



L. P. Burlakoti & Associates

Registered Auditor
Kathmandu, Nepal

INDEPENDENT AUDITOR'S REPORT

**To The Shareholders of
Mabilung Energy Ltd.**

Report on the Financial Statements

We have audited the accompanying Balance Sheet as at 31st Ashad 2077 (Corresponding to 15th July 2020), related Income Statement, Cash Flow Statement for the period from 1st Shrawan 2076 to 31st Asadh 2077 (corresponding to 17th July 2019 to 15th July 2020) and a summary of significant accounting policies and other explanatory notes. These Financial Statements are the responsibility of management and our responsibility is to express opinion on these statements based on our audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Nepal Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements comprising of balance sheet as at 31st Ashad 2077 (Corresponding to 15th July 2020), related Income Statement, Cash Flow Statement for the period from 1st Shrawan 2076 to 31st Asadh 2077 (corresponding to 17th July 2019 to 15th July 2020), read with notes appended thereon, presents fairly, in all material respects, revenue and costs incurred for the period from 1st Shrawan 2076 to 31st Asadh 2077 (corresponding to 17th July 2019 to 15th July 2020) and fund balance as at 31st Ashad 2077 (Corresponding to 15th July 2020) in accordance with the local laws and in conformity with generally accepted accounting principles.

Date: 2077/09/01

Place: Kathmandu, Nepal



L. P. Burlakoti
L. P. Burlakoti & Associates
Registered Auditor

Mabilung Energy Ltd.

Lalitpur-10

Balance Sheet

As at Ashadh 31, 2077 (15 July, 2020)


**MABILUNG
ENERGY
LTD.**
Lalitpur, Nepal

Amount In NRs.

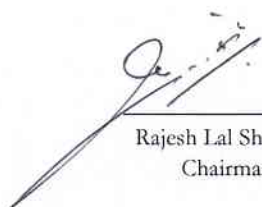
<u>Sources Of Fund</u>	Sch	FY 2076/77	FY 2075/76
Shareholder's Fund:			
Share Capital	1	40,000,000.00	40,000,000.00
Retained Earnings		393,153.00	-
Total Share Holder'S Fund		40,393,153.00	40,000,000.00
Advance for Share Capital		16,000,000.00	-
Total Sources Of Fund		56,393,153.00	40,000,000.00
Applications Of Fund			
Non-Current Assets	2	6,283,532.00	2,893,957.00
Less: Depreciation		(362,164.00)	(192,971.00)
Non-Current Assets (WDV)		5,921,368.00	2,700,986.00
Investment In Fixed Deposit		2,970,000.00	-
Project WIP- Upper Piluwa-3 Hydropower Project	6	42,283,623.00	28,411,740.00
Total Non Current Assets		51,174,991.00	31,112,726.00
Current Assets			
Cash And Bank Balances	3	552,588.00	3,029,407.00
Prepaid, Loan, Advances & Deposit	4	5,555,942.00	6,036,855.00
Total Current Assets (A)		6,108,530.00	9,066,262.00
Less: Current Liabilities And Provisions			
Accounts & Other Payables	5	890,368.00	178,988.00
Total Current Liabilities And Provisions (B)		890,368.00	178,988.00
Net Current Assets (C=A-B)		5,218,162.00	8,887,274.00
Total Applications Of Fund		56,393,153.00	40,000,000.00


Schedule 1 to 6 forms an integral part of this Financial Statements

As per our attached report of even date.


 Priya Shrestha
 Accountant


 Dabin Shrestha
 Director


 Rajesh Lal Shrestha
 Chairman


 Lekh Prasad Burlakoti
 L. P. Burlakoti & Associates
 Registered Auditor

 Date: 2077/08/16
 Place: Kathmandu

Mabilung Energy Ltd.

Lalitpur-10



**MABILUNG
ENERGY
LTD.**
Lalitpur, Nepal

Income Statement

For the period from Shrawan 1, 2076 to Ashadh 31, 2077

		Amount In	
<u>Income</u>	Sch	FY 2076/77	FY 2077
Sales		-	
Less, Direct Cost Relating To Sales		-	
Gross Income		-	
Add: Other Income		524,204.00	
Total Income		524,204.00	
Less:			
Administrative Expenses		-	
Depreciation	2	-	
Profit / Loss Before Staff Bonus		524,204.00	
Staff Bonus			
Profit (Loss) Before Provision For Tax		524,204.00	
Provision For Income Tax		-	
Current Tax		131,051.00	
Deferred Tax - Surplus (Expenses)		-	
Provision For Bonus Share & Dividend		-	
Profit (Loss) Up To The Previous Year		-	
Balance Carried To Balance Sheet		393,153.00	

