

## **INDEPENDENT AUDITORS' REPORT**

The Stockholders and the Board of Directors  
Basic Energy Corporation  
7th Floor, Basic Petroleum Building  
C. Palanca, Jr. Street, Legaspi Village  
Makati City

We have audited the accompanying consolidated financial statements of Basic Energy Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Basic Energy Corporation and Subsidiaries as at December 31, 2010 and 2009, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

*Aileen L. Saringan*  
Aileen L. Saringan  
Partner

CPA Certificate No. 72557

SEC Accreditation No. 0096-AR-2

Tax Identification No. 102-089-397

BIR Accreditation No. 08-001998-58-2009,

June 1, 2009, Valid until May 31, 2012

PTR No. 2641565, January 3, 2011, Makati City

March 31, 2011



**Basic Energy Corporation  
and Subsidiaries**

**Consolidated Financial Statements  
December 31, 2010 and 2009 and  
Years Ended December 31, 2010, 2009 and 2008**

**and**

**Independent Auditors' Report**

**SyCip Gomes Velayo & Co.**

**BASIC ENERGY CORPORATION  
AND SUBSIDIARIES**

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**CONSOLIDATED BALANCE SHEETS**

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 5)	<b>₱191,210,566</b>	<b>₱100,185,897</b>
Financial assets at fair value through profit or loss (FVPL) (Note 6)	<b>—</b>	<b>2,105,027</b>
Receivables (Note 7)	<b>10,191,303</b>	<b>10,940,222</b>
Biological assets - standing crops (Note 10)	<b>7,108,252</b>	<b>23,522,738</b>
Agricultural produce (Note 10)	<b>125,839</b>	<b>—</b>
Prepayments and other current assets	<b>683,785</b>	<b>693,197</b>
<b>Total Current Assets</b>	<b>209,319,745</b>	<b>137,447,081</b>
<b>Noncurrent Assets</b>		
Available-for-sale (AFS) financial assets (Note 8)	<b>4,400,674</b>	<b>44,549,757</b>
Investment properties (Note 9)	<b>120,086,298</b>	<b>120,086,298</b>
Property and equipment (Note 13)		
At cost	<b>13,864,989</b>	<b>25,827,549</b>
At revalued amount	<b>16,566,665</b>	<b>18,223,332</b>
Project development costs (Notes 4 and 11)	<b>46,731,677</b>	<b>62,378,691</b>
Deferred charges (Note 12)	<b>31,267,687</b>	<b>36,299,832</b>
Deferred income tax assets (Note 20)	<b>8,924,766</b>	<b>15,188,913</b>
Net pension assets (Note 19)	<b>—</b>	<b>544,500</b>
Other noncurrent assets (Note 4)	<b>10,797,561</b>	<b>15,249,755</b>
<b>Total Noncurrent Assets</b>	<b>252,640,317</b>	<b>338,348,627</b>
<b>TOTAL ASSETS</b>	<b>₱461,960,062</b>	<b>₱475,795,708</b>

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**LIABILITIES AND EQUITY****Current Liabilities**

Accounts payable and accrued expenses (Note 14)	<b>₱3,857,907</b>	<b>₱4,933,372</b>
Income tax payable	–	40,097
<b>Total Current Liabilities</b>	<b>3,857,907</b>	<b>4,973,469</b>

**Noncurrent Liabilities**

Deferred income tax liabilities (Note 20)	<b>10,636,498</b>	<b>16,419,491</b>
Accrued retirement benefits (Note 19)	<b>905,600</b>	–
<b>Total Noncurrent Liabilities</b>	<b>11,542,098</b>	<b>16,419,491</b>
<b>Total Liabilities</b>	<b>15,400,005</b>	<b>21,392,960</b>

(Forward)

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
<b>Equity</b>		
Attributable to equity holders of the Parent Company:		
Capital stock [held by 7,064 and 7,164 equity holders in 2010 and 2009, respectively] (Note 15)	<b>₱610,623,378</b>	<b>₱602,668,833</b>
Additional paid-in capital	<b>32,699,360</b>	27,067,569
Deposits for future stock subscription (Note 15)	–	24,386,336
Revaluation increment in office condominium (Note 13)	<b>11,596,669</b>	12,756,334
Net unrealized gain on increase in fair value of AFS financial assets (Note 8)	<b>744,031</b>	12,538,809
Deficit	<b>(209,142,067)</b>	<b>(225,655,609)</b>
Total equity attributable to equity holders of the Parent Company	<b>446,521,371</b>	453,762,272
Noncontrolling interest	<b>38,686</b>	640,476
<b>Total Equity</b>	<b>446,560,057</b>	<b>454,402,748</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱461,960,062</b>	<b>₱475,795,708</b>

