COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

CS201210314

COMPANY NAME

COAL ASIA HOLDINGS INCORPORATED AND SUBSIDIARY

PRINCIPAL OFFICE *(No./Street/Barangay/City/Town/Province)*

3rd Floor, JTKC Center, 2155 Chino Roces Ave., Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AACFS	CRMD	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
–	(02) 818-6772	–

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
28	April 30	December 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Johnson A. Sanhi Jr.	johnson.sanhi.jr@titanmining.com	(02) 818-6772	–

CONTACT PERSON'S ADDRESS

3rd Floor, JTKC Center, 2155 Chino Roces Ave., Makati City

NOTE 1*: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2: *All boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt shall not excuse the corporation from liability for its deficiencies.*

Coal Asia Holdings
Reliable energy resources through responsible mining

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of Coal Asia Holdings Incorporated and Subsidiary (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.The Board of Directors is responsible in overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders or members.

Reyes Tacandong & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

HARALD R. TOMINTZ	**JOHNSON A. SANHI JR.**	**ROLANDO P. DOMINGO**
Chairman of the Board	Chief Executive Officer	Chief Financial Officer

SUBSCRIBED AND SWORN to before me this _____ day of APR 2 6 2019 affiant(s) exhibiting to me his/their Tax Identification Number, as follows:

NAMES	**TAX IDENTIFICATION NUMBER**
HARALD R. TOMINTZ	123-069-283-000
JOHNSON A. SANHI JR.	105-618-140-000
ROLANDO P. DOMINGO	105-777-482-000

NOTARY PUBLIC
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Series of 2019

ATTY. GERVACIO B. ORTIZ JR.
Notary Public Makati City
Until Dec. 31, 2019
Appointment No. M-183 (2019-2020)
PTR No. 7333104 Jan. 3, 2019/Makati
IBP Lifetime No. 656155 Roll No. 40091
MCLE Compliance No. V-0006934
101 Urban Ave. Campos Rueda Bldg.
Brgy. Pio Del Pilar, Makati City

BOA/PRC Accreditation No. 4782
October 4, 2018, valid until August 15, 2021
SEC Accreditation No. 0207-FR-2 (Group A)
September 27, 2016, valid until September 27, 2019

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INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Coal Asia Holdings Incorporated and Subsidiary
3rd Floor, JTKC Center
2155 Chino Roces Ave.
Makati City

Opinion

We have audited the consolidated financial statements of Coal Asia Holdings Incorporated (the Parent Company) and Subsidiary (collectively referred to as the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2018, 2017 and 2016, and notes to consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2018, 2017 and 2016 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the consolidated financial statements which indicate delays in the approval by the Department of Energy (DOE) of the Group's application for the conversion of its Coal Operating Contracts (COC) to development and production phase. Consequently, the Group has not yet started commercial operations.

Moreover, the delays have significantly reduced the Group's operating funds. Remaining balance of funds held in escrow, representing unutilized portion of proceeds from the Parent Company's initial public offering (IPO) amounted to ₱0.7 million and ₱5.6 million as at December 31, 2018 and 2017, respectively. Cash and cash equivalents amounted to ₱10.6 million and ₱31.0 million as at December 31, 2018 and 2017, respectively. These conditions indicate a material uncertainty that may cast a significant doubt on the Group's ability to commence commercial operations and continue as a going concern.

The Group's management are confident that the conversion to development and production stage of areas covered by the COCs will be approved. Moreover, a major stockholder has committed to provide continuous financial support to meet not only the Group's pre-operating activities but also the cost of the conversion of the COCs and the Group's working capital requirements.

Our opinion is not modified in respect to this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as at and for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matter to be communicated in our report.

- *Impairment of Nonfinancial Assets*

  As at December 31, 2018, the Group has not yet started its commercial operations because of delays in getting approval to proceed with the development and production phase in areas covered by its COCs. The Group is required to review the recoverable amount of its nonfinancial assets whenever there is an indication of impairment losses. This is significant to our audit because nonfinancial assets consisting of coal reserves, exploration and evaluation asset, and property and equipment, aggregating ₱3,904.4 million as at December 31, 2018 is material to the consolidated financial statements. The ability of the Group to recover these assets depends on the conversion of the COCs to development and production phase. Moreover, the assessment and determination process of impairment are complex and involves significant judgment and estimates.

  We have reviewed the management's determination of impairment indicators and management's assessment on the recoverability of these nonfinancial assets. We evaluated the assumptions used by the Group in its value in use calculation. These assumptions include the estimated coal reserves, coal prices, foreign exchange rate and discount rate, which we compared against available market information. We also reviewed the adequacy of the Group's disclosures in Note 4 to consolidated financial statements about the assumptions used, the outcome of which the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of the nonfinancial assets.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, these could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REYES TACANDONG & CO.

EMMANUEL V. CLARINO
Partner
CPA Certificate No. 27455
Tax Identification No. 102-084-004-000
BOA Accreditation No. 4782; Valid until August 15, 2021
SEC Accreditation No. 1021-AR-2 Group A
Valid until March 27, 2020
BIR Accreditation No. 08-005144-005-2017
Valid until January 13, 2020
PTR No. 7334331
Issued January 3, 2019, Makati City

April 26, 2019
Makati City, Metro Manila

COAL ASIA HOLDINGS INCORPORATED AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	**2018**	2017
ASSETS			
Current Assets			
Cash and cash equivalents	5	**₱10,619,011**	₱30,954,930
Advances to related parties	15	**1,464,711**	1,555,438
Funds held in escrow	6	**654,840**	5,628,653
Other current assets	7	**192,748**	4,749,308
Total Current Assets		**12,931,310**	42,888,329
Noncurrent Assets			
Coal reserves	4	**3,131,596,101**	3,131,596,101
Exploration and evaluation asset	8	**585,755,321**	534,956,340
Property and equipment	9	**187,025,922**	222,560,983
Net deferred tax assets	18	**14,311,621**	12,541,560
Other noncurrent asset	7	**1,051,370**	2,719,464
Total Noncurrent Assets		**3,919,740,335**	3,904,374,448
		₱3,932,671,645	₱3,947,262,777
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	10	**₱8,556,596**	₱9,713,412
Advances from related parties	15	**30,025,377**	30,025,377
Loan payable	11	–	5,629,445
Income tax payable		–	17,687
Total Current Liabilities		**38,581,973**	45,385,921
Noncurrent Liability			
Retirement benefits liability	14	**4,740,222**	4,219,642
Total Liabilities		**43,322,195**	49,605,563
Equity			
Capital stock		**4,000,000,004**	4,000,000,004
Deficit		**(110,815,870)**	(102,508,106)
Other comprehensive income	14	**165,316**	165,316
Total Equity		**3,889,349,450**	3,897,657,214
		₱3,932,671,645	₱3,947,262,777

See accompanying Notes to Consolidated Financial Statements.

COAL ASIA HOLDINGS INCORPORATED AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Years Ended December 31 2018	2017	2016
GENERAL AND ADMINISTRATIVE EXPENSES	12	**(₱10,643,404)**	(₱9,907,962)	(₱20,921,125)
INTEREST EXPENSE	11	**(123,348)**	(999,139)	(1,898,675)
INTEREST INCOME	5	**688,927**	295,135	745,832
OTHER INCOME	20	–	884,366	6,087,472
LOSS BEFORE INCOME TAX		**(10,077,825)**	(9,727,600)	(15,986,496)
PROVISION FOR (BENEFIT FROM) INCOME TAX	18			
Current		–	17,687	121,749
Deferred		**(1,770,061)**	(1,768,672)	(2,140,518)
		(1,770,061)	(1,750,985)	(2,018,769)
NET LOSS		**(8,307,764)**	(7,976,615)	(13,967,727)
OTHER COMPREHENSIVE LOSS				
Not to be reclassified to profit or loss in subsequent periods				
Remeasurement loss on retirement benefits liability - net of deferred tax	14	–	–	(218,082)
TOTAL COMPREHENSIVE LOSS		**(₱8,307,764)**	(₱7,976,615)	(₱14,185,809)
BASIC/DILUTED LOSS PER SHARE	19	**(₱0.002)**	(₱0.002)	(₱0.003)

See accompanying Notes to Consolidated Financial Statements.

