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INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Basic Energy Corporation
(Formerly Basic Petroleum Corporation)

We have audited the accompanying financial statements of Basic Energy Corporation (formerly Basic Petroleum Corporation) and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2009 and 2008, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine 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 present fairly, in all material respects, the financial position of Basic Energy Corporation and Subsidiaries as of December 31, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Aileen L. Saringan

Aileen L. Saringan
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CPA Certificate No. 72557
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Tax Identification No. 102-089-397
PTR No. 2087572, January 4, 2010, Makati City

March 24, 2010

BASIC ENERGY CORPORATION
(Formerly Basic Petroleum Corporation)
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱100,185,897**	₱155,032,996
Financial assets at fair value through profit or loss (FVPL) (Note 6)	**2,105,027**	6,244,291
Receivables (Note 7)	**10,940,222**	11,552,619
Biological assets - standing crops (Note 11)	**23,522,738**	–
Prepayments and other current assets (Note 8)	**693,197**	4,757,146
Total Current Assets	**137,447,081**	177,587,052
Noncurrent Assets		
Available-for-sale (AFS) financial assets (Note 9)	**44,549,757**	26,992,252
Investment properties (Note 10)	**120,086,298**	120,086,298
Property and equipment (Note 14)		
At cost	**25,827,549**	19,014,928
At revalued amount	**18,223,332**	19,879,999
Project development costs (Note 12)	**62,378,691**	63,284,430
Deferred oil exploration costs (Note 13)	**36,299,832**	31,681,173
Deferred income tax assets (Note 21)	**15,188,913**	8,623,748
Intangible assets (Note 4)	**7,022,602**	7,022,602
Net pension assets (Note 20)	**544,500**	–
Other noncurrent assets	**8,227,153**	–
Total Noncurrent Assets	**338,348,627**	296,585,430
TOTAL ASSETS	**₱475,795,708**	₱474,172,482

LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 15)	**₱4,933,372**	₱15,687,601
Income tax payable	**40,097**	–
Total Current Liabilities	**4,973,469**	15,687,601
Noncurrent Liabilities		
Deferred income tax liabilities (Note 21)	**16,419,491**	9,854,325
Accrued retirement benefits (Note 20)	–	5,207,300
Total Noncurrent Liabilities	**16,419,491**	15,061,625
Total Liabilities	**21,392,960**	30,749,226

(Forward)

	December 31	
	2009	2008
Equity		
Attributable to equity holders of the Parent Company:		
Capital stock [held by 7,164 and 7,231 equity holders in 2009 and 2008, respectively] (Note 16)	**₱602,668,833**	₱572,455,491
Additional paid-in capital (Note 16)	**27,067,569**	4,105,430
Deposits for future stock subscription (Note 16)	**24,386,336**	66,761,817
Revaluation increment in office condominium (Note 14)	**12,756,334**	13,915,999
Net unrealized income (loss) on increase (decrease) in value of AFS financial assets (Note 9)	**12,538,809**	(988,594)
Deficit	**(225,655,609)**	(213,543,202)
Total equity attributable to equity holders of the Parent Company	**453,762,272**	442,706,941
Noncontrolling interest	**640,476**	716,315
Total Equity	**454,402,748**	443,423,256
TOTAL LIABILITIES AND EQUITY	**₱475,795,708**	₱474,172,482

See accompanying Notes to Consolidated Financial Statements.

BASIC ENERGY CORPORATION
(Formerly Basic Petroleum Corporation)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2009	2008	2007
GENERAL AND ADMINISTRATIVE EXPENSES (Note 19)	**₱26,655,576**	₱64,666,103	₱59,803,818
FOREIGN EXCHANGE LOSS (GAIN)	**410,444**	(1,806,630)	11,688,003
PROVISION FOR IMPAIRMENT LOSSES ON DEFERRED OIL EXPLORATION COSTS (Note 13)	–	38,200,000	–
PROVISION FOR IMPAIRMENT LOSSES ON AFS FINANCIAL ASSETS (Note 9)	–	673,892	133,064,296
OTHER INCOME - Net (Note 17)	**(9,660,758)**	(11,626,155)	(12,500,912)
LOSS BEFORE INCOME TAX	**17,405,262**	90,107,210	192,055,205
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 21)	**(4,057,351)**	18,468,743	(44,374,943)
NET LOSS	**13,347,911**	108,575,953	147,680,262
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss):			
Unrealized gain (loss) on AFS financial assets	**18,735,375**	(1,343,870)	(120,478,436)
Income tax effects on other comprehensive income (loss)	**(5,207,972)**	456,275	46,989,754
Reclassification adjustments from:			
Impairment loss on AFS financial assets	–	673,892	133,064,296
Sale of investment in bonds	–	–	830,274
	13,527,403	(213,703)	60,405,888
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱179,492**	(₱108,789,656)	(₱87,274,374)
NET LOSS ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**(₱13,272,072)**	(₱108,551,605)	(₱147,655,541)
Noncontrolling interest	**(75,839)**	(24,348)	(24,721)
	(₱13,347,911)	(₱108,575,953)	(₱147,680,262)
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**₱255,331**	(₱108,765,308)	(₱87,249,653)
Noncontrolling interest	**(75,839)**	(24,348)	(24,721)
	₱179,492	(₱108,789,656)	(₱87,274,374)
BASIC/DILUTED LOSS PER SHARE (Note 22)	**₱0.01**	₱0.05	₱0.09

See accompanying Notes to Consolidated Financial Statements.

BASIC ENERGY CORPORATION
(Formerly Basic Petroleum Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	Attributable to Equity Holders of the Parent Company										
	Capital Stock (Notes 16)	Additional Paid-in Capital (Note 16)	Deposits for Future Stock Subscription (Note 16)	Reduction Surplus	Revaluation Increment in Office Condominium (Note 14)	Net unrealized loss on increase (decrease) in fair value of AFS Financial Assets (Note 9) Equity	Net unrealized loss on increase (decrease) in fair value of AFS Financial Assets (Note 9) Debt	Deficit	Total	Noncontrolling Interest	Total Equity
BALANCES AT DECEMBER 31, 2006	**₱374,841,113**	**₱14,782,251**	**₱39,623,907**	**₱358,615,166**	**₱15,075,666**	**(₱60,723,423)**	**(₱457,356)**	**(₱331,893,140)**	**₱409,864,184**	**₱950,413**	**₱410,814,597**
Total comprehensive loss	–	–	–	–	–	59,985,283	420,605	(147,655,541)	(87,249,653)	(24,721)	(87,274,374)
Transfer of portion of revaluation increment realized through depreciation	–	–	–	–	(1,076,833)	–	–	1,656,667	579,834	–	579,834
Equity restructuring of Parent Company	–	(14,782,251)	–	(358,615,166)	–	–	–	373,397,417	–	–	–
Issuance of capital stock	26,527,364	4,105,430	(39,623,907)	–	–	–	–	–	(8,991,113)	–	(8,991,113)
Subscription of capital stock	171,087,014	–	–	–	–	–	–	–	171,087,014	–	171,087,014
Deposits for future stock subscription	–	–	13,586,336	–	–	–	–	–	13,586,336	–	13,586,336
Decrease in noncontrolling interest due to the additional investment in SWR	–	–	–	–	–	–	–	–	–	(185,029)	(185,029)
BALANCES AT DECEMBER 31, 2007	**572,455,491**	**4,105,430**	**13,586,336**	–	**13,998,833**	**(738,140)**	**(36,751)**	**(104,494,597)**	**498,876,602**	**740,663**	**499,617,265**
Total comprehensive loss	–	–	–	–	–	(243,853)	30,150	(108,551,605)	(108,765,308)	(24,348)	(108,789,656)
Transfer of portion of revaluation increment realized through depreciation	–	–	–	–	(82,834)	–	–	(497,000)	(579,834)	–	(579,834)
Subscription of capital stock	–	–	53,175,481	–	–	–	–	–	53,175,481	–	53,175,481
BALANCES AT DECEMBER 31, 2008	**572,455,491**	**4,105,430**	**66,761,817**	–	**13,915,999**	**(981,993)**	**(6,601)**	**(213,543,202)**	**442,706,941**	**716,315**	**443,423,256**
Total comprehensive income	–	–	–	–	–	13,503,955	23,448	(13,272,072)	255,331	(75,839)	179,492
Transfer of portion of revaluation increment realized through depreciation	–	–	–	–	(1,159,665)	–	–	1,159,665	–	–	–
Issuance of capital stock	30,213,342	22,962,139	(53,175,481)						–		
Subscription of capital stock	–	–	10,800,000	–	–	–	–	–	10,800,000	–	10,800,000
BALANCES AT DECEMBER 31, 2009	**₱602,668,833**	**₱27,067,569**	**₱24,386,336**	**₱–**	**₱12,756,334**	**₱12,521,962**	**₱16,847**	**(₱225,655,609)**	**₱453,762,272**	**₱640,476**	**₱454,402,748**

See accompanying Notes to Consolidated Financial Statements

BASIC ENERGY CORPORATION
(Formerly Basic Petroleum Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	**(₱17,405,262)**	(₱90,107,210)	(₱192,055,205)
Adjustments for:			
Interest income (Note 17)	**(5,607,555)**	(8,989,402)	(6,649,109)
Depreciation and amortization (Note 14)	**3,557,274**	3,348,034	2,205,243
Gain on sale of financial assets at FVPL and AFS financial assets (Notes 6, 9 and 17)	**(3,250,390)**	(9,778,448)	(1,694,890)
Unrealized foreign exchange loss (gain)	**317,367**	(1,806,630)	4,486,852
Fair value adjustments on financial assets at FVPL	**(105,027)**	7,237,912	–
Dividend income (Note 17)	**(19,938)**	(47,985)	(65,411)
Provision for impairment of deferred exploration costs (Note 13)	–	38,200,000	–
Impairment loss on AFS financial assets	–	673,892	133,131,795
Unrealized gain from increase in fair value of investment properties	–	–	(4,159,001)
Operating loss before working capital changes	**(22,513,531)**	(61,269,837)	(64,799,726)
Decrease (increase) in:			
Receivables	**285,423**	1,595,413	28,200,714
Biological assets	**(19,899,695)**	–	–
Prepayments and other current assets	**(606,951)**	63,756	(21,583,547)
Increase (decrease) in:			
Accounts payable and accrued expenses	**(10,254,229)**	6,441,909	4,712,262
Retirement benefits (income) (Note 20)	**(5,751,800)**	3,441,500	1,765,800
Cash used in operations	**(58,740,783)**	(49,727,259)	(51,704,497)
Interest received	**5,651,571**	8,798,910	6,333,909
Income taxes paid (including final taxes on interest income)	**(1,110,524)**	(1,981,667)	(752,747)
Net cash used in operating activities	**(54,199,736)**	(42,910,016)	(46,123,335)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of financial assets at FVPL and AFS financial assets	**8,669,051**	17,889,984	70,220,794
Additions to:			
Property and equipment (Note 14)	**(12,852,104)**	(11,575,657)	(4,748,674)
Deferred oil exploration costs	**(4,618,659)**	–	–
Project development costs	**(2,647,014)**	–	–
Financial assets at FVPL	–	–	(18,410,100)
AFS financial assets (Note 9)	–	–	(16,128,326)
Payment for project development cost	–	(141,999)	–
Dividends received	**19,938**	47,985	65,411
Net cash from (used in) investing activities	**(11,428,788)**	6,220,313	30,999,105

(Forward)

	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in deposits for future stock subscription (Note 16)	**₱10,800,000**	₱–	₱4,324,322
Proceeds from issuance of capital stock	–	–	171,245,901
Decrease in noncontrolling interest	–	–	(185,029)
Net cash from financing activities	**10,800,000**	–	175,385,194
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(18,575)**	327,860	(51,116)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(54,847,099)**	(36,361,843)	160,209,848
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**155,032,996**	191,394,839	31,184,991
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱100,185,897**	₱155,032,996	₱191,394,839

See accompanying Notes to Consolidated Financial Statements.

