Other revenues recognized in the statements of comprehensive income are as follows:

- Remuneration for all taxes, import duties, and other levies including import VAT on the importation of coal;
- Interest income is recognized on a time-proportion basis using the EIR method. Interest derived from bank deposits and short-term placements are presented net of applicable withholding tax; and
- Other income from transactions incidental to the Company's operations is recognized when earned.

Cost and Expense Recognition

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Costs and expenses are charged to operations when incurred. Interest expense is recognized on a time-proportion basis using the EIR method.

2.16 **Leases**

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a Lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and ROU assets representing the right to use the underlying assets. The Company recognizes ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use) which is discussed in Note 2.6.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below $5,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

2.17 **Service concession arrangement**

Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the Company must provide with the infrastructure, to whom it must provide them, and at what price; and (b) the grantor controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the term of the arrangement are accounted for under the provisions of Philippine Interpretation IFRIC 12, *Service Concession Arrangement* (Interpretation). For financial reporting purposes, the Company's PPA with NPC and the Power Project are accounted for as a service concession arrangement.

Under the terms of contractual arrangements within the scope of this Interpretation, the Company acts as a service provider. The Company constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time. Pursuant to this Interpretation, such infrastructures are not recognized in assets of the Company as property and equipment but as financial asset (financial asset model) and/or intangible assets (intangible asset model) depending on the remuneration commitment given by the grantor. Based on the terms and provisions of the PPA, the Company has adopted the financial asset model.

<u>Financial Asset Model</u>
The Company recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services; the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law.

The operator has an unconditional right to receive cash if the grantor contractually guarantees to pay the operator (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if payment is contingent on the operator ensuring that the infrastructure meets specified quality or efficiency requirements. This financial asset is presented in the balance sheets as operating financial assets and was measured on initial recognition at fair value and measured at amortized cost subsequent to initial recognition using the EIR method.

2.18 **Related party transactions and relationships**

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Company, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely in its legal form.

2.19 **Events after the reporting period**

Post year-end events that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

2.20 **Contingencies**

Contingent liabilities are not recognized in the financial statements. They 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 are disclosed when an inflow of economic benefits is probable.

3. Financial Risk and Capital Risk Management Objectives and Policies

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by the Company's management who identifies, evaluates and hedges financial risks under policies approved by the BOD. Management provides written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk.

The Company's principal financial instruments are composed of cash, trade and other receivables, due from related party, operating financial asset, trade payables, due to related parties, provisions, accrued expenses and other payables, dividends payable, and borrowings. The main purpose of these financial instruments is to raise funds for the Company's operations.

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

	2020	
	Financial Assets at Amortized Cost	**Financial Liabilities at Amortized cost**
Cash*	**$62,469,657**	**$–**
Trade and other receivables	**15,636,985**	**–**
Operating financial asset	**175,810,364**	**–**
Other noncurrent assets **	**45,880**	**–**
Trade payables	**–**	**2,989,968**
Provisions, accrued expenses and other payables***	**–**	**6,386,242**
Due to related parties	**–**	**27,936**
Borrowings	**–**	**72,260,302**
	$253,962,886	**$81,664,448**

**Excluding cash on hand*
***Excluding input VAT*
****Excluding provision for claims and losses and government payables*

	2019	
	Financial Assets at Amortized Cost	Financial Liabilities at Amortized Cost
Cash*	$20,043,266	$–
Trade and other receivables	17,841,536	–
Due from related parties	21,741	–
Operating financial asset	183,817,108	
Other noncurrent asset **	620,750	–
Trade payables	–	824,017
Provisions, accrued expenses and other payables***	–	6,093,669
Due to related parties	–	36,326
Borrowings	–	41,496,373
	$222,344,401	$48,450,385

**Excluding cash on hand*
***Excluding input VAT*
****Excluding provision for claims and losses and government payables*

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company is only exposed to low foreign exchange risk due to minimal monetary assets including cash, outstanding trade receivables and payables denominated in currencies other than the US dollar. As at December 31, 2020, the Company has net foreign-currency-denominated assets amounting to $10.9 million (2019 - $6.2 million).

	2020	2019
Current assets in PhP	**₱558,531,606**	₱355,969,815
Current liabilities in PhP	**(34,027,421)**	(40,750,147)
Net monetary assets denominated in PhP	**₱524,504,185**	₱315,219,668
Dollar equivalent	**$10,918,981**	$6,211,959

As at December 31, 2020 and 2019, the exchange rate was $0.02 per ₱1. Net foreign exchange gain in 2020 amounted to $242,431 (2019 - $266,126) (Note 23). Moreover, the Company is able to bring down foreign exchange risk to an acceptable level and ensure that it is not exposed to significant fluctuations in foreign exchange rates by managing the timing of collections and payments. Accordingly, any sensitivity is deemed not significant to the financial statements due to relative low impact of foreign exchange gain or loss. Average credit and payment terms for the years ended December 31, 2020 and 2019 range from 30 to 90 days.

(ii) Price risk

The Company is not exposed to significant price risk due to the absence of material equity investments and is not subject to commodity price risk.

(iii) Cash flow and fair value interest rate risk

The Company's interest rate risk arises from its long-term borrowings. Borrowings are issued at variable rates, which expose the Company to cash flow interest rate risk. The Company manages this risk by entering into a step-down interest rate cap arrangement with a foreign bank. Consequently, projected movement of variable rates is not included in sensitivity analysis prepared by the Company as determined by local management and the Central Treasury Department of STEAG GmbH. Effectiveness is established through regression analysis as measured by the cumulative dollar offset method with any estimated ineffective portion charged directly to the statements of comprehensive income as part of interest expense (Note 15).

As at December 31, 2020 and 2019, the Company has estimated the following sensitivities on possible changes in interest rates (i.e., basis points) based on average range of fluctuation of LIBOR in previous years with any differences against the carrying amount as of the balance sheet date directly charged or credited to the statements of comprehensive income:

Interest Rate Impact	+50 BP	-50 BP	+100 BP	-100 BP	+150 BP	-150 BP
2020	**(36,081)**	**(30,026)**	**(7,562)**	**(37,514)**	**(10,411)**	**(55,338)**
2019	(36,110)	(25,058)	(9,020)	(30,404)	24,859	(7,218)

(b) Credit risk

Credit risk arises from cash for its deposits, as well as credit exposure to customer on outstanding trade receivable and operating financial asset, including other outstanding receivables excluding input tax. For banks, the Company only has existing deposit arrangements with either universal or commercial banks, which are considered the first and second top tier banks, respectively, in terms of capitalization as categorized by the Philippine Banking System (Note 5).

The Company has significant concentration of credit risk on its transactions with NPC, its major customer. However, this is brought down to an acceptable level since credit terms on billed fees for energy delivered and capacity fees are fixed as provided in the PPA. Furthermore, the Philippine Government signed a Performance Undertaking which, among others, affirms and guarantees the obligation of NPC under the PPA. Reconciliation is done on an annual basis in order to immediately resolve disputes and disagreements on billings. The Company's maximum exposure to credit risk is equal to the carrying amount of receivables and operating financial asset (Notes 6 and 8).

The following tables set out the aging analysis per class of financial assets before allowance for impairment as at December 31:

	2020					
	Neither Past Due nor Impaired	**Past Due but not Impaired**			**Past Due and Individually Impaired**	**Total**
		Less than 30 Days	**31 Days to 60 Days**	**Over 60 Days**		
Cash*	**$62,469,657**	**$–**	**$–**	**$–**	**$–**	**$62,469,657**
Trade and other receivables	**7,623,109**	**–**	**–**	**–**	**3,497,132**	**11,120,241**
Operating financial asset	**353,246,888**	**–**	**–**	**–**	**187,693**	**353,434,581**
Other noncurrent assets**	**45,880**	**–**	**–**	**–**	**–**	**45,880**
	$423,385,534	**$–**	**$–**	**$–**	**$3,684,825**	**$427,070,359**

** Excluding cash on hand*
***Excluding input VAT*

	2019					
	Neither Past Due nor Impaired	Past Due but not Impaired			Past Due and Individually Impaired	Total
		Less than 30 Days	31 Days to 60 Days	Over 60 Days		
Cash*	$20,043,266	$–	$–	$–	$–	$20,043,266
Trade and other receivables	10,419,146	–	429,954	–	2,823,246	13,672,346
Due from related parties	21,741	–	–	–	–	21,741
Operating financial asset	385,994,667	–	–	–	194,824	386,189,491
Other noncurrent assets**	620,750	–	–	–	–	620,750
	$417,099,570	$–	$429,954	$–	$3,018,070	$420,547,594

** Excluding cash on hand*
***Excluding input VAT*

The following tables set out the credit quality per class of financial assets that were neither past due nor impaired as at December 31:

	2020				
	Neither Past Due nor Impaired			**Past Due or Individually Impaired**	**Total**
	High	**Medium**	**Low**		
Cash*	**$62,469,657**	**$–**	**$–**	**$–**	**$62,469,657**
Trade and other receivables	**7,623,109**	**–**	**–**	**3,497,132**	**11,120,241**
Operating financial asset	**353,246,888**	**–**	**–**	**187,693**	**353,434,581**
Other noncurrent assets**	**45,880**	**–**	**–**	**–**	**45,880**
	$423,385,534	**$–**	**$–**	**$3,684,825**	**$427,070,359**

** Excluding cash on hand*
***Excluding input VAT*

	2019				
	Neither Past Due nor Impaired			Past Due or Individually	
	High	Medium	Low	Impaired	Total
Cash*	$20,043,266	$–	$–	$–	$20,043,266
Trade and other receivables	10,419,146	–	–	3,253,200	13,672,346
Due from related parties	21,741	–	–	–	21,741
Operating financial asset	385,994,667	–	–	194,824	386,189,491
Other noncurrent assets**	620,750	–	–	–	620,750
	$417,099,570	$–	$–	$3,448,024	$420,547,594

** Excluding cash on hand*
***Excluding input VAT*

The Company's financial assets that are neither past due nor impaired are considered to be of good quality and expected to be collected without the incurrence of any credit losses.