COAL ASIA HOLDINGS INCORPORATED AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Years Ended December 31 2018	2017	2016
CAPITAL STOCK - ₱1 par value				
Authorized - 5,000,000,000 shares				
Issued and outstanding - 4,000,000,004 shares		**₱4,000,000,004**	₱4,000,000,004	₱4,000,000,004
DEFICIT				
Balances at beginning of year		**(102,508,106)**	(94,531,491)	(80,563,764)
Net loss		**(8,307,764)**	(7,976,615)	(13,967,727)
Balances at end of year		**(110,815,870)**	(102,508,106)	(94,531,491)
OTHER COMPREHENSIVE INCOME	14			
Balances at beginning of year		**165,316**	165,316	383,398
Remeasurement loss on retirement benefits liability - net of deferred tax		**–**	–	(218,082)
Balances at end of year		**165,316**	165,316	165,316
		₱3,889,349,450	₱3,897,657,214	₱3,905,633,829

See accompanying Notes to Consolidated Financial Statements.

COAL ASIA HOLDINGS INCORPORATED AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years Ended December 31		
	Note	**2018**	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before income tax		**(₱10,077,825)**	(₱9,727,600)	(₱15,986,496)
Adjustments for:				
Interest income	5	**(688,927)**	(295,135)	(745,832)
Retirement benefits cost (income)	14	**126,741**	128,514	(222,663)
Interest expense	11	**123,348**	999,139	1,898,675
Provision for probable loss	12	**114,000**	102,960	136,156
Depreciation and amortization	9	**59,697**	222,174	518,539
Operating loss before change in working capital		**(10,342,966)**	(8,569,948)	(14,401,621)
Decrease (increase) in:				
Funds held in escrow		**5,000,000**	32,240,366	49,264,543
Other current assets		**4,442,560**	(3,727,086)	(283,715)
Restricted cash		**1,846,149**	(26,342)	(1,641,752)
Increase (decrease) in trade and other payables		**(1,156,816)**	767,742	(1,694,533)
Net cash generated from (used in) operations		**(211,073)**	20,684,732	31,242,922
Interest paid		**(123,348)**	(1,050,317)	(1,898,675)
Income tax paid		**(17,687)**	(121,749)	(10,387)
Interest received		**484,685**	295,135	745,832
Net cash provided by operating activities		**132,577**	19,807,801	30,079,692
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to exploration and evaluation asset		**(7,271,911)**	(9,822,724)	(23,960,977)
Acquisitions of property and equipment	9	**(7,657,867)**	(5,445,019)	–
Collections from (advances to) related parties		**90,727**	90,810	(380,620)
Net cash used in investing activities		**(14,839,051)**	(15,176,933)	(24,341,597)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of loan	11	**(5,629,445)**	(10,581,920)	(8,627,635)
Advances from related parties		**–**	29,999,557	–
Net cash provided by (used in) financing activities		**(5,629,445)**	19,417,637	(8,627,635)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(20,335,919)**	24,048,505	(2,889,540)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**30,954,930**	6,906,425	9,795,965
CASH AND CASH EQUIVALENTS AT END OF YEAR		**₱10,619,011**	₱30,954,930	₱6,906,425
NONCASH FINANCIAL INFORMATION				
Additions to exploration and evaluation asset	8	**₱43,527,070**	₱44,377,035	₱42,950,144

	Years Ended December 31		
	2018	2017	2016
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash on hand	**₱14,264**	₱126,720	₱174,990
Cash in banks	**3,725,551**	828,210	6,731,435
Cash equivalents	**6,879,196**	30,000,000	–
	₱10,619,011	₱30,954,930	₱6,906,425

See accompanying Notes to Consolidated Financial Statements.

COAL ASIA HOLDINGS INCORPORATED AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMEBER 31, 2018 AND 2017
AND FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

1. Corporate Information

General Information

Coal Asia Holdings Incorporated (the Parent Company or CAHI) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on June 11, 2012. The Parent Company was organized primarily as a holding company of Titan Mining and Energy Corporation (the Subsidiary or TMEC) in which it owns 100%. The Parent Company and TMEC are collectively referred to as "the Group".

TMEC was incorporated and registered with the SEC on November 11, 2008. TMEC is engaged in the operations of coal mining and energy related business.

On October 23, 2012, the Parent Company became a publicly listed company. As at December 31, 2018 and 2017, 4,000,000,004 common shares of the Parent Company at ₱1 par value are listed in the Philippine Stock Exchange (PSE). Of those shares, 20% are publicly-owned as at December 31, 2018 and 2017.

The registered office address of the Parent Company and the Subsidiary is 3rd Floor, JTKC Center, 2155 Chino Roces Ave., Makati City.

The consolidated financial statements of the Group as at December 31, 2018 and 2017 and for the three years ended December 31, 2018, 2017 and 2016 were approved and authorized for issue by the Board of Directors (BOD) on April 26, 2019.

Status of Operations

As at December 31, 2018 and 2017, the Group has two Coal Operating Contracts (COC) located in Davao Oriental (COC No. 159) and Zamboanga Sibugay (COC No. 166). The Group has applied for a change in status of the COCs from exploration and evaluation stage to development and production stage.

COC No. 159. On August 30, 2018, the Department of Energy (DOE) has re-evaluated the coal reserves in commercial quantity on Sagasa Area considering the corrected dipping angle of each coal seam, revised coal intercepts and number of coal seams, specific gravity of 1.4, inclusion of coal outcrops, and additional information on longitudinal sections. The Group agreed on the revised coal reserves and provided revised Five-Year Coal Development and Production Work Program and Budget, and revised Feasibility Study in accordance with the agreed delineated coal reserves on December 21, 2018.

On September 11, 2018, the Group submitted the required documents to the National Commission on Indigenous People (NCIP) for the issuance of Certificate of Precondition (CP). The CP is the final requirement for the conversion of COC No. 159.

On December 14, 2018, TMEC received the original copy of CP and the certified true copy approving the CP precondition from the NCIP. As at report date, the conversion of the areas within titled properties to development and production phase is pending approval of the DOE.

COC No. 166. On September 18, 2018, the Group has re-submitted the Five-Year Work Program in support for the processing of the Group's application for the conversion of its COC. As at report date, the conversion is still subject to the approval of the DOE.

The significant delays in the conversion of the COCs to development and production phase have significantly reduced the Group's operating funds. Remaining balance of funds held in escrow, representing unutilized portion of proceeds from the Parent Company's Initial Public Offering (IPO) amounted to ₱0.7 million and ₱5.6 million as at December 31, 2018 and 2017, respectively. Cash and cash equivalents amounted to ₱10.6 million and ₱31.0 million as at December 31, 2018 and 2017, respectively.

These conditions indicate a material uncertainty that may cast a significant doubt on the Group's ability to commence commercial operations and continue as a going concern.

The Group's management, however, are confident that the conversion to development and production stage of areas covered by the COCs will be approved by the DOE.

Moreover, a major stockholder has committed to provide continuous financial support to meet not only the Group's pre-operating activities but also the start-up of the development and production phase when these COCs are approved.

2. Summary of Significant Accounting and Reporting Policies

Basis of Preparation

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) issued by the Philippine Financial Reporting Standards Council and adopted by the SEC. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) and SEC provisions.

Measurement Bases

The consolidated financial statements are presented in Philippine Peso, which is the Group's functional and presentation currency. All values represent absolute amounts, unless otherwise indicated.

The consolidated financial statements have been prepared on a historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for an asset and the fair value of the consideration received in exchange for incurring a liability.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal on the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best interest.

A fair value measurement of nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Further information about the assumptions made in measuring fair value is included in Note 17.

<u>Adoption of New and Amended PFRS</u>

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Group adopted effective for annual periods beginning on or after January 1, 2018:

- PFRS 9, *Financial Instruments* – This standard replaced PAS 39, *Financial Instruments: Recognition and Measurement* (and all the previous versions of PFRS 9). It provides requirements for the classification and measurement of financial assets and liabilities, impairment, hedge accounting, recognition, and derecognition.

    - PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value [through profit or loss or through other comprehensive income (OCI)], depending on their classification by reference to the business model within which these are held and its contractual cash flow characteristics.

- For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss (FVPL) that is attributable to changes in the credit risk of that liability is recognized in OCI (rather than in profit or loss), unless this creates an accounting mismatch.

- For the impairment of financial assets, PFRS 9 introduces an expected credit loss (ECL) model based on the concept of providing for expected losses at inception of a contract; recognition of a credit loss should no longer wait for there to be objective evidence of impairment.

- For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

- The derecognition provisions are carried over almost unchanged from PAS 39.

The Group has applied the requirements of PFRS 9 retrospectively. The Group's retrospective application of PFRS 9, however, did not result to restatement of account balances in comparative periods or any adjustment in the opening retained earnings of the earliest period presented in the consolidated financial statements. Consequently, the Group opted not to present a third consolidated statement of financial position.

