

PSE Number: _____
SEC Number: 2022030044636-59
File Number: _____

Premiere Island Power REIT Corporation

(Company's Full Name)

4th Floor Starmall IT Hub, CV Starr, Philamlife, Pamplona Dos, Las Piñas City 1747

(Company Address)

+63(2) 8734 5732 / +63(2) 8775 8072

(Telephone Number)

December 31

(Fiscal Year Ending)

30 September 2023

Period Ended Date

Quarterly Report - SEC Form 17-Q

(Form Type)

N/A

(Amendments – if applicable)

PART I –FINANCIAL INFORMATION

Item 1. Interim Financial Statements

The interim Financial Statements of Premiere Island Power REIT Corporation (“PREIT” or the “Company”) for the period 1 January to 30 September 2023 and as of 30 September 2023 with comparative figures for the period 4 March to 30 September 2022 and as of 31 December 2022.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

A. Results of Operations (Financial Performance)

Review of results of operations for the nine (9) months ended 30 September 2023 and for period from 4 March 2022 to 30 September 2022. PREIT was incorporated on 4 March 2022 and started its commercial operations in September 2022

Revenue increased from P 202.9 million to P 456.6 million

Revenue solely pertains to income from the lease of properties to the lessees who operate power plants on such leased properties. The amount of revenue recognized was in accordance with the relevant Philippine Financial Reporting Standards (PFRS). Under PFRS 16, the rental income includes the effect of a straight-line basis of accounting over the lease term.

Cost of Rentals increased from P 23.6 million to P 53.1 million

Cost of rentals was mainly attributable to depreciation of generation assets. As well as local taxes and fees for property and fund management account for the remaining cost of rentals.

Operating expenses decreased from P 5.9 million to P 3.2 million

The Company incurred taxes and licenses for the period 4 March to 30 September 2023 related to an increased in authorized capital. Operating expenses for the period 1 January to 30 September 2023 mainly pertain to professional fees of independent directors and fees of stock transfer agents.

Net finance cost increased to P 0.3 million

This pertains to finance costs on lease liability and interest income on bank deposits. Interest income for the period ended 30 September 2023 amounted to P 3,904

There were no items reported in Other Comprehensive Income during both periods.

Financial Position as of 30 September 2023 as compared with financial position as of 31 December 2022

Assets remained at P 8.9 billion

Current assets decreased by P 0.98 million primarily due to the declaration of cash dividends and collection of receivables, despite the net increase in prepayments. There was a decrease in noncurrent assets of P 39.4 million primarily due to the depreciation of generation assets.

Cash increased from P 4.6 million to P 48.4 million

The increase in cash balance is due to the collection of receivables from tenants. In addition to the payment of expenses, the Company also distributed dividends out of the distributable income for the period 4 March to 31 December 2022, for the quarter ended 31 March 2023, and for the quarter ended 30 June 2023 which amounted to P 224.3 million, P 98.3 million, and P 188.0 million respectively.

Trade and other receivables decreased from P 392.4 million to P 296.1 million

The decrease in trade and other receivables is primarily due to a higher collection of receivables amounting to P 602.1 million as compared to the additional receivables recognized during the period amounting to P 505.9 million.

Prepayments and other current assets increased from P 0.60 million to P 52.1 million

The increase is due to prepaid income taxes. These will be utilized against any future income tax payable.

Net property and equipment decreased from P 897.6 million to P 858.2 million

The decrease is primarily due to the depreciation of fixed assets for the year's first three quarters.

Investment properties remained at P 7.6 billion

The Company's investment properties, which comprise lands (including land subject to right-of-use of the asset) and buildings leased out to power plant operators, amounted to P 7.6 billion. There was no movement during the quarter as there were no acquisitions and disposals and the appraisal of property is conducted at year-end.

Deferred tax assets remained at P 32.4 million

Deferred taxes resulted mainly from unrealized gains and losses related to the fair value changes of the Company's investment properties, property, and equipment. There were no transactions resulting to deferred taxes for the period ended 30 September 2023.

Liabilities increased from P 131.0 million to P 131.3 million

At the end of the quarter, the Company had current liabilities of P 125.3 million and non-current liabilities of P 6.0 million. The net increase is primarily due to an increase in output VAT and deferred output vat from rental income not yet collected.

Trade and other payables increased from P 59.7 million to P 124.9 million

The increase mainly pertains to deferred output VAT on rental income, accrual of administrative expenses, and mandatory deductions to be remitted to the government.

Lease liability (including the non-current portion) decreased from P 6.7 million to P 6.4 million

Movements to the account were due to repayments and amortization during the period.

Equity decreased from P 8.77 billion to P 8.73 billion

The decrease is mainly due to the declaration of dividends during the second quarter and third quarters. On 27 April 2023, the Company declared dividends in relation to the distributable income for the period 4 March to 31 December 2022 of P 0.0682 per share or P 224.3 million of total dividends. Additionally, on 22 June 2023, the Company declared dividends in relation to the distributable income for the first quarter of 2023 of P 0.0299 per share or P 98.4 million of total dividends. Furthermore, on September 8, 2023, the Company declared dividends in relation to the distributable income for the second quarter of 2023 at P 0.0359 per share or P 118.1 million of total dividends.

For the quarter ended 30 September 2023, there were no seasonal aspects that had a material effect on the financial condition or results of operations of the Company. Neither were there any trends, events, or uncertainties that have had or that are reasonably expected to have a material impact on net sales or revenues or income from continuing operations, except for the recovery as a result of the opening up of the economy. The Company is not aware of events that will cause a material change in the relationship between costs and revenues.

There are no significant elements of income or loss that did not arise from the Company's continuing operations.

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), or other relationships of the company with unconsolidated entities or other persons created during the reporting period.

Indebtedness

As of 30 September 2023, there are no material commitments for capital expenditures. PREIT has no indebtedness with any bank.

The Company is not aware of any events that will trigger direct or contingent financial obligations that are material to it, including any default or acceleration of an obligation.

Key Financial Ratios

PREIT's key financial ratios for the period 1 January to September 2023 and 4 March to September 2022 are as follows.

Key Ratio	Formula	1 January to 30 September 2023	4 March to 30 September 2022
Earnings Per Share*	Net Profit/Common Shares Outstanding	0.12	0.10
Current Ratio	Current Assets/Current Liabilities	3.17	2.56
Debt to Equity	Total Liabilities/Total Shareholders' Equity	0.02	0.01
Return on Asset	Net Profit/Total Assets	0.05	0.02
Return on Equity	Net Profit/ Total Shareholders' Equity	0.05	0.02

*Based on 3,288,669,000 and 1,879,241,000 weighted average shares outstanding throughout the period 1 January 2023 to 30 September 2023 and period 4 March to 31 September 2022, respectively.

The key ratios provide directors and management with a measure of liquidity (Current Ratio), financial strength (Debt to Equity), and profitability (Earnings per Share, Return on Asset, and Return on Equity). The Company was incorporated on 4 March 2022 and started its commercial operations in September 2022.

PART II-OTHER INFORMATION

Item 3. Business Development

As of 30 September 2023, the property portfolio of the Company consists of land and power plant assets utilized in the power generation projects of the Sponsors.

The properties used in the operation of the 12.8 Megawatt (MW) heavy fuel oil (HFO)-fired power plants of SIPCOR located in Candanay Sur and Lazi, Siquijor (**SIPCOR Power Plants**) consist of (a) power plants assets such as HFO diesel generator sets and perimeter fence; (b) building that houses physical structures such as an administrative office, control room, warehouse, guard house, staff house, material recovery facility, work shop, firefighting shed, fuel tank farm, and fuel pump station; and (c) parcels of land (including the 3,000 sq.m. parcel of land located in Lazi, Siquijor, which is owned by the Company, and leasehold rights to 9,478 sq.m. parcel of land located in Candanay Sur, Siquijor) where the SIPCOR Power Plants are located (collectively, the **SIPCOR Properties**). GLA of each property are summarized in the following table.

SIPCOR Properties	GLA
Land – Candanay, Siquijor	9,478 sq.m.
Land – Lazi, Siquijor	3,000 sq.m.
Building - Candanay, Siquijor	353.2 sq.m.
Powerplant Assets – Candanay Siquijor	607 sq.m.

The properties used in the operation of the 8.4 Mw power plants of CAMPCOR located in Poro and Pilar, Camotes Island, Cebu (**CAMPCOR Power Plants**), consist of (a) buildings or powerhouse stations that house physical structures such as water treatment unit, staff house, radiator unit, fire pump house, guard house, oil-water separator, material recovery facility, reverse osmosis house, transformer house, warehouse, and administrative office; and (b) 16,406.5 sq.m. parcels of land owned by the Company where such buildings are located (collectively, the **CAMPCOR Properties**, and together with the SIPCOR Properties, the **Properties**). GLA of each property are summarized in the following table.

CAMPCOR Properties	GLA
Land - Camotes, Cebu	8,468 sq.m.
Land – Pilar, Cebu	7,938.5 sq.m.
Building – Camotes, Cebu	577.3 sq.m.
Building – Pilar, Cebu	244 sq.m.