Accordingly, the Company grades its financial assets as follows:

- *Cash*. These are assessed as high grade since these are deposited in reputable banks which have low probability of insolvency.

- *Trade and Other Receivables*. These are assessed as high grade. Trade receivables have short-term maturities and, based on collection experience, are fully collectible within the credit term allowed.

- *Due from related parties.* These are assessed as high grade. Due from related parties have short-term maturities and, based on collection experience, are fully collectible within the year.

- *Operating Financial Asset and Other Noncurrent Assets*. These are considered high grade as recoverability of these assets is certain based on the performance undertaking signed by the Philippine government which affirms and guarantees the obligation of NPC/PSALM under the PPA.

The main considerations for impairment assessment include existence of overdue payments and any known difficulties in the cash flows of the counterparties. The Company assesses impairment into two areas: individually assessed allowances and collectively assessed allowances.

The Company determines allowance for each significant financial assets on an individual basis. Among the items that the Company considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables.

	2020					
	Bucket 1 12-month ECL	**Bucket 2 12-month ECL**	**Bucket 3 12-month ECL**	**Purchased or credit-impaired**	**Lifetime ECL General Approach**	**Total**
High Grade	**$184,011,933**	**$–**	**$**	**$–**	**$82,513,265**	**$266,525,198**
Standard Grade	–	–	–	–	–	–
Default	–	–	–	–	–	–
Gross carrying amount	**184,011,933**	–	–	–	**82,513,265**	**266,525,198**
Less allowance for ECL	**187,693**	–	–	–	**3,497,132**	**3,684,825**
Carrying amount	**$183,824,240**	**$–**	**$–**	**$–**	**$79,016,133**	**$262,840,373**

	2019					
	Bucket 1 12-month ECL	Bucket 2 12-month ECL	Bucket 3 12-month ECL	Purchased or credit-impaired	Lifetime ECL General Approach	Total
High Grade	$191,004,368	$–	$–	$–	$33,737,353	$224,741,721
Standard Grade	–	–	–	–	–	–
Default	–	–	–	–	–	–
Gross carrying amount	191,004,368	–	–	–	33,737,353	224,741,721
Less allowance for ECL	194,824	–	–	–	2,823,246	3,018,070
Carrying amount	$190,809,544	$–	$–	$–	30,914,107	$221,723,651

(c) Liquidity risk

Management believes that cash generated from operations specifically gross receipts from energy and capacity fees provided in the PPA are sufficient to meet working capital requirements and settle current portion of outstanding borrowings as they mature and fall due. Moreover, management regularly determines whether it will avail of prepayment options, if any, and settle in advance certain portion of its long-term borrowings based on prevailing economic conditions, as well as any available opportunity to enter into refinancing arrangements that may present more beneficial terms and conditions to the Company including rates and restrictions.

Management monitors rolling forecasts of the Company's liquidity reserve based on expected cash flow. The succeeding table analyzes the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the succeeding table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	2020			
	Within One Year	**More Than One Year but no More Than Five Years**	**Over Five Years**	**Total**
Financial assets:				
Cash	**$62,474,698**	**$–**	**$–**	**$62,474,698**
Trade and other receivables	**7,623,109**	**–**	**–**	**7,623,109**
Operating financial asset	**32,754,910**	**131,019,641**	**189,472,337**	**353,246,888**
Other noncurrent assets	**–**	**45,880**	**–**	**45,880**
	102,852,717	**131,065,521**	**189,472,337**	**423,390,575**
Financial liabilities:				
Borrowings	**9,820,000**	**37,460,000**	**25,600,000**	**72,880,000**
Interest on borrowings	**2,076,392**	**4,482,204**	**304,396**	**6,862,992**
Trade payables	**2,989,968**	**–**	**–**	**2,989,968**
Provisions, accrued expenses and other payables*	**6,386,242**	**–**	**–**	**6,386,242**
Due to related parties	**27,936**	**–**	**–**	**27,936**
	21,300,538	**41,942,204**	**25,904,396**	**89,147,138**
Net financial assets	**$81,552,179**	**$89,123,317**	**$163,567,941**	**$334,243,437**

**Excluding provision for claims and losses and government payables*

	2019			
	Within One Year	More Than One Year but no More Than Five Years	Over Five Years	Total
Financial assets:				
Cash	$20,047,933	$–	$–	$20,047,933
Trade and other receivables	10,849,100	–	–	10,849,100
Due from related party	21,741	–	–	21,741
Operating financial asset	32,754,910	131,019,641	222,220,116	385,994,667
Other noncurrent assets	–	620,750	–	620,750
	63,673,684	131,640,391	222,220,116	417,534,191
Financial liabilities:				
Borrowings	8,820,000	32,880,019	–	41,700,019
Interest on borrowings	1,943,631	3,206,026	153,212	5,302,869
Trade payables	824,017	–	–	824,017
Provisions, accrued expenses and other payables*	6,093,669	–	–	6,093,669
Due to related parties	36,326	–	–	36,326
	17,717,643	36,086,045	153,212	53,956,900
Net financial assets	$45,956,041	$95,554,346	$222,066,904	$363,577,291

**Excluding provision for claims and losses and government payables*

3.2 Capital risk management

The Company considers its total equity as its core economic capital. The Company's objectives when managing capital, which consist of share capital and retained earnings, are to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company has reported debt to equity ratio of 1:1.42 as at December 31, 2020 (2019 - 1:2.10) based on reported outstanding borrowings amounting to $72.2 million (2019 - $41.5 million) (Note 15).

The Company is likewise required to maintain a debt service cover ratio under the Second Facility Agreement and under the Third Facility Agreement at every calculation date (i.e., June 30 and December 31). This represents proportion of cash available for debt service to secure scheduled debt service, which is the aggregate of most recent and next scheduled repayment installment including interest as of calculation period. As of December 31, 2020 and 2019, the Company has complied with the required debt service cover ratio.

To maintain or adjust the capital structure, the Company normally issues new shares to all shareholders proportionate to their percentage ownership to maintain their respective equity interest in the Company after the issuance of new shares.

3.3 Fair value estimation of financial assets and liabilities

The nominal values less estimated credit adjustments of receivables and payables are assumed to approximate their fair values. Due to the short-term nature of the terms, the carrying values of current financial assets and liabilities including cash, trade and other receivables, trade payables, provisions, accrued expenses and other payables (excluding provisions for claims and losses and payable to government agencies), and due to related parties as of the balance sheet date approximate their fair values.

The fair values of operating financial asset and borrowings are estimated under Level 2 by discounting the future contractual cash flows at the market interest rate (Notes 8 and 15).

The carrying amount of other receivables under "Other noncurrent assets" approximates its fair value. The timing and related amounts of future cash flows relating to other receivables cannot be reasonably and reliably estimated for purposes of establishing the fair value using an alternative valuation technique.

The Company does not hold financial instruments traded in active market which might be affected by quoted market prices at the balance sheet date.

4. Significant Accounting Judgments, Estimates and Assumptions

The Company makes estimates, assumptions and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as follows:

(a) Classification of financial instruments

The Company exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the balance sheet.

As of December 31, 2020, the Company has financial assets classified and measured at amortized cost amounting to $254.0 million (2019 - $222.3 million). The Company also has financial liabilities classified and measured at amortized cost amounting to $81.7 million (2019 - $48.4 million).

(b) Contractual cash flows assessment

For each financial asset, the Company assesses the contractual terms to identify whether the instrument is consistent with the concept of SPPI. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

The Company has assessed that contractual cash flows of its debt financial assets as at December 31, 2020 amounting to $254.0 million are SPPI (2019 - $222.3 million).

(c) Evaluation of business model in managing financial instruments

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed; and
- the expected frequency, value and timing of sales are also important aspects of the Company's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The Company holds its debt financial assets to collect all contractual cash flows until their maturity.

(d) Identifying performance obligations

The Company identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the Company's promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract.

The Company assesses performance obligations as a series of distinct goods and services that are substantially the same and have the same pattern of transfer if i) each distinct good or services in the series are transferred over time and ii) the same method of progress will be used (i.e., units of delivery) to measure the entity's progress towards complete satisfaction of the performance obligation.

The Company is obliged under the PPA with NPC to develop, operate and maintain the power plant and supply electricity for the Mindanao grid. Further, the Company is obliged to deliver any available energy demanded by TMI to the extent of the surplus capacity as agreed in the PSA.

(e) Revenue recognition

The Company recognizes revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer. A good or service is considered to be transferred when the customer obtains control. The Company determines, at contract inception, whether it will transfer control of a promised good or service over time. If the Company does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

The Company concluded that revenues from the sale of electricity and the operation of the Mindanao power plant are to be recognized over time.