The Group has performed an assessment and determined the following impact of PFRS 9 on its financial instruments:

Classification and Measurement. Based on the Group's analysis, the Group has concluded that all of its financial assets and liabilities shall continue to be measured on the same basis as under PAS 39 but shall be classified under the new classification categories of PFRS 9.

Cash and cash equivalents, advances to related parties, time deposit included in funds held in escrow, receivable from an officer, receivables from incidental sale of coal and other receivables presented under "Other current assets" account and restricted cash presented as "Other noncurrent asset" account that were classified as loans and receivables under PAS 39 are now classified as financial assets at amortized cost. These financial assets are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest.

Trade and other payables (excluding statutory payables), advances from related parties and loan payable under this category that were classified as other financial liabilities under PAS 39 are now classified as financial liabilities at amortized cost. The Group has not designated any financial liabilities at FVPL.

Impairment. The new impairment requirements do not result to additional provision for impairment losses with respect to its receivables from incidental sale of coal and other receivables presented under "Other current assets" account because these are mainly exposures from the Group's customers which have established good credit standing and sufficient liquid assets to settle their obligation.

No provision for impairment losses with respect to its advances to related parties because these are mainly advances from related parties which are operating entities with sufficient liquid assets to repay the receivables upon demand by the Group.

While cash and cash equivalents, time deposit included in funds held in escrow and restricted cash presented as "Other noncurrent asset" account are subject to the impairment requirements of PFRS 9, the resulting impairment loss is not significant primarily because the deposits and placements are with reputable counterparty banks that possess good credit ratings.

- PFRS 15, *Revenue from Contracts with Customers* – The new standard replaced PAS 11, *Construction Contracts*, PAS 18, Revenue, and their related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.).

  The Group has adopted PFRS 15 using the full retrospective. Accordingly, the adoption of PFRS 15 has no material impact in the timing of the Group's revenue recognition.

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

  The adoption of the amendments to PFRS 15 did not have any material effect on the consolidated financial statements.

Several other amendments apply for the first time in 2018, but are not relevant on the consolidated financial statements of the Group.

New and Amended PFRS Issued But Not Yet Effective

Relevant new and amended PFRS which are not yet effective for the year ended December 31, 2018 and have not been applied in preparing the consolidated financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2019:

- PFRS 16, *Leases* – This standard will replace PAS 17, *Leases,* and its related interpretations. The most significant change introduced by the new standard is that almost all leases will be brought onto lessees' statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

For the Group's non-cancellable operating lease commitments as at December 31, 2018, a preliminary assessment indicates that these arrangements will continue to meet the definition of a lease under PFRS 16. Thus, the Group will have to recognize a right-of-use asset and a corresponding liability in respect of all these leases - unless these qualify for low value or short-term leases upon the application of PFRS 16 - which might have no significant impact on the amounts recognized in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of that effect until the Group completes the review.

- Philippine Interpretation IFRIC 23, *Uncertainty Over Income Tax Treatments* – The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under PAS 12, *Income Taxes*, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) effect of changes in facts and circumstances.

- Amendments to PFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation* – The amendments allow entities to measure particular prepayable financial assets with negative compensation at amortized cost or at fair value through OCI (instead of at fair value through profit or loss) if a specified condition is met. It also clarifies the requirements in PFRS 9, *Financial Instruments*, for adjusting the amortized cost of a financial liability when a modification or exchange does not result in its derecognition (as opposed to adjusting the effective interest rate).

- Amendments to PAS 19, *Employee Benefits - Plan Amendment, Curtailment or Settlement* – The amendments specify how companies remeasure a defined benefit plan when a change - an amendment, curtailment or settlement - to a plan takes place during a reporting period. It requires entities to use the updated assumptions from this remeasurement to determine current service cost and net interest cost for the remainder of the reporting period after the change to the plan.

- Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements - Previously Held Interest in a Joint Operation* – The amendments are part of the Annual Improvements to PFRS 2015-2017 Cycle. The amendment to PFRS 3 clarifies that when an entity obtains control of a business that is a joint operation, the acquirer applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the joint operation at its acquisition-date fair value. The amendment to PFRS 11 clarifies that when an entity obtains joint control of a business that is a joint operation, the previously held interests in that business are not remeasured.

Effective for annual periods beginning on or after January 1, 2021 -

Deferred effectivity -

- Amendments to PFRS 10, *Consolidated Financial Statements,* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the consolidated financial statements of the Group.

Basis of Consolidation
The consolidated financial statements include the accounts of wholly-owned subsidiary and the Parent Company.

Subsidiary. Subsidiary is an entity controlled by the Parent Company. The consolidated financial statements include the accounts of the Parent Company and its subsidiary, TMEC. The Parent Company has control when it is exposed, or has right, to variable returns from its involvement with the investee and it has the ability to affect those returns through its powers over the investee.

A subsidiary is consolidated from the date of acquisition or incorporation, being the date on which the Parent Company obtains control, and continues to be consolidated until the date such control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

Transactions Eliminated on Consolidation. All intra-group balances, transactions, income and expenses and unrealized gains and losses are eliminated in full.

Accounting Policies of a Subsidiary. The consolidated financial statements of the subsidiary are prepared for the same reporting year using uniform accounting policies as that of the Parent Company.

Financial Assets and Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition and Measurement. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at FVPL, includes transaction cost.

"Day 1" Difference. Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss. In cases where there is no observable data on inception, the Group deems the transaction price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference.

Classification. The Group classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and (c) financial assets at fair value through OCI (FVOCI). The classification of financial assets largely depends on the Group's business model and its contractual cash flow characteristics. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or financial liabilities at amortized cost.

As at December 31, 2018 and 2017, the Group does not have financial assets and liabilities at FVPL and financial assets at FVOCI.

Financial Assets at Amortized Cost. Financial assets shall be measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

As at December 31, 2018 and 2017, the Group's cash and cash equivalents, advances to related parties, time deposit included in funds held in escrow, receivable from an officer, receivables from incidental sale of coal and other receivables presented under "Other current assets" account and restricted cash presented as "Other noncurrent asset" account are classified under this category.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or impaired or through the amortization process.

As at December 31, 2018 and 2017, the Group has classified its trade and other payables (excluding statutory payables), advances from related parties and loan payable under this category.

Reclassification
The Group reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in OCI.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

Impairment of Financial Assets at Amortized Cost
The Group records an allowance for impairment losses on its financial assets measured at amortized cost based on ECL.

ECL is the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation to the asset's original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Group measures loss allowances at an amount equivalent to the 12-month ECL for receivables on which credit risk has not increased significantly since initial recognition and for debt instruments that are determined to have low credit risk at the reporting date.

12-month ECL is the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. ECL for credit-impaired financial assets is based on the difference between the gross carrying amount and present value of estimated future cash flows.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Receivable from Sale of Coal and Other Receivables. The Group has applied the simplified approach in measuring the ECL on accounts receivable from stock transfer services. Simplified approach requires that ECL should always be based on the lifetime expected credit losses. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Other Financial Instruments Measured at Amortized Cost. For these financial instruments, the Group applies the general approach in determining ECL. The Group recognizes an allowance based on either the 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition.

Derecognition of Financial Assets and Liabilities

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

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

When the Group has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Group's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Group could be required to repay.

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

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Group could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in profit or loss.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

Offsetting of Financial Assets and Liabilities
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Classification of Financial Instrument between Liability and Equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Otherwise, the financial instrument is classified as equity.

Other Current Assets
Other current assets mainly include input value-added tax (VAT), prepayments, and advances to officers and employees.

Input VAT. Input VAT represents tax imposed on the Group by its suppliers for the acquisition of goods and services required under Philippine taxation laws and regulations. Input VAT is recognized as an asset and will be used to offset the Group's current VAT liability. Input VAT is stated at net realizable value (NRV).

Prepayments. Prepayments are expenses paid in advance and recorded as assets before these are utilized. Prepayments are apportioned over the period covered by the payment and charged to profit or loss when incurred. Prepayments that are expected to be realized for not more than 12 months after the financial reporting period are classified as current assets. Otherwise these are classified as noncurrent assets.

Advances to Officers and Employees. Advances to officers and employees pertain to expenses paid by the Group on behalf of its officers and employees. These are initially recorded at transaction price including transaction costs. Subsequently, these are charged to expense once liquidated.

Coal Reserves
Coal reserves are proven and probable coal reserves, which are defined as the estimated quantities of coal which geological data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Coal reserves are carried at historical cost less impairment losses, if any. Coal reserves are amortized upon the commencement of production on a unit of production basis, which is the ratio of coal production in the period to the estimated quantities of commercial reserves at the end of the period plus the production in the period. Costs used in the unit of production calculation comprise the net book value of capitalized costs plus the estimated future development costs. Changes in the estimates of coal reserves or future development costs are accounted for prospectively.