BASIC ENERGY CORPORATION
(Formerly Basic Petroleum Corporation)
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information and Authorization for Issuance of the Financial Statements**

Corporate Information
Basic Energy Corporation, formerly Basic Petroleum Corporation (the Parent Company) and subsidiaries (collectively referred to as a Group) is a publicly-listed stock corporation and were incorporated in the Philippines. The Parent Company's registered business address is at 7th Floor, Basic Petroleum Building, C. Palanca, Jr. Street, Legaspi Village, Makati City.

On November 27, 2006, the Philippine Securities and Exchange Commission (SEC) approved the Parent Company's change of business name from Basic Consolidated, Inc. to Basic Petroleum Corporation. On August 10, 2007, the SEC approved the Parent Company's further change in business name to Basic Energy Corporation and the amendment of its primary and secondary purposes transforming the Parent Company into a holding company with diversified business interests in the different fields of renewable energy and alternative fuels, while pursuing its core business in oil and gas exploration and development.

The Parent Company is the ultimate holding company of the following subsidiaries:

	Percentages of Ownership		
Subsidiaries	**2009**	2008	Nature of Business
Basic Diversified Industrial Holdings, Inc. (BDIHI)	**100.00**	100.00	Investment holding
iBasic, Inc. (iBasic)	**100.00**	100.00	Real estate (no development activities) and information technology
Basic Ecomarket Farms Inc. (BEFI)	**100.00**	100.00	Agriculture
Basic Biofuels Corporation (BBC)	**100.00**	100.00	Development of biofuels (no development activities)
Southwest Resources, Inc. (SWR)	**72.58**	72.58	Oil exploration and investment holding

Organizational Changes
The Board of Directors (BOD) of the Parent Company implemented certain organizational changes in March 2009 aimed at the preservation of cash and capital during the current global and local economic downturn. These organizational changes were taken in the light of the decision to pursue the cassava project in the Zamboanga peninsula, through BEFI, and to defer the planned ethanol project, while the capability of BEFI to produce the cassava feedstock required by the planned ethanol project is being developed. The Group continues to pursue its core businesses in oil and gas exploration and the development of geothermal and other forms of alternative and renewable energy.

Authorization for Issuance of the Consolidated Financial Statements
The consolidated financial statements were authorized for issuance by the BOD during its meeting on March 24, 2010.

2. Significant Accounting and Financial Reporting Policies

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at FVPL, AFS financial assets and investment properties that have been measured at fair value and office condominium that have been measured at revalued amounts. The consolidated financial statements are presented in Philippine Peso (Peso), which is the Group's functional currency. Amounts are rounded off to the nearest Peso unless otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of Basic Energy Corporation and its subsidiaries as of December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

Subsidiaries

Subsidiaries are entities over which the Parent Company has the power to govern the financial and operating policies of the entities, or generally has an interest of more than one half of the voting rights of the entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group directly or through the holding companies. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. They are deconsolidated from the date on which control ceases.

All intragroup balances, transactions and income that are recognized in assets are eliminated in full. However, intragroup losses that indicate impairment are recognized in the consolidated financial statements.

Noncontrolling Interests

Noncontrolling interest represents the 27.42% equity interest in the net assets of SWR that are not held by the Group as of December 31, 2009 and 2008 and are presented separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and within the equity section in the consolidated balance sheet, separately from the equity attributable to equity holders of the Parent Company. Acquisitions of noncontrolling interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended Philippine Accounting Standards (PAS) and PFRS and new Philippine Interpretation based on International Financial Reporting Interpretations Committee (IFRIC) Interpretations effective in 2009.

- PAS 1, *Presentation of Financial Statements*, separates owner and non-owner changes in equity. All owner changes in equity are required to be presented in a statement of changes in equity, and all non-owner changes either in one statement of comprehensive income or in two separate statements (statement of income and statement of comprehensive income). The previous standard required components of comprehensive income to be presented in the statement of changes in equity. The revised standard also requires that the income tax effect of each component of comprehensive income to be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in the financial statements.

The Group has elected to present comprehensive income in a single statement.

The Group has not presented three consolidated statements of balance sheets in these financial statements because it has not applied an accounting policy retrospectively, made a retrospective restatement of items in its financial statements or reclassified items in its financial statements that affected the consolidated statement of balance sheets at the beginning of the earliest comparative period.

- Amendment to PFRS 7, *Financial Instruments: Disclosures*, requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. Adoption of this amendment did not have any impact on the Group's financial statements. The fair value measurement and liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 24.

- PFRS 8, *Operating Segments*, replaces PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheet and consolidated statement of comprehensive income and the Group will provide explanations and reconciliations of the differences. Operating segments identified under PAS 14 and PFRS 8 are the same.

- PAS 40, *Investment Properties*, revises the scope (and the scope of PAS 16) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

- PAS 41, *Agriculture*, removes the reference to the use of a pretax discount rate to determine fair value, thereby allowing use of either a pretax or post-tax discount rate depending on the valuation methodology used and removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

The adoption of the following new and amended PFRS and Philippine Interpretations are either not relevant or are expected to have no significant impact on the consolidated financial statements:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, and Amendment to PAS 27, *Consolidated and Separate Financial Statements*
- Amendment to PFRS 2, *Share-based Payment*
- PAS 23, *Borrowing Costs*
- PAS 32, *Financial Instruments: Presentation* and Amendment to PAS 1
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, and Amendment to PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*

In 2008, the International Accounting Standards Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wordings. There are separate transitional provisions for each standard. Adoption of the following improvements to standards did not have any material impact on the consolidated financial statements:

- PAS 1, *Presentation of Financial Statements*
- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
- PAS 16, *Property, Plant and Equipment*
- PAS 19, *Employee Benefits*
- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*
- PAS 23, *Borrowing Costs*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 28, *Investments in Associates*
- PAS 29, *Financial Reporting in Hyperinflationary Economies*
- PAS 31, *Interests in Joint Ventures*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- PAS 40, *Investment Property*

The omnibus amendments to PFRS issued in 2009 included an amendment to the Appendix to PAS 18, *Revenue.* As the amendment to the Appendix to PAS 18 specifies no transitional provisions, the amendment is effective immediately and retrospectively. The amendment adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity: (a) has primary responsibility for providing the goods or services; (b) has inventory risk; (c) has discretion in establishing prices; and (d) bears the credit risk.

Business Combination and Goodwill
Business combinations are accounted for using the purchase method. This involves recognizing identifiable assets and liabilities of the acquired business initially at fair value. If the acquirer's interest in the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination, the acquirer shall (a) reassess the identification and measurement of the

acquiree's identifiable assets and liabilities and the measurement of the cost of the combination; and (b) recognize immediately in profit or loss any excess remaining after that reassessment.

When a business combination involves more than one exchange transaction, each exchange transaction shall be treated separately using the cost of the transaction and fair value information at the date of each exchange transaction to determine the amount of any goodwill associated with that transaction. This results in a step-by-step comparison of the cost of the individual investments with the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at each exchange transaction. The fair values of the acquiree's identifiable assets, liabilities and contingent liabilities may be different at the date of each exchange transaction. Any adjustment to those fair values relating to previously held interests of the Group is a revaluation to be accounted for as such and presented separately as part of equity.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share in the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is recognized separately as a noncurrent asset. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance.

Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (CGU) or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its impairment test of goodwill on an annual basis.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and are subject to an insignificant risk of change in value.

Financial Assets and Financial Liabilities
Financial assets are classified as financial assets at FVPL, loans and receivables, held-to-maturity (HTM) financial assets and AFS financial assets, as appropriate. The classification depends on the purpose for which the financial assets are acquired and whether they are quoted in an active market. Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities, as appropriate.

Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, reevaluates such designation at every balance sheet date.

As of December 31, 2009 and 2008, the Company has no HTM financial assets.

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

Initial recognition of financial instruments
Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those classified at FVPL, includes transaction costs.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

Determination of fair value
The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments and all other financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and other valuation models.

"Day 1" profit
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group recognizes the difference between the transaction price and fair value (a "Day 1" profit) in the consolidated statement of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" profit amount.

Designated financial assets or financial liabilities at FVPL
Financial assets and financial liabilities at FVPL includes financial assets or financial liabilities held for trading, derivative financial instruments and those designated upon initial recognition as at FVPL.

Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are classified at FVPL unless they are designated as effective hedging instruments or a financial guarantee contract. Dividends, interests, and gains or losses on financial instruments held for trading are recognized in profit or loss.

Financial instruments may be designated at initial recognition at FVPL when any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing the gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance are evaluated on fair value basis, in accordance with a documented risk management strategy; or (iii) the financial instrument contains an embedded derivative that would need to be separately recorded.

Financial assets or financial liabilities at FVPL, are recorded in the consolidated balance sheet at fair value. Changes in fair value are recognized in profit or loss. Interest and dividend income or expense are recognized in profit or loss according to the terms of the contract, or when the right to the payment has been established.

As of December 31, 2009 and 2008, the Group classifies its held-for-trading investments as financial assets at FVPL (see Note 6).

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. These financial assets are included in current assets if maturity is within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

As of December 31, 2009 and 2008, included under loans and receivables are cash in banks and cash equivalents, accounts receivable, interest receivable, advances to employees, receivable from FEP and due from ZNB Partners (see Notes 5, 7 and 8).

AFS financial assets
AFS financial assets are those non-derivative financial assets that are designated as AFS or are not classified in any of the three other categories. The Group designates financial instruments as AFS financial assets if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity as "Net unrealized income (loss) on the increase (decrease) in fair value of AFS financial assets" net of the related deferred income tax. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, are reported in profit or loss.

When the investment is disposed of, the cumulative gains or losses previously recorded in equity is recognized in profit or loss. Interest earned on the investments is reported as interest income using the effective interest rate method. Dividends earned on investments are recognized in the profit or loss as "Dividend income" when the right of payment has been established. The Group considers several factors in making a decision on the eventual disposal of the investment. The major factor of this decision is whether or not the Group will experience inevitable further losses on the investment. These financial assets are classified as noncurrent assets unless the intention is to dispose such assets within 12 months from the balance sheet date.

As of December 31, 2009 and 2008, included under AFS financial assets are the Group's investments in shares of stock and government bonds (see Note 9).

Other financial liabilities
Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

As of December 31, 2009 and 2008, included in other financial liabilities are the Group's accounts payable and accrued expenses (see Note 15).

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

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

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

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

Financial liabilities
A financial liability is derecognized when the obligation under the liability was discharged, cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets
The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Loans and receivables
The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial assets, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired receivables are derecognized when they are assessed as uncollectible.

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

AFS financial assets
For AFS financial assets, the Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 30% or more and 'prolonged' as greater than 12 months for quoted equity securities. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss is removed from other comprehensive income and recognized in profit or loss.

Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as a component of "Other income (charges)" in profit or loss. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

Prepayments

Prepayments are expenses paid in advance and recorded as asset before they are utilized. This account comprises prepaid rentals and insurance premiums and other prepaid items. The prepaid rentals and insurance premiums and other prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in profit or loss when incurred. Prepayments that are expected to be realized for no more than 12 months after the reporting period are classified as current assets otherwise these are classified as other noncurrent assets.

Investment Properties

Investment properties, consisting of parcels of land owned by the Group, are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of comprehensive income in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses from derecognition of an investment property are recognized in profit or loss in the year of retirement or disposal.

Deferred Oil Exploration Costs

All exploration costs incurred in connection with the participation of the Company and SWR in the exploration and development of oil contract areas are capitalized and accounted for under the "full cost method" [determined on the basis of each Service Contract (SC)/Geophysical Survey and Exploration Contract (GSEC)]. These costs include materials and fuel used, surveying costs, drilling costs and payments made to contractors. When oil in commercial quantity is discovered, the amounts capitalized are amortized at the start of commercial operations. On the other hand, when an SC/GSEC is permanently abandoned, the related capitalized exploration costs are written-off. SCs/GSECs are considered permanently abandoned if the SCs/GSECs have expired and/or if there are no definite plans for further exploration and/or development.

