significant impact on the Project's financial performance and financial position.

PAS 40 (Amendments), *Investment Property, Transfers of Investment Property*
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments.

Retrospective application is only permitted if this is possible without the use of hindsight.
These amendments are not applicable and have no significant impact on the Project's financial performance and financial position.

PAS 28 (Amendments), *Measuring an Associate or Joint Venture at Fair Value*
The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment

entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted. These amendments are not applicable and have no significant impact on the Project's financial performance and financial position.

PFRS 4 (Amendments), *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4* The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to

choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued.

On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or 1 January 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

These amendments are not applicable and have no significant impact on the Project's financial performance and financial position.

Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or nonmonetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Project is still assessing the potential impact of these amendments

New and Amended Standards but not yet Effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Project's financial statements are disclosed below. The Project intends to adopt these standards, if applicable, when they become effective.

Effective beginning on or after January 1, 2019

PFRS 9 (Amendments), *Prepayment Features with Negative Compensation*
Under PFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the

instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the Project's financial statements.

PFRS 10 and PAS 28 (Amendments), *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that do (37) not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On 13 January 2016, the Financial Reporting Standards Council postponed the original effective date of 1 January 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

These amendments are not applicable and have no significant impact on the Project's financial performance and financial position.

PAS 19 (Amendments), *Plan Amendment, Curtailment or Settlement*
The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early

application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Project.

These amendments are not applicable and have no significant impact on the Project's financial performance and financial position.

PAS 28 (Amendments) *Long-term interests in associates and joint ventures*
The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28 *Investments in Associates and Joint Ventures.*

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted.

These amendments are not applicable and have no significant impact on the Project's financial performance.

PFRS 16, *Leases*
This standard was issued in January 2016. Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17. Rather, Leases will apply the single-asset model, wherein lessees will recognize the assets and the related liabilities for most leases in their balance sheets and, subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. The new standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

These amendments are not applicable and have no significant impact on the Project's financial performance and financial position.

IFRIC Interpretation 23, *Uncertainty over Income Tax Treatment*
The Interpretation addresses the accounting for income taxes when tax treatment involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12,

nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

These amendments are not applicable and have no significant impact on the Project's financial performance and financial position.

PFRS 3 *Business Combinations*
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments are not applicable and will have no significant impact on the Project's financial performance.

PFRS 11 *Joint Arrangements*
A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments are not applicable and will have no significant impact on the Project's financial performance.

PAS 12 *Income Taxes*
The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distribution to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

These amendments are not applicable and will have no significant financial impact on the Project.

PAS 23 *Borrowing Costs*
The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

These amendments are not applicable and will have no significant impact on the Project's financial performance.

Effective beginning on or after January 1, 2020

Amendments to PFRS 3, *Definition of Business*
The amendments to PFRS 3 were issued to help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarify the minimum requirement to e a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments add guidance whether an acquired process is substantive and add illustrative examples. The amendments introduce an optional concentration test to permit a simplified assessment. The amendments are effective for annual reporting periods beginning on or after January 1, 2020 and apply prospectively. Earlier application is permitted.

These amendments are not applicable and will have no significant impact on the Project's financial performance.

Amendments to PAS 1 and PAS 8, *Definition of Material*
The amendments were issued to clarify and align the definition of material. The amendments are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgments. The amendments must be applied prospectively for annual period beginning on or after January 1, 2020, with earlier application permitted.

These amendments are not applicable and will have no significant impact on the Project's financial performance.

Effective beginning on or after January 1, 2021

PFRS 17, *Insurance Contracts*
In May 2017, the PASB issued PFRS 17 Insurance Contracts (PFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4 Insurance Contracts (PFRS 4) that was issued in 2005. PFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

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

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

PFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted provided the entity also applies PFRS 9 and PFRS 15 on or before the date it first applies PFRS 17.

These amendments are not applicable and have no significant impact on the Project's financial performance and financial position.

Cash

Cash includes cash in banks. Cash in banks are carried at face value in the statements of financial position.

Classification and Measurement of Financial assets and Liabilities

PFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, FVOCI and FVTL. The classification of financial assets under PFERS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

PFRS 9 eliminates the previous PAS 39 categories of held to maturity, loans and receivables and available for sale. Under PFRS 9, derivatives embedded in contracts where the host is financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

PFRS 9 largely retains the existing requirements in PAS 39 for the classification and measurement of financial liabilities. The adoption of PFRS 9 has not had a significant effect on the Project's accounting policies related to financial liabilities.