Exploration and Evaluation Asset

Pre-license costs. Pre-license costs relate to costs incurred before the Group has obtained the legal rights to explore in a specific area. Such costs may include the acquisition of exploration data and the associated costs of analyzing that data. These costs are expensed in the period in which these are incurred.

Exploration and Evaluation Asset. Exploration and evaluation asset is carried at cost less accumulated impairment losses, if any.

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of the coal resource.

Exploration and evaluation activity includes:

- Gathering exploration data through geological studies;
- Exploratory drilling and sampling; and
- Evaluating the technical feasibility and commercial viability of extracting the coal resource.

Exploration and evaluation expenditures are recognized as asset when future economic benefit is more likely than not to be realized. These costs include materials and fuels used, surveying costs, drilling costs and payments made to contractors. The Group capitalizes any further evaluation costs incurred to exploration and evaluation asset up to the point when a commercial reserve is established. Capitalized exploration and evaluation asset is considered as tangible assets.

Exploration and evaluation asset is transferred to development cost under "Property and equipment" account in the consolidated statement of financial position when the technical feasibility and commercial viability of extracting the coal reserve are demonstrable. Exploration and evaluation asset is assessed for impairment before these are reclassified. Any impairment loss is recognized in profit or loss.

No amortization was charged during the exploration and evaluation phase.

Property and Equipment

Property and equipment, except land, are carried at cost less accumulated depreciation and any impairment losses. Land is carried at cost less any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, and other costs directly attributable to bring the asset to its working condition and location for its intended use. Cost also includes the cost of replacing parts such as property and equipment when the asset recognition criteria are met and the present value of the estimated cost of dismantling and removing the asset and restoring the site where the asset is located.

Expenditures incurred after the property and equipment have been put into operation, such as repairs, maintenance and overhaul costs, are normally charged to current operations. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment. The cost of replacing a component of an item of property and equipment is recognized if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized.

Depreciation is calculated on the straight-line basis over the estimated useful lives of the property and equipment as shown below:

	Number of Years
Drilling equipment	10
Land improvements	10
Laboratory and camp buildings	10
Survey equipment and machineries	3
Laboratory and testing equipment	5
Transportation equipment	5
Office furniture and equipment	3

The estimated useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment in value are removed from the accounts. Any resulting gain or loss is recognized to profit or loss.

Fully depreciated assets are retained in the accounts until these are no longer in use and no further change for depreciation is made in respect of these assets.

Construction in progress represents properties under construction and is stated at cost, including cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of property and equipment are capitalized during the construction period. Construction in progress is not depreciated until such time that the relevant assets are completed and ready for operational use.

Impairment of Nonfinancial Assets

The nonfinancial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount exceeds its estimated recoverable amounts, the asset or cash-generating unit is written down to its recoverable amount. The estimated recoverable amount of the asset is the higher of an asset's fair value less cost of disposal or value in use. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. However, that increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such reversal, the depreciation and amortization charge is adjusted in future years to allocate the asset's revised carrying amount, on a systematic basis over its remaining useful life.

Exploration and Evaluation Asset. Exploration and evaluation asset is assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. One or more of the following facts and circumstances indicate that exploration and evaluation assets require impairment test.

a. The period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future and is not expected to be renewed;

b. substantive expenditure on further exploration for and evaluation of coal reserves in the specific area is neither budgeted nor planned;

c. exploration for and evaluation of coal reserves in the specific area have not led to the discovery of commercially viable qualities of coal reserves and the entity has decided to discontinue such activities in the specific area;

d. sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Capital Stock

Capital stock is measured at par value for all shares issued and paid.

Deficit

Deficit represents the cumulative balance of net losses.

Revenue Recognition

Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Group perform its obligations; (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

The Group also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Group has assessed that it acts as a principal in all of its revenue sources.

Interest Income. Interest income is recognized as the interest accrues taking into account the effective yield on the asset, net of final tax.

Gain on Incidental Sale of Coal. Gain on incidental sale of coal is recognized when risks and rewards of ownership of goods have passed to the buyer and the amount of revenue can be measured reliably.

Other Income. Income from other sources is recognized when earned during the period.

Cost and Expense Recognition

Expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

General and Administrative. General and administrative expenses constitute cost of administering the business. These are expensed as incurred.

Interest Expense. Interest expense is recognized in profit or loss using the effective interest method.

Operating Leases

Leases, which do not transfer to the Group substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized in profit or loss on a straight-line basis over the lease term.

Employee Benefits

Short-term Benefits. The Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. A liability is also recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Short-term employee benefit liabilities are measured on an undiscounted basis and are expensed as the related service is provided.

Retirement Benefits Cost. The retirement benefits cost is determined using the projected unit credit method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Group recognizes service costs, comprising of current service costs, past service costs and income, gains and losses on curtailments and non-routine settlements; and interest expense in profit or loss. Net interest is calculated by applying the discount rate to the net retirement liability or asset.

Past service costs and income are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment; and the date that the Group recognizes restructuring-related costs.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on retirement liability or asset) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

The retirement benefits liability is the present value of the retirement liability. The present value of the defined benefit obligation (DBO) is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement benefits liability.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the consolidated financial statements do not differ materially from the amounts that would be determined at the reporting date.

Income Taxes

Current Tax. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rate and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

Deferred Tax. Deferred tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at 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 asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rate and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Basic and Diluted Loss Per Share

Basic loss per share is computed by dividing the net loss for the period attributable to equity holders of the Group by the weighted average number of issued and outstanding and subscribed common shares during the period, with retroactive adjustment for any stock dividends declared. Diluted loss per share is computed in the same manner, adjusted for the effects of convertible securities. The Group has no dilutive instruments.

Segment Reporting

Operating segments are components of the Group: (a) that engage in business activities from which they may earn revenue and incur expenses (including revenues and expenses relating to transactions with other components of the Group); (b) whose operating results are regularly reviewed by the Group's senior management, its chief operating decision maker, to make decisions about resources to be allocated to the segment and assess its performance; and (c) for which discrete financial information is available.

For purposes of segment reporting, the Group's operating segment is related to mining operations.

Provisions and Contingencies

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Provisions are reviewed at the end of each reporting year and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

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

3. Significant Accounting Judgment, Accounting Estimate and Assumptions

The preparation of the Group's consolidated financial statements in compliance with PFRS requires management to exercise judgment, make estimates and assumptions that affect amounts reported in the consolidated financial statements and related notes. Judgment and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Actual results may ultimately differ from these estimates.

While the Group has assessed that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Changes in accounting estimates are recognized in the period in which the estimate is revised if the change affects only that period or in the period of the change and future periods if the revision affects both current and future periods.

The following are the significant judgment, and accounting estimates and assumptions made by the Group:

Assessing Going Concern. The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group will continue in business for the foreseeable future.

The Group's management, however, are confident that the conversion to development and production stage of areas covered by the COCs will be approved by the DOE. Moreover, a major stockholder has committed to provide continuous financial support to meet not only the Group's pre-operating activities but also the start-up of the development and production phase when these COCs are approved.

Determining Operating Segments. Determination of operating segments is based on the information about components of the Group that management uses to make decisions about the operating matters. Operating segments use internal reports that are regularly reviewed by the Group's chief operating decision maker. The Group is organized into one reportable segment which is related to coal mining operations. All significant operating decisions are based upon the analysis of the Group as one segment.

Classifying Lease Commitment - Group as a Lessee. The Group has lease agreement for its office space. The Group has determined that the risk and rewards of ownership related to the leased property are retained by the lessor. Accordingly, the lease is accounted as operating lease.

Rent expense amounted to ₱0.8 million in 2018 and 2017, and ₱4.6 million in 2016 (see Note 20).

Assessing ECL on Financial Assets at Amortized Cost. The Group estimates ECL of receivables from incidental sale of coal, receivable from an officer and other receivables using provision matrix. The provision rates are based on days past due for groupings of receivables with similar credit risk characteristics and loss patterns. The provision matrix is based on the Group's historical default rates and is adjusted for forward-looking estimates, as appropriate. The Group has no observed default experience from receivables from incidental sale of coal, receivable from an officer and other receivables. Consequently, the resulting lifetime ECL on receivables from incidental sale of coal, receivable from an officer and other receivables is considered not significant.