Once the technical feasibility and commercial viability of extracting mineral resources are demonstrable, all exploration and evaluation are tested for impairment.

Property and Equipment

Property and equipment, other than office condominium, are carried at cost less accumulated depreciation and amortization and any impairment in value. Office condominiums are carried at revalued amount less depreciation and any impairment in value charged subsequent to the date of the revaluation.

The revalued amount of the office condominium as of January 1, 2006 was determined by an independent firm of appraiser on April 12, 2007. Valuations are performed frequently enough to ensure that the fair value of the revalued asset does not differ materially from its carrying amount.

Any revaluation increment is credited to the "Revaluation increment in office condominium" account in the equity section of the consolidated balance sheet, net of the related deferred income tax liability. An annual transfer from the "Revaluation increment in office condominium" account to retained earnings (deficit) is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation increment relating to the particular asset sold is transferred to retained earnings (deficit).

The initial costs of property and equipment consist of their purchase price and any directly attributable costs of bringing the assets to their working condition and location for their intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance costs, are recognized in profit or loss in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of the property and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets. The cost of leasehold improvement is amortized over the term of the lease or the estimated useful life of the assets, whichever is shorter.

Depreciation of assets commences once the assets are available for use and is provided on all property and equipment at rates calculated to write off the cost or revalued amount, less estimated residual value based on prices prevailing at the balance sheet date.

Each asset is depreciated evenly over its expected useful lives as follows:

	Number of Years
Office condominium	15
Building and leasehold improvements	10
Office equipment, furniture and fixtures	4 to 5
Transportation equipment	5

Depreciation or amortization of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

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

When assets are retired or disposed of, their costs, related accumulated depreciation and amortization and any impairment in value are eliminated from the accounts. Any gain or loss resulting from their disposal is included in profit or loss.

Project Development Costs

Research costs are expensed as incurred. Project development costs on an individual project is recognized as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model applied requires the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Biological Assets - Standing Crops

Biological assets (cassava crops), for which fair values cannot be measured reliably, are measured at cost less accumulated impairment losses. Expenditure on standing crops includes land preparation expenses and other direct expenses incurred during the cultivation period.

Cost incurred in maintaining or enhancing the standing crops are recognized as expenses as incurred.

Impairment of Nonfinancial Assets
The Group assesses at each balance sheet date whether there is an indication that nonfinancial assets, which include property and equipment carried at cost and revalued amount, investment properties, biological assets, deferred oil exploration costs and project development costs, may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognized in profit or loss in those expense categories with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case, the impairment is also recognized in equity up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each balance sheet date as to whether there is any indication that the previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. Revenue is recognized at the fair value of the consideration received. The Group has assessed its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Revenue from petroleum operations is recognized at the time of production.

Interest income is recognized as the interest accrues taking into account the effective yield on the asset.

Dividend income is recognized when the Group's right to receive payment is established.

Other comprehensive income
Other comprehensive income comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive income of the Group includes changes in unrealized increases and losses on remeasuring AFS financial assets.

Foreign Currency-denominated Transactions and Translations
Items included in the financial statements of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Group. Transactions in foreign currencies are recorded using the applicable exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are retranslated using the applicable closing functional currency exchange rate at the balance sheet date. Foreign exchange gains or losses arising from foreign currency-denominated transactions and translations are recognized in profit or loss.

General and Administrative Expenses
General and administrative expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that results in decreases in equity, other than those relating to distributions to equity participants. General and administrative expenses are generally recognized when the service is incurred or the expense arises while interest expenses, if applicable are accrued in the appropriate period.

Capital Stock and Additional Paid-in Capital
Capital stock is measured at par value for all shares issued. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and number of shares issued and outstanding.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Group, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Deposits for Future Stock Subscription
Deposits for future stock subscription is recognized when the Group receives payment from stockholders with a view of applying the same as payment for a fixed number of shares of stock at a fixed amount to be issued in the future.

Retirement Benefits Cost
Retirement benefits cost is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting year exceeded 10% of the higher of the present value of defined benefit obligation and the fair value of the plan assets as of that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service cost is recognized as an expense in profit or loss on a straight line basis over the average period until the benefits become vested. If the benefits are already vested following the introduction of, or changes to, the plan, past service cost is recognized immediately.

The accrued retirement benefits is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of the plan assets out of which obligations are to be settled directly.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax

Deferred income tax is recognized on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized on all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carried forward benefits of tax credits (excess of minimum corporate income tax [MCIT] over the regular corporate income tax [RCIT]) or tax losses (net operating loss carryover [NOLCO]) to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized before its reversal or carried forward tax credits or tax losses can be utilized before their expiration.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and associates. With respect to investments in other subsidiaries and associates, deferred income tax liabilities are recognized except whether the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized before their reversal or expiration. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax asset to be recovered.

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

Deferred income tax relating to items recognized in equity is recognized in equity and not in the consolidated statement of comprehensive income.

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

Loss Per Share

Loss per share is computed by dividing net loss for the year attributable to equity holders of the Parent Company by the weighted average number of common shares outstanding during the year.

Diluted loss per share is calculated by dividing the net loss by the weighted average number of shares outstanding during the year, excluding treasury shares, and adjusted for the effects of all dilutive potential common shares, if any.

The Parent Company does not have any potential common shares with dilutive effect.

Segment Information
The Group considers investment holding and the energy and oil and gas exploration as its primary activities. The Group also has agriculture activities related to its energy and oil and gas exploration. The Group has no geographical segmentation as the Group's operating business segments are neither organized nor managed by geographical segment.

Provisions and Contingencies
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefit is probable.

Events After the Balance Sheet Date
Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Future Changes in Accounting Policies
The following standards and interpretations will become effective subsequent to year 2009. The Group does not expect the adoption of the applicable new and amended PFRS and Philippine Interpretations to have a significant impact on the financial statements.

Effective in 2010

- Improvements to PAS 1, *Presentation of Financial Statements*, clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- Improvements to PAS 7, *Statement of Cash Flows*, explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- Revised PFRS 3, *Business Combinations (Revised)* and PAS 27, *Consolidated and Separate Financial Statements (Amended)*, introduces a number of changes in the accounting for business, combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. The revised PAS 27 requires among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as "minority interests"); even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 must be applied prospectively and will affect future acquisitions and transactions with noncontrolling interests. PAS 27 is applied retrospectively.

- PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*, addresses only the designation of a one-sided risk in a hedged item and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

- PFRS 2, *Share-based Payment - Group Cash-settled Share-based Payment Transactions*, clarifies the scope and the accounting for group cash-settled share-based payment transactions.

- Philippine Interpretation IFRIC 17, *Distributions of Noncash Assets to Owners*, provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. These transactions are often referred to as debt for equity swaps.

Improvements to PFRS

- PFRS 2, *Share-based Payment*, clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations (Revised)*.

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such noncurrent assets or discontinued operations.

- PFRS 8, *Operating Segments*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 17, *Leases*, removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either "finance" or "operating" in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, *Impairment of Assets*, clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets,* clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. This also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments: Recognition and Measurement,* provides that changes in circumstances relating to derivatives - specifically derivatives designated or de-designated as hedging instruments after initial recognition - are not reclassifications. It also provides that when financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, *Insurance Contracts,* this is a change in circumstance, not a reclassification. It also removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge and requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation,* states that in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

Effective in 2012

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate,* covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors.

The required revised disclosures will be included in the Group's financial statements when the relevant accounting standards and interpretations are adopted subsequent to 2009.

3. Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements in compliance with PFRS requires management to make judgments and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgments and estimates used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Future events may occur which can cause the assumptions used in arriving at those judgments and estimates to change. The effects of the changes will be reflected in the consolidated financial statements as they become reasonably determinable.

Accounting judgments and estimates are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

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

Determination of the Group's functional currency

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency has been determined to be the Peso. It is the currency that mainly influences the operations of the Group.

Classification of financial instruments

The Group classifies a financial instrument, or its component, on initial recognition as a financial asset, liability, or equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, liability or equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheet.

Financial assets are classified as financial assets at FVPL, loans and receivables, HTM financial assets and AFS financial assets. Financial liabilities, on the other hand, are classified as financial liabilities at FVPL and other financial liabilities.

The Group determines the classification at initial recognition and reevaluates the classification at every balance sheet date.

Impairment of property and equipment

PFRS requires that an impairment review be performed when certain impairment indicators are present. Determining the value of property and equipment which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements.

The carrying value of property and equipment, net of accumulated depreciation and amortization of ₱24,051,536 and ₱17,621,219 as of December 31, 2009 and 2008, respectively, amounted to ₱44,050,881 and ₱38,894,927 as of December 31, 2009 and 2008, respectively (see Note 14).

Impairment and write-off of deferred oil exploration costs

The Group assesses impairment on deferred oil exploration costs when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. Until the Group has sufficient data to determine technical feasibility and commercial viability, deferred oil exploration costs need not be assessed for impairment.

Facts and circumstances that would require an impairment assessment as set forth in PFRS 6, *Exploration for and Evaluation of Mineral Resources*, are as follows:

- The period for which the Group has the right to explore in the specific area has expired or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and

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

For deferred oil exploration costs, impairment is recognized when a SC/GSEC where the Group has participating interest is permanently abandoned. Future events could cause the Group to conclude that these assets are impaired.

The carrying amount of deferred oil exploration costs, net of allowance for probable loss amounting to ₱38,200,000 as of December 31, 2009 and 2008, amounted to ₱36,299,832 and ₱31,681,173 as of December 31, 2009 and 2008, respectively (see Note 13).

Valuation of biological assets
The Group carries biological assets at cost less any accumulated impairment losses since prices of cassava tubers are not readily available and any alternative estimates of fair value is believed to be unreliable.

The Group determines whether its assets are impaired at least annually. The Group's impairment test for biological assets is based on value-in-use calculations using the discounted cash flow model. The projected cash flows were based on the estimated cassava granules that can be produced at the current plantation capacity of the Group and other assumptions that management believes are reasonable, like estimated price increases and cost inflation. These do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base. As of December 31, 2009, biological assets amounted to ₱23,522,738 (see Note 11).

Realizability of deferred income tax assets
Deferred income tax assets are recognized for all temporary deductible differences to the extent that it is probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Management has determined based on business forecast of succeeding years that there is no sufficient future taxable profits against which the deferred income tax assets will be utilized except for the deferred income tax assets related to the provision for impairment loss and fair value adjustments on AFS financial assets and some portion of NOLCO.

The Group recognized deferred income tax assets amounting to ₱15,188,913 and ₱8,623,748 as of December 31, 2009 and 2008, respectively (see Note 21).

Estimates
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of asset and liabilities within the next financial year are discussed below:

Impairment of AFS financial assets
The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats

'significant' generally as 30% or more and 'prolonged' as greater than 12 months for quoted equity securities. Impairment losses of AFS financial assets which are charged to profit or loss amounted to ₱673,892 and ₱133,064,296 in 2008 and 2007, respectively. There was no impairment loss in 2009.

The carrying value of the Group's AFS financial assets amounted to ₱44,549,757 and ₱26,992,252 as of December 31, 2009 and 2008, respectively (see Note 9).

Estimation of allowance for impairment of loans and receivables
The Group reviews its receivables at each balance sheet date to assess the adequacy of the allowance for doubtful accounts. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on factors such as, but not limited to, the length of the Group's relationship with the customer, customer's payment behavior and other known market factors.

The carrying value of receivables, net of allowance for impairment of accounts receivable amounting to ₱2,052,707 as of December 31, 2009 and 2008, amounted to ₱10,940,222 and ₱11,552,619 as of December 31, 2009 and 2008, respectively (see Note 7).

Estimation of useful lives of property and equipment
The Group estimates the useful lives of their property and equipment based on the period over which the assets are expected to be available for use. The Group annually reviews the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of property and equipment would increase depreciation expense and decrease noncurrent assets. The depreciation and amortization expense recognized during 2009, 2008 and 2007 amounted to ₱3,557,317, ₱3,348,034 and ₱2,205,243, respectively (see Note 14).