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*See accompanying Notes to Consolidated Financial Statements.*

**BASIC ENERGY CORPORATION  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2010	2009	2008
<b>INCOME</b>			
Income from previous sale of BPMI (Note 4)	₱78,236,225	₱—	₱—
Realized fair value adjustment on AFS financial assets (Note 8)	24,057,696	—	—
Sales (Note 25)	5,760,875	—	—
Foreign exchange gain - net	—	—	1,806,630
Other income - net (Note 16)	4,907,914	9,660,758	11,626,155
	<b>112,962,710</b>	<b>9,660,758</b>	<b>13,432,785</b>
<b>COSTS AND EXPENSES</b>			
General and administrative expenses (Note 18)	(31,531,370)	(26,655,576)	(64,666,103)
Provision for impairment losses on deferred charges and project development cost (Notes 11 and 12)	(20,542,635)	—	(38,200,000)
Fair value adjustment on agricultural produce (Note 10)	(16,445,998)	—	—
Cost of sales	(9,592,656)	—	—
Foreign exchange loss - net	(2,901,106)	(410,444)	—
Provision for impairment losses on AFS financial assets (Note 8)	—	—	(673,892)
Others (Note 4)	(10,699,512)	—	—
	<b>(91,713,277)</b>	<b>(27,066,020)</b>	<b>(103,539,995)</b>
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>21,249,433</b>	<b>(17,405,262)</b>	<b>(90,107,210)</b>
<b>PROVISION FOR (BENEFIT FROM)</b>			
<b>INCOME TAX</b> (Note 20)	<b>6,497,346</b>	<b>(4,057,351)</b>	<b>18,468,743</b>
<b>NET INCOME (LOSS)</b>	<b>14,752,087</b>	<b>(13,347,911)</b>	<b>(108,575,953)</b>

(Forward)

	Years Ended December 31		
	2010	2009	2008
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>(LOSS)</b>			
Fair value changes of AFS financial assets removed from equity and recognized in profit or loss through:			
Sale of investment in AFS financial assets	(P17,064,400)	P-	P-
Impairment loss on AFS financial assets (Note 8)	-	-	673,892
Income tax effect of sale of AFS financial assets	5,119,320	-	-
Unrealized gain (loss) on AFS financial assets	214,717	18,735,375	(1,343,870)
Income tax effects of unrealized loss (gain) on AFS financial assets	(64,415)	(5,207,972)	456,275
	(11,794,778)	13,527,403	(213,703)
<b>TOTAL COMPREHENSIVE INCOME</b>			
<b>(LOSS)</b>	<b>P2,957,309</b>	<b>P179,492</b>	<b>(P108,789,656)</b>
<b>NET INCOME (LOSS)</b>			
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the Parent Company	P15,353,877	(P13,272,072)	(P108,551,605)
Noncontrolling interest	(601,790)	(75,839)	(24,348)
	<b>P14,752,087</b>	<b>(P13,347,911)</b>	<b>(P108,575,953)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>			
<b>(LOSS) ATTRIBUTABLE TO:</b>			
Equity holders of the Parent Company	P3,559,099	P255,331	(P108,765,308)
Noncontrolling interest	(601,790)	(75,839)	(24,348)
	<b>P2,957,309</b>	<b>P179,492</b>	<b>(P108,789,656)</b>
<b>BASIC/DILUTED EARNINGS (LOSS) PER SHARE (Note 21)</b>	<b>P0.0</b>	<b>(P0.0)</b>	<b>(P0.0)</b>

See accompanying Notes to Consolidated Financial Statements.