The Group's advances to related parties are non-interest bearing and payable on demand. These exposures are considered to be in default when there is evidence that the related party is in significant financial difficulty such that it will have insufficient liquid assets to repay its obligation upon demand. This is assessed based on a number of factors including key liquidity and solvency ratios. Relying on the 90 days past due rebuttable presumption is not considered an appropriate backstop indicator given the lack of contractual payment obligations due throughout the life of the advances. After taking into consideration the related parties' ability to pay depending on the sufficiency of liquid assets and available forward-looking information, the risk of default of the related parties are assessed to be minimal.

For cash and cash equivalents, time deposits included in funds held in escrow and restricted cash, the Group applies low credit risk simplification. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The resulting ECL for these financial assets is considered insignificant because the counterparty banks have no history of default and have good credit ratings.

Financial assets at amortized cost are considered as credit-impaired when contractual payments are 90 days past due and the counterparty is unlikely to settle its obligation to the Group, as evidenced by the following, among others:

- Significant financial difficulty or insolvency;
- Breach of financial covenants;
- Probability that the counterparty will enter bankruptcy or other financial reorganization.

No provision for impairment losses on the Group's financial assets at amortized cost was recognized in 2018, 2017 and 2016.

The carrying amounts of financial assets at amortized cost that were subjected to ECL assessment are disclosed in Note 16.

Capitalizing Exploration and Evaluation Expenditure. The capitalization of exploration and evaluation expenditure requires judgment in determining whether there are future economic benefits from future exploitation or sale of coal reserves. The capitalization requires management to make certain estimates and assumptions about future events or circumstances, in particular, whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available.

As at December 31, 2018 and 2017, exploration and evaluation asset amounted to ₱585.8 million and ₱535.0 million, respectively (see Note 8).

Estimating Useful Lives of Property and Equipment. The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment are based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

Based on management's assessment, there is no change in estimated useful lives of property and equipment in 2018, 2017 and 2016. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

Depreciation and amortization amounted to ₱43.2 million, ₱44.2 million and ₱44.5 million in 2018, 2017 and 2016, respectively. As at December 31, 2018 and 2017, depreciable property and equipment, net of accumulated depreciation and amortization, amounted to ₱168.9 million and ₱204.4 million, respectively (see Note 9).

Estimating Coal Reserves. The Group estimates its coal reserves based on information compiled by competent persons on geological and technical data on the size, depth, shape and grade of the mineral body and suitable production techniques and recovery rates. The analysis requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of commodity prices, foreign exchange rates, future capital requirements, discount rate, and production costs along with geological assumptions and judgments made in estimating the size and grade of the mineral body.

Management assumes conservative forecasted sales prices, based on current and long-term historical average price trends. Conservative forecasted sales price assumptions generally result in lower estimates of reserves.

As the economic assumptions used may change and as additional geological information is obtained during the exploration and evaluation of the mine properties, estimates of reserves may change. The changes may impact the Group's reported financial position and results which include:

- The carrying amounts of exploration and evaluation asset and property and equipment may be affected due to changes in estimated future cash flows; and

- The recognition and carrying amount of deferred tax assets may change due to changes in the judgment regarding the existence of such assets and in estimates of the likely recovery of such assets.

Assessing Impairment of Nonfinancial Assets. The Group assesses impairment on nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of the assets or group of assets may not be recoverable. The relevant factors that the Group considers in deciding whether to perform an asset impairment review include, among others, the following:

- Significant underperformance of a business in relation to expectations;
- Significant negative industry or economic trends;
- Significant changes or planned changes in the use of the assets;
- Significant changes in the estimation of coal reserves;
- Expiration of the right to explore the areas;
- Significant unbudgeted or unplanned expenditures for exploration and evaluation; and
- Management's decision to discontinue activities in specific areas.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

Recoverable amount of an asset is higher of is its fair value less costs to sell or value-in-use. Value-in-use is determined as the present value of estimated future cash flows expected to be generated from the Group's expected mining operations. The estimated cash flows are discounted using pre-tax discount rates that reflect the current assessment of the time value of money and the risks specific to the asset.

No impairment loss on other nonfinancial assets was recognized in 2018, 2017 and 2016. The carrying amounts of other nonfinancial assets are as follows:

	Note	**2018**	2017
Coal reserves	4	**₱3,131,596,101**	₱3,131,596,101
Exploration and evaluation asset	8	**585,755,321**	534,956,340
Property and equipment	9	**187,025,922**	222,560,983
Advances to officers and employees*	7	**–**	91,570

**Presented under "Other current assets" account.*

Assessing Recoverability of Input VAT. The carrying amount of input VAT is adjusted to the extent that it is probable that revenue subject to output VAT will be available to allow all or part of the input VAT and deferred input VAT to be utilized. Any allowance for probable loss is maintained at a level considered adequate to provide for potentially probable loss. The level of allowance is based on past application experience and other factors that may affect realizability.

Provision for probable loss amounted to ₱0.1 million in 2018, 2017 and 2016. Allowance for probable loss amounted to ₱1.9 million and ₱1.8 million as at December 31, 2018 and 2017, respectively. As at December 31, 2018 and 2017, input VAT is fully provided by allowance (see Note 7).

Estimation of Retirement Benefits Cost. The determination of the obligation and cost of retirement and other long-term employee benefits is dependent on the assumptions used by the actuary in calculating such amounts. These assumptions are described in Note 14 to the consolidated financial statements and include, among others, discount rates and salary increase rates. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

Retirement benefits cost (income) amounted to ₱0.5 million in 2018 and 2017, and (₱1.2 million) in 2016. The retirement benefits liability amounted to ₱4.7 million and ₱4.2 million as at December 31, 2018 and 2017, respectively (see Note 14).

Recognizing Deferred Tax Assets. The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces deferred tax assets 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 Group did not recognize deferred tax assets amounting to ₱2.9 million and ₱3.4 million as at December 31, 2018 and 2017, respectively, as management has assessed that the Group may not be able to utilize these deductible temporary differences against future taxable income. As at December 31, 2018 and 2017, the Group recognized deferred tax assets, net of unrecognized deferred tax, amounting to ₱15.8 million and ₱13.9 million, respectively (see Note 18).

4. Coal Reserves

The Parent Company acquired TMEC in 2012 (see Note 1) in exchange for the Parent Company's common shares valued at ₱3,200.0 million. The Parent Company recognized the portion of the consideration amounting to ₱3,131.6 million as coal reserves.

In 2018 and 2017, the Group carried out a review of the recoverable amount of its coal reserves, exploration and evaluation assets, and property and equipment. The impairment test is based on value in use calculations using discounted cash flow approach from the Group's operations.

The key assumptions used to determine the value-in-use of the nonfinancial assets are as follows:

	2018	2017
Coal price	**$58/MT**	$55/MT
Foreign exchange rate	**₱54.00:$1**	₱49.93:$1
Discount rate	**15.50%**	12.60%
Estimated coal	**17.3 MMT**	17.3 MMT

The cash flow projections are based on the most recent feasibility study approved by the senior management. The values assigned to each key assumption are estimated with reference to recent external market information.

Average forecast period for COC No. 159 and COC No. 166 is at 9 years and 5 years, respectively. The average forecast period for COC No. 159 is greater than 5 years as management can reliably estimate the cash flow for the entire duration. The terminal value was computed based on a zero-growth assumption for forecasts beyond the average forecast period.

Based on the impairment test performed, management assessed that the recoverable amount of the coal reserves and other nonfinancial assets exceeded its carrying amount. Management also believes that no reasonably possible change in any of the key assumptions would cause the carrying amounts of the nonfinancial assets to materially exceed their respective recoverable amounts.

In 2012, the Group obtained an independent valuation report to estimate the value of TMEC's coal reserves in accordance with the PSE Guidelines for Fairness Opinions and Valuation Reports. The valuation was determined using the discounted cash flow approach based on assumptions and information secured from the Competent Persons Reports on the Davao Oriental and Zamboanga Sibugay Projects and available market information.

The independent valuation determined the value of the Group's coal reserves at ₱12.5 billion.

5. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand	**₱14,264**	₱126,720
Cash in banks	**3,725,551**	828,210
Cash equivalents	**6,879,196**	30,000,000
	₱10,619,011	₱30,954,930

Cash in banks earn interest at the prevailing market interest rates.

Cash equivalents refer to a two-month time deposit in a local bank which earns interest of 2.5% annually.

Interest income consists of:

	Note	**2018**	2017	2016
Cash in banks		**₱5,489**	₱9,159	₱10,375
Cash equivalents		**479,196**	–	–
Restricted cash	7	**178,055**	26,342	–
Funds held in escrow	6	**26,187**	259,634	735,457
		₱688,927	₱295,135	₱745,832

6. Funds Held in Escrow

Proceeds of IPO are kept separate from other Group's funds and managed by a commercial bank in accordance with the work program approved by the SEC and PSE.

