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
FOR THE PERIOD JUNE 14, 2016 TO DECEMBER 31, 2017
with Report of Independent Auditor

- AUDIT
- TAX
- ADVISORY
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, 2017, and the related statement of profit or loss and other comprehensive income, statements of changes in fund balance and statement of cash flows 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, 2017, and its financial performance and its cash flows 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.
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 concern and using the going concern basis of accounting unless management either intends to liquidate the Project or to cease operations, or has no realistic alternative 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 (For the Firm)
CPA License No. 074-029
Tax Identification No. 102-920-894
P.T.R. No. 6619761; Issued on January 5, 2018, Malolot, City
SEC Accreditation No. 1531-A (Group C)
Issued February 3, 2016; Valid until February 2, 2019
BIR Accreditation No. 08-006173-001-2018
Issued March 22, 2018; Valid until March 22, 2021
Firm’s BOA/PRC Cert. of Reg. No. 5638
Issued February 18, 2017; Valid until September 17, 2020
Firm’s SEC Accreditation No. 0320-F (Group C)
Issued February 3, 2016; Valid until February 2, 2019
Firm’s BIR Accreditation No. 08-006173-000-2018
Issued March 22, 2018; Valid until March 22, 2021

June 27, 2018
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)

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

<table>
<thead>
<tr>
<th>Notes</th>
<th>GPOBA</th>
<th>EU</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>2,4,8 $120,499 $30,718</td>
<td>$151,217</td>
<td></td>
</tr>
<tr>
<td>Receivable - LGUGC</td>
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<td>2,346</td>
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<tr>
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<td>-</td>
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<tr>
<td></td>
<td>$126,479</td>
<td>$35,531</td>
<td>$162,010</td>
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</table>

LIABILITY AND FUND BALANCE

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<thead>
<tr>
<th>Notes</th>
<th>GPOBA</th>
<th>EU</th>
<th>TOTAL</th>
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</thead>
<tbody>
<tr>
<td>Advances from LGUGC</td>
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<td>$500</td>
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<tr>
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<td>2</td>
<td>125,979</td>
<td>35,031</td>
</tr>
<tr>
<td></td>
<td>$126,479</td>
<td>$35,531</td>
<td>$162,010</td>
</tr>
</tbody>
</table>

See Accompanying Notes To Financial Statements.
ACCESS TO SUSTAINABLE ENERGY PROJECT (ASEP)

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LGU GUARANTEE CORPORATION (LGUGC)

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

<table>
<thead>
<tr>
<th>Notes</th>
<th>GPOBA</th>
<th>EU</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INCOME</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grant income 2</td>
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<td>Finance income</td>
<td>280</td>
<td>322</td>
<td>602</td>
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<tr>
<td>Miscellaneous income</td>
<td>-</td>
<td>1,500</td>
<td>1,500</td>
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<tr>
<td><strong>SUM</strong></td>
<td>449,627</td>
<td>197,660</td>
<td>647,287</td>
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<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
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<tr>
<td>Professional fees</td>
<td>303,477</td>
<td>158,677</td>
<td>462,154</td>
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<tr>
<td>Depreciation</td>
<td>5,933</td>
<td>-</td>
<td>5,933</td>
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<tr>
<td>Transportation and travel</td>
<td>5,141</td>
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<td>Administrative support</td>
<td>4,919</td>
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<td>4,919</td>
</tr>
<tr>
<td>Office supplies and stationaries</td>
<td>1,825</td>
<td>349</td>
<td>2,174</td>
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<tr>
<td>Seminar and training</td>
<td>808</td>
<td>1,280</td>
<td>2,088</td>
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<tr>
<td>Light, water and power</td>
<td>336</td>
<td>721</td>
<td>1,057</td>
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<tr>
<td>Promotion and advertisement</td>
<td>-</td>
<td>1,024</td>
<td>1,024</td>
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<tr>
<td>Meeting expenses</td>
<td>821</td>
<td>-</td>
<td>821</td>
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<tr>
<td>Postage, telephone and communication</td>
<td>202</td>
<td>510</td>
<td>712</td>
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<tr>
<td>Bank charges</td>
<td>186</td>
<td>68</td>
<td>254</td>
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<td><strong>SUM</strong></td>
<td>323,648</td>
<td>162,629</td>
<td>486,277</td>
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<tr>
<td><strong>INCOME BEFORE PROVISION FOR INCOME TAX</strong></td>
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<td>35,031</td>
<td>161,010</td>
</tr>
<tr>
<td><strong>PROVISION FOR INCOME TAX</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>NET INCOME FOR THE PERIOD</strong></td>
<td>125,979</td>
<td>35,031</td>
<td>161,010</td>
</tr>
<tr>
<td><strong>OTHER COMPREHENSIVE INCOME</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</strong></td>
<td>$125,979</td>
<td>$35,031</td>
<td>$161,010</td>
</tr>
</tbody>
</table>