The Project has no financial assets classified under these categories.

Financial Assets

Initial Recognition and Measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Project's business model for managing them.

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

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

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

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets at fair value through OCI with no recycling of cumulative gains and losses upon derecogniton (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortized cost (debt instruments)
The Project measures financial assets at amortized cost if both of the following conditions are met:

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

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

Financial assets at fair value through OCI (debt instruments)
The Project measures financial assets at amortized cost if both of the following conditions are met:

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

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial asset measured at amortized cost. The remaining fair value change recognized in OCI is recycled to profit or loss.

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

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the gains are recognized in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, with cash flows that are not solely payments of principal and interest

are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified as at amortized cost or at fair value through OCI, as described as above, debt instruments may be designated at fair value through profit or loss on the initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

Derecognition
A Financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- The right to receive cash flows from the asset have expired; or
- The Project has transferred its rights to receive cash flows from the asset of has assumed obligation to pay the receive cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Project has transferred substantially all the risks and rewards of ownership, or (b)the Project has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Project has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred the control of the asset, the Project continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Project also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Project has retained.

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

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

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

For receivables, the Project applies a simplified approach in calculating ECLs. Therefore, the Project does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

<u>Financial Liabilities</u>

Initial Recognition and Measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

The Project has no such items.

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

<u>Financial liabilities at fair value through profit or loss</u>
Financial liabilities at fair value through profit or loss include financial liabilities held for trading, financial liabilities designated upon initial recognition at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Project that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separate embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Project has no designated any financial liability as at fair value through profit or loss.

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

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

The Project has no such item.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Property and Equipment
Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. The initial cost of property and equipment comprises its purchase price, including import duties and taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. When significant parts of property, furniture and equipment are required to be replaced at intervals, the Project recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the furniture and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is computed on a straight-line basis over the following estimated useful lives of the assets:

Office and miscellaneous equipment	2 years
Computer equipment	2 years

The useful lives and methods of depreciation of property, furniture and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exist and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized in statement of profit or loss.

Impairment of Nonfinancial Assets
Property, furniture and equipment and other non-current assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts.

The estimated recoverable amount is the greater of an asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment loss is recognized in the profit or loss.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal is recorded in the profit or loss. However, the increased carrying amount of an asset due to reversal of an impairment loss is recognized to the extent that it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the asset in prior years.

Derecognition of Nonfinancial Assets
An item of the property, furniture and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on the derecognition of the assets (computed as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the assets is derecognized.

Provisions and Contingencies

Provisions
Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available as at the date of financial position, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values, where time value of money is material.

Provisions are reviewed as at the date of financial position and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

Contingencies
Contingent liabilities represent possible obligations whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Project. They are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Government grants
The Project recognizes grant in the profit or loss on a receipts basis since there is no other basis for allocation of grants to the period other than the one in which it was received.

Interest income is recognized as the interest accrues taking into account the effective yield on the assets.

Expenses are recognized in the statement of profit or loss upon utilization of the service or at the date they are incurred.

Functional Currency and Foreign Currency Transactions

Functional and Presentation Currency

Items included in the financial statements of the Project are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in U.S. Dollars, which is the Project's functional and presentation currency.

Transactions and Balances
The accounting records of the project are maintained in the U.S. Dollars. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gain and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of profit or loss.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The Project's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes.

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

Functional Currency
The Project has determined that its functional currency is the U.S. Dollars, which is the currency of the primary environment in which the Project operates.

Provision and Contingencies
Judgment is exercised by management to distinguish between provisions and contingencies.

Estimates
The estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances of the Project's financial statements. Actual results could differ from those estimates.

The relevant estimate performed by management on its December 31, 2018 financial statements relates to valuation of financial assets at fair value, which require the extensive use of accounting estimates and judgment. Significant component of fair value measurement was determined using verifiable objective evidence such as foreign exchange rates, interest rates and volatility rates. However, the amount of changes in fair value would differ if the project utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit or loss and equity.

Estimated Useful Lives of Property and Equipment

The Project reviews annually the estimated useful lives of property and equipment based on the period over which the assets are expected to be available for use and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property and equipment would increase the recorded depreciation and amortization expenses and decrease the noncurrent accounts.