As defined in the PPA, revenues of the Company are determined based on indices available at the time of billing but are subject to adjustment when the final rate postings become available. At year-end, management makes an estimate of the probable final rates through a synthesis of various factors such as coal price movements, market trends and other industry developments. This process involves a certain degree of judgment and it is possible that the resulting adjustment to billed revenues determined by using such estimated or projected rate could be materially significant compared to the adjustment that will be determined when the actual and final rates become available. As at December 31, 2020 (2019 - nil), deferred revenues amounted to nil.

(f) Estimating provision for inventory losses

The Company recognizes a provision for impairment of inventories whenever the net realizable value of the inventories becomes lower than cost due to damage, physical deterioration, technological and commercial obsolescence, changes in commodity prices for its raw materials, and other causes.

Inventory items identified to be obsolete and unusable is written off and charged as expense for the period. Due to high inventory turnover particularly of coal and unique specification of each item under spare parts, the determination of any sensitivity on estimated net realizable values is deemed not viable.

As at December 31, 2020, allowance for inventory losses amounted to \$0.3 million (2019 - \$0.3 million). The carrying amount of inventories, amounted to \$25.4 million as at December 31, 2020 (2019 - \$22.1 million) (Note 7).

(g) Determining functional currency

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the US Dollar. The US Dollar is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences revenue and the costs of providing the service.

(h) Determining whether the PPA is a service concession arrangement

The Company has determined its PPA as a service concession arrangement based on the criteria provided by IFRIC 12 and assessment of the public service nature of the local power generating industry. Based on management's assessment, fair value of leased property or present value of minimum lease payments under IFRIC 4 and PAS 17 has been determined to approximate fair value of operating financial asset at inception under IFRIC 12. Accordingly, there were no adjustments recognized in the financial statements. The Company has not identified any conditions including revisions to the PPA agreement, if any, that would materially impact conclusions reached in the adoption of IFRIC 12, as well as in the estimation of resulting operating financial asset.

(i) Provision for ECL of Financial Assets at Amortized Cost

The Company uses an impairment model for the general approach to calculate ECL for the operating financial asset and cash with banks. Based on the probabilities of default taken from the matrix published annually by Standard & Poor's and credit rating from either Standard & Poors or Credit reform, the impairment model determines to which of the three buckets the impaired receivable should be allocated to and the level of impairment loss/reversal of impairment loss as of reporting date.

For trade receivables, the Company uses a provision matrix to calculate ECLs. The provision rates are based on days past due. The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Accordingly, as at December 31, 2020, the Company recognized allowance for impairment of trade receivables and operating financial asset amounting to $3.5 million and $0.2 million (2019 - $2.8 million and $0.2 million), respectively.

As at December 31, 2020, trade and other receivables, operating financial asset and other receivables under "Other noncurrent assets" amounted to $191.5 million (2019 - $202.3 million) (Notes 6, 8, and 10).

(j) Estimating Impairment of Nonfinancial Assets

The Company 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 Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to 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.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific assets, the estimated recoverable amount represents the net fair value less costs to sell.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that can materially affect the financial statements.

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 as income in the profit or loss. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined had no impairment loss been recognized for that asset in prior years. Reversal of provision for impairment of input VAT amounted to $5.6 million in 2019 (see Note 10).

The aggregate carrying amounts of prepayments and other current assets, property and equipment and other noncurrent assets (excluding other receivables) amounted to $13.2 million and $13.7 million as of December 31, 2020 and 2019, respectively.

(k) Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the balance sheets cannot be derived from active markets, their fair values are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(l) Pension benefits

The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of the PhP Bloomberg Valuation Service (BVAL) as published by Philippine Dealing Exchange (PDEx), and extrapolated maturity corresponding to the expected duration of the defined benefit obligation.

The underlying bonds are further reviewed for quality. The mortality rate is based on the 2001 CSO Table - Generational. Future salary increases and pension increases are based on expected future inflation rates. Further details about the assumptions used, including a sensitivity analysis, are given in Note 24.

(m) Provision for claims and losses

The estimate of probable costs for the resolution of provision for claims and losses has been developed in consultation with outside counsels and is based upon analysis of potential results. The Company expects the amount to be settled within the year. As at December 31, 2020, provision for claims and losses amounted to $7.5 million (2019 - $7.2 million) (Note 12).

(n) Estimating Realizability of Deferred Tax Assets

The carrying amount of deferred tax assets is reviewed each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences is based upon the likely timing and level of future taxable profits determined from the tax planning strategies of the Company. This forecast is based on the

Company's past results and future expectations on revenue and expenses. As at December 31, 2020, the Company has deferred tax assets amounting to $2.3 million (2019 - $2.0 million) (Note 13).

(o) Determination of lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has the option, under some of its leases to lease the assets for additional terms of 1 to 5 years. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

(p) Valuation of lease liabilities and ROU assets

The application of PFRS 16 requires the Company to make judgments that affect the valuation of the lease liabilities and the valuation of ROU assets. These include: determining contracts in scope of PFRS 16, determining the contract term and determining the interest rate used for discounting of future cash flows.

The lease term determined by the Company comprises non-cancellable period of lease contracts, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. For lease contracts with indefinite term the Company estimates the length of the contract to be equal to the economic useful life of non-current assets located in the leased property and physically connected with it or determines the length of the contract to be equal to the average or typical market contract term of particular type of lease. The same economic useful life is applied to determine the depreciation rate of ROU assets.

The present value of the lease payment is determined using the discount rate representing the rate of interest rate swap applicable for currency of the lease contract and for similar tenor, corrected by the average credit spread of entities with rating similar to the Company's rating, observed in the period when the lease contract commences or is modified.

(q) Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

5. Cash

Cash deposit arrangements are transacted with duly licensed Universal or Commercial banks, with an investment grade credit rating and which belong in the top ten banks in terms of capital base either locally or in another foreign country.

Cash on hand and amounts deposited in these banks are as follows:

	2020	2019
Universal	**$62,469,657**	$19,125,524
Commercial	**–**	917,742
Cash on hand	**5,041**	4,667
	$62,474,698	$20,047,933

The maximum exposure to credit risk at the reporting date is the fair value of cash in banks. For the year ended December 31, 2020, interest income of $25,548 (2019 - $39,687) were earned from cash in banks and recognized as part of other income (Note 23).

6. Trade and Other Receivables - net

	2020	2019
Trade receivables	**$11,120,241**	$13,672,346
Less allowance for impairment	**3,497,132**	2,823,246
	7,623,109	10,849,100
Current portion of operating financial asset (Note 8)	**8,013,876**	6,992,436
	$15,636,985	$17,841,536

As at December 31, 2020, trade receivables amounting to $3,497,132 (2019 - $2,823,246) representing 12% VAT on billed remuneration for incidental costs on coal importation and unpaid deliveries to TMI under the Interim Mindanao Electricity Market (IMEM) were determined to be impaired. The carrying amounts of these receivables approximate their respective amortized costs as at December 31, 2020 and 2019.

The roll forward analysis of allowance for impairment is presented below:

	2020	2019
At January 1	**$2,823,246**	$2,019,439
Provision during the year (Note 22)	**673,886**	803,807
At December 31	**$3,497,132**	$2,823,246

7. Inventories

	2020	2019
At NRV:		
Spare parts and other materials	**$15,526,665**	$15,475,062
Coal	**9,678,239**	6,457,478
At cost:		
Fuel and oil	**174,415**	145,233
Quicklime	**59,692**	43,504
	$25,439,011	$22,121,277

For the year ended December 31, 2020, the cost of inventories recognized as expense included in the cost of coal and other materials amounted to $33.3 million (2019 - $53.1 million).

The allowance for inventory losses as at December 31, 2020 amounted to $312,913 (2019 - $315,624).

The rollforward analysis of allowance for inventory losses is presented below:

	2020	2019
At January 1	**$315,624**	$813,658
Loss during the year (Note 19)	**–**	135,183
Write-off/reversal	**(2,711)**	(633,217)
At December 31	**$312,913**	$315,624

Management believes that the carrying amount of fuel and oil, and quicklime as at December 31, 2020 and 2019 approximates its net realizable value. Accordingly, there was no provision recognized in 2020 and 2019.

In 2019, major spare parts and stand-by equipment recognized as part of property and equipment amounted to $308,022 (Notes 9 and 26).

8. Operating Financial Asset

	2020	2019
Gross operating financial asset	**$353,434,581**	$386,189,491
Unearned finance income	**(169,422,648)**	(195,185,123)
	184,011,933	191,004,368
Less allowance for impairment	**187,693**	194,824
	183,824,240	190,809,544
Less current portion of operating financial asset (Note 6)	**8,013,876**	6,992,436
	$175,810,364	$183,817,108

Operating financial asset is reduced when payments are received and finance income on the receivable is recognized using an imputed interest rate. As at December 31, 2020, total unearned finance income, which represents excess of aggregate payments over determined construction profit, amounted to $169.4 million (2019 - $195.2 million). Operating financial asset due not later than one year is presented under “Trade and other receivables - net” in the balance sheets (Note 6).

The roll forward analysis of allowance for impairment is presented below:

	2020	2019
At January 1	**$194,824**	$201,048
Reversal (Note 22)	**(7,131)**	(6,224)
At December 31	**$187,693**	$194,824

For the year ended December 31, 2020, total finance income recognized as part of revenue in the statements of comprehensive income amounted to $25.8 million (2019 - $26.7 million) (Note 18).

The fair value of noncurrent operating financial asset as at December 31, 2020 amounted to $294.4 million (2019 - $303.6 million). The fair value is based on cash flows discounted using prevailing rate ranging from 1.7% - 3.2% for the year ended December 31, 2020 (2019 - 3.1% - 4.6%).