See Accompanying Notes To Financial Statements.
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STATEMENTS OF CHANGES IN FUND BALANCE
(Amounts in U.S. Dollars)

<table>
<thead>
<tr>
<th>Notes</th>
<th>GPOBA</th>
<th>EU</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at June 14, 2016</td>
<td>2</td>
<td>$</td>
<td>-</td>
</tr>
<tr>
<td>Net income for the period</td>
<td>125,979</td>
<td>35,031</td>
<td>161,010</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total comprehensive income for the period</td>
<td>125,979</td>
<td>35,031</td>
<td>161,010</td>
</tr>
<tr>
<td>Balance at December 31, 2017</td>
<td>$</td>
<td>125,979</td>
<td>$</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Notes</th>
<th>GPOBA</th>
<th>EU</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from operations</td>
<td>$125,979</td>
<td>$35,031</td>
<td>$161,010</td>
</tr>
<tr>
<td>Adjustment for depreciation</td>
<td>5,933</td>
<td>-</td>
<td>5,933</td>
</tr>
<tr>
<td>Operating income before working capital changes</td>
<td>131,912</td>
<td>35,031</td>
<td>166,943</td>
</tr>
<tr>
<td>Changes in assets and liabilities</td>
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</tr>
<tr>
<td>Incurrence of:</td>
<td></td>
<td></td>
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<tr>
<td>Receivable - LGUGC</td>
<td>2,59</td>
<td>(2,346)</td>
<td>(7,159)</td>
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<tr>
<td>Advances from LGUGC</td>
<td>2,78</td>
<td>500</td>
<td>1,000</td>
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<tr>
<td>Net cash provided by operating activities</td>
<td>130,066</td>
<td>30,718</td>
<td>160,784</td>
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<tr>
<td><strong>CASH FLOWS FROM INVESTING ACTIVITY</strong></td>
<td>2,36</td>
<td>(9,567)</td>
<td>(9,567)</td>
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<tr>
<td>Purchase of office equipment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NET INCREASE IN CASH</strong></td>
<td>120,499</td>
<td>30,718</td>
<td>151,217</td>
</tr>
<tr>
<td><strong>CASH, ENDING</strong></td>
<td>2,48</td>
<td>120,499</td>
<td>30,718</td>
</tr>
</tbody>
</table>

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ACCESS TO SUSTAINABLE ENERGY PROJECT (ASEP)