Impairment of Non-financial Assets

The Project assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Project considers important which could trigger an impairment review include the following:

- significant underperformance relative to the expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business;
- significant negative industry or economic trends;
- permanent decline in fair value of the asset; and
- market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating the assets value in use and decrease the asset's recoverable amount materially.

If any indicator exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. As of December 31, 2018 and 2017, none of these indicators exist on the Project's property and equipment.

4. CASH

This account consists of:

	2018			2017		
	GPOBA	**EU**	**TOTAL**	GPOBA	EU	TOTAL
Cash in bank	$ 169	$ 43,563	$ 43,732	$ 120,499	$ 30,718	$ 151,217

Cash includes U.S Dollar savings accounts and peso checking accounts. Cash in bank generally earns interest at rates based on daily bank deposit rates. Interest income received for the year ended December 31, 2018 amounted to $190 and $182 and for the period June 14, 2016 to December 31, 2017 amounted to $280 and $322 for GPOBA and EU, respectively.

	2018			2017		
	GPOBA	**EU**	**TOTAL**	GPOBA	EU	TOTAL
Interest income earned	$ 190	$ 182	$ 372	$ 280	$ 322	$ 602

5. RECEIVABLE - LGUGC

This account consists of disbursed grants that are deemed ineligible by the World Bank amounting to nil in 2018 and $2,346 and $4,813 for GPOBA and EU funds as of December 31, 2017, respectively.

	2018			2017		
	GPOBA	**EU**	**TOTAL**	GPOBA	EU	TOTAL
Receivable-LGUGC	**$ -**	**$ -**	**$ -**	$ 2,346	$ 4,813	$ 7,159

6. EQUIPMENT

This account consists of:

As at December 31, 2018

	Computer equipment	**Office equipment**	**Total**
Equipment			
Balance, beginning	**$ 9,301**	**$ 266**	**$ 9,567**
Acquisitions	**-**	**-**	**-**
Balance, ending	**9,301**	**266**	**9,567**
Accumulated depreciation			
Balance, beginning	**$ 5,744**	**$ 189**	**$ 5,933**
Depreciation for the year	**3,557**	**77**	**3,634**
Balance, ending	**9,301**	**266**	**9,567**
Net book value	**$ -**	**$ -**	**$ -**

As at December 31, 2017

	Computer equipment	Office equipment	Total
Equipment			
Balance, beginning	$ -	$ -	$ -
Acquisitions	9,301	266	9,567
Balance, ending	9,301	266	9,567
Accumulated depreciation			
Balance, beginning	$ -	$ -	$ -
Depreciation for the year	5,744	189	5,933
Balance, ending	5,744	189	5,933
Net book value	$ 3,557	$ 77	$ 3,634

Total amount of fully depreciated equipment still in use in the Project's operation as at December 31, 2018 is $9,567 and nil in 2017.

7. ADVANCES FROM LGUGC

This account consists of advances from LGUGC which were used by the Project to open separate bank accounts for GPOBA and EU funds amounting to $500 and $500, respectively.

During the year, the balance of advances from LGUGC were already settled and paid.

	2018			2017		
	GPOBA	**EU**	**TOTAL**	GPOBA	EU	TOTAL
Advances from LGUGC	$ -	$ -	$ -	$ 500	$ 500	$ 1,000

8. ADVANCES FROM SUPPLIERS

This account represents bidding fees to be refunded to applicant bidders in the PVM Window 2 Bidding which did not materialize amounting to $4,609 as of December 31, 2018.

	2018			2017		
	GPOBA	**EU**	**TOTAL**	GPOBA	EU	TOTAL
Advances from suppliers	**$ -**	**$ 4,609**	**$ 4,609**	$ -	$ -	$ -

9. FINANCIAL RISK MANAGEMENT

The Project is principally related to the use of financial instruments. The Project's overall risk management program seeks to minimize potential adverse effects on the financial performance of the Project.

The main risks arising from the Project financial instruments are credit risk and foreign currency risk. The management of the Project reviews the policies for managing each risk which are summarized as follows:

Credit Risk
The Project takes on exposure to credit risk, which is the risk that a counter party will be unable to pay amounts in full when due. Significant changes in the economy or in the health of a particular industry segment that represents a concentration in the Project portfolio could result in losses that are different from those provided for as at the date of financial position. Management therefore carefully manages its exposure to credit risk.