All the Properties are leased to the Sponsors and are being used by the latter to operate the SIPCOR Power Plants and the CAMPCOR Power Plants, with a total combined installed capacity of 21.2 MW.

As of 30 September 2023, all the Properties registered occupancy rate at 100%.

PREIT continuously seeks opportunities to acquire properties in prime locations through purchase or otherwise to increase its leasable assets.

Item 4: Reinvestment Plan

The Sponsors are required under the REIT Law to reinvest (a) any proceeds realized by it from the sale of the Company's shares, and (b) any money raised by the Sponsors from the sale of any of its income generating real estate to the Company, within one (1) year of receipt of the proceeds. In compliance with the current regulations, the Sponsors intend to use the net proceeds received to fund current and future projects of renewable energy as set out in the reinvestment plan.

The Sponsors monitor and shall continue to monitor the actual disbursements of projects proposed in the Reinvestment Plan on a quarterly basis. To monitor, the Sponsors prepare quarterly progress reports of actual disbursements on the projects specified by the Company's Reinvestment Plan. In the event of changes in the actual disbursements of projects proposed in the Reinvestment Plan, the Sponsors shall submit a written notice to inform the SEC, PSE, BIR or the appropriate government agency.

As of 30 September 2023, the remaining balance of proceeds from the IPO through secondary offer of shares amounted to ₱1,719,491,716 out of the ₱2,320,278,610 net proceeds from the IPO. ₱235,060,516 was disbursed and reinvested to projects identified in the Reinvestment Plan from 1 July to 30 September 2023 based on the agreed-upon procedures performed by Punongbayan & Araullo. The Reinvestment Plan Progress Report for the third quarter of 2023 is attached herein as Exhibit 2.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

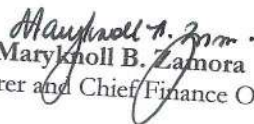
**PREMIERE ISLAND POWER REIT
CORPORATION**

Issuer

20 November 2023

Date


Timothy Joseph M. Mendoza
President


Maryknoll B. Zamora
Treasurer and Chief Finance Officer


Karen G. Empaynado
Corporate Secretary

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of Premiere Island Power REIT Corporation is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, as of and for the period ended 30 September 2023 and 2022, for the period 4 March 2022 to 31 December 2022, 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations or has no realistic alternative to do so.

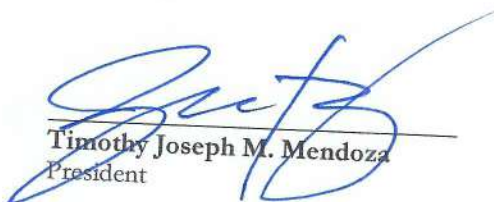
The Board of Directors is responsible for overseeing the Company's financial reporting process.

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

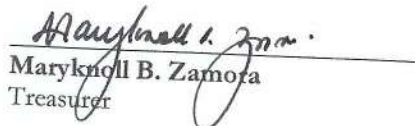
Punongbayan & Araullo, the independent auditors appointed by the stockholders, have audited the Company's financial statements as of 31 December 2022 and for the period 4 March to 31 December 2022 in accordance with Philippine Standards on Auditing, and in their report to the stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit. The financial statements as of and for the period ended 30 September 2023 and 2022 were not audited as allowed under the applicable rules of the Securities and Exchange Commission and the Philippines Stock Exchange.



Cynthia J. Javarez
Chairman



Timothy Joseph M. Mendoza
President



Maryknoll B. Zamora
Treasurer

Signed this 20th day of November 2023

SUBSCRIBED AND SWORN to before me this, **20 NOV 2023**, in Taguig City, Metro Manila, affiant exhibiting to me his/her valid ID, as follows

Name	Competent Evidence of Identity	Date & Place of Issue
Cynthia J. Javarez		
Timothy Joseph M. Mendoza		
Maryknoll B. Zamora		

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Book No. XXXI
Series 2023,


ATTY. IRISH S. PRECION
Notary Public for Taguig City
Appointment No. 23 (2023-2024)
Roll No. 69281 / 05.31.17 / IBP No. 197085 / 01.07.22
PTR No. A-5726883 / 01.03.23 / Taguig City
MCLE Compliance No. VII-0020815 valid until 04-14-25
Ground Floor FTI Old Admin. Bldg. FTI Complex, Taguig City

PREMIERE ISLAND POWER REIT CORPORATION
(Formerly Premiere Island Philippines Holding Corporation)
(A Subsidiary of S.I. Power Corp.)
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2023 AND DECEMBER 31, 2022
(Amounts in Philippine Pesos)

<u>ASSETS</u>	<u>Notes</u>	<u>September 30, 2023</u> (Unaudited)	<u>December 31, 2022</u> (Audited)
CURRENT ASSETS			
Cash	4	P 48,419,207	P 4,625,289
Trade And Other Receivables	5	296,148,480	392,386,454
Prepayments And Other Current Assets	2	<u>52,069,474</u>	<u>604,953</u>
Total Current Assets		<u>396,637,161</u>	<u>397,616,696</u>
NON-CURRENT ASSETS			
Property And Equipment - Net	6	858,174,049	897,580,000
Investment Properties	7	7,570,970,000	7,570,970,000
Deferred Tax Asset - Net	12	<u>32,408,114</u>	<u>32,408,114</u>
Total Non-Current Assets		<u>8,461,552,163</u>	<u>8,500,958,114</u>
TOTAL ASSETS		<u>P 8,858,189,324</u>	<u>P8,898,574,810</u>
<u>LIABILITIES AND EQUITY</u>			
CURRENT LIABILITIES			
Trade And Other Payables	8	P 124,936,824	P59,710,417
Due To Related Parties	13	—	64,627,723
Lease Liabilities	9	<u>362,312</u>	<u>230,280</u>
Total Current Liabilities		125,299,136	124,568,420
NON-CURRENT LIABILITY			
Lease Liabilities	9	<u>6,005,012</u>	<u>6,471,760</u>
Total Liabilities		<u>131,304,148</u>	<u>131,040,180</u>
EQUITY			
Capital Stock	14	3,288,669,000	3,288,669,000
Additional Paid-In-Capital		5,328,952,851	5,328,952,851
Revaluation Reserves - Net	6, 12	12,683,703	12,683,703
Retained Earnings		<u>96,579,622</u>	<u>137,229,076</u>
Total Equity		<u>8,726,885,176</u>	<u>8,767,534,630</u>
TOTAL LIABILITIES AND EQUITY		<u>P 8,858,189,324</u>	<u>P8,898,574,810</u>

PREMIERE ISLAND POWER REIT CORPORATION
(Formerly Premiere Island Philippines Holding Corporation)
(A Subsidiary of S.I. Power Corp.)

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS JANUARY 1 TO SEPTEMBER 30, 2023, AND MARCH 4 TO SEPTEMBER 30, 2022
(Amounts in Philippine Pesos)
(Unaudited)

	Notes	Year-To-Date	Year-To-Date	Quarter Ended (3 Months)	
		January 1 to September 30, 2023	March 4 to September 30, 2022	July 1 to September 30, 2023	July 1 to September 30, 2022
RENTAL INCOME	10	P 456,636,078	P 202,949,368	P 152,212,026	P 152,212,026
COSTS OF RENTALS	11	53,072,571	23,257,827	18,185,831	17,443,370
GROSS PROFIT		403,563,507	179,691,541	134,026,195	134,768,656
OTHER OPERATING EXPENSES	11	3,191,262	5,928,315	1,321,194	978,610
OPERATING PROFIT (LOSS)		400,372,245	173,763,226	132,705,001	133,790,046
OTHER INCOME (CHARGES) - Net					
Finance cost	9	(343,283)	—	(111,929)	—
Finance income	4	3,904	503	224	503
		(339,379)	503	(111,705)	503
PROFIT (LOSS) BEFORE TAX		400,032,866	173,763,729	132,593,296	133,790,549
TAX INCOME (EXPENSE)	12	(673)	13,597,618	(45)	(101)
NET PROFIT		400,032,193	187,361,347	132,593,251	133,790,448
OTHER COMPREHENSIVE INCOME		—	—	—	—
TOTAL COMPREHENSIVE INCOME		<u>P 400,032,193</u>	<u>P 187,361,347</u>	<u>P 132,593,251</u>	<u>P 133,790,448</u>
TOTAL COMPREHENSIVE INCOME					
BASIC AND DILUTED EARNINGS PER SHARE		0.12	0.10	0.04	0.07

*The REIT was incorporated on March 4, 2022 and started its commercial operations in September 2022

PREMIERE ISLAND POWER REIT CORPORATION
(Formerly Premiere Island Philippines Holding Corporation)
(A Subsidiary of S.I. Power Corp.)

STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS JANUARY 1 TO SEPTEMBER 30, 2023, AND MARCH 4 TO SEPTEMBER 30, 2022
(Amounts in Philippine Pesos)
(Unaudited)

	Capital Stock (See Note 14)	Additional Paid-in Capital (See Note 14)	Revaluation Reserve (See Note 6)	Retained Earnings (See Note 14)	Total
Balance on January 1, 2022	P—	P—	P—	P—	P—
Issuances during the period	3,288,669,000	5,328,952,851	—	—	8,617,621,851
Dividends declared	—	—	—	(2,000,000)	(2,000,000)
Total comprehensive income for the period	—	—	—	187,361,347	187,361,347
Balance on September 30, 2022	<u>P 3,288,669,000</u>	<u>P 5,328,952,851</u>	<u>P—</u>	<u>P 185,361,347</u>	<u>P 8,802,983,198</u>
Balance on January 1, 2023	P 3,288,669,000	P 5,328,952,851	P 12,683,703	P 137,229,076	P 8,767,534,630
Issuances during the period	—	—	—	—	—
Dividends declared	—	—	—	(440,681,647)	(440,681,647)
Total comprehensive income for the period	—	—	—	400,032,193	400,032,193
Balance on September 30, 2023	<u>P 3,288,669,000</u>	<u>P 5,328,952,851</u>	<u>P 12,683,703</u>	<u>P 96,579,622</u>	<u>P 8,726,885,176</u>

PREMIERE ISLAND POWER REIT CORPORATION
(Formerly Premiere Island Philippines Holding Corporation)
(A Subsidiary of S.I. Power Corp.)
STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED SEPTEMBER 30, 2023 AND 2022
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (loss) before tax		P 400,032,866	P 173,763,729
Adjustments for:			
Depreciation	6	39,405,951	17,183,774
Finance cost - net	9	343,283	0
Finance income	4	<u>(3,904)</u>	<u>(503)</u>
Operating profit (loss) before working capital changes		439,778,196	(190,947,000)
Decrease (Increase) in trade and other receivables		96,237,974	(227,303,292)
Increase in prepayments and other current assets		(51,464,521)	(89,928)
Increase in trade and other payables		<u>65,226,407</u>	<u>44,092,123</u>
Cash generated from operations		549,778,056	7,645,903
Income taxes		—	(13,597,718)
Interest received	4	<u>3,231</u>	<u>402</u>
Net Cash from (Used in) Operating Activities		549,781,287	(5,951,413)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of dividends		(440,681,647)	(2,000,000)
Advances received (Repayment of advances) from related parties		(64,627,723)	9,227,358
Repayment of lease liability	13	(677,999)	—
Proceeds from issuance of shares	14	<u>—</u>	<u>5,000</u>
Net Cash From (Used in) Financing Activities		(505,987,369)	7,232,358
NET INCREASE IN CASH		43,793,918	1,280,945
CASH AT BEGINNING OF PERIOD		<u>4,625,289</u>	<u>—</u>
CASH AT END OF PERIOD		<u>P 48,419,207</u>	<u>P 1,280,945</u>

PREMIERE ISLAND POWER REIT CORPORATION
(Formerly Premiere Island Philippines Holding Corporation)
(A Subsidiary of S.I. Power Corp.)
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 and 2022 and DECEMBER 31, 2022
(Amounts in Philippine Pesos)

1. GENERAL INFORMATION

1.1 Corporate Information

Premiere Island Power REIT Corporation (the REIT) was incorporated under Philippine law on March 4, 2022 under the name of Premiere Island Philippines Holding Corporation (PIPHC). Under its articles on incorporation, PIPHC is authorized to invest in, purchase, or otherwise acquire and own, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real property and personal property of every kind and description. Since its incorporation on March 4, 2022, PIPHC did not have any business operation until the infusion by the Sponsors of assets under the Property-for-share swap (see Note 14).

On September 24, 2022, the BOD approved the following amendments on the Articles of Incorporation and By-Laws: (a) changing the corporate name to Premiere Island Power REIT Corporation; (b) changing the REIT's primary purpose to engage in the business of a real estate investment trust as provided under Republic Act (R.A.) No. 9856, The Real Estate Investment Trust Act of 2009 (the "REIT Act"), including its implementing rules and regulations, and other applicable laws; (c) increasing the number of the Board of Directors (BOD) from five to seven; (d) denying the stockholders' pre-emptive rights; (e) amendments on the PSE lock-up requirement; (f) corporate governance provisions for REITs and publicly listed companies; (g) qualifications of directors; (h) corporate governance revisions for independent directors; (i) changes on compensation clause; (j) constitute board committees including Executive Committee; Compensation and Remuneration Committee, Audit Committee, Related Party Transaction committee; (k) appointment of stock transfer agent; (l) schedule of regular annual meetings; (m) amendments on dividends; (n) the Fund Manager; and (o) the Property Manager. The Securities and Exchange Commission approved the amendments on November 9, 2022.

The REIT listed its common shares in the Philippine Stock Exchange (PSE) as a power REIT on December 15, 2022 (see Note 14). As of September 30, 2023 and December 31, 2022, the REIT has 48.88% public ownership.

S.I. Power Corp. (SIPCOR or the Parent Company) holds 25.71% interest over the REIT while Camotes Island Power Generation Corporation (CAMPCOR) holds 25.39% ownership over the REIT. SIPCOR also holds 94.00% ownership interest over CAMPCOR. Accordingly, SIPCOR effectively holds 49.58% ownership of the REIT's total issued and outstanding capital stock, thereby making SIPCOR as the majority stockholder and the REIT's parent company. SIPCOR and CAMPCOR are both presently engaged in buying, acquiring, leasing, constructing, maintaining, and operating plants, work, systems, poles, poles wire, conduit, ducts and subway for the production, supply, distribution and sale of electricity.

Prime Asset Ventures, Inc. (PAVI or the Ultimate Parent) is the REIT's ultimate parent company. PAVI is presently engaged primarily to invest in, purchase or otherwise acquire and own, hold, use, sell, assign, transfer, lease, mortgage, pledge, exchange, develop or otherwise, dispose of real and personal property of every kind, and to grant loans and/or assume or undertake or guarantee or secure either on its general credit or on the mortgage, pledge, deed of trust, assignment and/or other security arrangement of any or all of its property, its related parties or any third party, without engaging in the business of a financing company or lending investor.

The REIT's registered office address and principal place of business is located at 4th Starmall IT Hub CV Starr Ave., Philamlife Pamplona Dos Las Piñas, Las Piñas City. On the other hand, SIPCOR and PAVI's registered office, which is also their principal place of business, is located at Worldwide Corporate Center, Shaw Blvd., Mandaluyong City.

1.2 Approval of the Financial Statements

The financial statements of the REIT as of and for the period January 1 to September 30, 2023 (including the comparative financial statements as of December 31, 2022 and for the period March 4 to September 30, 2022) were authorized for issue by the REIT's BOD on November 20, 2023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to the periods presented unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the REIT have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB), and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The REIT presents all items of income, expense and other comprehensive income or loss in a single statement of comprehensive income.

The REIT presents a third statement of financial position as of the beginning of the preceding period when it applies an accounting policy retrospectively, or makes

a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the REIT's presentation and functional currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the REIT are measured using the REIT's functional currency. Functional currency is the currency of the primary economic environment in which the REIT operates.

2.2 Adoption of Amended PFRS Subsequent to 2022

There are pronouncements effective for annual periods subsequent to 2022, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the REIT's financial statements.

- (i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023)
- (ii) PAS 1 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective from January 1, 2023)
- (iii) PAS 8 (Amendments), *Accounting Estimates – Definition of Accounting Estimates* (effective from January 1, 2023)
- (iv) PAS 12 (Amendments), *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (effective from January 1, 2023)

2.3 Current versus Non-current classification

The REIT presents assets and liabilities in the statement of financial position based on current or noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or,
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;

- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after the reporting period; or,
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The REIT classifies all other liabilities as noncurrent.

Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities.

2.4 Financial Instruments

Financial assets and financial liabilities are recognized when the REIT becomes a party to the contractual provisions of the financial instrument.

(a) Financial Assets

For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(i) Classification and Measurement of Financial Assets

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Currently, the relevant financial asset classification applicable to the REIT is financial assets at amortized cost.

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the REIT's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less allowance for expected credit loss.

The REIT's financial assets at amortized cost are presented as Cash and Trade and Other Receivables in the statement of financial position. For purpose of cash flows reporting and presentation, cash in bank pertains to demand deposits which are subject to insignificant risk of change in value.

Financial asset measured at amortized cost is included in current asset, except for those with maturities greater than 12 months after the end of reporting period, which are classified as non-current assets.

(ii) *Impairment of Financial Asset*

The REIT assesses expected credit losses (ECL) on a forward-looking basis associated with its financial assets carried at amortized cost. The measurement of ECL involves consideration of broader range of information that is available without undue cost or effort at the reporting date about past events, current conditions, and reasonable and supportable forecasts of future economic conditions (i.e., forward-looking information) that may affect the collectability of the future cash flows of the financial assets.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instruments evaluated based on a range of possible outcome.

For cash in bank, the REIT applies low credit risk simplification and measures the ECL on the financial assets based on a 12-month ECL basis unless there has been a significant increase in credit risk since origination, in which case, the loss allowance will be based on lifetime ECL.

The key elements used in the calculation of ECL are as follows:

- *Probability of default* – It is an estimate of likelihood of a counterparty defaulting at its financial obligation over a given time horizon, either over the next 12 months or the remaining lifetime of the obligation.
- *Loss given default* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the REIT would expect to receive, including the realization of any collateral or effect of any credit enhancement.
- *Exposure at default* – It represents the gross carrying amount of the financial instruments in the event of default which pertains to its amortized cost.