The funds held in escrow consist of the following:

	2018	2017
Assets:		
Time certificates of deposit - own bank	**₱653,632**	₱554,067
Time certificates of deposit - other bank	–	5,074,581
Other assets	**1,208**	5
	₱654,840	₱5,628,653
Equity:		
Net Proceeds	**₱748,209,915**	₱748,209,915
Net accumulated income	**13,393,420**	13,367,233
Withdrawals	**(760,948,495)**	(755,948,495)
	₱654,840	₱5,628,653

Withdrawals from the fund held in escrow amounted to ₱5.0 million, ₱32.5 million and ₱50.0 million in 2018, 2017 and 2016, respectively.

Interest income earned amounted to ₱26,187, ₱259,634 and ₱735,457 in 2018, 2017 and 2016, respectively (see Note 5).

The balance of the trust was certified by the Custodian Bank.

7. Other Current and Noncurrent Assets

This account consists of:

	2018	2017
Current:		
Input VAT	**₱1,918,218**	₱1,804,218
Receivables from incidental sale of coal	**150,728**	150,728
Prepayments	**42,020**	60,049
Receivable from an officer	–	4,274,551
Advances to officers and employees	–	91,570
Other receivables	–	172,410
	2,110,966	6,553,526
Less allowance for probable loss	**(1,918,218)**	(1,804,218)
	₱192,748	₱4,749,308
Noncurrent -		
Restricted cash	**₱1,051,370**	₱2,719,464

The input VAT is fully provided with allowance probable loss. Management has assessed that the Company will not be able to utilize its input VAT.

Movements in the allowance for unrecoverable input VAT are as follow:

	Note	2018	2017
Balance at beginning of year		**₱1,804,218**	₱1,701,258
Provision	12	**114,000**	102,960
Balance at end of year		**₱1,918,218**	₱1,804,218

Receivables from incidental sale of coal pertain to uncollected proceeds from the sale of incidentally produced coal, which is in accordance with the Permits to Transport and Sell (PTS) issued by the DOE (see Note 20).

Receivable from an officer pertains to the advances made for business purposes.

Other receivables pertain to receivables from third parties. These are noninterest-bearing and are generally collected within one year.

Restricted cash includes cash bond required pursuant to the application of the permit to proceed with the development phase for COC No. 159 and cash set aside to settle obligations arising from a court case.

In 2018, the National Labor Relations Commission released motion to issue order of release of the garnished deposit to execute the judgement award amounting to ₱1.8 million.

Interest income earned from the restricted cash amounted to ₱178,055 and ₱26,342 in 2018 and 2017, respectively (see Note 5).

8. Exploration and Evaluation Asset

Exploration and evaluation asset are costs incurred on the mining properties situated in the provinces of Davao Oriental and Zamboanga Sibugay, Philippines.

COC Nos. 159 and 166 provide a minimum work expenditure on obligations covered by the work program at the exploration phase (see Note 20).

The recovery of these costs depends on the conversion of the COCs to development and production phase.

Balances and movements of this account are as follows:

	2018	2017
Balances at beginning of year	**₱534,956,340**	₱480,756,581
Additions	**50,798,981**	54,199,759
Balances at end of year	**₱585,755,321**	₱534,956,340

The additions to the exploration and evaluation asset are as follows:

	Note	2018	2017
Depreciation and amortization	9	**₱43,133,231**	₱43,986,526
Personnel costs	13	**5,119,764**	6,687,748
Professional fees		**1,296,467**	2,149,854
Utilities		**216,397**	121,615
Others		**1,033,122**	1,254,016
		₱50,798,981	₱54,199,759

Others include fuel, security services, communication, transportation, hauling costs, and repairs and maintenance.

Included as part of additions to the exploration and evaluation asset are noncash items as follows:

	Note	2018	2017
Depreciation and amortization	9	**₱43,133,231**	₱43,986,526
Retirement benefits cost	14	**393,839**	390,509
		₱43,527,070	₱44,377,035

The financial information as at and for the years ended December 31, 2018 and 2017 from the exploration and evaluation of coal resources are as follows:

	2018	2017
Total assets	**₱793,020,036**	₱779,291,804
Total liabilities	**576,142,181**	556,550,346
Other income (from incidental sales)	**–**	884,366
Expenses	**7,817,330**	6,742,828
Net cash used in operating activities	**(2,653,867)**	(8,887,919)
Net cash used in investing activities	**(14,929,778)**	(15,267,743)
Net cash provided by financing activities	**20,570,555**	18,553,633

Based on the review of the recoverable amount of the Group's nonfinancial assets, management determined that there are no impairment losses in exploration and evaluation asset (see Note 4).

9. Property and Equipment

Balances and movements of this account are as follows:

	2018								
	Land	Drilling Equipment	Land Improvements	Laboratory and Camp Buildings	Survey Equipment and Machineries	Laboratory and Testing Equipment	Transportation Equipment	Office Furniture and Equipment	Total
Cost									
Balances at beginning of year	₱18,139,580	₱194,212,031	₱139,921,695	₱25,429,304	₱3,264,334	₱12,606,310	₱9,794,774	₱1,818,835	₱405,186,863
Additions	–	–	7,657,867	–	–	–	–	–	7,657,867
Balance at end of year	18,139,580	194,212,031	147,579,562	25,429,304	3,264,334	12,606,310	9,794,774	1,818,835	412,844,730
Accumulated Depreciation									
Balances at beginning of year	–	112,776,964	39,044,795	7,416,882	2,589,226	9,273,119	9,779,534	1,745,360	182,625,880
Depreciation	–	24,387,311	13,263,920	2,542,932	417,806	2,521,262	15,240	44,457	43,192,928
Balances at end of year	–	137,164,275	52,308,715	9,959,814	3,007,032	11,794,381	9,794,774	1,789,817	225,818,808
Carrying Amount	₱18,139,580	₱57,047,756	₱95,270,847	₱15,469,490	₱257,302	₱811,929	₱–	₱29,018	₱187,025,922

	2017									
	Land	Drilling Equipment	Land Improvements	Laboratory and Camp Buildings	Survey Equipment and Machineries	Laboratory and Testing Equipment	Transportation Equipment	Office Furniture and Equipment	Construction in Progress	Total
Cost										
Balances at beginning of year	₱18,139,580	₱194,212,031	₱132,639,195	₱25,429,304	₱3,264,334	₱12,606,310	₱9,794,774	₱1,818,835	₱1,837,481	₱399,741,844
Additions	–	–	5,445,019	–	–	–	–	–	–	5,445,019
Reclassification	–	–	1,837,481	–	–	–	–	–	(1,837,481)	–
Balances at end of year	18,139,580	194,212,031	139,921,695	25,429,304	3,264,334	12,606,310	9,794,774	1,818,835	–	405,186,863
Accumulated Depreciation										
Balances at beginning of year	–	88,389,653	25,285,962	4,873,950	2,171,423	7,221,926	8,859,640	1,614,626	–	138,417,180
Depreciation	–	24,387,311	13,758,833	2,542,932	417,803	2,051,193	919,894	130,734	–	44,208,700
Balances at end of year	–	112,776,964	39,044,795	7,416,882	2,589,226	9,273,119	9,779,534	1,745,360	–	182,625,880
Carrying Amount	₱18,139,580	₱81,435,067	₱100,876,900	₱18,012,422	₱675,108	₱3,333,191	₱15,240	₱73,475	₱–	₱222,560,983

Details of depreciation and amortization are as follows:

	2018	2017	2016
Property and equipment	**₱43,192,928**	₱44,208,700	₱44,285,129
Intangible asset	**–**	–	193,018
	₱43,192,928	₱44,208,700	₱44,478,147

Depreciation and amortization are charged as follows:

	Note	2018	2017	2016
Exploration and evaluation asset	8	**₱43,133,231**	₱43,986,526	₱43,959,608
General and administrative expenses	12	**59,697**	222,174	518,539
		₱43,192,928	₱44,208,700	₱44,478,147

The reclassification in 2017 from construction in progress to land improvements pertains to completed road improvements, street lights and pier boulders.

Fully depreciated property and equipment that are still being used by the Group amounted to ₱19.0 million and ₱7.3 million as at December 31, 2018 and 2017, respectively.

Based on the review of the recoverable amount of the Group's nonfinancial assets, management determined that there are no impairment losses in property and equipment in 2018 and 2017 (see Note 4).