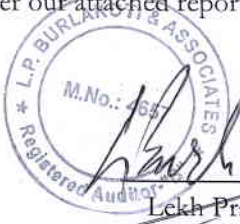
Schedule 1 to 6 forms an integral part of this Financial Statements

As per our attached report of even


Priya Shrestha
Accountant


Dabin Shrestha
Director


Rajesh Lal Shrestha
Chairman


Lekh Prasad Burlakoti
L.P. Burlakoti & Associates
Registered Auditor

Date: 2077/08/16

Place: Kathmandu

Mabilung Energy Ltd.

Lalitpur-10


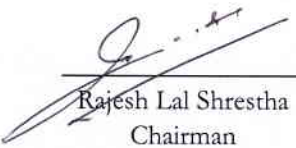

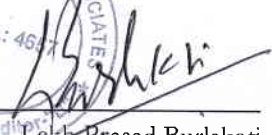
**MABILUNG
ENERGY
LTD.**
Lalitpur, Nepal**Cash Flow Statements**

For the period from Shrawan 1, 2076 to Ashadh 31, 2077

Particulars	Amount In NRs.	
	FY 2076/77	FY 2075/76
<u>Cash Flow From Operating Activities</u>		
Net Profit/(Loss) As Per Income Statement	393,153.00	-
Add: Depreciation For The Year	362,164.00	192,970.00
Add: Non-Cash Expenses	-	-
Cash Flow from operating activities before changes in WC	755,317.00	192,970.00
(Increase)/Decrease In Current Assets	480,913.00	3,963,145.00
Increase/ (Decrease) In Current Liabilities	711,379.00	125,080.00
Net Cash Flow From Operating Activities (Sub-Total-A)	1,947,609.00	4,281,195.00
<u>Cash Flow From Investing Activities</u>		
Less: Investment In Fixed Deposits	(2,970,000.00)	-
Less: Purchase Of Fixed Assets	(3,582,545.00)	-
Less: WIP Assets Capitalized (Project Cost)	(13,871,883.00)	(8,773,404.00)
Net Cash Flow From Investing Activities (Sub-Total-B)	(20,424,428.00)	(8,773,404.00)
<u>Cash Flow From Financing Activities</u>		
Issue Of Share Capital	16,000,000.00	7,500,000.00
Advance Against Share Capital Received	-	-
Net Cash Flow From Financing Activities (Sub-Total-C)	16,000,000.00	7,500,000.00
Total Cash Generated In The Year (A+B+C)	(2,476,819.00)	3,007,791.00
Cash And Equivalent At The Beginning Of The Year	3,029,407.00	21,616.00
Cash And Equivalent At The End Of The Year	552,588.00	3,029,407.00

Schedule 1 to 6 forms an integral part of this Financial Statements

As per our attached report of even date.


Priya Shrestha
Accountant
Dabin Shrestha
Director
Rajesh Lal Shrestha
Chairman

Lekh Prasad Burlakoti
P. Burlakoti & Associates
Registered AuditorDate: 2077/08/16
Place: Kathmandu

Mabilung Energy Ltd.
Lalitpur-10
Statement Of Changes In Equity
As at Ashadh 31, 2077 (15 July, 2020)



**MABILUNG
ENERGY
LTD.**
Lalitpur, Nepal

Particulars	Share Capital	Accumulated Profit/(Loss)	Total
Balance As On 1st Shrawan, 2076	40,000,000.00	-	40,000,000.00
Changes In Accounting Policies	-	-	-
Restated Balance	40,000,000.00	-	40,000,000.00
Net Profit/(Loss) For The Period		524,204.00	524,204.00
Share Capital Issued	-	16,000,000.00	16,000,000.00
Balance As On 31st Asadh 2077	40,000,000.00	16,524,204.00	56,524,204.00

Schedule 1 to 6 forms an integral part of this Financial Statements

As per our attached report of even date.

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Mabilung Energy Ltd.