The REIT recognizes an impairment loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through an allowance for impairment account. Subsequent recoveries of amounts previously written off are credited against the same line item.

(iii) *Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the REIT neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the REIT recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the REIT retains substantially all the risks and rewards of ownership of a transferred financial asset, the REIT continues

to recognize the financial asset and also recognizes collateralized borrowing for the proceeds received.

(b) *Financial Liabilities*

Financial liabilities, which pertain to Trade and Other Payables and Due to Related Parties, are recognized initially at its fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

All interest-related charges, except any capitalized borrowing costs, are recognized as expense in profit or loss under Interest Expense in the statement of comprehensive income.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or the REIT does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Financial liabilities are also derecognized when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

(c) *Offsetting of Financial Instruments*

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the REIT currently has legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entity and all counterparties to the financial instruments.

2.6 Prepayments and Other Assets

Prepayments and other current assets pertain to other resources controlled by the REIT as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the REIT and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the REIT beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

An asset's carrying amount is written down immediately to its recoverable amount if the

asset's carrying amount is greater than its estimated recoverable amount (see Note 2.12).

2.7 Property and Equipment

Property and equipment are initially recognized at cost. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized, while expenditures for repairs and maintenance are charged to expense as incurred.

Following initial recognition at cost, property and equipment, are carried at revalued amount which is the fair value at the date of the revaluation, as determined by independent appraiser, less subsequent accumulated depreciation and any accumulated impairment losses.

Revalued amount is the fair market value determined based on appraisal by external professional appraiser once every two years or more frequently if market factors indicate a material change in fair value.

Any revaluation surplus is recognized in other comprehensive income and credited to the Revaluation Reserves account in the statement of changes in equity. Any revaluation deficit directly offsetting a previous surplus in the same asset is charged to other comprehensive income to the extent of any revaluation surplus in equity relating to this asset and the remaining deficit, if any, is recognized in profit or loss. Annually, an amount from the Revaluation Reserves account is transferred to the Retained Earnings account for the depreciation relating to the revaluation surplus. Upon disposal of revalued assets, amounts included in Revaluation Reserves account relating to them are transferred to Retained Earnings account.

Depreciation of property and equipment (comprising of generation assets) is computed on the straight-line basis over the estimated useful lives of 22 years.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.12).

The residual values, estimated useful lives and method of depreciation of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

2.8 Investment Properties

Properties that are held for long-term rental or for capital appreciation or both, and that are not occupied by the REIT, which comprises of right-of-use asset, land and buildings, are classified as investment properties.

Investment properties are initially measured at cost, including related transactions costs and borrowing costs. After initial recognition, investment properties are carried at fair value at each reporting date and are revalued at every year. Fair value is based on the income approach and is determined annually by an independent appraiser with sufficient experience with respect to both the location and the nature of the investment properties (see Note 19.3).

Any gain or loss resulting from either a change in the fair value of an investment property

is immediately recognized in profit or loss as Fair value gains (losses) on investment properties account under the Other Income (Charges) account in the statement of comprehensive income.

Investment property is derecognized when either it has been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The right-of-use asset classified as investment property is derecognized when the REIT subleases the asset to another party and the lease is accounted for under finance lease (see Note 2.11). Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation and commencement of an operating lease to another party. Transfers are made from investment property when and only when there is a change in use, evidenced by the commencement of owner-occupation or commencement of a development with a view to sale.

2.9 Provisions and Contingencies

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments 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 period and adjusted to reflect the current best estimate.

In those cases, where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, probable inflows of economic benefits to the REIT that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements.

On the other hand, any reimbursement that the REIT can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.10 Expense Recognition

Expenses are recognized in profit or loss upon utilization of the goods or services or at the date these are incurred.

2.11 Leases

(a) REIT as Lessee

For any new contracts entered into, the REIT considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

To apply this definition, the REIT assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the REIT;
- the REIT has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the REIT has the right to direct the use of the identified asset throughout the period of use. The REIT assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the REIT recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the REIT, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the REIT's right-of-use asset is carried at fair value at each reporting date and are revalued at every year; and as such, no amortization of right-of-use asset is recognized in the statement of comprehensive income (see Note 2.8). Fair value is based on the income approach and is determined annually by an independent appraiser with sufficient experience with respect to both the location and the nature of the investment properties. The REIT also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.12).

On the other hand, the REIT measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the REIT's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

(b) *REIT as Lessor*

Leases wherein the REIT substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the REIT's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the REIT's net investment outstanding in respect of the finance lease.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

2.12 Impairment of Non-financial Assets

The REIT's non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the REIT's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

2.13 Income Taxes

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or current tax liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods, that are uncollected or unpaid at the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the

period. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the REIT expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted, that is, when the investment property is depreciable and is held within the business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Most changes in deferred tax assets or deferred tax liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.14 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the REIT and its related parties, regardless of whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with

the REIT; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the REIT that gives them significant influence over the REIT and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

Transactions amounting to 10% or more of the total assets based on the latest audited consolidated financial statements that were entered into with related parties are considered material under SEC Memorandum Circular No. 10, Series of 2019, *Rules on Material Related Party Transactions for Publicly-listed Companies*.

All individual material related party transactions shall be approved by at least two-thirds vote of the board of directors, with at least a majority of the independent directors voting to approve the material related party transactions. In case that a majority of the independent directors' vote is not secured, the material related party transaction may be ratified by the vote of the stockholders representing at least two-thirds of the outstanding capital stock. For aggregate related party transactions within a 12-month period that breaches the materiality threshold of 10% of the Group's total assets based on the latest audited consolidated financial statements, the same board approval would be required for the transaction(s) that meets and exceeds the materiality threshold covering the same related party.

Directors with personal interest in the transaction should abstain from participating in the discussions and voting on the same. In case they refuse to abstain, their attendance shall not be counted for the purposes of assessing the quorum and their votes shall not be counted for purposes of determining approval.

2.15 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital (APIC) includes any premiums received on the issuance of capital. Any transaction costs associated with the issuance of shares are deducted from APIC, net of any related income tax benefits.

Revaluation reserves relate to fair value adjustments of Property and Equipment, net of tax (see Note 2.7).

Retained earnings represent current period results of operations as reported in the statement of comprehensive income.

2.16 Earnings Per Share

Basic earnings per share is computed by dividing net profit by the weighted average number of shares issued and outstanding, adjusted retrospectively for any share dividend declared, share split and reverse share split during the current year, if any.

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive common shares. Currently, the REIT does not have potential dilutive shares outstanding; hence, the diluted

earnings per share is equal to the basic earnings per share.

2.17 Events After the End of the Reporting Period

Any event after the end of the reporting period that provides additional information about the REIT's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Events after the end of the reporting period that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the REIT's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments 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 the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgment in Applying Accounting Policies

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

(a) Determination of Lease Term of Contracts with Renewal and Termination Options

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated and the renewal of the contract is not subject to mutual agreement of both parties.

The factors that are normally the most relevant are (a) if there are significant penalties should the REIT pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the REIT is reasonably certain to extend and not to terminate the lease contract. Otherwise, the REIT considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The REIT did not include the renewal period as part of the lease term for the lease due to the provision in its contract that requires mutual agreement of both parties on the terms and agreements of the renewal and termination of the lease contract.

The lease term is reassessed if an option is actually exercised or not exercised or the REIT becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the REIT.

(b) Distinction Among Investment Properties and Owner-occupied Properties

The REIT determines whether a property should be classified as investment property or owner-occupied property. The REIT applies judgment upon initial recognition of the asset based on intention and also when there is a change in use. In making its judgment, the REIT considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

When a property comprises of a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the REIT's main line of business or for administrative purposes, the REIT accounts for the portions separately if these portions can be sold separately (or leased out separately under finance lease). If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the REIT's main line of business or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The REIT considers each property separately in making its judgment.

(c) *Distinction Between Operating and Finance Leases as Lessor*

The REIT has entered into various lease agreements as a lessor. Critical judgment was exercised by management to distinguish the lease agreements as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

Management has determined that its current lease agreements as lessor are operating leases.

(d) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Accounting policies on recognition and disclosure of provision are discussed in Note 2.9 and disclosures on relevant provisions and contingencies are presented in Note 16.

3.2 Key Sources of Estimation Uncertainty

Presented below and in the succeeding page are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities:

(a) *Fair Value Measurement of Investment Properties, and Property and Equipment*

The REIT's investment properties, composed of right-of-use asset, land and buildings, are measured using the fair value model while the REIT's property and equipment, composed of generation assets, are measured using revaluation model. In determining the fair value of these assets, the REIT engages the services of professional and independent appraisers applying the income approach. In

determining the fair value under the income approach, significant estimates are made such as revenues generated, costs and expenses related to the operations and discount rate.

A significant change in these elements may affect prices and the value of the assets. The details of the fair values of relevant assets are disclosed in Notes 6, 7 and 19.