**BASIC ENERGY CORPORATION  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008**

	Attributable to Equity Holders of the Parent Company								Noncontrolling Interest	Total Equity
	Capital Stock (Notes 15)	Additional Paid-in Capital (Note 15)	Deposits for Future Stock Subscription (Note 15)	Revaluation Increment in Office Condominium (Note 13)	Net unrealized gain (loss) on changes in fair value of AFS Financial Assets (Note 8)			Total		
					Equity	Debt	Deficit			
<b>ANCES AT DECEMBER 31, 2007</b>	<b>₱572,455,491</b>	<b>₱4,105,430</b>	<b>₱13,586,336</b>	<b>₱13,998,833</b>	<b>(₱738,140)</b>	<b>(₱36,751)</b>	<b>(₱104,494,597)</b>	<b>₱498,876,602</b>	<b>₱740,663</b>	<b>₱499,617,265</b>
Net 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
<b>ANCES AT DECEMBER 31, 2008</b>	<b>572,455,491</b>	<b>4,105,430</b>	<b>66,761,817</b>	<b>13,915,999</b>	<b>(981,993)</b>	<b>(6,601)</b>	<b>(213,543,202)</b>	<b>442,706,941</b>	<b>716,315</b>	<b>443,423,256</b>
Net comprehensive income	—	—	—	—	13,503,955	23,448	(13,272,072)	255,331	(75,839)	179,495
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
<b>ANCES AT DECEMBER 31, 2009</b>	<b>602,668,833</b>	<b>27,067,569</b>	<b>24,386,336</b>	<b>12,756,334</b>	<b>12,521,962</b>	<b>16,847</b>	<b>(225,655,609)</b>	<b>453,762,272</b>	<b>640,476</b>	<b>454,402,748</b>
Net comprehensive income	—	—	—	—	(11,777,931)	(16,847)	15,353,877	3,559,099	(601,790)	2,957,330
Transfer of portion of revaluation increment realized through depreciation	—	—	—	(1,159,665)	—	—	1,159,665	—	—	—
Issuance of capital stock	7,954,545	5,631,791	(13,586,336)	—	—	—	—	—	—	—
Termination of deposit of future stock subscription	—	—	(10,800,000)	—	—	—	—	(10,800,000)	—	(10,800,000)
<b>ANCES AT DECEMBER 31, 2010</b>	<b>₱610,623,378</b>	<b>₱32,699,360</b>	<b>₱—</b>	<b>₱11,596,669</b>	<b>₱744,031</b>	<b>₱—</b>	<b>(₱209,142,067)</b>	<b>₱446,521,371</b>	<b>₱38,686</b>	<b>₱446,560,057</b>

*See accompanying Notes to Consolidated Financial Statements*



**BASIC ENERGY CORPORATION  
AND SUBSIDIARIES**

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**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31		
	2010	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income (loss) before income tax	<b>₱21,249,433</b>	<b>(₱17,405,262)</b>	<b>(₱90,107,210)</b>
Adjustments for:			
Gain on sale of financial assets at FVPL and realized fair value adjustment on AFS financial assets (Notes 8 and 16)	<b>(24,068,994)</b>	<b>(3,250,390)</b>	<b>(9,778,448)</b>
Provision for impairment of deferred charges and project development cost (Notes 11 and 12)	<b>20,542,635</b>	<b>—</b>	<b>38,200,000</b>
Fair value adjustment on agricultural produce (Note 10)	<b>16,445,998</b>	<b>—</b>	<b>—</b>
Project settlement (Note 4)	<b>10,699,512</b>	<b>—</b>	<b>—</b>
Depreciation and amortization (Note 13)	<b>3,054,324</b>	<b>3,557,274</b>	<b>3,348,034</b>
Interest income (Note 16)	<b>(4,918,095)</b>	<b>(5,607,555)</b>	<b>(8,989,402)</b>
Unrealized foreign exchange loss (gain) - net	<b>2,901,106</b>	<b>317,367</b>	<b>(1,806,630)</b>
Retirement benefits (income) (Note 19)	<b>1,450,100</b>	<b>(5,751,800)</b>	<b>3,441,500</b>
Fair value adjustments on financial assets at FVPL	<b>105,027</b>	<b>(105,027)</b>	<b>7,237,912</b>
Dividend income (Note 16)	<b>(5,666)</b>	<b>(19,938)</b>	<b>(47,985)</b>
Impairment loss on AFS financial assets	<b>—</b>	<b>—</b>	<b>673,892</b>
Operating income (loss) before working capital changes	<b>47,455,380</b>	<b>(28,265,331)</b>	<b>(57,828,337)</b>
Decrease (increase) in:			
Receivables	<b>(418,270)</b>	<b>285,423</b>	<b>1,595,413</b>
Biological assets	<b>(3,492,996)</b>	<b>(19,899,695)</b>	<b>—</b>
Agricultural produce	<b>(125,839)</b>	<b>—</b>	<b>—</b>
Prepayments and other current assets	<b>704,402</b>	<b>(606,951)</b>	<b>63,756</b>
Increase (decrease) in accounts payable and accrued expenses	<b>(225,464)</b>	<b>(10,254,229)</b>	<b>6,441,909</b>
Net cash generated from (used in) operations	<b>43,897,213</b>	<b>(58,740,783)</b>	<b>(49,727,259)</b>
Interest received	<b>5,306,814</b>	<b>5,651,571</b>	<b>8,798,910</b>