9. Property and Equipment

	2020					
	Site Building and Improvements	**Factory and Office Equipment**	**Plant Improvements**	**Construction in Progress**	**Right-of-Use Assets**	**Total**
Cost						
At January 1	**$10,034,500**	**$17,181,248**	**$1,886,042**	**$107,975**	**$254,910**	**$29,464,675**
Additions	**324,106**	**583,584**	**26,568**	**286,233**	**–**	**1,220,491**
Disposals/retirement	**(35,513)**	**(24,401)**	**–**	**–**	**–**	**(59,914)**
Reclassifications	**5,989**	**53,774**	**–**	**(59,763)**	**–**	**–**
At December 31	**10,329,082**	**17,794,205**	**1,912,610**	**334,445**	**254,910**	**30,625,252**
Accumulated depreciation and amortization						
At January 1	**6,336,042**	**13,842,145**	**1,632,129**	**–**	**$111,339**	**21,921,655**
Disposals/retirement	**(7,103)**	**(19,981)**	**–**	**–**	**–**	**(27,084)**
Charges during the year (Note 21)	**500,507**	**881,899**	**32,937**	**–**	**108,448**	**1,523,791**
At December 31	**6,829,446**	**14,704,063**	**1,665,066**	**–**	**219,787**	**23,418,362**
Net book values	**$3,499,636**	**$3,090,142**	**$247,544**	**$334,445**	**35,123**	**$7,206,890**

	2019					
	Site Building and Improvements	Factory and Office Equipment	Plant Improvements	Construction in Progress	Right-of-Use Assets	Total
Cost						
At January 1	$9,419,137	$16,500,347	$1,886,042	$154,095	$–	$27,959,621
Effect of adoption of PFRS16	–	–	–	–	234,246	234,246
At January 1, as restated	9,419,137	16,500,347	1,886,042	154,095	234,246	$28,193,867
Additions (Notes 7 and 26)	518,895	744,200	–	79,009	20,664	1,362,768
Disposals/retirement	–	(91,960)	–	–	–	(91,960)
Reclassifications	96,468	28,661	–	(125,129)	–	–
At December 31	10,034,500	17,181,248	1,886,042	107,975	254,910	$29,464,675
Accumulated depreciation and amortization						
At January 1	5,885,757	13,049,721	1,587,492	–		20,522,970
Disposals/retirement	–	(91,960)	–	–		(91,960)
Charges during the year (Note 21)	450,285	884,384	44,637	–	111,339	1,490,645
At December 31	6,336,042	13,842,145	1,632,129	–	111,339	21,921,655
Net book values	$3,698,458	$3,339,103	$253,913	$107,975	$143,571	$7,543,020

The Company recognized depreciation expense amounting to $170,387 in 2020 (2019 - $136,262) on the remaining book value of major spare parts recognized as part of property and equipment amounting to $860,365 as of December 31, 2020. As of December 31, 2020, fully depreciated property and equipment still being used in the Company's operations amounted to $17.2 million (2019 - $16.7 million).

In 2019, major spare parts and stand-by equipment were recognized as part of property and equipment amounting to $308,022 (Notes 7 and 26).

10. **Other Assets**

	2020	2019
Prepayments and other current assets:		
Input VAT - current portion	**$1,136,166**	$951,798
Prepayments	**535,623**	377,342
	$1,671,789	$1,329,140
Noncurrent:		
Input VAT - net of current portion	**$3,974,243**	$4,386,331
Deferred input VAT	**209,147**	275,797
Intangible assets - net	**172,312**	205,147
Others	**45,880**	620,750
	$4,401,582	$5,488,025

In 2019, the Company withdrew its application for tax refund and used the said input tax on importations as excess input VAT credits to be applied against its output VAT liability. With this, the Company reversed its provision for allowance over input tax on importations amounting to $5.6 million due to the change in the estimates used to determine its recoverability since the last impairment loss was recognized (Note 23).

Intangible assets pertain to licenses and software acquired, net of accumulated amortization.

	2020	2019
Cost:		
Balance at beginning of year	**$1,326,265**	$1,300,529
Additions	**19,666**	25,736
Balance at end year	**1,345,931**	1,326,265
Accumulated amortization:		
Balance at beginning of year	**1,121,118**	1,064,507
Amortization (Note 21)	**52,501**	56,611
Balance at end year	**1,173,619**	1,121,118
Net book value	**$172,312**	$205,147

Others include advances made by the Company, on behalf of NPC, the party responsible for the payment of real property taxes on the Power Plant in accordance with the PPA.

11. **Trade Payables**

	2020	2019
Coal supplier	**$2,190,254**	$–
Suppliers of spare parts and operating materials	**262,981**	$355,437
Suppliers of maintenance services	**194,331**	113,123
Other suppliers	**342,402**	355,457
	$2,989,968	$824,017

Trade payables are noninterest-bearing. Established payment terms with coal suppliers range from 3-10 days from the receipt of original invoice payable via Letter of Credit or telegraphic transfer. Payment terms with other suppliers range from 15-30 days from receipt of original invoice.

12. **Provisions, Accrued Expenses and Other Payables**

	2020	2019
Provision for claims and losses	**$7,480,017**	$7,203,068
Accrued expenses	**2,784,912**	2,266,391
Employee-related compensation	**2,738,384**	2,730,647
Payable to government agencies	**1,879,333**	2,191,086
Interest (Note 15)	**839,346**	951,562
Lease liabilities (Note 27f)	**23,600**	145,069
	$15,745,592	$15,487,823

Provision for claims and losses refers to various outstanding proceedings and unasserted claims arising from the normal course of operations specifically litigation and previous regulatory assessments and examinations.

The roll forward analysis of provisions for claims and losses is presented below:

	2020	2019
At January 1	**$7,203,068**	$9,240,006
Additions	**861,029**	294,062
Settlements/payments	**(584,080)**	(663,947)
Reversal (Note 23)	–	(1,667,053)
At December 31	**$7,480,017**	$7,203,068

13. **Income Taxes**

The components of provision for income tax for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Current	**$8,134,099**	$5,475,875
Deferred	**696,914**	2,051,843
	$8,831,013	$7,527,718

The significant components of the Company's deferred tax assets and liabilities at December 31, which are expected to reverse for periods more than 12 months, are as follows:

	2020	2019
Deferred tax assets:		
Allowance for impairment	**$1,105,448**	$905,421
Pension liability	**687,408**	280,135
Accrued expenses	**78,322**	339,406
Allowance for inventory losses	**93,874**	94,687
Personnel cost accrual	**32,556**	13,818
Unamortized past service cost	**19,528**	37,520
Others	**247,050**	303,358
	$2,264,186	$1,974,345

(Forward)

	2020	2019
Deferred tax liability:		
Difference in treatment of the PPA under financial and tax reporting	**$24,963,985**	$24,341,839
	24,963,985	24,341,839
Deferred tax liabilities - net	**$22,699,799**	$22,367,494

The deferred tax liabilities arising from re-measurement effects of pension recognized in other comprehensive income amounted to $364,609 and $241,264 in 2020 and 2019, respectively (Note 24).

The deferred income tax assets and liabilities as at December 31, 2020 and 2019 were measured using the corporate income tax rate on the years these are expected to be reversed or settled.

The reconciliation of the provision for income tax for the years ended December 31 computed at the statutory tax rate to actual provision shown in the statements of comprehensive income follows:

	2020	2019
Provision for income tax at statutory rate of 30%	**$8,831,852**	$8,933,911
Adjustments to income taxes resulting from tax effects of:		
Translation differences	**148,057**	(521,536)
Reversal of provision	**–**	(750,000)
Interest expense limitation	**3,007**	4,662
Others	**(151,903)**	(139,319)
	$8,831,013	$7,527,718

14. Related Party Transactions

In the normal course of business, the Company transacts with companies which are considered related parties under PAS 24, *Related Party Disclosures*. A summary of the more significant transactions with related parties is as follows:

	2020			
Category	**Amount**	**Outstanding Balance**	**Terms**	**Conditions**
Reimbursable expenses:				
STEAG GmbH	**$301,297**	**$–**	**30-day; noninterest-bearing**	**Unsecured**
Due from related parties	**$301,297**	**$–**		

	2019			
Category	Amount	Outstanding Balance	Terms	Conditions
Reimbursable expenses:				
STEAG GmbH	$21,741	$21,741	30-day; noninterest-bearing	Unsecured
Due from related parties		$21,741		

Category	**2020** **Amount**	**Outstanding Balance**	**Terms**	**Conditions**
Purchases of services:				
STEAG GmbH	**$42,345**	**$–**	**30-day; noninterest-bearing**	**Unsecured**
STEAG Energy Services GmbH	**53,949**	**27,936**	**30-day; noninterest-bearing**	**Unsecured**
Due to related parties		**$27,936**		

Category	2019 Amount	Outstanding Balance	Terms	Conditions
Purchases of services:				
STEAG GmbH	$42,895	$–	30-day; noninterest-bearing	Unsecured
STEAG Energy Services GmbH	226,772	36,326	30-day; noninterest-bearing	Unsecured
Due to related parties		$36,326		

The Company is a party to the following agreements with its parent company:

a) SAP Maintenance Agreement with STEAG GmbH for services related to the operation of the SAP system. The Agreement specifies payment of a monthly fee for a specified number of users plus additional fee for each extra user. This Agreement supersedes previous agreements between the parties in relation to the Company's SAP system. Service fee for the year ended December 31, 2020 amounted to $42,435 (2019 - $42,895).

b) Contract with STEAG Energy Services GmbH for the provision of services related to the maintenance and upgrade, including remote access support services, for the plant's operating system and Oracle Database for the period July 1, 2020 to June 30, 2021. Service fee for the year ended December 31, 2020 amounted to $53,949 (2019 - $99,541).

c) Contract with STEAG Energy Services GmbH for the provision of services related to the 2019 upgrade of the existing SI system. Service fee for the year ended December 31, 2020 amounted to nil (2019 -$33,987).

d) Contract with STEAG Energy Services GmbH, a company under common control, for advisory and consultancy services related to the planning, preparation and over-all performance of Units 1 and 2 turbines to be rendered during the period of planned outages from July to September 2019 and development and formulation of a proposal for Units 1 and 2 future turbine and other relevant equipment maintenance strategies. Service fee for the year ended December 31, 2020 amounted to nil (2019 - $93,244).