For investment properties, and property and equipment, with valuation conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

(b) *Estimation of Useful Lives of Property and Equipment*

The REIT estimates the useful lives of the property and equipment based on the period over which the assets are expected to be available-for-use. The estimated useful lives of the 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.

The carrying amounts of the property and equipment are analyzed in Note 6. Based on management's assessment as at September 30, 2023, there is no change in estimated useful lives of the property and equipment during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(c) *Estimation of Allowance for ECL*

The measurement of the allowance for ECL is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers/counterparties defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 17.2(b).

Based on management's assessment, the outstanding balances of receivables and contract asset as of September 30, 2023, are fully collectible (see Notes 5).

(d) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainties relates to assumptions about future operating results and the determination of suitable discount rate. Also, the REIT's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.12.

Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse

effect on the results of operations.

There were no impairment losses on the REIT's non-financial assets required to be recognized for the quarter ended September 30, 2023 and 2022, based on management's assessment.

4. CASH

Cash amounted to P48.4 million and P4.6 million as of September 30, 2023 and December 31, 2022, respectively. Cash in bank generally earns interest based on daily bank deposit rates.

Interest earned from cash in bank for the period ended September 30, 2023 and September 30, 2022 amounted to P3,904 and P503, respectively. Interest earned is presented as Finance income under Other Income (Charges) section in the statements of comprehensive income.

5. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	September 30, 2023	December 31, 2022
Trade receivables		
Billed	P 204,184,203	P 346,914,908
Accrued	91,860,543	45,415,940
Advances to employees	103,734	55,606
	<u>P 296,148,480</u>	<u>P 392,386,454</u>

Accrued receivables pertain to receivables resulting from the straight-line method of recognizing rental income.

Billed receivables arise from the lease of land, building and generation assets by SIPCOR and CAMPCOR.

All trade and other receivables are subject to credit risk exposure. However, there was no impairment losses recognized for the reporting periods presented as management believes that the remaining receivables are fully collectible (see Note 17.2).

6. PROPERTY AND EQUIPMENT

On May 31, 2022, the REIT received the property and equipment (consisting of generation assets) from SIPCOR by way of assignment as a result of the property-for-share swap (see Note 14). The fair value of the property and equipment as at such date amounting to P910.7 million was determined by independent and SEC-accredited property appraisers.

The property and equipment received by the REIT from SIPCOR is recognized under revaluation model. The revaluation surplus, net of applicable deferred income taxes, is presented as part of the Revaluation Reserves account in the equity section of the statement of financial position.

For the period ended September 30, 2023 and 2022, the REIT recognized income arising from the lease of generation assets to SIPCOR amounting to P39.5 million and P17.6 million, respectively. This is presented as part of Rental Income in the statements of comprehensive income (see Note 10). Related outstanding receivable is presented as part of Trade and Other Receivables in the statements of financial position (see Note 5).

The carrying amount of property and equipment is as follows

	September 30, 2023	December 31, 2022
Balance at beginning of the period, net of depreciation	P897,580,000	P—
Acquisitions	—	910,740,000
Revaluation	—	16,911,604
Depreciations and amortization during the period	(39,405,951)	(30,071,604)
Balance at end of the period, net of depreciation and amortization	<u>P858,174,049</u>	<u>P897,580,000</u>

The depreciation expense is presented as part of Costs of Rentals in the statements of comprehensive income. For the period ended September 30, 2023 and 2022, the REIT did not recognize any impairment loss on the property and equipment.

Under the cost model, the carrying value of the property and equipment as of September 30, 2023 and December 31, 2022 amounted to P842.0 million and P880.7 million, respectively.

The REIT did not have any fully depreciated property and equipment as of September 30, 2023 and December 31, 2022. The information on the fair value measurement and disclosures related to the property and equipment are presented in Note 19.3.

7. INVESTMENT PROPERTIES

On May 31, 2022, the REIT, SIPCOR, and CAMPCOR executed a deed of assignment whereas SIPCOR and CAMPCOR cede, assign and transfer to the REIT, in a manner absolute and irrevocable, the parcels of land located in Candanay, Siquijor, Lazi, Siquijor, Poro, Cebu and Pilar, Cebu, including the buildings located in the said parcels of land, to the REIT, in consideration for the issuance of REIT's shares (see Note 14). The parcels of land include the land owned by the National Power Corporation (NPC) to which the lease right was also assigned to the REIT as approved by the NPC (see Note 9).

The parcels of land, including the right-of-use asset on the lease right from the lease agreement with NPC, and the buildings are presented as Investment Properties in the statement of financial position. These parcels of land and buildings are recognized in reference to their fair values and the information on the fair value measurement and disclosures are presented in Note 19.3.

The breakdown of the REIT's investment properties as of September 30, 2023 and December 31, 2022, which are held to earn rental, are as follows:

Land	P 4,085,360,000
Buildings	2,223,800,000
Right-of-use asset	<u>1,261,810,000</u>
	<u>P 7,570,970,000</u>

A reconciliation of the carrying amounts of investment properties as at September 30, 2023 and December 31, 2022 is shown below.

	<u>Land</u>	<u>Buildings</u>	<u>Right-of-use asset</u>	<u>Total</u>
Initial measurement	P 4,166,270,000	P 2,270,810,000	P 1,325,850,000	P 7,762,930,000
Fair value loss	(80,910,000)	(47,010,000)	(64,040,000)	(191,960,000)
	<u>P 4,085,360,000</u>	<u>P 2,223,800,000</u>	<u>P 1,261,810,000</u>	<u>P 7,570,970,000</u>

The fair values of the investment properties were determined by independent and SEC-accredited property appraisers. The REIT's management engaged with an appraiser and the amounts stated above are the fair values as of December 31, 2022. The fair value loss on investment properties is presented under Other income (Charges) in the statement of comprehensive income. Management has assessed that there are no significant changes in the fair value of the parcels of land as at September 30, 2023 from the date of appraisal.

As of September 30, 2023 and December 31, 2022, the REIT has a total of seven assets presented below:

Located in Siquijor:

- One land leased in Candanay
- One land owned in Lazi
- One building and support facilities in Candanay

Located in Cebu:

- One land owned in Pilar
- One land owned in Poro
- One building and support facilities in Pilar
- One building and support facilities in Poro

For the nine months period ended September 30, 2023, and 2022, the REIT recognized income amounting to P417.1 million and P185.4 million, respectively, from the lease of investment properties and is presented as part of Rental Income in the statement of comprehensive income (see Note 10). Related outstanding receivable is presented as part of Trade and Other Receivables in the statement of financial position (see Note 5).

Expenses such as taxes and licenses and property management fees incurred in relation to the rental services are recognized as incurred and are presented as part of Costs of Rentals in the statement of comprehensive income (see Note 11).

The REIT does not have contractual commitments for purchase of investment properties.

The operating lease commitments of the REIT as lessor are fully disclosed in Note 16.1.

8. **TRADE AND OTHER PAYABLES**

This account is composed of the following:

	September 30, 2023	December 31, 2022
Deferred Output VAT	96,759,524	37,169,455
Accrued Expenses	25,222,002	13,485,379
Payable to Government	313,072	9,055,583
Others	2,647,226	—
	P124,936,824	P59,710,417

Deferred output VAT is recognized by the REIT for uncollected billings for rentals. This will be reclassified to output VAT payable and offset against input VAT once collected.

Accrued expenses and Other payables relate to administrative expenses, such as professional fees and administrative expenses, accrued or billed during the period that is yet to be paid.

Payable to Government relates to final withholding taxes from the distribution of cash dividend recognized from collections.

9. LEASES

In 2022, SIPCOR assigned the lease of the land situated in Candanay, Siquijor owned by the NPC (Candanay Property) to the REIT. The lease has a term of 20 years with renewal option, subject to mutual agreement of both parties, and an escalation rate of 20% every five years. The assignment was approved by the NPC. The lease allows the REIT to sublet the asset to another party. The lease is either non-cancellable or may only be cancelled by incurring a substantive termination fee. The lease did not contain an option to purchase the underlying lease asset at the end of the lease.

On April 11, 2022, the REIT entered into a sublease agreement with SIPCOR for the same land situated in Candanay (Candanay Property) for a term of 8 years. Since the land is being subleased by the REIT to SIPCOR, the right-of-use asset is presented as part of Investment Properties in the statement of financial position (see Note 7).

Lease liability is presented in the statements of financial position as follows:

	September 30, 2023	December 31, 2022
Current	P362,312	P230,280
Non-current	6,005,012	6,471,760
	P6,367,324	P6,702,040

The movements in the lease liability recognized in the statements of financial position are as follows:

	September 30, 2023	December 31, 2022
Balance at beginning of the period	P6,702,040	P6,557,716
Amortization	343,283	269,912
Repayments	(677,999)	(125,588)
Balance at end of the period	P6,367,324	P6,702,040

Interest expense related to lease liability is reported as Finance Cost in the statement of comprehensive income.

As of September 30, 2023 and December 31, 2022, the REIT has no commitments to leases which had not commenced.