	Years Ended December 31		
	2010	2009	2008
<b>CASH FLOWS FROM A FINANCING ACTIVITY</b>			
Increase in deposits for future stock subscription (Note 15)	P-	P10,800,000	P-
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	(1,942,200)	(18,575)	327,860
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	91,024,669	(54,847,099)	(36,361,843)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	100,185,897	155,032,996	191,394,839
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)</b>	<b>P191,210,566</b>	<b>P100,185,897</b>	<b>P155,032,996</b>
<i>See accompanying Notes to Consolidated Financial Statements.</i>			

Income taxes paid (including final taxes on interest income)	(1,356,276)	(1,110,524)	(1,981,667)
<b>Net cash flows from (used in) operating activities</b>	<b>47,847,751</b>	<b>(54,199,736)</b>	<b>(42,910,016)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of financial assets at FVPL and AFS financial assets	49,095,360	8,669,051	17,889,984
Additions to:			
Property and equipment (Note 13)	(2,658,612)	(12,852,104)	(11,575,657)
Deferred charges (Note 12)	(2,510,491)	(4,618,659)	-
Project development costs	-	(2,647,014)	(141,999)
Decrease in other noncurrent assets	1,187,195	-	-
Dividends received	5,666	19,938	47,985
<b>Net cash flows from (used in) investing activities</b>	<b>45,119,118</b>	<b>(11,428,788)</b>	<b>6,220,313</b>
(Forward)			

# **BASIC ENERGY CORPORATION AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

#### Corporate Information

Basic Energy 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 August 10, 2007, the Philippine Securities and Exchange Commission (SEC) approved the amendment of the Parent Company's 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:

Subsidiaries	Percentages of Ownership	Nature of Business
Basic Diversified Industrial Holdings, Inc. (BDIHI)	100.00	Investment holding
iBasic, Inc. (iBasic)	100.00	Real estate (no development activities) and information technology
Basic Ecomarket Farms Inc. (BEFI)	100.00	Agriculture
Basic Biofuels Corporation (BBC)	100.00	Development of biofuels (no development activities)
Southwest Resources, Inc. (SWR)	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 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 31, 2011.

### **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 fair value through profit or loss (FVPL), available-for-sale (AFS) financial

\* SGVMC310409 \*

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 Group 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 Interest*

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, 2010 and 2009 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. The losses applicable to the minority in a consolidated subsidiary may exceed the noncontrolling interest's equity in the subsidiary even if the losses exceed the noncontrolling equity investment in the subsidiary.

Prior to January 1, 2010, the excess, any further losses applicable to the noncontrolling interest, are charged against the majority interest, except to the extent that the noncontrolling has a binding obligation to and is able to make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the noncontrolling interest's share of losses previously absorbed by the majority is recovered. The acquisition of noncontrolling interest is not considered a business combination under PFRS 3, *Business Combinations*, and therefore, the remeasurement of the net assets acquired is not permissible and is not performed. Acquisitions of noncontrolling are accounted for using the parent entity extension concept method, wherein any excess of the consideration given up over the book value of the net assets acquired is recognized as goodwill. Any excess of the book value of the net assets acquired over the consideration given up is recognized as negative goodwill referred to as "Excess of net book value of noncontrolling interest acquired over acquisition costs" in profit or loss.

### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial reporting year, except for the following revised and amended PFRS, PAS and Philippine Interpretations, which the Group has adopted starting January 1, 2010. Adoption of these changes in PFRS did not have any significant effect on the consolidated financial statements. These changes, however, gave rise to additional disclosures including, in some cases, revisions to accounting policies.