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

<table>
<thead>
<tr>
<th></th>
<th>As at December 31, 2017</th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GPOBA</td>
<td>EU</td>
<td>TOTAL</td>
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<tr>
<td></td>
<td>BPI Account</td>
<td>BPI Account</td>
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<tr>
<td></td>
<td>3774-0124-42</td>
<td>3774-0124-34</td>
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<td>DESIGNATED ACCOUNTS, BEGINNING</td>
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<td>$</td>
<td>$</td>
<td></td>
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<tr>
<td>DEPOSITS MADE TO THE ACCOUNTS</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Advances from LGUGC</td>
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<td>500</td>
<td>1,000</td>
<td></td>
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<td>Initial fund</td>
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<td>120,000</td>
<td>240,000</td>
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<td>Applications for withdrawal</td>
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</tr>
<tr>
<td>First</td>
<td>24,226</td>
<td>29,273</td>
<td>53,499</td>
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<tr>
<td>Second</td>
<td>17,696</td>
<td>19,090</td>
<td>36,786</td>
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<tr>
<td>Third</td>
<td>16,416</td>
<td>27,474</td>
<td>43,890</td>
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<td>Fourth</td>
<td>32,935</td>
<td>-</td>
<td>32,935</td>
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<tr>
<td>Fifth</td>
<td>33,399</td>
<td>-</td>
<td>33,399</td>
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<tr>
<td>Sixth</td>
<td>28,711</td>
<td>-</td>
<td>28,711</td>
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<tr>
<td>Seventh</td>
<td>41,648</td>
<td>-</td>
<td>41,648</td>
<td></td>
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<tr>
<td>Eighth</td>
<td>55,148</td>
<td>-</td>
<td>55,148</td>
<td></td>
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<tr>
<td>Ninth</td>
<td>44,977</td>
<td>-</td>
<td>44,977</td>
<td></td>
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<tr>
<td>Tenth</td>
<td>34,391</td>
<td>-</td>
<td>34,391</td>
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<td>Interest income, net of final tax</td>
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<td>322</td>
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<tr>
<td>Bidding fee received</td>
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<td>1,500</td>
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<tr>
<td>Returned withdrawal</td>
<td>99</td>
<td>-</td>
<td>99</td>
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<tr>
<td></td>
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<td>$ 648,385</td>
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<td>Disbursements made for the year 2016</td>
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<td>$</td>
<td>$ 24,346</td>
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<tr>
<td>August</td>
<td>24,346</td>
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<tr>
<td>September</td>
<td>17,376</td>
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<tr>
<td>October</td>
<td>16,452</td>
<td>-</td>
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<td></td>
</tr>
<tr>
<td>November</td>
<td>15,670</td>
<td>-</td>
<td>15,670</td>
<td></td>
</tr>
<tr>
<td>December</td>
<td>17,329</td>
<td>48,027</td>
<td>65,356</td>
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<tr>
<td>Disbursements made for the year 2017</td>
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<td></td>
<td></td>
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<tr>
<td>January</td>
<td>16,803</td>
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<tr>
<td>February</td>
<td>16,596</td>
<td>-</td>
<td>16,596</td>
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<tr>
<td>March</td>
<td>22,156</td>
<td>-</td>
<td>22,156</td>
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<tr>
<td>April</td>
<td>6,694</td>
<td>-</td>
<td>6,694</td>
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<tr>
<td>May</td>
<td>22,699</td>
<td>-</td>
<td>22,699</td>
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</tr>
<tr>
<td>June</td>
<td>18,839</td>
<td>27,811</td>
<td>46,670</td>
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</tr>
<tr>
<td>July</td>
<td>23,468</td>
<td>-</td>
<td>23,468</td>
<td></td>
</tr>
<tr>
<td>August</td>
<td>32,281</td>
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<tr>
<td>September</td>
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<tr>
<td>October</td>
<td>10,490</td>
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<tr>
<td>November</td>
<td>64</td>
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<td>64</td>
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<tr>
<td>December</td>
<td>36</td>
<td>91,535</td>
<td>91,565</td>
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<td>329,541</td>
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<td>496,914</td>
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<td>Bank service charges</td>
<td>186</td>
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<td>254</td>
<td></td>
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<tr>
<td></td>
<td>$ 329,727</td>
<td>$ 167,441</td>
<td>$ 497,168</td>
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</tr>
<tr>
<td>DESIGNATED ACCOUNTS, ENDING</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td></td>
<td>120,000</td>
<td>30,718</td>
<td>151,217</td>
<td></td>
</tr>
</tbody>
</table>
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NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD JUNE 14, 2016 TO DECEMBER 31, 2017
(Amounts in U.S. Dollars)

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 to the World Bank, the acting administrator of the GPOBA Grant Agreement, the amount of Three Million Dollars ($3,000,000) for the 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 Agreement.