Outstanding related party receivables and payables are to be settled in cash and generally made within 30 days from the date of each transaction. As of December 31, 2020, outstanding balance due from related parties under common control amounted to nil (2019 - $21,741) and outstanding balance to related parties under common control amounted to $27,936 (2019 - $36,326).

Key management compensation and short-term benefits including directors' fees for the year ended December 31, 2020 amounted to $477,452 (2019 - $515,912). There were no stock options or long-term benefits in 2020 and 2019. As of December 31, 2020 and 2019, there were no outstanding receivable from or payable to any key management personnel.

15. **Borrowings**

		2020	2019
Banco De Oro (BDO) loan	LIBOR plus 1.25% per annum	**$–**	$7,600,000
BDO Second Facility loan	5% per annum	**32,880,000**	34,100,000
BDO Third Facility loan	LIBOR plus 1.5% per annum	**40,000,000**	–
BDO master loan	Rate for 180-day treasury bills in MART1 plus 1.75% per annum	**–**	19
Total borrowings at face amount		**72,880,000**	41,700,019
Less deferred financing costs		**619,698**	203,646
Total borrowings at amortized cost		**$72,260,302**	$41,496,373

Borrowings under the Banco de Oro loans are denominated in US Dollar while the BDO master loan is denominated in Philippine Peso.

Details of borrowings as presented in the balance sheets as at December 31 are as follows:

	2020	2019
Total borrowings at amortized cost	**$72,260,302**	$41,496,373
Less current portion of borrowings, net of deferred financing cost to be amortized within one year amounting to $134,462 (2019 - $112,587)	**9,685,538**	8,707,413
Noncurrent portion of borrowings at amortized cost	**$62,574,764**	$32,788,960

Movements in deferred financing cost for the years ended December 31 are as follows:

	2020	2019
At January 1	**$203,646**	$408,231
Deferred financing cost - BDO 3rd Facility		
Additions for the year	**529,273**	–
Deferred financing cost - BDO 2nd & 3rd Facility		
Amortization for the year	**(113,221)**	(204,585)
At December 31	**$619,698**	$203,646

The loans will mature on various dates from 2020 to 2029 as follows:

	2020	2019
Within one year	**$9,820,000**	$8,820,000
More than 1 year but not more than 2 years	**9,820,000**	8,220,000
More than 2 years but not more than 3 years	**9,820,000**	8,220,000
More than 3 years but not more than 4 years	**9,820,000**	8,220,000
More than 4 years but not more than 5 years	**8,000,000**	8,220,019
More than 5 years	**25,600,000**	–
	$72,880,000	$41,700,019

Interest expense recognized on the borrowings in 2020 amounted to $2.4 million (2019 - $2.6 million). The accrued interest on the borrowings amounting to $0.8 million as at December 31, 2020 (2019 - $1.0 million) is presented under “Provisions, accrued expenses and other payables” in the balance sheets (Note 12).

The variable interest rates under the BDO Facility and BDO master loan agreements expose the Company to cash flow interest rate risk. Interest rates are repriced two (2) business days before each repayment date. The EIRs of the loans for the years ended December 31 are as follows:

	2020	2019
BDO loan	**3.77-4.08%**	3.77-4.08%
BDO Second Facility	**5.16%**	5.16%
BDO Third Facility	**1.76%**	–
BDO master loan	**5.99-7.66%**	5.99-7.66%

On September 30, 2010, the Company reached financial close on a 10-year $80,000,000 term loan facility agreement (the "BDO Facility Agreement") with Banco De Oro to refinance its existing indebtedness under the GKA Facility Agreement and the JBIC Facility Agreement (Senior Loans). The interest rate under the BDO Facility Agreement is at LIBOR plus 1.25% per annum and repayment of the principal is in accordance with a specified schedule, which commenced on January 31, 2011.

With the prepayment of the Senior Loans, the Senior Lenders under the GKA and JBIC Facility Agreements, the GKA and JBIC Facility Agents and the Intercreditor Agent have ceased to be parties to the Omnibus Agreement originally dated November 28, 2003 and restated on October 11, 2005 (hereinafter referred to as the "Original Omnibus Agreement"). The remaining parties - the Company as Borrower, Banco de Oro as VAT Lender, DB Trustees (Hong Kong) Limited as Offshore Trustee, and Deutsche Bank AG Manila Branch (Trust Department) ("DB Manila") as Onshore Trustee - together with Banco de Oro as the BDO Facility Lender and STEAG GmbH, Aboitiz Power Corporation and La Filipina Uygongco Corporation as Sponsors, agreed to further amend and restate the Original Omnibus Agreement on September 2, 2010 to, among others, incorporate the BDO Facility Agreement as an additional Finance Agreement, constitute the BDO Facility Agreement and the VAT Facility Agreement as Senior Facilities, and identify Banco de Oro as a Senior Lender and Secured Creditor. The Company's trust accounts in DB Manila were subsequently transferred to BDO Unibank Inc Trust and Investments Group ("BDO Trust") due to the latter's acquisition of DB Manila's trust business. DB Manila resigned as Onshore Trustee effective 31 October 2014. BDO Unibank Inc Trust and Investments Group succeeded DB Manila as Onshore Trustee effective November 1, 2014.

On December 8, 2014, the Company and BDO together with BDO Unibank Inc. Trust and Investments Group as Onshore Trustee, DB Trustees (Hong Kong) Limited as Offshore Trustee and STEAG GmbH, Aboitiz Power Corporation and La Filipina Uygongco Corporation as Sponsors agreed to further amend and restate the Original Omnibus Agreement to incorporate the Second BDO Facility Agreement. The Original Omnibus Agreement as amended on September 2, 2010 and December 8, 2014 is hereinafter referred to as the "Omnibus Agreement". The Second BDO Facility Agreement covers a 10-year $40,200,000 term loan for general corporate expenses. The interest rate of the loan under the BDO Second Facility Agreement is fixed at 5% per annum and repayment for the principal is in accordance with a specified schedule with January 31, 2015 specified as first repayment date.

On 26 November 2020, the Omnibus Agreement was amended through a Third Amendment Deed, to include an additional nine-year loan facility extended by the Senior Lender to the Company amounting to Forty Million United States Dollars (USD 40,000,000.00) ("Third BDO Facility Agreement"). The interest rate of the loan under the Third BDO Facility Agreement is presently at LIBOR plus 1.5% per annum and repayment for the principal is in accordance with a specified schedule with January 31, 2021 specified as first repayment date.

The fair value of the outstanding loans as of December 31, 2020 amounted to \$71.3 million (2019 - \$30.7 million). The Company analyzes the loan carried at fair value based on valuation method used and is categorized as Level 3.

In accordance with the Omnibus Agreement, substantially all of the Company's present assets and future real assets and revenues serve as security to the BDO Facility, BDO Second Facility, BDO Third Facility as well as the VAT Facility (the "BDO Facilities").

The Company is further subject to certain general undertakings which include, among others, the following:

1. The Company shall confirm that no change is made to the general nature of its business from that carried on at the date of the BDO Facility Agreements but this shall not prevent the Company from engaging in any ancillary or related business; and

2. The Company shall not enter into a single transaction or a series of transactions (whether related or not) to sell, lease, transfer or otherwise dispose of all or substantially all of its physical assets with a book value in excess of \$10,000,000 except under the circumstances stated in the BDO Facilities.

3. The Company shall maintain a Debt Service Reserve Account (DSRA) containing the Debt Service Reserve Amount or the amount equal to the aggregate scheduled interest and scheduled principal payment due on the next repayment date. The account is deemed restricted and not available for working capital purposes and the Company is not permitted to withdraw or transfer the balance of the DSRA except, and only if, in case no event of default has occurred, to transfer any amounts that exceed the balance of the amount required to be maintained in the DSRA.

The Company may procure credit support (DSRA Credit Support) from a financial institution to cover all or part of the Debt Service Reserve Amount. The DSRA Credit Support shall be an irrevocable standby letter of credit from a financial institution with a minimum prescribed credit rating which financial institution has no recourse to the Company for amounts drawn hereunder. The DSRA Credit Support shall be issued for a period of not less than 364 days.

In December 2020, the shareholders submitted Standby Letters of Credit as DSRA Credit Support at US\$ 5.971 million on a pro-rata basis with STEAG GmbH, Aboitiz Power Corporation and La Filipina Uygongco Corporation contributing \$3.047 million, \$1.029 million, and \$0.895 million, respectively.