The maturity analysis of lease liabilities are as follows:

	<u>Within 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
September 30, 2023							
Lease payments	P 779,700	P 813,600	P 813,600	P 813,600	P 813,600	P 4,844,344	P 8,878,444
Finance charge	(417,388)	(388,815)	(359,567)	(328,265)	(295,063)	(722,022)	(2,511,120)
Net present values	<u>P 362,312</u>	<u>P 424,785</u>	<u>P 454,033</u>	<u>P 485,332</u>	<u>P 518,537</u>	<u>P 4,122,322</u>	<u>P 6,367,324</u>
	<u>Within 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
December 31, 2022							
Lease payments	P 678,000	P 813,600	P 813,600	P 813,600	P 813,600	P 5,965,109	P 9,897,509
Finance charge	(447,720)	(431,692)	(405,109)	(376,675)	(346,262)	(1,188,011)	(3,195,469)
Net present values	<u>P 230,280</u>	<u>P 381,908</u>	<u>P 408,491</u>	<u>P 436,925</u>	<u>P 467,338</u>	<u>P 4,777,098</u>	<u>P 6,702,040</u>

The cash outflow in respect of the lease for the period ended September 30, 2023 and December 31, 2022 amounted to 0.68 million and 0.13 million, respectively.

10. RENTAL INCOME

The REIT derives its rental income from the lease of its investment properties and property and equipment (see Note 7).

On April 11, 2022, the REIT entered into various lease and sublease agreements with SIPCOR and CAMPCOR for the lease of properties for energy generation use (see Notes 9 and 13). The lease agreements commenced in June 2022.

The table below describes the lease agreements entered into by the REIT and their terms are as follows:

	<u>Lease Term</u>	<u>Renewable years upon mutual agreement</u>
Candanay property	8 years	10 years
Lazi property	9 years	10 years
SIPCOR building and generation assets	9 years	10 years
CAMPCOR land and building	10 years	10 years

The rental income derived from such leases amounted to P456.6 million and P202.9 million for the nine-month period ended September 30, 2023 and 2022, respectively.

Breakdown of rental income reported in the statements of comprehensive income is shown below.

	2023	2022
Rental income from SIPCOR:		
Right-of-use asset		
Land	P 135,514,413	60,228,628
Generation assets (presented as property and equipment)	43,558,920	19,359,520
Building	39,539,979	17,573,324
	4,437,054	1,972,024
	<u>223,0510,366</u>	<u>99,133,496</u>
Rental income from CAMPCOR:		
Land	138,575,232	61,588,992
Building	95,010,480	42,226,880
	<u>235,585,712</u>	<u>103,815,872</u>
Balance at end of the period	<u>P 456,636,078</u>	<u>P 202,949,368</u>

As of September 30, 2023 and December 31, 2022, the rental receivable amounted to P296.0 million and P392.3 million, respectively, which is reported as part of Trade and Other Receivables in the statements of financial position (see Note 5).

11. COSTS AND OPERATING EXPENSES

The details of this account for the periods ending September 30, 2023 and 2022 are shown below.

	Notes	2023	2022
Depreciation	6	P39,405,951	P17,183,774
Property and fund management fees		13,666,620	6,074,053
Professional fees		2,107,524	690,000
General and administrative		687,640	5,700
Taxes and licenses		227,050	4,982,869
Miscellaneous		154,048	40,346
Advertising		15,000	209,400
		<u>P56,263,833</u>	<u>P29,186,142</u>

These expenses are classified in the statement of comprehensive income as follows:

	2023
Costs of rentals	P53,072,571
Operating expenses	3,191,262
	<u>P56,263,833</u>

12. INCOME TAXES

The components of tax expense as reported in the statements of comprehensive income are as follows:

<i>Reported in profit or loss</i>	2023	2022
Regular corporate income tax at 25%	P—	P—
Final tax at 20%	673	101
Deferred tax income arising from origination of temporary differences – net operating loss carry-over (NOLCO)	—	(13,611,284)
	P673	P(13,597,618)

A reconciliation of tax on pretax profit or loss computed at the applicable statutory rates to tax expense or income reported in the statement of comprehensive income for the period ended September 30, 2023 are follows:

	Notes	2023
Tax on pretax profit at 25%	6	P100,008,217
Adjustment for income subjected to lower income tax rate		(976)
Tax effect of:		
Dividends from distributable income		(100,006,568)
Non-deductible expense		—
		673

For the period ended September 30, 2023, the REIT claimed dividends as tax deduction which were declared on September 8, 2023, and payable on September 29, 2023 (see Note 22).

As per Rule 10 of the REIT Act, REITs may deduct against taxable income any dividends distributed as of the end of the taxable year and on or before the last day of the fifth month of the next taxable year.

The details of the deferred tax assets - net as of September 30, 2023 and 2022 are shown below.

	Notes	2023	2022
Fair value loss on investment properties	6	P47,990,000	P—
Straight-lining of rental income		(11,353,985)	—
Revaluation surplus of property and equipment		(4,227,901)	—
NOLCO		—	13,611,284
		P32,408,114	P13,611,284

The NOLCO incurred for the period March 4, 2022 to September 30, 2022 amounting to P54,445,138 can be claimed as a deduction from future taxable income within three years after the year it was incurred. For financial reporting purposes, the REIT recognized the deferred tax asset arising from the NOLCO.

The REIT claimed itemized deductions in computing for its income tax due for the quarters ended September 30, 2023 and 2022.

13. RELATED PARTY TRANSACTIONS

The REIT's related parties include the ultimate parent company, parent company, stockholders, key management personnel and others as defined in Note 2.14. A summary of the REIT's transactions and outstanding balances, if any, with its related parties is presented below.

	Notes	September 30, 2023		December 31, 2022	
		Amount of Transaction	Outstanding Receivable (Payable)	Amount of Transaction	Outstanding Receivable (Payable)
Parent Company					
Rental income	5, 10	P223,050,66	P141,403,671	P173,483,618	P191,870,442
Due to related party	13.2	(65,702,040)	—	64,086,279	(64,086,279)
Lease liabilities	9	343,283	6,367,324	6,702,040	6,702,040
Related party under common ownership					
Rental income	5,10	233,585,712	154,641,075	181,677,776	200,460,406
Due to related parties	13.2	(541,444)	—	541,444	(541,444)

13.1 Lease Agreements

In 2022, the REIT entered into several operating lease agreements with SIPCOR and CAMPCOR covering real estate properties and generation assets located in Siquijor and Cebu for periods ranging from 8 to 10 years for fixed annual lease rate, subject to an escalation rate of 3%. The lease agreements are renewable upon mutual agreement of both parties (see Note 10).

The rentals earned from the Lease Agreements are presented as Rental Income in the statement of comprehensive income. The unsecured, noninterest-bearing outstanding balances related to such agreements are presented as part of Trade and Other Receivables in the statement of financial position.

13.2 Due to Related Parties

In the normal course of business, the REIT obtains from and grants cash advances to its related parties, including the parent company and entities under common ownership, for accommodation of certain expenses, working capital requirements and other purposes.

The outstanding due to related parties presented in the statements of financial position as at December 31, 2022, amounted to P64.6 million. Such balance have no fixed repayment terms and are unsecured, noninterest-bearing and generally payable in cash

upon demand, or through offsetting arrangements with the related parties. No outstanding due to related parties were noted as of September 30, 2023.

As of December 31, 2022 due to Related Parties includes payments to SEC and Bureau of Internal Revenue (BIR) registration and filing fees amounting to P16.6 million, documentary stamp tax (DST) on issuance of shares and DST on lease agreements amounting to P32.9 million and P4.9 million, respectively, and other expenses amounting to P9.7 million which were paid by the Parent company (SIPCOR) on behalf of the REIT. Also, in 2022, CAMPCOR paid certain regulatory fees to local government and advertising expenses on behalf of the REIT totalling to P0.5 million.

13.3 Key Management Personnel Compensation

There were no key management personnel compensation incurred as the REIT's management and administrative functions were handled by the ultimate parent company at no cost or consideration to the REIT.

14. EQUITY

14.1 Capital Stock

Capital stock consists of the following:

	Shares		Amount	
	September 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Common Shares Authorized	7,500,000	7,500,000	P7,500,000	P7,500,000
Issued and outstanding:				
Balance at the beginning of the quarter	3,288,669,000	3,288,669,000	P3,288,669,000	P3,288,669,000
Issuance during the period	-	-	-	-
Balance at the end of the quarter	3,288,669,000	3,288,669,000	P3,288,669,000	P3,288,669,000

On March 9, 2022, the REIT applied for the increase in authorized capital stock from P5,000 divided into 5,000 common shares with par value of P1.0 per share to P7.5 billion divided into 7,500,000,000 common shares with par value of P1.0 per share.

Under the terms of the capital increase, the REIT will issue a total of 3,288,664,000 common shares to SIPCOR and CAMPCOR in exchange for the transfer, assignment and conveyance by SIPCOR and CAMPCOR of all their rights, title and interests in certain properties (see Notes 6 and 7), free from liabilities and debts and free from all liens and encumbrances. The application was approved by the SEC on May 31, 2022.

Pursuant to the capital increase and the property-for-share swap transaction, the REIT issued 1,654,856,000 common shares to SIPCOR and 1,633,808,000 common shares to CAMPCOR. The REIT recognized additional paid-in capital on the excess over par value totalling P5.3 billion, net of the stock issue costs totalling P49.5 million, as a result of this transaction.