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.

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)
The 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 effective for annual periods beginning on or after January 1, 2016.

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

PFRS 11, Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (Amendments)
The amendments to PFRS 11 require that a joint venture operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope of exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

These amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same operation. These amendments are not applicable and have no significant impact on the Project’s financial performance and financial position.

PFRS 14, Regulatory Deferral Accounts
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon
its first-time adoption of PFRS. Since the Project is an existing PFRS preparer, this standard would not apply.

PAS 1, Presentation of Financial Statements – Disclosure Initiative (Amendments)
These amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirement in PFRS. They clarify the following:

- That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
- That specific line items in the statement of income and OCI and the statement of financial statements may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item and classified between those items that will or will not be subsequently reclassified to profit or loss.

Early application is permitted and entities do not need to disclose that fact as the amendments are considered to be clarifications that do not affect an entity’s accounting policies or accounting estimates. These amendments will not have a significant impact on the Project's financial position and financial performance.

PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets – Classification of Acceptable Methods of Depreciation and Amortization (Amendments)
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. These amendments are not expected to have impact to the Project since it has not used a revenue-based method to depreciate its non-current asset.

PAS 16, Property, Plant and Equipment, and PAS 41, Agriculture – Bearer Plants (Amendments)
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, Accounting for Government Grants and Disclosure of Government Assistance, will apply. These amendments are not expected to have impact to the Project since it does not have any bearer plants.

PAS 27, Separate Financial Statements – Equity Method in Separate Financial Statements (Amendment)
The amendments will allow entities to use the equity method to account for its investment in subsidiaries, joint ventures, associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For the first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. These amendments are not applicable and have no significant impact on the Project’s financial performance and financial position.

Annual Improvements to PFRSs 2012 – 2014 Cycle

PFRS 5, Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal
The amendment is applied prospectively and clarifies that changing from disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the
application of the requirements PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. These amendments are not applicable and have no significant impact on the Project's financial performance and financial position.

**PFRS 7. Financial Instruments: Disclosures – Servicing Contracts**

PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments. These amendments are not applicable and have no significant impact on the Project's financial performance and financial position.

**PFRS 7. Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements (Amendments)**

This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in a most recent annual report. These amendments are not applicable and have no significant impact on the Project's financial performance and financial position.

**PAS 19. Employee Benefits – Regional Market Issue Regarding Discount Rate**

This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market high of quality corporate bonds in that currency, government bond rates must be used. These amendments are not applicable and have no significant impact on the Project's financial performance and financial position.


This amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included the greater interim financial report (e.g., in the management commentary or risk report). These amendments are not applicable and have no significant impact on the Project's financial performance and financial position.

The following standards and amendments have been issued effective as of January 1, 2017.

**PAS 7 (Amendments), Disclosure Initiative, Statement of Cash Flows**

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Application of amendments will result in additional disclosures in the financial statements of the Project.

**PAS 12 (Amendments), Recognition of Deferred Tax Assets for Unrealized Losses**

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. These amendments are not applicable and have no significant impact on the Project's financial performance and financial position.

**PFRS 12, (Amendments) Disclosure of Interest in Other Entities: Clarification of the Scope of Disclosure Requirements in PFRS 12**

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a
disposal group that is classified) as held for sale. These amendments are not applicable and have no significant impact on the Project’s financial performance and financial position.

**Standards issued 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.

**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. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. 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 with early adoption permitted.