Lalitpur-10

**MABILUNG
ENERGY
LTD.**

Lalitpur, Nepal

Schedules Forming Parts Of The Financial Statements

As at Ashadh 31, 2077 (15 July, 2020)

<u>Particulars</u>	<u>FY 2076/77</u>	<u>FY 2075/7</u>
<u>Schedule 1: Share Capital</u>		
<u>Authorized Capital</u>		
40,00,000 No. Of Ordinary Share At Rs. 100 Each.	400,000,000	260,000,000
<u>Issued Capital</u>		
26,00,000 No. Of Ordinary Share At Rs. 100 Each.	260,000,000	260,000,000
<u>Paid Up Capital</u>		
400,000 No. Of Ordinary Shares At Rs. 100 Paid Each.	40,000,000	40,000,000
<u>Advance for Share Capital</u>		
160,000 No. of Ordinary Shares At Rs. 100 Paid Each	16,000,000	-
<u>Schedule 3 : Cash & Bank Balances</u>		
Cash In Hand	373,014.00	-
Guheswori Merchant Banking & Finance Limited	105,856.00	29,407.00
Lumbini Bikash Bank Ltd.	73,718.00	-
Deposits In Lumbini Bikash Bank Ltd.	-	3,000,000.00
Total	552,588.00	3,029,407.00
<u>Schedule 4 : Loans ,Advances and Deposits</u>		
Advance -Land Purchase	4,450,000.00	-
Advance-Board of Director	-	5,913,395.00
Advance Tax	78,931.00	300.00
Advance-Raj Bandhu Services Pvt Ltd	-	100,000.00
Deposits at DOED	1,000,000.00	-
Receivables	27,011.00	23,160.00
Total	5,555,942.00	6,036,855.00
<u>Schedule 5 : Withholding Tax (TDS) & Other Account Payables</u>		
Payable -TDS On House Rent	23,240.00	66,000.00
Payable -TDS On Social Security Tax	-	19,750.00
Payable -TDS On Staff Salary	35,232.00	36,000.00
Payable -TDS On Audit Fee	266.00	3,000.00
Payable -TDS On Labour Charge	-	19,800.00
Payable -TDS On Consultancy Fees	52,739.00	-
Payable- Audit Fee	19,734.00	17,000.00
Payable-Professional Network for Engineering Services	240,463.00	17,438.00
Payable-Manifold Consult Pvt. Ltd.	299,643.00	-
Payable-House Rent	88,000.00	-
Provision for Income Tax	131,051.00	-
Total	890,368.00	178,988.00



Mabilung Energy Ltd.
Lalitpur-10
Schedules Forming Parts Of The Financial Statements
As at Ashadh 31, 2077 (15 July, 2020)



Schedule 6 : Work In Progress Capital Expenditure

Amount in NRs

Particulars	FY 2076/77	Addition During The Year	FY 2075/76
Advertisement & Notice Publication Expenses	129,236.00	129,236.00	-
Audit Fee	110,000.00	20,000.00	90,000.00
Bank Charges	61,075.00	30,830.00	30,245.00
Depreciation Expenses	1,232,692.00	362,164.00	870,528.00
DPR & Feasibility Study Expenses	4,357,650.00	2,680,925.00	1,676,725.00
Environmental Impact Assessment Expenses	1,523,525.00	958,525.00	565,000.00
Fines & Penalties	3,778.00	3,778.00	-
Fuel & Transportation Expenses	283,254.00	-	283,254.00
Fuel Expenses	119,967.00	-	119,967.00
Generation License Fee	500,000.00	500,000.00	-
Geophysical Investigation Expenses	1,671,835.00	1,671,835.00	-
Labour, Porter & Transportation Expenses	4,682,050.00	1,660,000.00	3,022,050.00
Legal & Accounting Expenses	132,000.00	100,000.00	32,000.00
License Fee, Renewal & Registration Expenses	4,000,000.00	-	4,000,000.00
Lodging Fooding Expenses	769,326.00	268,050.00	501,276.00
Office Expenses	346,715.00	22,430.00	324,285.00
Office Kitchen/Entertainment Expenses	847,255.00	451,100.00	396,155.00
Office Rent Expenses	2,247,500.00	1,200,000.00	1,047,500.00
PPA Related Expenses	90,000.00	-	90,000.00
Printing and Stationery Expenses	528,135.00	193,459.00	334,676.00
Registration and Renewal Expenses	188,900.00	162,400.00	26,500.00
Salary Expenses	11,740,000.00	2,275,000.00	9,465,000.00
Site Office Expenses	587,455.00	44,610.00	542,845.00
Site Visit/ Travelling Expenses	3,661,853.00	897,542.00	2,764,311.00
Survey License Fee	2,000,000.00	-	2,000,000.00
Telephone & Communication Expenses	130,030.00	-	130,030.00
Water & Electricity Expenses	341,394.00	240,000.00	101,394.00
Less: Interest Income	(2,003.00)	-	(2,003.00)
Total	42,283,623.00	13,871,884.00	28,411,740.00

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Mabilung Energy Ltd.