Estimation of reserves
Proven reserves are estimated by reference to available reservoir and well information, including production and pressure trends for producing reservoirs and, in some cases, subject to definitional limits, to similar data from other producing reservoirs. Proven reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and execution and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. All proven reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

Estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and depleted. As a field goes into production, the amount of proven reserves will be subject to future revision once additional information becomes available. As those fields are further developed, new information may lead to revisions.

Estimation of fair value of unquoted equity securities classified as AFS financial assets
Management believes that while the range of reasonable fair value estimates is significant, the probabilities of the various estimates cannot be reasonably assessed given the unquoted nature of these equity investments. As a result, the Group carries these financial assets at cost, less any impairment in value (see Note 9).

Estimation of retirement benefits
The determination of the obligation and retirement benefits is dependent on management's assumptions used by actuaries in calculating such amount, expected rate of return on plan assets and salary projection rate. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement obligations. The assumptions made by the Group resulted in net pension assets amounting to ₱544,500 as of December 31, 2009 and accrued retirement benefits ₱5,207,300 as of December 31, 2008 (see Note 20).

Determination of fair value of the investment properties
The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgment, the Group considers information from variety of sources including:

a) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

b) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

c) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The fair value of the Group's investment properties amounted to ₱120,086,298 as of December 31, 2009 and 2008 (see Note 10).

4. Status of Investments and Management's Outlook

Purchase of BBC (formerly Zambo Norte Bioenergy Corporation)
Share purchase agreement (SPA)
On April 4, 2007, the Parent Company's BOD approved the Memorandum of Understanding (MOU) between the Parent Company and ZN Biofuels Partners, Inc. (ZNB Partners), wherein the Parent Company agreed to acquire BBC to effectively place 100% ownership and full control of BBC in the Parent Company, subject to due diligence and the execution of the transaction documents.

On July 11, 2007, ZNB Partners and the Parent Company executed a SPA for a total consideration of ₱64,000,000 broken down as follows:

- Cash consideration amounting to ₱10,000,000; and
- Issuance of 122,727,272 shares of stock of the Parent Company to be issued from its existing authorized and unissued capital stock which is to be valued for the purposes of the SPA at ₱0.44 per share.

On August 17, 2007, ZNB Partners and the Parent Company (collectively referred to as the Parties) subsequently amended the SPA. They agreed to change the shares of stock consideration from 122,727,272 shares to 120,853,366 shares. The difference between the shares agreed on the original SPA and the amended SPA was settled as additional cash payment to ZNB Partners.

The components of the total consideration of ₱64,000,000 for the acquisition of 999,999 shares of BBC was thus amended as follows:

- Cash consideration amounting to ₱10,824,519; and
- Issuance of 120,853,366 common shares of the Parent Company.

On June 23, 2008, ZNB Partners executed the Deed of Assignment of Shares of Stock transferring 999,989 shares of BBC to the Parent Company, thus effectively transferring the full ownership and control of BBC to the Parent Company.

The fair values of the identifiable net assets of BBC as of date of acquisition are as follows:

	Fair value	Carrying value
Total current assets	₱102,210	₱102,210
Total noncurrent assets	63,523,121	63,523,121
Total assets	₱63,625,331	₱63,625,331
Total current liabilities	₱3,382,933	₱3,382,933
Total equity	60,242,398	60,242,398
Total liabilities and equity	₱63,625,331	₱63,625,331

The cost of the business combination amounted to ₱64,000,000, which consists of cash purchase price and transaction costs. The goodwill amounted to ₱3,757,602 and is recognized under "intangible assets" in the consolidated balance sheets.

On May 28, 2009, the Philippine Stock Exchange (PSE) approved the listing of the additional 120,853,366 common shares of the Parent Company for issuance to ZNB Partners.

Agreement for the acquisition of parcels of land

On June 19, 2007, the Parent Company and ZNB Partners entered into an "Agreement for the Acquisition of Lands". Under the agreement, which is related to the MOU previously executed by the Parties, ZNB Partners committed to arrange for the Parent Company the acquisition of a total of 4,000 hectares of parcels of land located in Kalawit, Labason and adjacent areas in Zamboanga del Norte, an additional 1,000 hectares on top of the 3,000 hectares committed under the aforementioned MOU. The Parent Company agreed to fund the acquisition of the said 4,000 hectares of parcels of land for the total agreed price of ₱8,000,000.

In September 2007, ZNB Partners contracted a geodetic engineer to conduct the topographic survey of the whole area. The process, after the topographic survey, will involve the execution of the agreements with the tenants and the Department of Environment and Natural Resources to finalize the lease agreement over the said area. At that time, the planned feedstock for the ethanol project was sugarcane and the parcels of land were found to be suitable for sugarcane.

In August 2008, however, the Parent Company decided to pursue cassava, over sugarcane, as the feedstock for the planned ethanol plant. Considering that the parcels of land in Kalawit, Labason and adjacent areas have been found to be more suitable to sugarcane, the Parent Company requested ZNB Partners to defer undertaking further action on these farmlands, until further notice.

In August 2009, ZNB Partners and the Parent Company executed an Agreement for the settlement of the remaining commitments of ZNB Partners under the SPA and the Agreement for the Acquisition of Lands dated June 19, 2007. The Parties agreed to a settlement amount of ₱8,223,653 consisting of a reduction in the consideration of ZNB Partners under the SPA, and the payment by ZNB Partners of the values of its undelivered commitments under the aforementioned agreements. The aforesaid amount was settled by ZNB Partners on September 30, 2009. As agreed, the Agreement shall constitute the final settlement of the obligations and commitments of ZNB Partners under the SPA and the Agreement for the Acquisition of Lands dated June 19, 2007.

Acquisition of the Cassava Project of EMF

On August 8, 2008, the Parent Company entered into a Memorandum of Agreement (MOA) with Ecomarketfarms Inc. (EMF) for cassava development and production (the Project). The Parent Company agreed to acquire the Project and all the properties and assets including rights and interests thereto.

On September 18, 2008, BEFI was incorporated as the joint venture company for the Project.

On November 11, 2008, EMF assigned its project rights over the land and land improvement and property and equipment of the Project to the Parent Company for a fair value amounting to ₱9,235,000.

The cost of the business combination amounted to ₱12,500,000, which consists of cash purchase price and transaction costs. The goodwill which is recognized under "Intangible assets" in the consolidated balance sheets, amounting to ₱3,265,000 is attributed to the synergies and expected benefits from combining the assets and activities of the Project with those of the Parent Company.

In 2009, the BOD approved the proposed amendments to the MOA with EMF and the Deed of Assignment of Project and Property Rights both dated November 11, 2008, for the acquisition of the cassava project of EMF in Tungawan, Zamboanga City:

- Project rights sold to the Parent Company will exclude the land and the three buildings erected thereon, due to uncertainties on whether the title can be issued in the name of BEFI, the land being covered by the Comprehensive Agrarian Reform Program and is part of a 300 hectares block of land awarded to other land reform beneficiaries, and assuming title can be issued, the length of time for the transfer and issuance of title in the name of BEFI; and

- Total consideration for the acquisition of the project was reduced by ₱500,000 for the value of the abovementioned properties, or from ₱12,500,000 to ₱12,000,000 broken down as follows:

    i. ₱10,800,000 which shall be used by EMF to subscribe to the Parent Company's shares; and
    ii. ₱1,200,000 in cash (equivalent to 10% of total consideration).

Sale of Basic Petroleum and Minerals, Inc.
On February 15, 2006, the Parent Company's BOD approved the Sale and Purchase Agreement (BPMI-SPA) with FEP. The BPMI-SPA was approved by the Parent Company's stockholders in their Annual Stockholders' Meeting on March 29, 2006.

The BPMI-SPA provides for the acquisition by FEP of the Parent Company's full interest in its wholly owned subsidiary, BPMI. The sale is intended to consolidate and generate investment funds for the Parent Company's oil and gas projects and other viable businesses.

The significant terms of the BPMI-SPA, which were mostly denominated in United States Dollar (US$) follow:

- Shares of stock of BPMI shall be transferred to FEP; and

- FEP shall settle the consideration for the above items as follows:

    i. US$5,000,000 in cash and fully paid shares of FEP using its closing share price on August 26, 2005 as follows:
        - US$880,000 (First Payment) payable upon compliance to all the conditions precedent as provided in the BPMI-SPA less US$100,000 previously advanced;
        - US$660,000 (Second Payment) payable within six months from the First Payment less US$100,000 previously advanced;
        - US$660,000 (Final Payment) payable within one year from the First Payment less US$100,000 previously advanced;
        - US$2,200,000 to be paid with 1,047,953 fully paid shares of FEP subject to a holding period of 12 months from date of final execution of BPMI-SPA; and
        - US$600,000 to be paid with 285,806 fully paid shares of FEP subject to a holding period of 18 months from date of official execution of BPMI-SPA, or upon completion of the farm-in of SC 14 and SC 6A and 6B, whichever comes first.

    ii. US$10,000,000 in cash upon FEP's utilization of the historical cost recovery (HCR) accounts of BPMI on the basis of US$0.75 for every US$1.00 used.

    iii. US$2,000,000 in cash payable in lots of US$200,000 for every 200,000 barrels of oil produced in excess of 5,420,000 barrels.

- The initial cash advances paid by FEP to the Parent Company in the amount of US$300,000 shall be deducted from the three cash payments mentioned above at US$100,000 each.

On April 3, 2006, the SPA was signed by the Parent Company and FEP. In the same month, the First Payment of US$880,000 less US$100,000 previously advanced, as well as fully paid shares of FEP, consisting of 1,333,759 shares, valued at US$2,800,000, were received by the Parent Company.

On October 4, 2006 and April 4, 2007, the Parent Company received the Second Payment and Final Payment, respectively, from FEP.

As of December 31, 2009 and 2008, receivables from FEP, representing the Parent Company's share in the utilization of the HCRs of BPMI, were booked at ₱9,773,167 and ₱10,052,401, respectively (see Note 7). No further accrual of the receivables of the Parent Company from FEP under the SPA was made when the Parent Company found that FEP's method of computation of the Parent Company's share in the HCRs was not in accordance with the SPA. To date, this issue remains unresolved.

The SPA also provided for FEP's commitment to have a nominee of the Parent Company appointed to the FEP's Board and the Parent Company's first nominee was elected to the FEP Board in 2006. After the resignation of the first nominee in 2007, the Parent Company nominated a new nominee, but FEP refused to elect the said new nominee in the FEP's Board. In 2008, the Parent Company designated another nominee, whom FEP likewise refused to elect in the FEP's Board.

Thus, on February 28, 2008, the Parent Company, through its external counsel, made a final demand on FEP for the Parent Company's share in the HCRs of BPMI in the aggregate amount of US$621,927 as of December 31, 2007, and requested that the Parent Company's new nominee be elected to the FEP's Board. In view of the failure of FEP to comply with these demands, on April 30, 2008, the Parent Company served FEP a notice of default of its obligation under the SPA. On June 5, 2008, FEP was formally declared in default and was advised of the automatic termination of the SPA. As of November 30, 2009, the Company's share in the HCRs of BPMI due from FEP amounted to US$ 1,348,347. Considering that negotiations to settle this case proved futile, on February 25, 2010, the BOD of the Parent Company authorized management to advise its external counsel to pursue the arbitration proceedings as provided in the SPA and such other legal remedies to protect the interest of the Parent Company.

As of March 24, 2010, the arbitration is ongoing.

Service Contracts (SCs)

SC 47 (Offshore Mindoro) *and SC 53* (Onshore Mindoro). The Parent Company, is a party together with other companies, to SC 47 and 53 with the Philippine Government, through the Department of Energy (DOE) for the exploration, development and exploitation of the contract areas situated in offshore and onshore Mindoro, respectively.

SC 47. SC 47 was awarded on January 10, 2005 to the Philippine National Oil Company - Exploration Corporation (PNOC-EC) and Petronas Carigali of Malaysia. SC 47 covers 14,667 square kilometers (sq. km.) and is located within the Northwest Palawan Micro-Continental Block (NPMCB). The Parent Company has an agreement with PNOC-EC that recognizes a 0.2% carried interest stake in the SC.