In December 2019, the shareholders submitted Standby Letters of Credit as DSRA Credit Support at US\$ 5.364 million on a pro-rata basis with STEAG GmbH, Aboitiz Power Corporation and La Filipina Uygongco Corporation contributing \$2.865 million, \$1.734 million, and \$0.765 million, respectively.

The Company is likewise required to maintain a debt service cover ratio of 1.25:1 under the Facility Agreement and 1.20:1 under the Second Facility Agreement at every calculation date (i.e., June 30 and December 31). This represents proportion of cash available for debt service to secure scheduled debt service, which is the aggregate of most recent and next scheduled repayment installment including interest as of calculation period. Under the Third BDO Facility Agreement, the debt service cover ratio for the distribution lock up is not less than 1.20:1 and for financial reporting is not less than 1.10:1. As of December 31, 2020, the Company has a debt service cover ratio of 3.00:1 (2019 - 3.25:1).

As at December 31, 2020 and 2019, the Company has complied with all the undertakings in the financing agreements.

16. **Derivative Financial Instruments**

On January 14, 2004, the Company entered into a step-down interest rate cap agreement with a foreign bank consisting of a series of 30 caplets for periods from May 4, 2004 to November 30, 2018 to hedge its future interest payments on variable rate loans. Under the agreement, the fixed premium rates from May 4, 2004 to December 1, 2006 and from December 2, 2006 to December 1, 2018 are 0.1% and 1.85% per annum, respectively, while the interest cap rate from May 4, 2004 to December 1, 2006 and from December 1, 2006 to December 1, 2018 are 5.4% and 4.65% per annum, respectively. Floating rate option is LIBOR. The derivative is designated as a cash flow hedge.

In line with the prepayment of its previous loan facilities, the Company amended the existing interest rate cap agreement to adjust the notional amounts based on the BDO Facility Agreement. The new amendment is effective September 30, 2010 and pursuant thereto; the interest rate cap will now terminate on August 3, 2020. Fixed premium and interest cap rates remain at 1.85% and 4.65%, respectively, from February 1, 2011 until termination date. The arrangement specifies LIBOR as the floating rate option and is designated as a cash flow hedge.

The fair value of the derivative at transaction date amounted to $11.6 million, while the fair value at December 31, 2019 is nil. The decrease in the time value of the derivative instrument as at December 31, 2019 amounting to $18 is included under interest expense in the profit and loss.

The notional principal amount of the outstanding interest rate cap contract at December 31, 2019 is $7.6 million (Note 15).

The maximum exposure to credit risk at the reporting date is the fair value of the derivative asset in the balance sheets.

17. **Equity**

Share Capital

The authorized share capital of the Company as at December 31, 2020 and 2019 are as follows:

	No. of Shares	Par Value	Amount in Philippine Peso	Equivalent in US Dollar
Common shares	335,000,000	₱10	₱3,350,000,000	$62,357,402
Redeemable shares	165,000,000	10	1,650,000,000	30,863,274
	500,000,000		₱5,000,000,000	$93,220,676

Details of issued common and redeemable shares as of December 31, 2020 and 2019 are as follows:

	No. of Shares	Par Value	Amount in Philippine Peso	Equivalent in US Dollar
Common shares	308,747,146	₱10	₱3,087,471,460	$57,022,229
Redeemable shares	165,000,000	10	1,650,000,000	30,863,274
	473,747,146		₱4,737,471,460	$87,885,503

There were neither issuances nor redemption of shares in 2020 and 2019. The redeemable shares may be redeemed at the option of the Company at any time after the second year of its commercial operations and until the end of the Cooperation period. The redeemable shares may be redeemed at a price to be determined by the BOD at a special meeting duly called for such purpose. The redeemable shares shall have a voting right.

Retained Earnings
On March 16, 2021, the BOD declared cash dividends for shareholders of record as at end of business on March 16, 2021 in the amount of $0.099209 per share, amounting to a total dividend of $47.0 million and was approved and ratified by the shareholders on the same date.

On June 22, 2020, the BOD declared cash dividends for shareholders of record as at end of business on June 22, 2020 in the amount of $0.027441 per share, amounting to a total dividend of $13.0 million and was approved and ratified by the shareholders on the same date. The dividend pay-out was on June 30, 2020.

On April 6, 2020, the BOD declared cash dividends for shareholders of record as at end of business on April 6, 2020 in the amount of $0.021108 per share, amounting to a total dividend of $10.0 million and was approved and ratified by the shareholders on the same date. The dividend pay-out was on April 15, 2020.

On November 26, 2019, the BOD declared cash dividends for shareholders of record as at end of business on November 26, 2019 in the amount of $0.027441 per share, amounting to a total dividend of $13.0 million and was approved and ratified by the shareholders on the same date. The dividend pay-out was on December 17, 2019.

On March 21, 2019, the BOD declared cash dividends for shareholders of record as at end of business on March 21, 2019 in the amount of $0.010554 per share, amounting to a total dividend of $5.0 million and was approved and ratified by the shareholders on the same date. The dividend pay-out was on March 31, 2019.

18. **Revenues**

	2020	2019
Revenue from generation of electricity	**$24,592,850**	$36,553,365
Revenue from operation of asset	**23,503,630**	23,172,024
	48,096,480	59,725,389
Finance income (Note 8)	**25,762,475**	26,653,723
Remuneration of incidental costs on coal importation (Note 1)	**5,615,719**	6,698,394
	$79,474,674	$93,077,506

	2020	2019
NPC		
Revenue from generation of electricity	**$24,592,850**	$36,518,449
Revenue from operation of asset	**23,503,630**	23,172,024
TMI		
Revenue from generation of electricity	–	34,916
	$48,096,480	$59,725,389

19. Cost of Coal and Other Materials

	2020	2019
Coal	**$28,768,447**	$48,520,043
Spare parts and operating supplies	**3,084,726**	3,073,988
Other materials	**1,503,752**	1,392,465
Provision for inventory losses (Note 7)	**–**	135,183
	$33,356,925	$53,121,679

20. Salaries, Wages and Employee Benefits

	2020	2019
Salaries and wages	**$5,924,176**	$5,948,871
Employee benefits and allowances	**1,028,602**	968,819
Retirement benefit expense (Note 24)	**759,775**	557,712
	$7,712,553	$7,475,402

21. Depreciation and Amortization

	2020	2019
Property and equipment (Note 9)	**$1,523,791**	$1,490,645
Intangible assets (Note 10)	**52,501**	56,611
	$1,576,292	$1,547,256

22. Other Operating Expenses

	2020	2019
Insurance	**$1,285,720**	$1,176,068
Outside services	**925,968**	845,918
Taxes and licenses	**887,348**	728,179
Environmental, safety and health	**813,056**	845,524
Provision for ECL (Notes 6 and 8)	**666,755**	797,583
Materials and supplies	**552,776**	441,303
Repairs and maintenance	**308,624**	331,972
Professional fees	**289,973**	283,550
Travel and accommodation	**274,889**	579,741
Communication, light and water	**180,076**	171,572
Technical and assistance fees	**70,971**	262,009
Miscellaneous	**235,145**	292,805
	$6,491,301	**$6,756,224**

23. **Other Income - net**

	2020	2019
Excess of standard over actual input VAT	**$1,156,215**	$158,977
Foreign exchange gain - net	**242,431**	266,126
Interest income (Note 5)	**25,548**	39,687
Gain on sale of property and equipment	**6,870**	10,043
Reversal of impairment on other noncurrent assets (Note 10)	–	5,591,377
Reversal of provision for unasserted claims	–	1,508,076
Reversal of provision for inventory losses (Note 7)	–	633,217
Others	**27,390**	2,206
	$1,458,454	$8,209,709

24. **Retirement Benefit Plan**

The Company has a defined benefit and noncontributory retirement plan (the Plan) covering all of the Company's regular employees. Benefits range from one hundred percent (100%) to two hundred percent (200%) of Plan Salary for every year of Credited Service. Benefits provided are primarily based on employees' years of credited service and compensation and are payable in lump sum upon retirement after ten (10) years of continuous service, death, disability and involuntary separation. The plan is funded based on actuarial calculations using the projected unit credit cost method which takes into account the years of service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. The Company's plan asset is being maintained by a trustee bank.

The following tables summarize the components of net benefit expense recognized in the statements of comprehensive income and the funded status and amounts recognized in the Company's balance sheets.

Net benefit expense

	2020	2019
Current service cost	**$727,668**	$602,856
Net interest expense (income)	**32,107**	(45,144)
	$759,775	$557,712

Remeasurement effects recognized in other comprehensive income

	2020	2019
Actuarial loss on defined benefit obligation	**($873,006)**	($995,672)
Return on assets excluding amount included in net interest cost (income)	**(342,357)**	191,458
	(1,215,363)	(804,214)
Deferred tax	**364,609**	241,264
	($850,754)	($562,950)

Pension liability

	2020	2019
Present value of defined benefit obligations	**($11,139,389)**	($8,890,826)
Fair value of plan assets	**8,848,029**	7,957,041
	($2,291,360)	($933,785)

Changes in the present value of defined benefit obligation are as follows:

	2020	2019
At January 1	**$8,890,826**	$6,766,724
Current service cost	**727,668**	602,856
Interest cost	**418,330**	478,449
Benefits paid from plan assets	**(276,412)**	(113,327)
Actuarial loss:		
Actuarial loss due to liability experience	**565,715**	8,252
Actuarial loss due to liability assumption changes	**307,292**	987,420
Foreign exchange loss	**505,970**	160,452
At December 31	**$11,139,389**	$8,890,826

Changes in the fair value of the plan assets are as follows:

	2020	2019
At January 1	**$7,957,041**	$7,194,865
Interest income on plan assets	**386,223**	523,593
Contributions during the year	**617,564**	–
Benefits paid from plan assets	**(276,412)**	(113,327)
Return on assets excluding amount included in net interest cost (income)	**(342,357)**	191,458
Foreign exchange loss	**505,970**	160,452
At December 31	**$8,848,029**	$7,957,041

The Company will contribute to its defined benefit pension plan in 2021.