Under the terms of the property-for-share swap transaction, the REIT, as a lessor and/or sublessor of the properties assigned by SIPCOR and CAMPCOR, executed lease and sublease agreements with each of SIPCOR and CAMPCOR to enable the latter to

use the assigned properties for their continuing power generation operations. The property-for share swap transaction, forming part of the capital increase of the REIT, was also approved by the SEC on May 31, 2022.

On December 15, 2022, following the initial public offering of the REIT's common shares, the shares of SIPCOR and CAMPCOR were reduced to 845,589,861 (25.71%) and 834,839,132 (25.39%) common shares, respectively. As at December 31, 2022, 1,607,431,000 (48.88%) common shares are owned by the public and the remaining 809,007 (0.02%) common shares are owned by REIT's directors.

As of December 31, 2022, there are 2,700 holders of at least one board lot of the listed shares, which closed at P1.60 per share as of that date. As of September 30, 2023, there are 2,874 holders of at least one board lot of the listed shares, which closed at P1.54 per share as of that date.

14.2 Dividends

On July 11, 2022, the BOD approved the declaration of cash dividends amounting to P2.0 million (less than P0.01 per share) from its unrestricted retained earnings payable to stockholders of record as of July 11, 2022. The dividends were paid on August 29, 2022.

On April 27, 2023, the BOD approved the declaration of cash dividends amounting to P224.3 million (P 0.0682 per share) from its unrestricted retained earnings payable to stockholders of record as of May 12, 2023. The dividends were paid on May 26, 2023.

On June 22, 2023, the BOD approved the declaration of cash dividends amounting to P98.3 million (P 0.0299 per share) from its unrestricted retained earnings payable to stockholders of record as of July 7, 2023. The dividends were paid on July 17, 2023.

On September 8, 2023, the BOD approved the declaration of cash dividends amounting to P118.2 million (P 0.0359 per share) from its unrestricted retained earnings payable to stockholders of record as of September 23, 2023. The dividends were paid on September 29, 2023.

14.3 Distributable Income

The computation of the distributable income of the REIT is shown below.

	January 1 to September 30, 2023
Net profit for the period	P 400,032,193
Fair value adjustment of investment property resulting to loss	—
Effect of straight-lining of rental income	(46,444,600)
Accretion of interest relating to lease liability	343,283
Distributable income	P 353,930,876

The REIT has adopted a dividend policy in accordance with the provisions of the REIT Act, pursuant to which the REIT's shareholders may be entitled to receive at least 90% of the REIT's annual distributable income. The REIT intends to

declare and pay out dividends of at least 90% of distributable income on a quarterly basis each year.

For purposes of tax reporting, the REIT claimed dividends declared as deduction against its taxable income as allowed per Rule 10 of the REIT Act (see Note 12).

15. EARNINGS PER SHARE

Basic and diluted earnings per share for the periods ended September 30 were computed as follows:

	2023	2022
Net profit for the period	P 400,032,193	P 187,361,347
Divided by weighted number of outstanding common shares	3,288,669,000	2,302,069,800
Basic and diluted earnings per share	<u>P0.12</u>	<u>P 0.10</u>

The REIT has no potential dilutive common shares for periods ended September 30, 2023 and 2022. Therefore, basic and diluted EPS are the same

16. COMMITMENTS AND CONTINGENCIES

16.1 Operating Lease Commitments – REIT as a Lessor

On April 11, 2022, the REIT entered into several operating lease agreements with SIPCOR and CAMPCOR covering real estate properties for energy generation use located in Siquijor and Cebu for periods ranging from 8 to 10 years. Monthly rentals for the leases are equivalent to the higher of a guaranteed base lease or a percentage of the lessee's annual revenue (see Notes 6 and 7).

On the same date, the REIT entered into an operating sublease agreement with SIPCOR covering lands owned by NPC located in Siquijor for a period of 8 years for a fixed annual lease rate, subject to an annual escalation rate of 3% (see Note 7).

The lease and the sublease agreements are renewable upon mutual agreement by both parties. The agreements took effect in September 2022.

The future minimum lease receivable under these agreements as of September 30, 2023 are shown below.

Within one year	P 608,848,418
After one year but not more than two years	608,848,418
After two years but not more than three years	608,848,418
After three years but not more than four years	608,848,418
After four years but not more than five years	608,848,418
More than five years	<u>1,830,735,695</u>
	<u>P4,874,976,232</u>

The REIT is subject to risk incidental to the operation of its investment properties and property and equipment, which include, among others, changes in market rental rates and inability to collect rent from tenants due to bankruptcy or insolvency of tenants. All of the REIT's lease agreements are from related parties. If the expected growth does not meet management's expectations, the REIT may not be able to collect rent or collect at profitable rates. Management however deemed that the risk of non-collection is insignificant given the REIT and its tenants are related parties under common control and hence can direct payments and collections between these parties (see Note 13).

16.2 Others

There are other commitments and contingent liabilities that may arise in the normal course of the REIT's operations, which are not reflected in the financial statements. As of September 30, 2023 and December 31, 2022, management is of the opinion that losses, if any, from these commitments and contingencies will not have material effects on the REIT's financial statements.

17. RISK MANAGEMENT OBJECTIVES AND POLICIES

The REIT is exposed to a variety of financial risks in relation to its financial instruments. The REIT's financial asset and financial liability by category is disclosed in Note 18. The main types of risks are market risk, credit risk and liquidity risk.

The REIT's risk management is coordinated with its parent company, in close coordination with the BOD, and focuses on actively securing the REIT's short to medium-term cash flows by minimizing the exposure to financial risks. The REIT does not engage in trading of financial assets for speculative purposes. The relevant financial risks to which the REIT is exposed are discussed below.

17.1 Market Risk

As of September 30, 2023 and December 31, 2022, the REIT is exposed to market risk through its cash in bank, which is subject to changes in market interest rates. However, management believes that the related interest rate risk exposure is not significant.

17.2 Credit Risk

The REIT's credit risk is attributable to cash in bank. The REIT maintains defined credit policies and continuously monitors defaults of counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on counterparties are obtained and used. The REIT's policy is to deal only with creditworthy counterparties.

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position (or in the detailed analysis provided in the notes to financial statements), as summarized below.

	September 30, 2023	December 31, 2022
Cash	P 48,419,207	P4,625,289
Trade and other receivables	296,148,480	392,386,454
	P 344,567,687	P 397,011,743

(a) *Cash*

The maximum credit risk exposure of financial asset is the carrying amount of the financial asset as shown in the statement of financial position which relates to cash in bank. The credit risk for cash in bank is considered negligible since the counterparty is a reputable bank with high quality external credit rating. Cash in bank are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum of P0.5 million for every depositor per banking institution.

(b) *Trade and other receivables*

The REIT applies the simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade and other receivables. To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due (age buckets). The REIT has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the other assets.

The REIT has just started its operation during the current period; hence, no historical information is available for the REIT. In addition, management considers the ECL on the REIT's trade and other receivables to be negligible taking into consideration the related parties' ability to repay at the reporting date.

There are no unimpaired past due receivables as of September 30, 2023 and December 31, 2022.

17.3 Liquidity Risk

As of September 30, 2023 and December 31, 2022, the REIT's maximum liquidity risk is the carrying amounts of trade and other payables, due to related parties and lease liabilities in the statements. The REIT's financial liability representing due to related parties is payable upon demand.

	September 30, 2023	December 31, 2022
Trade and other payables	P 124,936,824	P 59,710,417
Due to related parties	-	64,627,723
Lease liabilities	6,367,324	6,702,040
	P 131,304,148	P 131,040,180

The contractual maturity reflects the gross cash flows and the carrying value of the liability at the end of the reporting period.

18. CATEGORIES, FAIR VALUES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

18.1 Carrying Amounts and Fair Value by Category

The carrying values and fair values of the categories of financial assets and financial liabilities presented in the statement of financial position are shown below.

	Notes	September 30, 2023		December 31, 2022	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets					
Cash	4	P 48,419,207	P 48,419,207	P4,625,289	P4,625,289
Trade and other receivables	5	296,148,480	296,148,480	392,386,454	392,386,454
		P 344,567,687	P 344,567,687	P397,011,743	P397,011,743
Trade and other payables	8	P 124,936,824	P 124,936,824	50,654,834	50,654,834
Due to related parties	15	-	-	64,627,723	64,627,723
Balance at beginning and end of the period		P 124,936,824	P 124,936,824	P115,282,557	P115,282,557

See Note 2.5 for the description of the accounting policies for each category of financial instruments. A description of the REIT's risk management objectives and policies for financial instruments is provided in Note 17.

18.2 Offsetting of Financial Assets and Financial Liabilities

Except for the offsetting of certain due to and due from related parties arising from the expenses paid by SIPCOR and CAMPCOR on behalf of the REIT, the REIT has not set off financial instruments and do not have relevant offsetting arrangements. Currently, all other financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) will have the option to settle all such amounts on a net basis in the event of default of the other party through approval by both parties' BOD and shareholders.