Apart from providing more extensive disclosures on the Project’s revenue recognition and transactions, the Project is still assessing the potential impact on the financial statements when PFRS 15 is applied.

**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 does (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.

**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.

**PERS 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.

**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.

**Annual Improvements 2014-2016 Cycle (Issued in December 2016)**

These improvements include:

**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. The amendment is effective from 1 January 2018. 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’s joint venture to its investment in the joint venture's interests in subsidiaries. This election is made separately for each investment entity and its joint venture, at the later of the date on which (a) the investment entity’s investment 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.

**IFRIC Interpretation 23, Uncertainty over Income Tax Treatment**
The Interpretation addresses the accounting for income taxes when tax treatments 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.
Cash
Cash includes cash in banks. Cash in banks are carried at face value in the statements of financial position.

Financial Assets

Classification

Financial Assets at FVPL
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term or if so designated by the management. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

The Project has no investments classified under this category as at December 31, 2017.

Loans and Receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as other financial assets held for trading, designated as AFS financial assets, or securities at FVPL.

Receivable - I.GUGC is classified under this category as at December 31, 2017.

Available-for-Sale Financial Assets
Financial assets of the Project include available-for-sale investments. AFS investments are those non-derivative financial assets that are designated as AFS or are not classified in any of the three other categories. AFS investments include financial assets not quoted in an active market and are classified as AFS when purchased and held indefinitely, but which the Project anticipates to sell in response to liquidity requirements or in anticipation of changes in interest rates or other factors. Financial assets may be designated under this category provided such are not held for trading.

The Project has no investments classified under this category as at December 31, 2017.

Held-to-Maturity Investments
HTM investments include non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Project's management has the positive intention and ability to hold to maturity. Where the Project sells other than an insignificant amount of HTM Investments, the entire category would be tainted and classified as AFS investments.

The Project has no investments classified under this category as at December 31, 2017.

Recognition and Measurement

Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Project commits to purchase or sell the asset. All financial assets are recognized initially at fair value plus, transaction costs that are attributable to the acquisition of the financial assets. Financial assets at FVPL are initially recognized at fair value and transaction costs are expensed in the income statement.

Financial assets at FVPL and AFS financial assets are subsequently carried at fair value.

Gains and losses arising from changes in the fair value of the financial asset at FVPL are presented in the income statement within other gains (losses) – net in the period in which they arise. Dividend income from financial assets at FVPL is recognized in the income statement as part of other income when the Project's right to receive payments is established.
Changes in the fair value of AFS financial assets are recognized in other comprehensive income. When AFS financial assets are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as "Gains and losses from AFS".

Loans and receivables and held-to-maturity financial assets are subsequently carried at amortized cost using the effective interest method less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of profit or loss. The losses arising from impairment are recognized in the statement of profit or loss in finance costs.

**Impairment of Financial Assets**

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

In case of equity investments classified as available-for-sale financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income reserve account and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income reserve account is reclassified from other comprehensive income reserve account to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. The amount of the cumulative loss that is reclassified from other comprehensive income account to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument are not reversed in profit or loss. Subsequent increases in the fair value after impairment are recognized directly in other comprehensive income reserve account.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. The accrued interest income is recorded as part of interest income in the profit or loss. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss, the impairment loss is reversed through the profit or loss.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

For loans and receivable and held-to-maturity, the Project first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Project determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.
The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Project. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

Financial Liabilities

Financial liabilities include Advances from LGUGC.

Financial liabilities are recognized when the Project becomes a party to the contractual agreements of the instrument.

Financial Liability at Fair Value through Profit or Loss

Financial liabilities are classified under this category if these result from trading activities or derivative transactions that are not accounted for as accounting hedges, or when the Project elects to designate a financial liability under this category.

The Project has no designated financial liability at Fair Value through Profit or Loss.

Other Financial Liabilities

This category pertains to financial liabilities that are not held for trading or not designated as at Fair Value through Profit or Loss upon the inception of the liability. These include liabilities arising from operations or borrowings.