Changes in the pension liability recognized in the balance sheets follow:

	2020	2019
At January 1	**($933,785)**	$428,141
Benefit expense for the year	**(759,775)**	(557,712)
Actuarial loss recognized for the year	**(1,215,364)**	(804,214)
Contributions	**617,564**	–
	($2,291,360)	($933,785)

The principal assumptions used in pension defined benefit obligation for the Company's plan are as follows:

	2020	2019
Discount rate	**3.50%**	4.75%
Salary increase rate	**6.00%**	7.00%
Average future working years of service	**13.68**	9.56

Discount rate for 2020 was calculated, approximated to the nearest 25 basis points, by discounting the projected benefits payment with respect to the PhP Bloomberg Valuation Service (BVAL) rates as published by PDEx.

The overall expected return on plan asset is based on the prevailing rates as of the date of valuation. In 2020, the carrying value of the plan assets, which equals its fair value, amounted to $8.8 million (2019 - $7.9 million). The major categories of plan assets as a percentage of the fair value of plan assets are as follows:

	2020	2019
Securities	**72.84%**	73.75%
Equities	**17.66%**	23.65%
Cash	**9.50%**	2.60%
	100.00%	100.00%

The Trustee reviews the performance of the Plan on a regular basis. It assesses whether the retirement plan will achieve investment returns which, together with contributions, will be sufficient to pay retirement benefits as they fall due. The Trustee also reviews the solvency position of the Company on an annual basis and estimates, through the actuary, the expected contribution to the Plan in the subsequent year.

The significant actuarial assumptions and sensitivity used for the Company's plan are as follows:

	Discount rate	Sensitivity Analysis	Effect in present value of defined benefit obligation
Discount rate	4.50%	1.00% increase	(9.89%)
Discount rate	2.50%	1.00% decrease	11.63%
Salary increase rate	7.00%	1.00% increase	11.22%
Salary increase rate	5.00%	1.00% decrease	(9.76%)

All other assumptions were kept constant and there were no changes in methods and assumptions used in preparing the sensitivity analysis.

The weighted average duration of the defined benefit obligation as of December 31, 2020 is 11.67 years (2019 - 8.63 years).

25. Changes in Liabilities Arising from Financing Activities

2020

	January 1, 2020	**Availment of borrowings**	**Declaration of dividends**	**Reclassified current portion**	**Interest expense**	**Payments**	**December 31, 2020**
Current portion of long-term borrowings (Note 15)	**$8,707,413**	**$–**	**$–**	**$9,685,538**	**$113,221**	**($8,820,634)**	**$9,685,538**
Noncurrent portion of long-term borrowings (Note 15)	**32,788,960**	**40,000,000**	**–**	**(9,685,538)**	**–**	**(528,658)**	**62,574,764**
Short-term borrowings	**–**	**11,000,000**	**–**	**–**	**–**	**(11,000,000)**	**–**
Interest payable on long-term borrowings (Note 12)	**951,562**	**–**	**–**	**–**	**2,234,736**	**(2,346,952)**	**839,346**
Dividends payable (Note 17)	**–**	**–**	**23,000,000**	**–**	**–**	**(23,000,000)**	**–**
Lease liabilities (Note 12)	**145,069**	**–**	**–**	**–**	**8,592**	**(130,061)**	**23,600**
Total liabilities from financing activities	**$42,593,004**	**$51,000,000**	**$23,000,000**	**$–**	**$2,356,549**	**($45,826,305)**	**$73,123,248**

2019

	January 1, 2019	Addition to lease liabilities	Declaration of dividends	Reclassified current portion	Interest expense	Cash flows	December 31, 2019
Current portion of long-term borrowings (Note 15)	$7,615,415	$–	$–	$8,707,413	$204,585	($7,820,000)	$8,707,413
Noncurrent portion of long-term borrowings (Note 15)	41,496,373	–	–	(8,707,413)	–	–	32,788,960
Interest payable on long-term borrowings (Note 12)	1,049,169	–	–	–	2,385,373	(2,482,980)	951,562
Dividends payable (Note 17)	5,000,000	–	18,000,000	–	–	(23,000,000)	–
Derivatives	134,251	–	–	–	–	(134,251)	–
Lease liabilities (Note 12)	234,246	20,664	–	–	16,994	(126,835)	145,069
Total liabilities from financing activities	$55,529,454	$20,664	$18,000,000	$–	$2,606,952	($33,564,066)	$42,593,004

26. Supplementary Disclosure to Notes to Cash Flow

In 2019, the non-cash investing activity of the Company pertains to major spare parts included in the additions to property and equipment previously classified as inventories and additions to ROU assets amounting to $308,022 and $20,664, respectively (Notes 7 and 9).

27. Agreements

Significant contracts and agreements entered into by the Company, which are still effective as at December 31, 2020 and 2019, include the following:

a) Coal Supply Agreement with PT Bara Tabang

On December 12, 2019, the Company entered into a Coal Supply Agreement (CSA) with PT Bara Tabang for the supply of coal to meet the fuel requirements of the Power Plant on a fixed base and option tonnage.

The CSA shall continue in full force and effect from January 1, 2020 to December 31, 2022 or until the last shipment under the third Contract Year. Base Price is based on the published HBA. Shipment delivered is on an FOBT loadport basis.

b) Coal Supply Agreement with Brooklyn Enterprise Pte Ltd.

On December 10, 2019, the Company entered into a Coal Supply Agreement (CSA) with Brooklyn Enterprise Pte Ltd. (Brooklyn) for the supply of coal to meet the fuel requirements of the Power Plant on a fixed base and option tonnage.

The CSA further provides that the Original Coal Supply Agreement between the Company and Brooklyn dated December 14, 2016 shall terminate on January 1, 2020.

The CSA took effect upon the execution by the Parties and shall continue in full force and effect from January 1, 2020 to December 31, 2022 or until the last shipment under the third Contract Year. Base Price is based on the published Harga Batubara Acuan (HBA) also known as Indonesian Coal Reference Price. Shipment delivered is on an FOBT loadport basis.

c) Coal Supply Agreement with PT Jorong Barutama Greston, Indonesia (JBG)

On August 9, 2003, the Company entered into a Coal Supply Agreement (CSA) with JBG (collectively referred to as the Parties) wherein JBG will supply the Company the coal requirements of the Power Project during its commercial operation. The agreement expired on December 31, 2019. On December 16, 2009, the Parties signed the Amendment and Restatement Agreement which sets out a revision to the pricing mechanism for the coal base price (price before freight and insurance) up and until the end of the sixth contract year. The price of the fourth contract year was set at a specified price per metric ton and will be adjusted for the fifth and sixth contract years on a market price basis using the Japanese Power Utilities (JPU) reference index.

On February 29, 2012, the Parties signed an additional amendment to the Coal Supply Agreement. The amendment pertains to a guaranteed delivery of a specific tonnage of coal for three (3) years beginning the seventh contract year. The additional amendment also prescribed the new pricing valid from the seventh contract year until the ninth contract year. Parties agreed to discuss whether any amendments are necessary in relation to the base price per metric ton of coal and adjustment formula under the Coal Supply Agreement for the tenth contract year (April 2015 to March 2016) or any subsequent contract year.

On February 10, 2015, the parties signed another amendment to the terms and conditions of the Coal Supply Agreement with respect to the deliveries of coal for Tenth Contract Year until the Twelfth Contract Year. The amendment covers the base price and the basis for price adjustment due to deviation of coal quality.

On July 25, 2018, the parties further amended the CSA with respect to the deliveries of coal for the Thirteenth Contract Year until December 31, 2019 by amending, among others, the base price under the CSA and the basis for price adjustment due to the deviation of the coal quality.

The agreement was not renewed nor extended and CSA expired on 31 December 2019.

d) Charter Party Agreement with Cetragpa S.N.C. (now LD Bulk)

The Company entered into a Charter Party agreement with Cetragpa (now LD Bulk) for the transport of coal. Charter Party is valid until December 19, 2019.

On January 9, 2019, the parties entered into an addendum to the Charter Party Agreement regarding Charterer’s option to declare a higher tonnage per shipment and the applicable freight rate.

The Charter Party expired on December 19, 2019 due to non-renewal or non-extension.

e) Charter Party Agreement with LD Bulk SAS

On October 3, 2019, the Company entered into a Charter Party Agreement with LD Bulk SAS for the transportation of coal in bulk. Commencement of the agreement took effect on the date that it is entered into with shipment period from January 1, 2020 to December 31, 2025.

On December 16, 2019, the Parties have agreed to amend the Charter Party Agreement on the terms and conditions with respect to the freight rate, loading rate and port cost adjustment.

f) Lease Agreements

Lease 1
In May 2016, the Company renewed its lease agreement covering its head office for a period until June 2021 with escalation clause of 5% applicable on the second and third year of the term. Security deposits amounting to $30,566 paid by the Company as required under the terms of the covering lease agreements are shown as part of other noncurrent assets in the balance sheets (Note 10).