On January 9, 2008, PNOC-EC informed the DOE of the continued interest on SC 47. However, PNOC-EC requested for a six-month extension of the decision date (from January 10, 2008 to

June 10, 2008) to commit to Sub-Phase 2 of the SC. The extension period would provide time for the remaining parties to conduct post-well analysis on the Kamia-1 well.

On April 16, 2008, the DOE has approved the request for a six-month extension to decide on entering Sub-Phase 2 (Contract Years 3 and 4). The extension period was from January 10, 2008 to June 10, 2008 and reduced the term of the Sub-Phase 2 by six months.

Under the extension period, the consortium committed to complete the Kamia-1 post-well evaluation and map the area to be relinquished prior to making the decision to enter Sub-Phase 2.

On June 10, 2008, the consortium entered into Sub-Phase 2 and presented an alternative work program of acquiring 1000 km. of two-dimension (2D) seismic program. The proposal was not accepted. PNOC-EC is renegotiating and would be informing the consortium of the acceptable work program.

Upon Petronas' withdrawal, the Parent Company's participation on SC 47 is 1%, Petroenergy at 2% and PNOC-EC at 97%. PNOC-EC indicated that they are receptive to reduce their interest.

SC 53. SC 53 was awarded on July 8, 2005. It covers 6,600 sq. km. of the onshore areas of Mindoro Island which is within the NPMCB. The operator of the block is Laxmi Organic Industries Ltd. with 70% participating interest. The Parent Company's participating interest on SC 53 at 3%, the Philodrill Corporation's at 22% and Anglo-Philippines Holdings' at 7%.

The Farm-In Agreement (FIA) between Laxmi Organic Industries and Pitkin Petroleum Ltd. (Pitkin) was finalized and submitted for approval to the DOE on September 6, 2007. Under the FIA, Pitkin will carry the consortium to a 2D seismic program which will be completed by January 2009. Pitkin's proposal would be for the DOE to extend the term of Sub-Phase 1 up to January 2009 and would give time to complete the 2D seismic program and identify a drillable structure. If the 2D seismic program is positive, a well will be committed under Sub-Phase 2.

The Parent Company has a carried-free interest of 3% on the 2D seismic program which is estimated to cost a minimum of US$1,500,000.

SC 41. SC 41 (Sandakan Basin) was issued to the consortium on May 10, 1996. It is adjacent to the Malaysia-Philippine border within the Sandakan Basin. The contract area is 8,324 sq. km. and covers almost the deepwater areas of the Sandakan shelf.

On July 19, 2008, the consortium drilled the Lumba Lumba-1 well using the semi-submersible rig Transocean Legend. The well was re-spudded on July 27, 2008, 15 meters to the west of the previous location due to some technical difficulties. The well was to test a large inversion structure with multiple objectives in interpreted channel and fan complexes. Estimated recoverable volume ranges from 50 to 150 million barrels.

The Lumba-Lumba 1A drilled through the primary objectives of the prospect with elevated gas readings recorded. However there were no reservoir quality rocks encountered. Tap Oil, the contractor, justified that the deeper secondary objectives did not warrant continuing the well due to the more difficult drilling conditions. The block has an inventory of nearly 20 leads and prospects covered by 3D data. Drilling operations are being considered after a thorough evaluation.

On October 3, 2008, the DOE approved the contractor's request for a two year extension on the SC 41 term. Under the extension, the consortium will have until May 2010 before it commits to drill a well. The term will be automatically extended up to May 2011 upon the consortium's notification of the progress of the 3D processing. Estimated cost of reprocessing amounted to Australian dollar (A$)100,000. This will cost SWR, at 0.608%, A$6,688.

The Parent Company is involved in the block through its subsidiary, SWR's 0.608% interest.

In the above SCs, the Parent Company and SWR have participating interests that are carried-free from the financial commitments of the work programs to be performed over the concession areas.

The full recovery of the deferred oil exploration costs, amounting to ₱36,299,832 and ₱31,681,173 as of December 31, 2009 and 2008, respectively (see Note 13), incurred in connection with the Parent Company's and SWR's participation in the acquisition, exploration and development of petroleum concessions, is dependent upon the discovery of oil and gas in commercial quantities from the respective contract areas and the success of future developments thereof.

Geothermal Service Contract (GSC)

On July 10, 2008, the Parent Company entered into a GSC with the DOE for the exploration, development and exploitation of geothermal resource located in Mabini, Batangas covering an area of approximately 3,841 hectares of land.

As of December 31, 2009 and 2008, the Parent Company has commenced research and data collection in coherence with the initial phase of the contract.

5. Cash and Cash Equivalents

	2009	2008
Cash on hand and in banks	**₱6,034,011**	₱13,306,503
Short-term investments	**94,151,886**	141,726,493
	₱100,185,897	₱155,032,996

Cash in banks and short-term investments earn interest at the respective bank deposit and short-term investment rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group. Interest income amounted to ₱5,179,548, ₱8,631,952 and ₱3,341,361 in 2009, 2008 and 2007, respectively (see Note 17).

6. Financial Assets at FVPL

	2009	2008
Investments in:		
Publicly - listed shares of stock	**₱2,105,027**	₱4,514,912
Philippine mutual funds	–	1,729,379
	₱2,105,027	₱6,244,291

The investment in publicly-listed shares of stock are quoted at the bid price of PSE and the mutual fund is valued at its net asset value as of December 31, 2009 and 2008. Fair value adjustments recognized on these financial assets amounted to unrealized gain (loss), presented under "Other Income (Charges)" account of ₱105,027, (₱7,237,912) and (₱67,499) in 2009, 2008 and 2007, respectively (see Note 17). Trading losses and gains recognized under "Other Income (Charges)" account in the consolidated statements of comprehensive income amounted to ₱1,917,908 and ₱26,789 in 2009 and 2008, respectively (see Note 17).

7. Receivables

	2009	2008
Receivable from FEP (Note 4)	**₱9,773,167**	₱10,052,401
Accounts receivable	**2,442,061**	2,572,733
Interest receivable	**548,931**	505,692
Advances to employees	**228,770**	474,500
	12,992,929	13,605,326
Less allowance for impairment of accounts receivable	**2,052,707**	2,052,707
	₱10,940,222	₱11,552,619

Accounts receivable arises from short-term, noninterest-bearing transactions of the Group.

The receivable from FEP as of December 31, 2009 and 2008 are the booked portions of the Parent Company's share in the cost recovery incurred in connection with the Parent Company's sale of BPMI's participation in the acquisition, exploration and development of petroleum concessions under SC 14.

Movements in the allowance for doubtful accounts of individually impaired receivables as of December 31, 2009 and 2008 were as follows:

	2009	2008
Beginning balances	**₱2,052,707**	₱1,713,227
Provision for the year	–	339,480
Ending balances	**₱2,052,707**	₱2,052,707

8. Prepayments and Other Current Assets

	2009	2008
Prepayments	**₱693,197**	₱86,246
Due from ZNB Partners (Note 4)	**–**	4,670,900
	₱693,197	₱4,757,146

Amounts of due from ZNB Partners pertain to short-term, noninterest-bearing cash advances given to ZNB Partners for the acquisition of land for the bioethanol project.

9. AFS Financial Assets

	2009	2008
Investment in peso-quoted government bonds	**₱6,512,221**	₱6,446,603
Investments in shares of stock:		
Quoted	**34,183,915**	17,218,499
Unquoted	**3,853,621**	3,327,150
	38,037,536	20,545,649
Total AFS financial assets	**₱44,549,757**	₱26,992,252

The Parent Company invested in government bonds through a local bank. The bonds were acquired at a premium and have a nominal interest rate ranging from 5.5% per annum which are payable to the Parent Company semiannually. Interest income recognized using effective interest rate method on investment in government bonds amounted to ₱428,007, ₱357,450 and ₱3,307,748 for 2009, 2008 and 2007, respectively (see Note 17).

Quoted shares consist of equity investments in FEC Resources, Inc., an independent company listed on the NASD OTC Bulletin Board and the Frankfurt and Munich Stock Exchanges, and FEP, a company listed on London AIM market. The fair values of these listed shares are based on their bid market price as of balance sheet date. The fair value of FEP shares increased to £0.535 as of December 31, 2009 from £0.225 as of December 31, 2008.

Unquoted equity securities include unlisted shares of stock which the Parent Company will continue to carry as part of its investments. These are carried at cost less impairment.

The movement in unrealized gain (loss) in respect of AFS financial assets in 2009 and 2008, are as follows:

	2009	2008
Investment in peso-quoted government bonds		
Beginning balances	**(₱6,601)**	(₱36,751)
Unrealized gain	**23,448**	30,150
Ending balances	**₱16,847**	(₱6,601)
Investments in shares of stock		
Beginning balances	**(₱981,993)**	(₱738,140)
Unrealized gain (loss)	**13,503,955**	(917,745)
Impairment loss transferred to profit and loss	**–**	673,892
Ending balances	**₱12,521,962**	(₱981,993)

10. Investment Properties

Investment properties consisting of land, are stated at fair value, which has been determined based on valuations performed by Asian Appraisal, Inc., an independent firm of appraisers, as of December 31, 2006. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and knowledgeable, willing seller in an arm's length transaction at the date of the valuation. Management believes that movement in fair value of these investment properties in 2009 and 2008 is not significant. As of December 31, 2009 and 2008, carrying value of investment properties amounted to ₱120,086,298.

11. Biological Assets

As of December 31, 2009, BEFI's biological assets consist of growing cassava crops which is measured at cost.

BEFI's started planting cassava in March 2009. Total capitalized cost to biological assets amounted to ₱23,522,738 as of December 31, 2009.

As of December 31, 2009, there are about 300 hectares planted with growing cassava crops and the estimated crops that will be harvested is about 10,500 metric tons.

BEFI expects its first harvest by the end of March 2010.

12. Project Development Costs

Project development costs pertain to the costs incurred related to BBC's ethanol plant project located at Gutalac, Zamboanga del Norte, which consists of approximately 9,000 hectares of land for the sugarcane farm and a fully integrated ethanol plant with a capacity of 200,000 liters of ethanol/day, with a carbon dioxide production plant having a capacity of 50 tons/day, a 6 megawatt power plant and a 3,000 metric tons/day sugar mill.

13. Deferred Oil Exploration Costs

The movements in deferred oil exploration costs follow:

	2009	2008
Beginning balances	**₱69,881,173**	₱69,881,173
Additions	**4,618,659**	–
	74,499,832	69,881,173
Less allowance for impairment	**38,200,000**	38,200,000
Ending balances	**₱36,299,832**	₱31,681,173

Under the SCs entered into with the DOE covering certain petroleum contract areas in various locations in the Philippines, the participating oil companies (collectively known as Contractors) are obliged to provide, at their sole risk, the services, technology and financing necessary in the performance of their obligations under these contracts. The Contractors are also obliged to spend specified amounts indicated in the contract in direct proportion to their work obligations.

However, if the Contractors fail to comply with their work obligations, they shall pay to the government the amount they should have spent but did not, in direct proportion to their work obligations. The participating companies have Operating Agreements among themselves, which govern their rights and obligations under these contracts.

On July 10, 2008, the Group and the Government of the Republic of the Philippines through the DOE, engaged a Geothermal Service Contract (GSC) wherein the Group will undertake and execute the Geothermal Operations contemplated under the GSC. The geothermal operations shall include geothermal exploration, development and production. It shall also consists of surface exploration and subsurface exploration. Surface exploration deals primarily with reconnaissance to detailed activities, studies and geo-scientific investigations. Subsurface exploration refers mainly to drilling activities for the purpose of making discovery and delineating the reservoir. Geothermal development, on the other hand, refers to the drilling of appraisal, development and reinjection wells and geo-scientific activities related thereto for the purpose of exploiting the delineated Geothermal Reservoir, which includes the installation of wellhead equipment, collecting pipes and pressure vessels for steam extraction. Geothermal production is the set of activities which involves the actual extraction of geothermal fluid for commercial utilization, but does not include the utilization of such geothermal fluid.