10. Trade and Other Payables

This account consists of:

	2018	2017
Trade	**₱7,163,177**	₱8,258,189
Accrued expenses	**1,274,052**	1,250,885
Withholding taxes payable	**119,367**	164,078
Other statutory payables	**–**	40,260
	₱8,556,596	₱9,713,412

Trade payables are noninterest-bearing and are due and demandable.

Accrued expenses pertain to accruals for security and janitorial services, and interest which are expected to be settled within one year.

Other statutory payables pertain to the payable to other government agencies which are normally settled in the following month.

11. **Loan Payable**

In 2015, the Group obtained a loan of ₱30.3 million from a local financing company to finance the acquisition of trucks and heavy equipment.

The loan bears an annual interest rate of 9% and is payable in 36 monthly instalments starting May 30, 2015.

On August 31, 2018, the Company fully paid its loan payable.

Interest expense amounted to ₱0.1 million, ₱1.0 million and ₱1.9 million in 2018, 2017 and 2016, respectively. Accrued interest amounting to ₱27,616 as at December 31, 2017 is reported as part of "Accrued expenses" under "Trade and other payables" account.

Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities as at December 31, 2018 and 2017, including both cash and noncash changes:

	2018					
			Noncash Changes			
	Balance at Beginning of Year	**Financing Cash Flows**	**Fair Value Adjustments**	**Foreign Exchange Changes**	**Other Changes**	**Balance at End of Year**
Advances from related parties	**₱30,025,377**	**₱–**	**₱–**	**₱–**	**₱–**	**₱30,025,377**
Loan payable	**5,629,445**	**(5,629,445)**	**–**	**–**	**–**	**–**
	₱35,654,822	**(₱5,629,445)**	**₱–**	**₱–**	**₱–**	**₱30,025,377**

	2017					
			Noncash Changes			
	Balance at Beginning of Year	Financing Cash Flows	Fair Value Adjustments	Foreign Exchange Changes	Other Changes	Balance at End of Year
Advances from related parties	₱25,820	₱29,999,557	₱–	₱–	₱–	₱30,025,377
Loan payable	16,211,365	(10,581,920)	–	–	–	5,629,445
	₱16,237,185	₱19,417,637	₱–	₱–	₱–	₱35,654,822

12. **General and Administrative Expenses**

This account consists of:

	Note	**2018**	2017	2016
Personnel costs	13	**₱5,959,618**	₱4,238,912	₱3,889,135
Professional fees		**1,916,488**	2,170,319	1,514,442
Rental	20	**758,095**	758,095	4,557,665
Transportation and communication		**350,837**	507,256	887,325
Taxes and licenses		**270,481**	315,999	238,705
Listing fee		**256,720**	258,000	250,000
Safekeeping fee		**201,000**	208,700	216,250
Outside services		**191,024**	205,016	214,349
Representation and entertainment		**165,700**	106,721	6,992,655
Provision for probable loss	7	**114,000**	102,960	136,156

(Forward)

	Note	2018	2017	2016
Insurance		**₱64,137**	₱93,777	₱184,805
Repairs and maintenance		**62,521**	83,022	166,920
Depreciation and amortization	9	**59,697**	222,174	518,539
Office supplies		**25,138**	11,623	62,541
Others		**247,948**	625,388	1,091,638
		₱10,643,404	₱9,907,962	₱20,921,125

13. Personnel Costs

Personnel costs charged to "Exploration and evaluation asset" account consist of:

	Note	2018	2017	2016
Salaries and wages		**₱4,602,725**	₱6,171,320	₱14,148,346
Retirement benefits cost (income)	14	**393,839**	390,509	(1,009,464)
Employee benefits		**123,200**	125,919	447,075
		₱5,119,764	₱6,687,748	₱13,585,957

Personnel costs classified under "General and administrative expenses" account consists of:

	Note	2018	2017	2016
Salaries and wages		**₱5,665,254**	₱3,971,416	₱3,973,762
Employee benefits		**167,623**	138,982	138,036
Retirement benefits cost (income)	14	**126,741**	128,514	(222,663)
		₱5,959,618	₱4,238,912	₱3,889,135

14. Retirement Benefits Liability

The Group has an unfunded defined benefit plan covering all of qualified regular employees of TMEC. The benefits are based on years of service and compensation. The plan provides for a lump-sum benefit payment upon retirement which shall not be less than the minimum mandated retirement benefit plan under Republic Act (RA) No. 7641 Retirement Pay Law. The latest actuarial valuation as at December 31, 2016 was prepared by an independent actuary using the projected unit credit method.

The components of retirement benefits cost (income) are as follows:

	2018	2017	2016
Current service cost	**₱299,471**	₱324,984	₱1,483,122
Interest cost	**221,109**	194,039	240,765
Past service income	**–**	–	(2,956,014)
	₱520,580	₱519,023	(₱1,232,127)

Retirement benefits costs (income) are charged as follows:

	Note	2018	2017	2016
Exploration and evaluation asset	8	**₱393,839**	₱390,509	(₱1,009,464)
General and administrative expenses	13	**126,741**	128,514	(222,663)
		₱520,580	₱519,023	(₱1,232,127)

The changes in the present value of the retirement benefits liability are as follows:

	2018	2017
Balance at beginning of year	**₱4,219,642**	₱3,700,619
Current service cost	**299,471**	324,984
Interest cost	**221,109**	194,039
Balance at end of year	**₱4,740,222**	₱4,219,642

The cumulative remeasurement gain recognized as OCI as at December 31, 2018 and 2017 are as follows:

	2018		
	Cumulative Remeasurement Gain	**Deferred Tax (see Note 18)**	**Net**
Balances at beginning and end of year	**₱236,166**	**₱70,850**	**₱165,316**

	2017		
	Cumulative Remeasurement Gain	Deferred Tax (see Note 18)	Net
Balances at beginning and end of year	₱236,166	₱70,850	₱165,316

The principal actuarial assumptions used to determine the retirement benefits cost as at December 31, 2018 and 2017 are as follows:

	2018	2017
Discount rate	**7.09%**	5.24%
Salary increase rate	**8.00%**	8.00%

Sensitivity analysis on retirement benefits liability as at December 31, 2018 is as follows:

	Change in Assumption	Effect on defined benefit liability
Discount rate	(1.00%)	(₱119,568)
	1.00%	101,038
Salary increase rate	1.00%	19,533
	(1.00%)	(19,533)

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the defined benefit liability at the end of each reporting date after adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all other assumptions remained unchanged.

The table below shows the 10-year maturity analysis of expected future benefit payments:

	Expected Benefit Payments
More than one year to five years	₱1,167,797
More than five years to ten years	2,238,734

The weighted average duration of the retirement benefits liability is 13.4 years as at December 31, 2018.

15. Related Party Transactions

The transactions of the Group, in the normal course of business, with its related parties, and the outstanding balances from related parties arising from such transactions are as follows:

	Nature of Transactions	Amount of Transactions		Outstanding Balances	
		2018	2017	**2018**	2017
Advances to related parties -					
Entities under Common Ownership	Advances for working capital	**₱1,782,665**	₱2,653,141	**₱1,464,711**	₱1,555,438
Advances from related parties:					
Stockholders	Advances for working capital	**₱–**	₱30,000,000	**₱30,000,000**	₱30,000,000
Entities under Common Ownership	Advances for working capital	**–**	–	**25,377**	25,377
				₱30,025,377	₱30,025,377
Trade payables -					
Entities under Common Ownership	Rental	**₱758,095**	₱758,095	**₱–**	₱–

Terms and Conditions

Advances to/from related parties are unsecured, noninterest-bearing, generally settled in cash and due on demand. No impairment loss on advances to related parties was recognized in 2018, 2017 and 2016.

Trade payables to related parties are unsecured, noninterest-bearing, generally settled in cash and are due and demandable.

Other Transactions

The advances of the Parent Company to TMEC amounting to ₱563.6 million and ₱537.4 million as at December 31, 2018 and 2017, respectively, were eliminated during consolidation. These advances were for working capital purposes. No impairment loss on these advances was recognized in 2018, 2017 and 2016.

The Group has a lease agreement for its office space with its related party under common control, JTKC Equities, Inc., valid until July 31, 2015 and renewable upon mutual consent of both parties. In 2017, the Group renewed the lease agreement but with lesser area. Rental expense amounted to ₱0.8 million in 2018 and 2017, and ₱4.6 million in 2016, respectively (see Note 20).