Lease 2
In July 2019, the Company renewed a lease on a townhouse building for a period until July 31, 2020 subject to automatic renewal for another 12-month period unless terminated prior to lease expiry. The lease was allowed to expire in 2020.

Set out below is the carrying amount of lease liabilities recognized and the movements during the period (Note 12):

	2020	2019
As at January 1	**$145,069**	$234,246
Additions	–	20,664
Accretion of interest	**8,592**	16,994
Lease payments	**(130,061)**	(126,835)
	$23,600	$145,069

The following are the amounts recognized in the statements of comprehensive income:

	2020	2019
Depreciation expense of ROU assets (Note 9)	**$108,448**	$111,339
Interest expense on lease liabilities	**8,592**	16,994
Expenses relating to leases of low-value	**76,138**	71,680
Total	**$193,178**	$200,013

28. **Others**

28.1 Electric Power Industry Reform Act

Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), became effective on June 26, 2001. The covering Implementing Rules and Regulations (IRR) were approved and became effective on March 22, 2002. The EPIRA provided for significant changes in the power sector, such as the unbundling of rates and privatization of the generation, transmission, and other disposable assets of NPC, including NPC contracts with independent power producers (IPP); creation of the Energy Regulatory Commission (ERC) to regulate the electric power industry; creation of a Wholesale Electricity Spot Market (WESM) within one year from effectivity of the Act; open and nondiscriminatory access to transmission and distribution systems; and mandated rate reduction and lifeline rate for marginalized end-users.

The electricity rates have regulated elements for generation, transmission and distribution, and competitive components for the electrical energy itself and for ancillary or support services. While the EPIRA provided for VAT zero-rating on the sale of generated power, a later law-Republic Act No. 9337-deleted or revoked this zero-rating and rendered power generation, in general, as subject to regular VAT rates.

The EPIRA provides for a cap on the concentration of ownership of only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity, specifically relating to generation companies and cross ownership restrictions between transmission and generation companies and between transmission and distribution companies.

For generation and distribution utilities, the law also requires public listing of not less than 15% of their common shares within five years from the effectivity of the EPIRA. Subsequently, or on May 23, 2011, the ERC issued the Public Offering Rules (the "Rules") which provides that the requirement to offer or sell to the public must be made within five (5) years from effectivity of the Rules or until June 29, 2016. The Rules do not apply to, among others, generation companies already listed in the Philippine Stock Exchange (PSE). The Rules further provide that if the holding company is already listed with the PSE, the generation company or the distribution utility need not comply with the public offering requirement. On October 13, 2015, a Petition was filed with the ERC seeking an amendment of the Rules. In view of this Petition, the ERC extended the compliance period by one year or until June 29, 2017. The compliance period was further extended for a period of one (1) year or until the resolution of the Petition, whichever is earlier.

The WESM rules were officially promulgated on June 28, 2002 and will govern the operation of the electricity market to ensure sustainable and economical electricity supply. On June 23, 2006, commercial operations in the energy market for the entire Luzon grid commenced following the procurement by National Transmission Corporation (TransCo) of the required Market Management System Software and Hardware that will operationalize the trading of electricity and the approval by the ERC of the Price Determination Methodology for the WESM. The Luzon market was later integrated with the Visayas market on December 26, 2010. The Philippine Electricity Market Corporation (PEMC) acts as the Market Operator for the Luzon-Visayas market.

On January 9, 2013, DOE issued Department Circular No. DC 2013-01-0001 directing the PEMC to develop and implement an IMEM as a measure to immediately address the Power Supply situation in Mindanao.

The IMEM implementing Rules (IMEM Rules) apply to all Electric Power Industry Participants in Mindanao. For this purpose, an Electric Power Industry Participants refers to any person or entity engaged in the generation, transmission, or distribution of electricity in Mindanao.

The IMEM is a net pool market - the market is for available resources capacity after taking out bilateral contract quantities. In line with this, the Company declared its 200 MW as fully contracted to NPC under the terms of the PPA as amended while its Surplus Energy of up to ten (10) MW is fully contracted to Therma Marine Inc. under a Power Supply Agreement. The Company is not a trading participant in the IMEM.

The Systems Operator (NGCP) called for a Market Intervention beginning February 2014. This remains to be in effect and all market transactions during the period of the Market Intervention are suspended.

On May 4, 2017, the Department of Energy issued Department Circular DC- 2017-05-009 declaring the launch of the WESM in Mindanao and providing for transitory and trial operation. There are several conditions set in the Circular for the commencement of full operations, including approval by ERC of the Price Determination Methodology for Mindanao WESM and New Market Management System to include Mindanao trading participants. The effectivity of the Circular also terminated the IMEM. As of this date, the Mindanao WESM is not yet commercially operational and is targeted to commence operations by the first half of 2021.

The Company believes that it is in compliance with the applicable provisions of the EPIRA and its IRR.

28.2 Amendments to Rule 29(A) of the IRR for RA 9136

On July 26, 2018, the DOE issued Department Circular No. DC2018-08-0021 (Circular) amending Rule 29 (A) of the IRR of RA 9136 to provide the rules and guidelines for the effective administration, management, utilization and implementation of the financial benefits due to host communities established under RA 9136 (EPIRA). The Circular transfers the responsibility of remitting the financial benefits due to the host communities from the DOE to the Generation Companies and/or Energy Resource Developers.

The financial benefits are to be remitted within fifteen (15) calendar days after the end of each billing quarter subject to the beneficiaries' compliance to the requirements defined in the Circular. In the event of non-compliance by the beneficiaries of the requirements for remittance, the financial benefit shall be remitted to the dedicated trust accounts established for this purpose.

The DOE, through its Power Compliance Division (PCD) - Financial Services (FS), shall conduct periodic audit and review of reported electricity sales, fund allocation and remittances of financial benefits of the Generation Companies and/or Energy Resource Developers to the host communities.

In compliance with the Circular, the Company has established three (3) trust accounts with the Bank of Philippine Islands (BPI) for the three (3) funds mandated by ER 1-94: Electrification Fund (EF), Development and Livelihood Fund (DLF) and Reforestation, Watershed Management, Health and/or Environmental Enhancement Fund (RWMHEEF). The trust accounts are maintained solely for the purpose of remitting the quarterly financial benefits due to the host communities and other beneficiaries.

28.3 Clean Air and Water Act

On November 25, 2000, the IRR of Republic Act No. 8479, otherwise known as the Philippine Clean Air Act of 1999, took effect. Likewise, on May 16, 2005, the IRR of Republic Act No. 9275 or the Philippine Clean Water Act of 2004 was approved by the Department of Environment and Natural Resources (DENR). Both IRR contain provisions that have impact on the industry as a whole and on the Company in particular. Based on the Company's assessment, the Company believes that it is compliant with the applicable provisions of both IRR.

28.4 Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill

The CREATE Bill, approved by the Senate under Senate Bill No. 1357 last November 26, 2020, was ratified by the Bicameral Committee last February 3, 2021. Provisions under the CREATE bill include reductions in corporate income tax rate from 30% to 25% with effectivity date of July 1, 2020. PAS 12, *Income Taxes*, requires the measurement of income taxes to be based on enacted or substantively enacted tax rates as of the reporting date, accordingly, the Company reflects in its financial statements the amount of income taxes calculated using the 30% corporate income tax rate.

For the year ended December 31, 2020, the amounts of current and net deferred tax liabilities would have been lower by $1.1 million and $1.1 million, respectively.

29. Supplementary Information Required Under Revenue Regulations (RR) 15-2010

In compliance with the requirements set forth by RR 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year. This information is in addition to what is mandated by PFRS and are presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

All amounts shown in this note are presented in Philippine Peso.

Value Added Tax (VAT)

The Company's sales are subject to 12% output VAT. Furthermore, the Company's importations and purchases from VAT-registered individuals or corporations are subject to 12% input VAT.

a. Net sales/receipts and output VAT declared in the Company's VAT returns for 2020

	Net Sales/ Receipts	Output VAT
Taxable sales:		
Sales of services	₱4,135,798,631	₱496,295,836
Others	290,906,320	34,908,758
	₱4,426,704,951	₱531,204,594

b. Input VAT

Balance at January 1	₱301,986,432
Current year's domestic purchases/payments or importations for:	
Services lodged under cost of plant operations and other accounts	30,867,201
Goods other than for resale or manufacture	16,328,515
Capital goods subject to amortization	1,601,911
Importation of goods other than capital Goods	197,955,728
	548,739,787
Input VAT used as credit against output VAT	(266,766,828)
Balance at December 31	₱281,972,959

Information on the Company's Importations for 2020

Landed cost - excluding input VAT	₱1,649,631,063
Customs duties	114,310,324
	₱1,763,941,387

Other Taxes and Licenses

Taxes and licenses, both local and national, include real estate taxes, licenses and permit fees:

Included in cost of plant operations	
Excise taxes on imported coal	₱87,149,800
Included in general and administrative expense	
Municipal taxes/local business tax	29,339,915
Business permit and license fees	1,440,464
Fringe benefits taxes	2,032,219
Documentary stamp tax	11,503,169
Community tax certificate	25,435
Others	219,614
	44,560,816
	₱131,710,616

Withholding Taxes

Withholding taxes on compensation and benefits	₱65,820,251
Final withholding taxes	70,842,822
Expanded withholding taxes	8,502,041
	₱145,165,114