The term of the GSC is for five years from the effective date consisting of three subphases, renewable for another two years.

The accumulated costs incurred in connection with the exploration contracts are shown under "Deferred oil exploration costs" account in the consolidated balance sheet. The full recovery of these deferred exploration costs is dependent upon the discovery of oil in commercial quantities from any of the petroleum concessions and the success of future development thereof.

In 2008, management has identified and provided for an allowance for impairment on various deferred oil exploration costs in relation to various unsuccessful exploration expenditure amounting to ₱38,200,000.

14. Property and Equipment

At cost:

As of December 31, 2009:

	Land	Office Equipment, Furniture and Fixtures	Farm Equipment	Building and Leasehold Improvement	Transportation Equipment	Construction in Progress	Total
At Costs							
Beginning balances	₱3,500,000	₱10,792,302	₱7,683,481	₱5,156,648	₱2,803,705	₱–	₱29,936,136
Additions	–	601,980	11,147,424	–	1,102,700	–	12,852,104
Transfers	–	(1,265,833)	–	–	–	–	(1,265,833)
Ending balances	3,500,000	10,128,449	18,830,905	5,156,648	3,906,405	–	41,522,407
Accumulated Depreciation and Amortization							
Beginning balance	–	6,946,210	248,500	2,775,692	950,806	–	10,921,208
Depreciation and amortization	–	1,518,744	2,494,483	172,025	588,398	–	4,773,650
Ending balances	–	8,464,954	2,742,983	2,947,717	1,539,204	–	15,694,858
Net Book Values	₱3,500,000	₱1,663,495	₱16,087,922	₱2,208,931	₱2,367,201	₱–	₱25,827,549

Depreciation expense capitalized as cost of biological assets amounted to ₱2,873,043 in 2009.

As of December 31, 2008:

	Land	Office Equipment, Furniture and Fixtures	Farm Equipment	Building and Leasehold Improvement	Transportation Equipment	Construction in Progress	Total
At Costs							
Beginning balances	₱–	₱8,242,647	₱–	₱5,042,177	₱1,383,955	₱45,000	₱14,713,779
Additions	3,500,000	2,714,955	7,683,481	69,471	1,419,750	–	15,387,657
Disposals		(165,300)	–	–	–	–	(165,300)
Reclassification	–	–	–	45,000	–	(45,000)	–
Ending balances	3,500,000	10,792,302	7,683,481	5,156,648	2,803,705	–	29,936,136
Accumulated Depreciation and Amortization							
Beginning balance	–	6,129,140	–	2,603,667	662,334	–	9,395,141
Depreciation and amortization	–	982,370	248,500	172,025	288,472	–	1,691,367
Disposals	–	(165,300)	–	–	–	–	(165,300)
Ending balances	–	6,946,210	248,500	2,775,692	950,806	–	10,921,208
Net Book Values	₱3,500,000	₱3,846,092	₱7,434,981	₱2,380,956	₱1,852,899	₱–	₱19,014,928

Additions amounting to ₱3,812,000 in 2008 were acquired through consolidation of BBC.

At revalued amount:

	2009	2008
Office Condominium At Revalued Amount	**₱26,580,010**	₱26,580,010
Accumulated Depreciation		
Beginning balances	**6,700,011**	5,043,344
Depreciation	**1,656,667**	1,656,667
Ending balances	**8,356,678**	6,700,011
Net Book Values	**₱18,223,332**	₱19,879,999

Revaluation of Office Condominium

The Group engaged Royal Asia Appraisal Corporation, an independent firm of appraisers, to determine the fair value of its office condominium as of January 1, 2006. The fair value is determined in reference to market-based evidences. The date of the appraisal was April 12, 2007. The estimated remaining life of the office condominium based on the appraisal report is 15 years from the appraisal date. Management believes that changes in fair value in 2009 and 2008 are not significant.

If the office condominium was measured using the cost model, the carrying amount as of December 31, 2009 and 2008 would be as follows:

Cost	₱1,730,010
Accumulated depreciation	(1,730,010)
	₱–

The Group's fully depreciated assets still in use amounted to ₱8,732,946 as of December 31, 2009 and 2008.

15. Accounts Payable and Accrued Expenses

	2009	2008
Accounts payable	**₱3,885,847**	₱14,359,914
Dividends payable	**888,714**	888,714
Other payables	**158,811**	438,973
	₱4,933,372	₱15,687,601

The accounts payable consists of short-term and noninterest-bearing trade payables to the Group's local suppliers with an average credit terms of 30 days. Other payables are liabilities to various government agencies.

16. Capital Stock

	2009		2008	
	No. of Shares	**Amount**	No. of Shares	Amount
Authorized - ₱0.25 par value	**10,000,000,000**	**₱2,500,000,000**	10,000,000,000	₱2,500,000,000
Unissued	**(8,273,672,727)**	**(2,068,418,181)**	(8,394,526,093)	(2,098,631,523)
Issued	**1,726,327,273**	**431,581,819**	1,605,473,907	401,368,477
Subscribed	**2,146,848,057**	**536,712,014**	2,146,848,057	536,712,014
Subscriptions receivable	**(1,462,500,000)**	**(365,625,000)**	(1,462,500,000)	(365,625,000)
	684,348,057	**171,087,018**	684,348,057	171,087,014
	2,410,675,330	**₱602,668,833**	2,289,821,964	₱572,455,491

The movements on shares outstanding in 2009 and 2008 are as follows:

	2009	2008
Beginning balances	**2,289,821,964**	2,289,821,964
Issuances during the year	**120,853,366**	–
Ending balances	**2,410,675,330**	2,289,821,964

The movements on deposit for future stock subscription in 2009 and 2008 are as follows:

	2009		2008	
	No. of Shares	**Amount**	No. of Shares	Amount
Beginning	**152,671,548**	**₱66,761,817**	31,818,182	₱13,586,336
Additional deposit	**43,200,000**	**10,800,000**	120,853,366	53,175,481
Issuance	**(120,853,366)**	**(53,175,481)**	–	–
	75,018,182	**₱24,386,336**	152,671,548	₱66,761,817

17. Other Income (Charges)

	2009	2008	2007
Interest income on:			
Cash and cash equivalents (Note 5)	**₱5,179,548**	₱8,631,952	₱3,341,361
AFS financial assets - investment in government bonds (Note 9)	**428,007**	357,450	3,307,748
Gain on sale of financial assets at FVPL and AFS financial assets (Notes 6 and 9)	**3,250,390**	9,778,448	1,694,890
Fair value adjustments on financial assets at FVPL (Note 6)	**105,027**	(7,237,912)	(67,499)

(Forward)

	2009	2008	2007
Dividend income	**₱19,938**	₱47,985	₱65,411
Unrealized gain from increase in fair value of investment properties (Note 10)	**–**	–	4,159,001
Others	**677,848**	48,232	–
	₱9,660,758	₱11,626,155	₱12,500,912

18. Compensation of Key Management Personnel

a. Shares of stock of the Group held by members of the BOD aggregated to 35,777,245 and 30,119,345 as of December 31, 2009 and 2008, respectively.

b. Compensation of key management personnel consists of short-term employee benefits and post-employment benefits. Short-term employee benefits amounted to ₱5.7 million, ₱11.1 million and ₱10.1 million for 2009, 2008 and 2007, respectively, while post-employment benefits amounted to ₱0.7 million for 2009, ₱1.6 million for 2008 and ₱1.21 million for 2007.

   Directors' remuneration consists only of per diems for attendance at the BOD and Committee meetings. In 2009, 2008 and 2007, total per diems received by the members of the BOD amounted to ₱1,110,000, ₱997,500 and ₱1,663,429, respectively. There is no existing compensatory plan or arrangement for directors of the Group.

   Remuneration of existing officers of the Group are covered in their employment contracts, and except for retirement benefits under the Group's Retirement Plan, there are no existing compensatory plans or arrangements for officers of the Group.

   A stock option plan for directors and officers was approved by the stockholders on July 11, 2007, however, the implementing guidelines are still being formulated. These guidelines will be submitted for approval by the BOD and thereafter for submission to the SEC.

19. General and Administrative Expenses

	2009	2008	2007
Personnel:			
Salaries and wages	**₱10,065,177**	₱5,346,842	₱12,967,773
Retirement benefits cost (income) (Note 20)	**(5,751,800)**	3,441,500	13,765,800
Other employee benefits	**5,682,553**	15,439,997	279,835
Outside services	**3,755,725**	16,087,460	7,916,606
Depreciation and amortization	**3,557,274**	3,348,034	2,205,243
Transportation and travel	**3,346,888**	8,554,625	7,852,493
Entertainment, amusement and recreation	**1,855,273**	4,030,883	1,529,961
Communication	**996,043**	1,349,034	2,181,969
Utilities	**703,754**	670,866	738,734
Taxes and licenses	**661,335**	1,789,409	6,228,499
Office supplies	**535,991**	833,848	936,933
Repairs and maintenance	**86,884**	235,224	357,683
Others	**1,160,479**	3,538,381	2,842,289
	₱26,655,576	₱64,666,103	₱59,803,818

20. Retirement Benefits

The Parent Company maintains a funded, noncontributory defined retirement benefit plan covering all qualified employees. A trustee bank is administering the retirement benefits fund.

The following tables summarize the components of the retirement benefits cost (income) recognized in profit and loss and the funded status and amounts recognized in the consolidated balances sheets.

The components of retirement benefits cost (income) in profit and loss are as follows:

	2009	2008	2007
Current service cost	**₱286,100**	₱3,401,500	₱12,128,300
Interest cost	**63,900**	223,700	1,676,300
Expected return in plan assets	**(54,800)**	(132,600)	(38,800)
Actuarial gain	**(36,300)**	(51,100)	–
Curtailment gain	**(6,010,700)**	–	–
	(₱5,751,800)	₱3,441,500	₱13,765,800

a. The following table summarizes the accrued retirement benefits (net pension assets) recognized in the consolidated balance sheets:

	2009	2008
Funded obligation:		
Present value of defined benefit obligation	**₱944,200**	₱2,387,900
Fair value of plan assets	**764,000**	1,557,800
	180,200	830,100
Unrecognized actuarial gains (losses)	**(724,700)**	4,377,200
	(₱544,500)	₱5,207,300

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

	2009	2008
Beginning balances	**₱2,387,900**	₱2,183,100
Current service cost	**286,100**	3,401,500
Interest cost	**63,900**	223,700
Effect of curtailment	**(2,622,100)**	–
Actuarial loss (gain)	**828,400**	(3,420,400)
Ending balances	**₱944,200**	₱2,387,900

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

	2009	2008
Beginning balances	**₱1,557,800**	₱1,657,500
Actuarial gain (loss)	**249,400**	(232,300)
Expected return on plan assets	**54,800**	132,600
Benefits paid	**(1,098,000)**	–
Ending balances	**₱764,000**	₱1,557,800

The actual return on plan assets amounted to ₱304,200 and ₱99,700 for the years ended December 31, 2009 and 2008, respectively. There was no return on plan assets in 2007.

d. Movements of accrued retirement benefits (net pension assets) recognized in the consolidated balance sheets are as follows:

	2009	2008
Beginning balances	**₱5,207,300**	₱1,765,800
Retirement benefits cost (income)	**(5,751,800)**	3,441,500
Ending balances	**(₱544,500)**	₱5,207,300

The latest actuarial valuation of the plan is as of December 31, 2009. As of January 1, 2009 and 2008, the principal assumptions used in determining retirement benefits (income) for the Company's retirement benefits (assets) are as follows:

	2009	2008	2007
Number of employees covered	**18**	28	20
Discount rate	**16.05%**	10.25%	9.50%
Salary projection rate	**8%**	8%	9%
Expected return on plan assets	**8%**	8%	8%

Discount rate used to compute the present value of defined benefit obligation as of December 31, 2009 is 10.58%.