Lalitpur-10

Salary Sheet for the Fiscal Year 2076/77

S.N.	Name	Designation	Basic	Allowances	Monthly Total	Total Month	Yearly Total	Dashain Allowances	Grand Total	SST	Net Pay
1	Rajesh Lal Shrestha	Chairman	18,000	12,000	30,000	4.5	135,000	-	135,000	1,350	133,650
2	Dabin Shrestha	Director	18,000	12,000	30,000	12	360,000	30,000	390,000	3,900	386,100
3	Deepak Kumar Shrestha	Finance Manager	30,000	20,000	50,000	7.5	375,000	50,000	425,000	4,250	420,750
4	Priya Shrestha	Accountant	15,000	10,000	25,000	12	300,000	25,000	325,000	3,250	321,750
5	Tshering Sherpa	Admin Assistant	18,000	12,000	30,000	12	360,000	30,000	390,000	3,900	386,100
6	Sarita Neupane	Receptionist	7,800	5,200	13,000	12	156,000	13,000	169,000	1,690	167,310
7	Rukmani Basnet	Admin Officer	16,200	10,800	27,000	12	324,000	27,000	351,000	3,510	347,490
8	Sajal Maskey	Admin Officer	12,000	8,000	20,000	4.5	90,000	-	90,000	900	89,100
Total									2,275,000	22,750	2,252,250



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Mabilung Energy Ltd.
Lalitpur-10





MABILUNG ENERGY LTD.
Lalitpur, Nepal

Schedules Forming Parts Of The Financial Statements

As at Ashadh 31, 2077 (15 July, 2020)

Schedule-2

Assets	Dep. Rate	Opening Balance	Addition During The Year	Total Balance at Cost Price	Depreciation For The Period	Closing Balance
Pool A						
Land & Building		2,122,076.00	2,705,568.00	4,827,644.00	-	4,827,644.00
Total A		2,122,076.00	2,705,568.00	4,827,644.00	-	4,827,644.00
Pool B						
Furniture And Fixture	25%	94,263.50	-	94,263.50	23,565.88	70,697.63
Computer & Printers	25%	56,539.25	486,017.00	542,556.25	135,639.06	406,917.19
Office Equipments	25%	143,667.88	354,800.00	498,467.88	124,616.97	373,850.91
Construction & Decoration	25%	284,439.88	-	284,439.88	71,109.97	213,329.91
Total B		578,911.00	840,817.00	1,419,728.00	354,932.00	1,064,796.00
Pool C						
Vehicle	20%	-	-	-	-	-
Total C		-	-	-	-	-
Pool D						
Machinery Equipment						
Total D		-	-	-	-	-
Total (A+B+C+D)		2,700,987.00	3,546,385.00	6,247,372.00	354,932.00	5,892,440.00
Pool E						
Software	5	-	36,160.00	36,160.00	7,232.00	28,928.00

Schedule Forming Part of Financial Statements for the Year Ended Ashadh 31, 2077

Significant Accounting Policies and Other Explanatory Notes

1. Corporate Information

Mabilung Energy Ltd. is a Limited liability company established and registered in 2071 BS as a Private Limited Company under Company Act 2063 with an aim to invest & develop hydropower projects. It was then converted into Public Limited Company in 2076/11/12 under Company Act 2063 (Regd.235243/076/077). The Corporate office of the company is located at Lalitpur-10, Nepal.

It has obtained feasibility study license from Department of Electricity Development (DoED) on 2074/07/26 for developing Upper Piluwakhola Khola-3 Hydroelectric Project 4.95 MW in Sankhuwasabha District. The company has completed initial phase of research of the project and has obtained generation license from DoED on 2077/04/09 for tenure of 35 year. Connection agreement between NEA & Mabilung Energy Pvt. Ltd. has been completed. Power Purchase Agreement (PPA) with NEA was concluded on 2075/12/12. The Required Commercial Operation Date (RCOD) of the Project is 2078-11-16.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied for the whole period and to all the years presented, unless otherwise stated.

A. Statement of Compliance

The financial statements have been prepared in accordance with Nepal Accounting Standards ("NAS"), except otherwise stated, and to comply with the requirement of Companies Act, 2063.

B. Method of Accounting

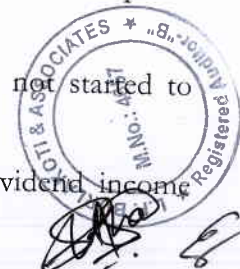
- i) The accounts have been prepared on accrual basis, in accordance with Nepal Accounting Standards (NAS), which have been prescribed by the Companies Act, 2063, to the extent applicable and other relevant practices.
- ii) The financial statements are prepared on the historical cost convention. The preparation of financial statements in conformity with NAS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in process of applying the Company's accounting policies and accounting estimates.