19. FAIR VALUE MEASUREMENT AND DISCLOSURE

19.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or

liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

19.2 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The REIT has no financial instruments measured at fair value that are not carried at fair value but are required to be disclosed as at September 30, 2023 and December 31, 2022. Accordingly, the REIT opted not to present its financial instruments in the fair value hierarchy anymore. Nevertheless, based on the management's review of its financial instruments measured at cost, except for cash, which is considered in Level 1, all the rest are determined to be Level 3.

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on the instruments where the significant inputs required to determine the fair value of such instruments are not based on observable market data.

19.3 Fair Value Measurement of Non-financial Assets

As of September 30, 2023 and December 31, 2022, the REIT's investment properties and property and equipment are classified under Level 3 of the hierarchy of fair value measurements.

	Note	September 30, 2023	December 31, 2022
Investment properties	7	P7,570,970,000	P 7,570,970,000
Property and equipment - net	6	858,174,049	897,580,000
		P 8,429,144,049	P8,468,550,000

The fair values of the REIT's investment properties and property and equipment are determined on the basis of the appraisals performed by Asian Appraisal Company, Inc., an independent appraiser, with appropriate qualifications and recent experience in the valuation

of similar properties.

In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the REIT's investment properties and property and equipment are their current use. The appraisers used a discount rate and growth rate of 8.4% and 3.5%, respectively, to value the REIT's investment properties.

Fair value as determined by independent appraisers are based on the income approach. Under income approach, the fair value of an asset is measured by calculating the present value of its economic benefits by discounting expected cash flows at a rate of return that compensates the risks associated with the particular investment. The most common approach in valuing future economic benefits of a projected income stream is the discounted cash flows model. This valuation process of this model consists of the following: (a) estimation of the revenues generated; (b) estimation of the costs expenses related to the operations of the development; (c) estimation of an appropriate discount rate; and (d) discounting process using an appropriate discount rate to arrive at an indicative fair value. There has been no change in the valuation techniques used by the REIT during the period. Also, there were no transfers into or out of Level 3 fair value hierarchy.

20. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The REIT's capital management objectives are to ensure the REIT's ability to continue as a going concern.

The REIT sets the amount of capital in proportion to its overall financing structure, i.e., equity and liabilities. The REIT manages the capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The REIT's total liabilities and total equity as of September 30, 2023 and December 31, 2022 are presented below.

	Notes	September 30, 2023	December 31, 2022
Total liabilities	6	P 131,304,148	P131,040,180
Total equity		8,726,885,176	8,767,534,630
		P0.02:1.00	P0.01:1.00

The REIT sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The REIT manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

Under REIT Act, the REIT is subject to external capital requirement to have a minimum paid-up capital of P300.0 million which was complied with as of the reporting period presented.

21. SEGMENT REPORTING

The REIT has determined that it operates as one operating segment. The REIT's only income-generating activity is the lease of its land, right-of-use asset, buildings and generation asset which is the measure used by the BOD in allocating resources (see Notes 7 and 10).

The REIT derives its rental income exclusively from SIPCOR (49%) and CAMPCOR (51%), related parties under common control (see Notes 7, 10 and 13).

The disaggregation of rental income as to lessee is also detailed in Note 10.

22. EVENTS AFTER THE END OF THE REPORTING PERIOD

No significant events after the end of the reporting period were noted.

23. SUPPLEMENTAL INFORMATION ON NON-CASH FINANCING AND INVESTING ACTIVITIES

The following are significant non-cash transactions of the REIT:

- In 2022, the REIT entered into a property-for-share swap transaction with SIPCOR and CAMPCOR. Both SIPCOR and CAMPCOR transferred, assigned and conveyed absolutely in favor of the REIT certain parcels of land, buildings and generation assets (see Notes 6 and 7) in exchange for P3.3 billion of the REIT's common shares (see Note 14).
- For the period March 4, 2022 to May 31, 2022, the SEC and BIR registration and filing fees amounting to P16.6 million and DST on issuance of shares amounting to P32.9 million were paid by SIPCOR on behalf of the REIT (see Notes 13 and 14).
- On May 31, 2022, the REIT recognized lease liability amounting to P6.6 million as a result of the assignment of lease agreement to the REIT by SIPCOR as approved by the National Power Corporation (see Note 9). The related right-of-use asset was also recognized as part of Investment Properties under the property-for-share swap transaction (see Note 7).
- On December 15, 2022, the REIT listed its common shares in the Philippine Stock Exchange. The proceeds from secondary offering amounting to P2.3 billion, net of P94.7 million initial offering expenses, were received by SIPCOR and CAMPCOR (Sponsors and assigned Disbursing Entities), as indicated in the REIT's Reinvestment Plan.

PREMIERE ISLAND POWER REIT CORPORATION
List of Supplementary Information
September 30, 2023

Schedule	Content	Page No.
A	Financial Asset	N/A
	Financial Asset at Fair Value Through Profit and Loss	
	Financial Assets at Fair Value Through Other Comprehensive Income	
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	1
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements	N/A
D	Long-term Debt	N/A
E	Indebtedness to Related Parties	2
F	Guarantees of Securities of Other Issuers	N/A
G	Capital Stock	3
Others Required Information		
	Reconciliation of Retained Earnings Available for Dividend Declaration	4
	Map Showing the Relationship Between the REIT and its Related Entities	5

PREMIERE ISLAND POWER REIT CORPORATION

Schedule B

Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)

September 30, 2023

(Amounts in Philippine Pesos)

Name And Designation of Debtor	Balance At Beginning of Year	Additions	Deductions		Ending Balance		Balance At End of Year
			Amounts Collected	Amounts Written Off	Current	Not Current	
S.I. Power Corporation	P191,870,442	P247,3999,778	P297,866,550	P—	P141,403,670	P—	P141,403,670
Canotes Island Power Generation Corporation	200,460,406	258,459,282	304,278,611	—	154,641,076	—	154,641,076
Advances to employees	55,606	103,734	55,606	—	103,734	—	103,734
	P392,386,454	P505,962,794	P602,200,768	P—	P296,148,479	P—	P296,148,480

PREMIERE ISLAND POWER REIT CORPORATION
Indebtedness to Related Parties
Schedule E
September 30, 2023
(Amounts in Philippine Pesos)

Name of Related Party	Balance at January 1,2023	Balance at September 30,2023
Parent Company - S.I. Power Corporation	P64,086,279	P—
Related party under common ownership - Camotes Island Power Generation Corporation	541,444	—
Total indebtedness to related parties	<u>P64,627,723</u>	<u>P—</u>

PREMIERE ISLAND POWER REIT CORPORATION

Capital Stock

Schedule G

September 30, 2023

(Amounts in Philippine Pesos)

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding as Shown Under the Related Statement of Financial Position Caption	Number of Shares Reserved for Options, Warrants, Conversion and Other Rights	Number of Shares Held By		
				Related Parties	Directors, Officers and Employee	Others
Common	7,500,000,000	3,288,669,000	—	1,680,428,993	100,454	1,608,139,553

PREMIERE ISLAND POWER REIT CORPORATION

(A Subsidiary of S.I. Power Corp.)

4th Starmall IT Hub CV Starr Ave.

September 30, 2023

Reconciliation of Retained Earnings Available for Dividend Declaration

Retained Earnings at Beginning of Period	P137,229,076
Prior Years' Outstanding Reconciling Items	
Fair value adjustment of investment property resulting to loss	191,960,000
Accretion of interest relating to lease liability	144,324
Effect of straight-lining of rental income	(45,415,940)
Deferred tax income	<u>(36,636,015)</u>
Unappropriated Retained Earnings Available for Dividend Declaration at the Beginning of the Year, January 1, 2023	
Net profit per unaudited financial statements	P247,281,445 400,032,193
Add: Non-actual/unrealized loss	
Fair value adjustment of investment property resulting to loss	-
Accretion of interest relating to lease liability	343,283
Less: Non-actual/unrealized income	
Effect of straight-lining of rental income	<u>(46,444,600)</u>
Net Profit Actually Earned	P601,212,321
Less: Dividends declared during the period	
April 27, 2023	
June 22, 2023	(224,287,226)
September 8, 2023	(98,331,203)
	<u>(118,063,217)</u>
Retained Earnings Available for Dividend Declaration at the End of the Period, September 30, 2023	<u>P160,530,675</u>

PREMIERE ISLAND POWER REIT CORPORATION
Aging of Receivables
As of September 30, 2023
(Amounts in Philippine Pesos)

Name and designation of debtor	Current	1-30 Days	31-60 Days	61-90 Days	91-120 Days	121-150 Days	151-180 Days	Over 180 Days	Non-current	Total
S.I. Power Corporation	P27,488,864	P27,488,864	P27,488,864	P27,488,864	P2,237,626	P2,237,626	P2,237,626	P24,735,336	P—	P141,403,670
Canones Island Power Generation Corporation	28,717,698	28,717,698	28,717,698	28,717,698	2,322,885	2,322,885	2,322,885	31,001,629	—	154,641,076
Advances to employees	—	—	—	—	—	103,734	—	—	—	103,734
	P56,691,896	P56,691,896	P56,691,896	P56,691,896	P—	P103,734	P—	P—	P—	P296,148,480