Amounts as of December 31, are as follows:

	2009	2008	2007
Present value of defined benefit obligation	**₱944,200**	₱2,387,900	₱2,183,100
Fair value of plan assets	**(764,000)**	(1,557,800)	(1,657,500)
Deficit	**180,200**	830,100	525,600
Experience adjustment on plan liabilities	**(828,400)**	(497,600)	(1,029,800)
Experience adjustment on plan assets	**249,400**	(232,300)	(38,800)

f. The major categories of plan assets as of December 31, 2009 and 2008 as a percentage of fair value of total plan assets follow:

	2009	2008
Money market investments	**99%**	64%
Cash in banks	**1%**	36%
	100%	100%

The overall expected rate of return on plan assets is determined based on the market rates expected to prevail during the period over which the obligation is to be settled, taking into consideration that the major categories of plan assets are among the prime investment instruments in the market.

The Parent Company does not expect to contribute to the plan in 2010.

21. Income Taxes

a. Being engaged in petroleum operations in the Philippines, the Parent Company and SWR are entitled to certain tax incentives under Presidential Decree (PD) No. 87, as amended. Under PD No. 87, contractors are exempt from all taxes, except income taxes.

b. Provision for (benefit from) income tax consists of:

	2009	2008	2007
Current	**₱40,097**	₱196,133	₱–
Deferred	**(5,207,972)**	16,487,076	(45,116,853)
	(5,167,875)	16,683,209	(45,116,853)
Final tax	**1,110,524**	1,785,534	741,910
	(₱4,057,351)	₱18,468,743	(₱44,374,943)

c. The components of net deferred income tax liabilities recognized by the Group as of December 31, 2009 and 2008 are as follows:

	2009	2008
Deferred income tax assets on:		
NOLCO	**₱7,837,728**	₱541,989
Allowance for impairment loss on AFS financial assets	**7,255,975**	7,625,484
Unrealized foreign exchange loss	**95,210**	–
Net unrealized loss on AFS financial assets	–	456,275
	15,188,913	8,623,748
Deferred income tax liabilities on:		
Revaluation increment on office condominium	**5,467,000**	4,174,800
Net unrealized gain on AFS financial assets	**5,207,972**	–
Revaluation increment on investment properties	**5,137,537**	5,137,537
Unrealized foreign exchange gain	**443,632**	541,989
Net pension asset	**163,350**	–
	16,419,491	9,854,326
Net deferred income tax liability	**₱1,230,578**	₱1,230,578

d. Deferred income tax assets have not been recognized on the following:

	2009	2008
NOLCO	**₱144,544,215**	₱157,307,738
Allowance for impairment loss on AFS financial assets	**64,957,151**	71,010,839
Allowance for impairment of deferred oil exploration costs	**38,200,000**	38,200,000
Pre-operating expenses	**9,321,412**	6,049,604
Provision for probable loss	**1,960,842**	1,960,842
Excess MCIT over RCIT	**236,230**	206,970
Accrued retirement benefits	–	5,207,300

e. As of December 31, 2009, the Group's NOLCO and MCIT, which are available for deduction against future taxable income and RCIT, respectively, follow:

Year Incurred	NOLCO	Excess MCIT over RCIT	Expiry Year
2009	₱32,790,994	₱40,097	2012
2008	73,581,570	196,133	2011
2007	64,297,411	–	2010
	₱170,669,975	₱236,230	

NOLCO that expired in 2009, 2008 and 2007 amounted to ₱21,235,387, ₱11,000,019 and ₱21,800,538, respectively. Excess MCIT over RCIT that expired in 2009 and 2008 amounted to ₱10,837 and ₱300,262, respectively.

For income tax purposes, the BBC's and BEFI's pre-operating expenses totaling to ₱9,321,412 and ₱6,049,604 as of December 31, 2009 and 2008, respectively, will be amortized over five years from the start of commercial operations.

f. The reconciliation of the benefit from income tax computed at the statutory tax rates to the provision for (benefit from) income tax as shown in the consolidated statements of comprehensive income follows:

	2009	2008	2007
Benefit from income taxes computed at statutory tax rates	**(₱5,221,579)**	(₱31,537,522)	(₱67,219,322)
Adjustments for:			
Movements of unrecognized deferred income tax assets	**2,489,324**	65,894,970	19,653,802
Interest and dividend income subject to final tax	**(578,840)**	(1,364,950)	(1,608,171)
Gain on sale of financial assets at FVPL	**(573,373)**	(7,875)	(593,212)
Nontaxable income	**(141,375)**	–	–
Fair value changes of financial assets at FVPL	**(31,508)**	–	–
Nondeductible loss and expense	–	1,451,436	1,115,320
Effect of change in tax rate	–	(15,967,316)	4,276,640
Provision for (benefit from) income tax	**(₱4,057,351)**	₱18,468,743	(₱44,374,943)

g. The Republic Act (RA) No. 9337 or the Expanded-Value Added Tax (E-VAT) Act of 2005 took effect on November 1, 2005. The new E-VAT law provides, among others, for change in RCIT rate from 32% to 35% for the next three years effective on November 1, 2005 and 30% starting January 1, 2009. The unallowable deductions for interest expense was likewise changed from 38% to 42% of the interest income subjected to final tax, provided that effective January 1, 2009, the rate shall be 33%.

On July 7, 2008, RA 9504, which amended the provisions of the 1997 Tax Code, became effective. It includes provisions relating to the availment of the optional standard deduction (OSD). Corporations, except for nonresident foreign corporations, may now elect to claim standard deduction in an amount not exceeding 40% of their gross income. A corporation must signify in its returns its intention to avail of the OSD. If no indication is made, it shall be considered as having availed of the itemized deductions. The availment of the OSD shall be irrevocable for the taxable year for which the return is made.

On September 24, 2008, the Bureau of Internal Revenue issued Revenue Regulation No. 10-2008 for the implementing guidelines of RA 9504.

22. Basic/Diluted Loss Per Share

	2009	2008	2007
Net loss attributable to equity holders of the Parent Company	**₱13,272,072**	₱108,551,605	₱147,655,541
Divided by weighted average number of shares outstanding	**2,360,319,761**	2,289,821,964	1,707,320,733
Basic/diluted loss per share	**₱0.01**	₱0.05	₱0.09

The Parent Company does not have potential common shares with dilutive effect as of December 31, 2009, 2008 and 2007. Therefore, the basic and diluted loss per share are the same as of those dates.

23. Segment Information

The primary segment reporting format is determined to be divided into business segments for which the Group's risk and rate of return are affected predominantly by differences in the products produced. The operating businesses are organized and managed separately through the Parent Company and its subsidiaries according to the nature of the products provided, with each segment representing a strategic business unit that offers different products to different markets.

As of December 31, 2009 and 2008, the Group has three main business segments - investment holding, agriculture and oil and gas exploration.

The Group's operating business segments remain to be neither organized nor managed by geographical segment.

The following table presents certain segment results, assets and liability information regarding the Group's business segments:

December 31, 2009:

	Investment Holding	Energy, Oil and Gas Exploration	Agriculture	Eliminations	Total
Results					
Loss before income tax	(₱14,361,931)	₱–	(₱3,043,331)	₱–	(₱17,405,262)
Provision for (benefit from) income tax	(4,063,085)	–	5,734	–	(4,057,351)
Net loss	(₱10,298,846)	₱–	(₱3,049,065)	–	(₱13,347,911)
Assets and Liabilities					
Segment assets	₱409,142,319	₱36,299,831	₱49,415,521	(₱154,337,174)	₱340,520,497
Investment properties	120,086,298	–	–	–	120,086,298
Deferred income tax assets	15,188,913	–	–	–	15,188,913
Consolidated total assets	₱544,417,530	₱36,299,831	₱49,415,521	(₱154,337,174)	₱475,795,708
Consolidated total liabilities	₱47,873,868	₱–	₱36,263,700	(₱62,744,608)	₱21,392,960
Other Segment Information					
Addition to property and equipment	₱–	₱–	₱12,852,104	₱–	₱12,852,104
Depreciation and amortization	2,942,156	–	615,118	–	3,557,274

December 31, 2008:

	Investment Holding	Energy, Oil and Gas Exploration	Agriculture	Eliminations	Total
Results					
Loss before income tax	(₱86,344,099)	₱–	(₱3,763,111)	₱–	(₱90,107,210)
Provision for income tax	(18,432,740)	–	(36,003)	–	(18,468,743)
Net loss	(₱104,776,839)	₱–	(₱3,799,114)	–	(₱108,575,953)
Assets and Liabilities					
Segment assets	₱408,977,454	₱31,681,173	₱29,135,432	(₱124,331,623)	₱345,462,436
Investment properties	120,086,298	–	–	–	120,086,298
Deferred income tax assets	8,623,748	–	–	–	8,623,748
Consolidated total assets	₱537,687,500	₱31,681,173	₱29,135,432	(₱124,331,623)	₱474,172,482
Consolidated total liabilities	₱50,553,736	₱–	₱12,934,546	(₱32,739,056)	₱30,749,226
Other Segment Information					
Addition to property and equipment	₱772,901	₱–	₱10,802,756	₱–	₱11,575,657
Depreciation and amortization	1,406,577	–	1,941,457	–	3,348,034

24. Financial Instruments

Fair Values of Financial Instruments

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and financial liabilities recognized per category as of December 31:

	2009		2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Financial assets at FVPL				
Investments in:				
Philippine mutual funds	**₱2,105,027**	**₱2,105,027**	₱1,729,379	₱1,729,379
Publicly-listed shares of stock	–	–	4,514,912	4,514,912
	2,105,027	**2,105,027**	6,244,291	6,244,291
Loans and receivables:				
Cash and cash equivalents	**100,177,852**	**100,177,852**	154,972,996	154,972,996
Receivables:				
Receivable from FEP	**9,773,167**	**9,773,167**	10,052,401	10,052,401
Account receivable	**389,354**	**389,354**	520,026	520,026
Interest receivable	**548,931**	**548,931**	505,692	505,692
Advances to employees	**228,770**	**228,770**	474,500	474,500
Due from ZNB Partners	–	–	4,670,900	4,670,900
	111,118,074	**111,118,074**	171,196,515	171,196,515
AFS financial assets (Note 9):				
Quoted government bonds	**6,512,221**	**6,512,221**	6,446,603	6,446,603
Quoted equity investments	**34,183,915**	**34,183,915**	17,218,499	17,218,499
Unquoted equity investments	**3,853,621**	**3,853,621**	3,327,150	3,327,150
	44,549,757	**44,549,757**	26,992,252	26,992,252
	₱157,772,858	**₱157,772,858**	₱204,433,058	₱204,433,058
Financial Liabilities				
Other financial liabilities:				
Accounts payable	**₱3,885,847**	**₱3,885,847**	₱14,359,914	₱14,359,914
Dividends payable	**888,714**	**888,714**	888,714	888,714
	₱4,774,561	**₱4,774,561**	₱15,248,628	₱15,248,628

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Financial assets at FVPL
The fair value of financial assets at FVPL is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

Cash and cash equivalents, receivables and accounts payable and accrued expenses
Due to the short-term nature of cash and cash equivalents, receivables and accounts payable and accrued expenses, the carrying values of these accounts were assessed to approximate their fair values.

AFS financial assets
AFS financial assets in quoted equity instruments and quoted debt instruments are carried in the Group's consolidated balance sheets at fair value, which is determined by reference to quoted market prices at the close of business on the balance sheet date. AFS financial assets in unquoted equity instruments are composed of non-listed shares of common stock and proprietary clubs membership which are carried at cost because fair value cannot be reliably measured. Fair value cannot be reasonably determined because the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

Fair value hierarchy
The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted prices in active markets for identical financial assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2009 and 2008, the Group considers its quoted financial assets at FVPL and AFS financial assets under Level 1 classification (see Notes 6 and 9).

During the reporting period ended December 31, 2009, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

There were no financial liabilities measured at fair value as of December 31, 2009 and 2008.