C. Revenue Recognition

- i) **Hydroelectricity Sales:** Company has the policy to recognize income from sale of hydroelectricity on accrual basis and based on the invoice issued to Nepal Electricity Authority (NEA), which is subject to confirmation from Nepal Electricity Authority (NEA). Any subsequent disputed amount deducted by NEA, if any, will be recognized as an expense on the year of confirmation.

However; the sole project of the company is under construction and has not started to generate the electricity.

- ii) **Other Revenue:** Other revenue is recognized on accrual basis except dividend income which shall be recognized when right to receive is established.



D. Revenue Expenditure

Expenditure incurred for the operation and management of projects which are already started the commercial operation is recognized as revenue expenditure and treated as operation and administrative costs. Whereas, direct expenditures incurred for the projects, which are under construction and not started the commercial operation, has been capitalized as project development cost under the related project head.

E. Fixed Assets and Depreciation/Amortization

- i) Fixed Assets are recorded at cost less accumulated depreciation and impairment loss, except otherwise stated. Where cost is calculated considering the purchase/construction costs and other direct costs.
- ii) Fixed Assets related to the hydropower projects are classified as Project Assets and treated as the Leasehold assets as they are transferrable to the Government of Nepal after completion of the electricity generation license.
- iii) Depreciation on the Project Assets will be charged on Straight Line Method over the useful period of license i.e. starting from the year of commercial operation of the projects.
- iv) Depreciation is charged off to the Income Statement as per the provisions of Schedule-2 of the Income Tax Act, 2058, which is not as per the provision of Nepal Accounting Standard 06 on Property Plant and Equipment.

F. Capitalization of Borrowing Costs and other Expenditure

Interest and other borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. And interest and other borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are charged as financial expenses on accrual basis. (A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.)

G. Inventories

Inventories have been measured at the lower of cost and net realizable value.

H. Cash and Cash Equivalent

Cash and Cash Equivalent represent cash in hand and balance in bank accounts at the year end.

I. Employee Benefits

Company has policy of recognizing the employee related liabilities, except regular salary and benefits, on cash basis.

J. Investments

Investments are recognized at cost price.

K. Income Taxes

Provision for current tax is made with reference to taxable profit for the financial year determined under the provisions of Income Tax Act, 2058 and Rules thereof.

3. Notes to the Annual Accounts

A. Share Capital






The authorized Share Capital of company is NRs. 40,00,00,000, issued Capital 25,00,00,000 and paid up share capital is NRs. 400,00,000. Company has received 1,60,00,000 as advance for share capital.

B. Revenue

- i. The Company is constructing the Upper PiluwaKhola-3 Hydropower Project-4.95 MW, the only project being operated by the company at the end of the period, and accordingly has no revenue income during the period.
- ii. During the period company has received interest income of NRs. 5,24,204 from Guheswori Merchant Banking & Finance Limited and Lumbini Bikash Bank Ltd. and same has been shown as interest income on income statement.

C. Changes in Accounting Policies

The Board of the company has its policy not to show project related income and expenses on income statement during construction period for the better presentation of its financial statements. Accordingly, administrative expenses and depreciation for general assets are capitalized under project WIP.

D. Fixed Assets, Project Assets and Depreciation

Fixed assets, based on their nature, are classified into following groups and depreciation is charged on diminishing balance method, except project assets which will be depreciated on SLM basis over remaining license period of the project, at the following rates:

- | | |
|--------------------------------|-----|
| 1. Building & Structure | 5% |
| 2. Computer & Office Equipment | 25% |
| 3. Vehicles | 20% |
| 4. Plant and Machineries | 15% |
- i) As per the provision of the license granted to the company by the Department of Electricity Development (DOED), the total project assets of the project is to be transferred to the Nepal Government after expiry of the generation license.

As per the policy of the company, total depreciation of fixed assets during the year is NRs.3,62,164. Depreciation on fixed assets has been capitalized to project cost.

E. Employees Benefits

Company has not recognized provision for gratuity, provident fund leave and other retirement benefits.

Due to the loss in the current period no provision for employee benefits has been recognized during the year.

Any type of liabilities towards employees' benefits, except provided, arising under labor related laws will be recognize on cash basis.

F. Income Tax Liability

- i) Company has taxable income of NRs.131,051 during the period and accordingly provision for income tax has been recognized.
- ii) Deferred tax has not been recognized during the year.