The Project structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Projects of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subjected to an annual or more frequent review. Limits on the level of credit risks are approved regularly.

Foreign currency risk
The Project undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise with respect to transactions denominated in currencies other than US Dollars. Foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Project's functional currency. Significant fluctuation in the exchange rates could significantly affect the Project's financial position.

Fair Value Measurement

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Financial Instruments Whose Carrying Amount Approximate Fair Value

The carrying amounts of cash, accounts receivables, payables and advances, which are all subject to normal trade credit terms and are short-term in nature, approximate their fair values.

For assets and liabilities that are recognized in the Project's financial statements in a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level of input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There were no transfers that occurred among level 1, level 2 and level 3 as of December 31, 2018.

The Project's management determines the policies and procedures for both recurring and nonrecurring fair value measurements. For the purpose of fair value disclosures, the Project has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Categories of Financial Instruments

The carrying values and fair values of the Project's financial assets and liabilities per category are as follows:

As at December 31, 2018

	GPOBA		EU	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets:				
Cash	$ 169	$ 169	$ 43,563	$ 43,563
Receivable-LGUGC	-	-	-	-
	$ 169	$ 169	$ 43,563	$ 43,563
Liability:				
Advances from LGUGC	$ -	$ -	$ -	$ -
Advances from suppliers	-	-	4,609	4,609
	$ -	$ -	$ 4,609	$ 4,609

As at December 31, 2017

	GPOBA		EU	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash	$ 120,499	$ 120,499	$ 30,718	$ 30,718
Receivable-LGUGC	2,346	2,346	4,813	4,813
	$ 122,845	$ 122,845	$ 35,531	$ 35,531
Liability:				
Advances from LGUGC	$ 500	$ 500	$ 500	$ 500

10. PROJECT AGREEMENTS

On June 14, 2016 LGUGC and the International Bank for Reconstruction and Development (World Bank) entered into an agreement for the Access to Sustainable Energy Project (ASEP).

The development objective of the ASEP is to assist the Philippines in increasing the access of off-grid households to electricity in a sustainable manner. The Project will aim to do this by facilitating the flow of additional private investment into rural electrification and renewable energy through output-based subsidies for Photovoltaic (PV) Mainstreaming and Rural Network Solar (RNS) plants and piloting Pre-paid Metering System.

The Project provides investment support through an Output-Based Aid (OBA) facility, which will be financed by an EU grant of $20,240,000 (€18,400,000) and co-financed by a GPOBA grant of $3,000,000

Under the GPOBA grant agreement, LGUGC is granted $3,000,000 in funding a portion of the PV Mainstreaming. The grant is available until June 30, 2018 for eligible operating and program management expenditures. Out of the total amount of the fund, $600,000 is allotted for goods, non-consulting services, management fees and consultant's services.

On May 11, 2018, World Bank has approved and established the extension of closing date of GPOBA Grant No.TF0A2497 from June 30, 2018 to December 31, 2018.

Under the EU grant agreement, LGUGC is granted $20,240,000 (€18,400,000) in funding for the PV Mainstreaming, RNS plant and PPM components of ASEP. The grant is available until July 31, 2019 for eligible operating and program management expenditures. Out of the total amount of the fund, $404,800 (€368,000) is allotted for goods, non-consulting services, management fees and consultant's services.

On May 11, 2018, World Bank amended the amount of allocation for goods, non-consulting services, management fees and consultant services from €368,000 to €1,018,000. Likewise, the closing date of EU Grant No.TF0A2379 was amended from July 31, 2019 to October 31, 2019.

As at December 31, 2018 and 2017 the balance of the respective grants still to be released to LGUGC amount to:

	2018			2017		
	GPOBA	EU	TOTAL	GPOBA	EU	TOTAL
Grants still to be released	$ 2,067,998	$ 20,293,035	$ 22,361,033	$ 2,550,653	$ 20,044,163	$ 22,594,816

11. PRIOR PERIOD ADJUSTMENT

This represents bidding fees in the PVM Window 1 which were received in 2017 withdrawn to defray expenses of the Project support staff amounting to $1,500.

12. APPROVAL OF THE ISSUANCE OF FINANCIAL STATEMENTS

The financial statements of the Project have been approved and authorized for issuance by the LGUGC Project Coordinator on March 13, 2019.