The financial liabilities are recognized initially at fair value and subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization for any related premium, discount and any directly attributable transaction costs.

Derecognition of Financial Assets and Liabilities

A financial asset is derecognized when:

- the rights to receive cash flows from the assets have expired;
- the Project retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third-party under a "pass-through" arrangement; or
- the Project has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Project has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Project's continuing involvement in the asset. 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. Where continuing involvement takes the form of a written and/or purchased option (including cash settled option or similar provision) on the transferred asset, the extent
of the Project's continuing involvement is the amount of the transferred asset that the Project may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value and the extent of the Project's continuing involvement is limited to the lower of the fair value of the transferred asset.

Purchases and sales of investments are recognized or derecognized on trade date, the date on which the Project commits to purchase or sell the asset. At initial measurement, financial instruments are measured equal to their fair value including transaction costs. Transaction costs incurred at a subsequent date related to the transfer or disposal of a financial instrument are not included in the subsequent measurement of the financial instrument. Such costs are only included in the statement of profit or loss when derecognition occurs. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Project has transferred substantially all risks and rewards of ownership.

Financial Liabilities
Financial liabilities are derecognized when and only when obligation under liability is discharged or cancelled or expired. Where 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss.

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 exists 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 resources 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.

**Revenue and Cost Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Project and the revenue can be reliably measured. Interest income is recognized as the interest accrues (taking into account the effective yield on the asset). Grant income is recognized 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.
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, 2017 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; and
- significant negative industry or economic trends;
- permanent decline in fair value of the asset;
- 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, 2017, none of these indicators exist on the Project’s property and equipment.

4. CASH

This account consists of:

<table>
<thead>
<tr>
<th></th>
<th>GPOBA</th>
<th>EU</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in bank</td>
<td>$120,499</td>
<td>$30,718</td>
<td>$151,217</td>
</tr>
</tbody>
</table>

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 period June 14, 2016 to December 31, 2017 from the banks amounted to $280 and $322 for GPOBA and EU, respectively.

5. RECEIVABLE - LGUGC

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

6. EQUIPMENT

This account consists of:

<table>
<thead>
<tr>
<th></th>
<th>Computer equipment</th>
<th>Office equipment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equipment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, beginning</td>
<td>$</td>
<td>-</td>
<td>$</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>9,301</td>
<td>266</td>
<td>9,567</td>
</tr>
<tr>
<td>Balance, ending</td>
<td>$9,301</td>
<td>266</td>
<td>9,567</td>
</tr>
</tbody>
</table>

**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 |
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.

8. 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 during the period from June 14, 2016 to December 31, 2017.

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:

<table>
<thead>
<tr>
<th></th>
<th>GPOBA</th>
<th>EU</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Carrying Amount</td>
<td>Fair Value</td>
</tr>
<tr>
<td>Assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$120,499</td>
<td>$120,499</td>
</tr>
<tr>
<td>Receivable - LGUGC</td>
<td>2,346</td>
<td>2,346</td>
</tr>
<tr>
<td></td>
<td>$122,845</td>
<td>$122,845</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>GPOBA</th>
<th>EU</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Carrying Amount</td>
<td>Fair Value</td>
</tr>
<tr>
<td>Liability:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advances from LGUGC</td>
<td>$500</td>
<td>$500</td>
</tr>
</tbody>
</table>

9. 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 are allotted for goods, non-consulting services, management fees and consultant's services.

Under the EU grant agreement, LGUGC is granted $20,240,000 (€18,400,000) in funding for the PV Mainstreaming and the RNS plant 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) are allotted for goods, non-consulting services, management fees and consultant's services.

As of December 31, 2017 the grants still to be released to LGUGC amount to $2,550,653 and $20,044,163 for GPOBA and EU grants, respectively.
10. 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 June 27, 2018.