25. Financial Risk Management Objectives and Policies

The Group's financial instruments consist of cash and cash equivalents, financial assets at FVPL, receivables, AFS financial assets and accounts payables and accrued expenses. Cash and cash equivalents, financial assets at FVPL and AFS financial assets are being used for investment purposes, while receivables and accounts payable and accrued expenses arise from operations. The Group's activities expose it to a variety of financial risks: foreign exchange risk, equity price risk, interest rate risk and credit risk. The Group's overall risk management program focuses on minimizing the potential adverse effects on the Group's financial performance due to unpredictability of financial markets.

The Group's exposures to these risks are managed through close monitoring by the Group's key management and BOD through the Finance and Investments Committee.

Foreign exchange risk
Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial statements. Fluctuations in exchange rates can have significant effects on the Group's reported results. The Group is exposed to foreign exchange risk arising from its foreign currency-denominated cash, receivable and AFS financial assets accounts. The Group's policy is to minimize economic and material transactional exposures arising from currency movements against the Peso.

The Group's significant foreign currency-denominated financial assets as of December 31, 2009 and 2008 are as follows:

	2009		2008	
	Original Currency	**Peso Equivalent**	Original Currency	Peso Equivalent
Assets:				
Cash and cash equivalents - US$	**83,161**	**₱3,842,038**	200,278	₱9,517,205
Receivable from FEP - US$	**211,540**	**9,773,167**	211,540	10,052,401
AFS financial assets:				
Quoted equity investments				
Euro	**6,500**	**433,290**	8,000	530,000
GBP	**460,774**	**34,184,823**	238,109	16,689,060
		₱48,233,318		₱36,788,666

The Group's foreign currency-denominated exposures comprise significantly of its exposure in its United States Dollar, Euro and Great Britain Pound (GBP) financial assets.

For purposes of translating the foreign currency-denominated monetary assets and liabilities as of December 31, the exchange rates applied were as follows:

	2009	2008
US$	**₱46.20**	₱47.52
GBP	**74.19**	70.09
EURO	**66.66**	66.25

The following table summarizes the impact on the consolidated financial statements of reasonably possible changes in the exchange rates of foreign currencies against the Peso as of December 31, 2009 and 2008 until the Group's next financial reporting date:

	Change in peso - foreign exchange rate	Increase (decrease) in loss before income tax
2009	**Increase by 5%**	**₱1,781,665**
	Decrease by 5%	**(1,781,665)**
2008	Increase by 5%	1,839,405
	Decrease by 5%	(1,839,405)

The effect on the Group's equity in relation to foreign exchange risk already excludes the effect on the transactions affecting profit or loss.

Equity price risk
Equity price risk is the risk that the value of a financial instrument will fluctuate because of changes in market prices. The Group is exposed to equity securities price risk because of investments held by the Group, which are classified on the consolidated balance sheets as at FVPL and AFS financial assets.

The following table presents the effect on the consolidated financial statements of reasonably possible changes in market prices of these equity securities as of December 31, 2009 and 2008 until the Group's next financial reporting date:

	Change in Quoted Prices of Investments Carried at Fair Value	Increase (decrease) in loss before income tax	Increase (decrease) in equity
2009			
Financial assets at FVPL	**Increase by 9%**	**₱189,452**	**₱–**
AFS financial assets	**Increase by 9%**	–	**3,115,548**
Financial assets at FVPL	**Decrease by 9%**	**(189,452)**	–
AFS financial assets	**Decrease by 9%**	–	**(3,115,548)**
2008			
Financial assets at FVPL	Increase by 9%	561,986	–
AFS financial assets	Increase by 9%	–	1,549,665
Financial assets at FVPL	Decrease by 9%	(561,986)	–
AFS financial assets	Decrease by 9%	–	(1,549,665)

The effect on the Group's equity in relation to foreign exchange risk already excludes the effect on the transactions affecting profit or loss.

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group's exposure to market risk for changes in interest rates is related primarily to the Group's AFS financial assets - investment in government bonds.

The following tables demonstrate the sensitivity to a reasonable possible change in interest rates:

	Change in Market Rate of Interest	Increase (Decrease) in Loss Before Income Tax
2009		
	100 basis points (bp) rise	**(₱65,000)**
	100 bp fall	**65,000**
2008		
	100 bp rise	(65,000)
	100 bp fall	65,000

There is no other impact on the Group's equity other than those affecting profit or loss.

Credit risk
Credit risk is the risk that the Group will incur a loss because its counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by doing business only with recognized, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

It is the Group's policy to maintain the receivables at a low level except for one-time non-trade transaction which the Group classifies under the collectible/not impaired because the parties have no history of default especially on transactions as agreed on the contract.

The following table provides information regarding the credit risk exposure of the Group by classifying assets according to the Group's credit ratings of debtors:

	2009		
	Neither Past Due nor Impaired (Satisfactory)	**Past Due And Impaired**	**Total**
Cash and cash equivalents	**₱100,177,852**	**₱–**	**₱100,177,852**
Receivables:			
Receivable from FEP	**9,773,167**	**–**	**9,773,167**
Accounts receivable	**389,354**	**2,052,707**	**2,442,061**
Interest receivable	**548,931**	**–**	**548,931**
Advances to employees	**228,770**	**–**	**228,770**
	10,940,222	**2,052,707**	**12,992,929**
Financial assets at FVPL:			
Philippine mutual funds	**2,105,027**	**–**	**2,105,027**
AFS financial assets:			
Quoted government bonds	**6,512,221**	**–**	**6,512,221**
Unquoted equity investments	**3,853,621**	**–**	**3,853,621**
	10,365,842	**–**	**10,365,842**
	₱123,588,943	**₱2,052,707**	**₱125,641,650**

	2008		
	Neither Past Due nor Impaired (Satisfactory)	Past Due And Impaired	Total
Cash and cash equivalents	₱154,972,996	₱–	₱154,972,996
Receivables:			
Receivable from FEP	10,052,401	–	10,052,401
Accounts receivable	520,026	2,052,707	2,572,733
Interest receivable	505,692	–	505,692
Advances to employees	474,500	–	474,500
Due from ZNB Partners	4,670,900	–	4,670,900
	16,223,519	2,052,707	18,276,226
Financial assets at FVPL:			
Publicly-listed shares of stock	4,514,912	–	4,514,912
Philippine mutual funds	1,729,379	–	1,729,379
	6,244,291	–	6,244,291

(Forward)

	2008		
	Neither Past Due nor Impaired (Satisfactory)	Past Due And Impaired	Total
AFS financial assets:			
Quoted government bonds	₱6,446,603	₱–	₱6,446,603
Unquoted equity investments	3,327,150	–	3,327,150
	9,773,753	–	9,773,753
	₱187,214,559	₱2,052,707	₱189,267,266

The credit quality of the financial assets was determined as follows:

Financial instruments classified as "satisfactory" are those cash and cash equivalents transacted with reputable local and multi-national banks and receivables with some history of default on the agreed terms of the contract. Concentration of financial assets as at FVPL and AFS financial assets are considered "satisfactory" since these are invested in blue chip shares of stock. "Past due an impaired" are items with history of frequent defaults, nevertheless, the amounts are still collectible. There are no past due but not impaired receivables.

There are no significant concentrations of credit risk within the Company.

Liquidity risk
Liquidity risk is defined as the risk that the Group could not be able to settle or meet its obligations on time or at a reasonable price. Management is responsible for liquidity, funding as well as settlement management. Management also ensures that the Group will maximize its gain on trading of marketable securities to finance future capital intensive projects. The Group manages its liquidity risk on a consolidated basis based on business needs, tax, capital or regulatory considerations, if applicable, through numerous sources of finance in order to maintain flexibility.

The table below summarizes the maturity profile of the financial liabilities of the Group based on remaining undiscounted contractual obligations:

	2009		
	Less than 3 months	**More than 3 months but less than one year**	**Total**
Accounts payable and accrued expenses:			
Accounts payable	**₱3,885,847**	**₱–**	**₱3,885,847**
Dividends payable	**–**	**888,714**	**888,714**
	₱3,885,847	**₱888,714**	**₱4,774,561**

	2008		
	Less than 3 months	More than 3 months but less than one year	Total
Accounts payable and accrued expenses:			
Accounts payable	₱14,359,914	₱–	₱14,359,914
Dividends payable	–	888,714	888,714
	₱14,359,914	₱888,714	₱15,248,628

The table shows the Group's financial assets as of December 31. These financial assets are on demand and expected to be realized within one year.

	2009	2008
Cash and cash equivalents	**₱100,185,897**	₱155,032,996
Receivables:		
Receivable from FEP	**9,773,167**	10,052,401
Accounts receivable	**2,442,061**	2,572,733
Interest receivable	**548,931**	505,692
Advances to employees	**228,770**	474,500
Due from ZNB Partners	–	4,670,900
	12,992,929	18,276,226
Financial assets at FVPL:		
Publicly-listed shares of stock	–	4,514,912
Philippine mutual funds	**2,105,027**	1,729,379
	2,105,027	6,244,291
AFS financial assets:		
Quoted government bonds	**6,512,221**	6,446,603
Quoted equity investments	**34,183,915**	17,218,499
Unquoted equity investments	**3,853,621**	3,327,150
	44,549,757	26,992,252
	₱159,833,610	₱206,545,765

Risk Related to Agricultural Activities

As a producer of cassava and dried cassava granules, the Group's earnings are subjected to certain factors related to the business and economic conditions, as well as changes in business strategy, weather conditions, crop yields, raw material costs, availability and competition.

The Group is exposed to financial risks arising from changes in production costs, volume of harvests which is influenced by natural phenomenon such as weather patterns and volume of rainfall. The level of harvest is affected by field performance and market changes. For instance, the cost of growing crops is exposed to changes in demand and supply.

The ability to maintain the physical condition of its root crops such as exposure to plant disease could adversely impact production and consumer confidence.

Operational risks are minimized through the following:

- Floor price maintained through annual purchase order volume commitments
- Mechanical drying facilities which negate exposure of cassava granules to rain while drying
- Long term relationships with suppliers of farm inputs to ensure supply and bulk pricing
- Community based dissemination of agronomy practices for expansion of cassava areas within areas of operation
- Internal control measures
- Security measures
- Performance monitoring

Capital Management

The objective of the Group's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximize shareholder value.

The Group manages its capital structure and make adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares. No changes were made on the objectives, policies or processes during the years ended December 31, 2009 and 2008.

Management of working capital focuses on short-term decisions relating to cash and cash equivalents and other current assets and liabilities. The goal of working capital management is to ensure that the Group is able to continue its business operations and that it has sufficient funds to satisfy maturing current liabilities and operating expenses.

The table below summarizes the total capital considered by the Group:

	2009	2008
Capital stock	**₱602,668,833**	₱572,455,491
Additional paid-in capital	**27,067,569**	4,105,430
Deposits for future stock subscription	**24,386,336**	66,761,817
Deficit	**(225,655,609)**	(213,543,202)
	₱428,467,129	₱429,779,536

26. Agreements

In 2009, BEFI and San Miguel Foods, Inc. (SMFI) entered into a Farm Consolidation and Supply Agreement (the Agreement) wherein BEFI has signified its interest to actively solicit and identify farmer-growers to produce cassava, grain sorghum and/or sweet potato (collectively referred as crops) and provide a sufficient and steady supply of the crops to SMFI. The Agreement describes that BEFI will identify and consolidate farm lands in the city of Zamboanga and in the provinces of Zamboanga Sibugay and Zamboanga del Norte. All crops by the farmer-growers shall be sold exclusively to SMFI.

BEFI has consolidated a total of 300 hectares in 2009 for the production of the crops, which shall be increased to 3,000 hectares in the next three years.

27. **Registration with the Board of Investments (BOI)**

BEFI has applied for registration with the BOI as a New Producer of Dried Cassava Granules with an annual capacity of 28,425 metric tons on a non-pioneer status and has complied with the BOI's requirements including, recently, payment of the registration fee. A non-pioneer enterprise, under the Omnibus Investment Code of 1987 and the 2009 Investment Priorities Plan, is entitled to an Income Tax Holiday of four years counted from start of commercial operations.