Key Management Personnel Compensation

The compensation of key management personnel of the Group are as follow:

	2018	2017	2016
Short-term employee benefits	**₱5,070,000**	₱5,609,708	₱8,916,522
Post-employment benefits	**369,739**	244,786	496,250
	₱5,439,739	₱5,854,494	₱9,412,772

16. Financial Assets and Liabilities

The Group's financial instruments consist mainly of financial assets and financial liabilities directly related to operations, specifically cash and cash equivalents, advances to related parties, time deposit included in funds held in escrow, receivable from an officer, restricted cash, receivables from incidental sale of coal, other receivables (presented under "Other current assets" account), restricted cash (presented as "Other noncurrent asset" account), trade and other payables (excluding statutory payables), advances from related parties and loan payable.

Financial Risk Management Objectives and Policies

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and interest rate risk. The BOD reviews and agrees on policies for managing each of these risks.

Credit Risk. Credit risk is a risk due to uncertainty in counterparty's ability to meet its obligations. When counterparty defaults, the maximum exposure is equal to the carrying amount of the related financial asset. The Group's credit risk arises principally from cash and cash equivalents, advances to related parties, time deposit included in funds held in escrow, receivable from an officer, receivables from incidental sale of coal and other receivables (presented under "Other current assets" account) and restricted cash (presented as "Other noncurrent asset" account).

The Group trades mainly with recognized and creditworthy third parties as well as with related parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, the Group only deals with financial institutions duly evaluated and approved by the BOD.

The following tables summarize the credit quality of the Group's financial assets at amortized cost as at December 31, 2018 and 2017:

	2018					
	Neither Past Due nor Impaired					
	High Grade	Standard Grade	Substandard Grade	Past Due but not Impaired	Credit-impaired	Total
Financial assets at amortized cost:						
Cash and cash equivalents*	₱10,604,747	₱–	₱–	₱–	₱–	₱10,604,747
Advances to related parties	1,464,711	–	–	–	–	1,464,711
Funds held in escrow	654,840	–	–	–	–	654,840
Receivables from incidental sale of coal**	150,728	–	–	–	–	150,728
Restricted cash***	1,051,370	–	–	–	–	1,051,370
	₱13,926,396	₱–	₱–	₱–	₱–	₱13,926,396

**Excluding cash on hand amounting to ₱14,264 as at December 31, 2018.*
*** Presented under "Other current assets" account.*
**** Presented under "Other noncurrent asset" account.*

	2017					
	Neither Past Due nor Impaired					
	High Grade	Standard Grade	Substandard Grade	Past Due but not Impaired	Credit-impaired	Total
Financial assets at amortized cost:						
Cash and cash equivalents*	₱30,828,210	₱–	₱–	₱–	₱–	₱30,828,210
Advances to related parties	1,555,438	–	–	–	–	1,555,438
Funds held in escrow	5,628,653	–	–	–	–	5,628,653
Receivable from an officer**	4,274,551	–	–	–	–	4,274,551
Receivables from incidental sale of coal**	150,728	–	–	–	–	150,728
Other receivables**	–	172,410	–	–	–	172,410
Restricted cash***	2,719,464	–	–	–	–	2,719,464
	₱45,157,044	₱172,410	₱–	₱–	₱–	₱45,329,454

**Excluding cash on hand amounting to ₱0.1 million as at December 31, 2017.*
*** Presented under "Other current assets" account.*
**** Presented under "Other noncurrent asset" account.*

The credit quality of the financial assets is managed by the Group using internal credit quality ratings. High grade consists of financial assets from counterparties with good financial condition and with relatively low defaults. This also includes transactions with related parties with sufficient liquid assets to settle its obligation upon demand of the Group. Financial assets having risks of default but are still collectible are considered as standard grade accounts. Financial assets that require persistent effort from the Group to collect are considered substandard grade accounts.

Cash in banks, cash equivalents, time deposit included in funds held in escrow and restricted cash are considered high grade as these pertain to deposits and placements in reputable banks with prime ratings. The Group considers that these financial assets have low credit risk based on the external ratings of the counterparties.

Advances to related parties are mainly exposures to related parties and are considered as high grade because the related parties are operating entities with sufficient liquid assets to repay the receivables upon demand by the Group.

With the exception of receivable from an officer, receivables from incidental sale of coal and other receivables which are always subject to lifetime ECL, impairment of financial assets at amortized cost has been measured on 12-month ECL basis and reflects the short maturities of the exposures. The resulting ECL is not significant because the financial assets are considered high grade with minimal risk of default.

Liquidity Risk. Liquidity risk arises from the Group's inability to raise sufficient funds at the least possible cost to meet its financial commitments. The Group's objectives in liquidity management are: (a) to ensure that adequate funds are available to meet expiring obligations; (b) to meet the commitments as they arise without incurring unnecessary costs; and (c) to be able to access additional funding when needed at the least possible cost.

The table below summarizes the maturity profile of the financial liabilities at amortized cost of the Group based on remaining contractual undiscounted cash flows as at December 31, 2018 and 2017:

	2018			
	On Demand	**Within 1 Year**	**Over 1 Year**	**Total**
Trade and other payables*	**₱8,437,229**	**₱–**	**₱–**	**₱8,437,229**
Advances from related parties	**30,025,377**	**–**	**–**	**30,025,377**
	₱38,462,606	**₱–**	**₱–**	**₱38,462,606**

**Excluding statutory payables amounting to ₱0.1 million as at December 31, 2018.*

	2017			
	On Demand	Within 1 Year	Over 1 Year	Total
Trade and other payables*	₱9,509,074	₱–	₱–	₱9,509,074
Advances from related parties	30,025,377	–	–	30,025,377
Loan payable**	–	5,780,409	–	5,780,409
	₱39,534,451	₱5,780,409	₱–	₱45,314,860

**Excluding statutory payables amounting to ₱0.2 million as at December 31, 2017.*
***Including future interest payments.*

Interest Rate Risk. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group's market risk policy requires it to manage interest rate risk by maintaining fixed rate instruments. The policy also requires it to manage the maturities of interest-bearing financial assets and liabilities. Any gap between the maturities of the instruments is effectively managed by the Group. Interest rate changes are not significant to affect the Group's financial performance.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains strong and healthy financial position to support its current business operations.

The Group manages the capital structure and makes adjustments when there are changes in the economic conditions, its business activities, expansion programs and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust its borrowings or raise capital.

In determining reasonable leverage, the Group evaluates its cost of capital and manages its level of debt to maintain an optional cost of capital based in current conditions. The Group considers its equity, excluding OCI, as capital amounting to ₱3,889.2 million and ₱3,897.5 million as at December 31, 2018 and 2017, respectively.

The TMEC is subject to externally-imposed capital requirements applicable to applicants for exploration permits. The minimum paid-up capital is ₱6.25 million. The TMEC has complied with the capital requirements during the reported financial periods and no changes were made to its capital base, objectives, policies and processes from the previous years.

17. Fair Value Measurement of Financial Instruments

Presented below is a comparison category of the carrying and fair values of all the Group's financial assets and liabilities as at December 31, 2018 and 2017.

	2018		2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets at Amortized Cost:				
Cash and cash equivalents	**₱10,619,011**	**₱10,619,011**	₱30,954,930	₱30,954,930
Advances to related parties	**1,464,711**	**1,464,711**	1,555,438	1,555,438
Funds held in escrow	**654,840**	**654,840**	5,628,653	5,628,653
Receivables from incidental sale of coal*	**150,728**	**150,728**	150,728	150,728
Receivable from an officer*	**–**	**–**	4,274,551	4,274,551
Other receivables*	**–**	**–**	172,410	172,410
Restricted cash**	**1,051,370**	**1,051,370**	2,719,464	2,719,464
	₱13,940,660	**₱13,940,660**	₱45,456,174	₱45,456,174
Financial Liabilities at Amortized Cost:				
Trade and other payables***	**₱8,437,069**	**₱8,437,069**	₱9,509,074	₱9,509,074
Advances from related parties	**30,025,377**	**30,025,377**	30,025,377	30,025,377
Loans payable	**–**	**–**	5,629,445	5,629,445
	₱38,462,446	**₱38,462,446**	₱45,163,896	₱45,163,896

**Presented under "Other current assets" account.*
***Presented as "Other noncurrent asset" account.*
****Excluding statutory payables amounting to ₱0.1 million and ₱0.2 million as at December 31, 2018 and 2017, respectively.*

Cash and Cash Equivalents, Advances to Related Parties, Funds Held in Escrow, Receivables from Incidental Sale of Coal, Receivable from an Officer, Other Receivables, Trade and Other Payables, Advances from Related Parties, and Loans Payable. The carrying amounts of these financial assets and liabilities approximate their fair values primarily due to the relatively short-term maturity of these financial instruments.

Restricted Cash. The carrying amounts of this financial instrument approximate their fair value. The effects of not discounting the cash flows from these instruments were determined by management to be insignificant.