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

- PFRS 2, *Share-based Payment - Group Cash-settled Share-based Payment Transactions*
- PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
- PFRS 3, *Business Combinations* (Revised) and Amendments to PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*

### Improvements to PFRS

The omnibus amendments to PFRS were issued primarily with a view to remove inconsistencies and clarify wording. The amendments are effective for annual periods beginning January 1, 2010. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- 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.
- 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. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 22.

Other amendments resulting from the 2009 and 2008 Improvements to PFRS, PAS and Philippine Interpretations to the following standards did not have any impact on the accounting policies, financial position or performance of the Group.

- PFRS 2, *Share-based Payments*
- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
- PAS 17, *Leases*
- PAS 34, *Interim Financial Reporting*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*

#### Future Changes in Accounting Principles

The Group will adopt the following standards and interpretations when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on the consolidated financial statements.

#### *Effective in 2011*

- PAS 24, *Related Party Disclosures* (Revised), was revised in response to concerns that the previous disclosure requirements and the definition of a “related party” were too complex and difficult to apply in practice, especially in environments where government control is pervasive.

The revised standard addresses these concerns by providing a partial exemption for government-related entities and by simplifying the definition of a related party and removing inconsistencies.

- Amendment to PAS 32, *Classification of Rights Issues*, addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously, such rights issues were accounted for as derivative liabilities. However, the amendment issued requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.
- Amendment to Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement*, applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset.
- 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*

The omnibus amendments to PFRS issued in May 2010 were issued primarily with a view to remove inconsistencies and to clarify wording. The amendments are effective for annual periods beginning January 1, 2011, except as otherwise stated. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the consolidated financial statements.

The adoption of the following new and amended PFRS, PAS and Philippine Interpretations are relevant on the consolidated financial statements:

- Revised PFRS 3, *Business Combinations*, introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

- Amendment to PAS 27, *Consolidated and Separate Financial Statements*, requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after January 1, 2010.

The adoption of the following new and amended PFRS, PAS and Philippine Interpretations are either relevant or has no impact on the consolidated financial statements:

- PAS 1, *Presentation of Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

*Effective in 2012*

- Amendments to PFRS 7, *Financial Instruments - Disclosures - Transfers of Financial Assets*, allows users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.
- Amendment to PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets*, provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.
- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and rewards of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on stage of completion.

*Effective in 2013*

- PFRS 9, *Financial Instruments: Classification and Measurement*, reflects the first phase of work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge and derecognition will be addressed. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets.

The Group continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to December 31, 2010 on the Group's consolidated financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.

### Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any noncontrolling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled within equity.

Goodwill, included under "Other noncurrent assets" account in the consolidated balance sheet, is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for noncontrolling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

### 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 reporting date.

As of December 31, 2010 and 2009, the Group 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 reporting 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 profit or loss 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, 2010 and 2009, 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 reporting date or within the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

As of December 31, 2010 and 2009, included under loans and receivables are cash in banks and cash equivalents, receivable from FEP, interest receivable and other receivables (see Notes 5 and 7).

#### *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 other comprehensive income, net of the related deferred income tax. The effective yield component of AFS debt securities are reported in profit or loss.

When the investment is disposed of, the cumulative gains or losses previously recognized in other comprehensive income 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 reporting date.

As of December 31, 2010 and 2009, included under AFS financial assets are the Group's investments in shares of stock and government bonds (see Note 8).

#### *Other financial liabilities*

Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole, the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Other financial liabilities are classified as current liabilities when it is expected to be settled within 12 months from the end of the reporting period or the Group does not have an unconditional right to defer settlement of the liabilities for at least 12 months from the end of the reporting period.

As of December 31, 2010 and 2009, included in other financial liabilities are the Group's accounts payable and accrued expenses (see Note 14).

#### 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 reporting 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 impairment 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 reporting 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 (loss) 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 - net" account in the consolidated statement of comprehensive income. If subsequently, the fair value of a debt instrument increases 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.

#### 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 are capitalized.

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

#### Agricultural Produce

Agricultural produce represent harvested cassava tubers which are initially measured at fair value less costs to sell at the point of harvest. Any difference between the cost of harvested cassava tubers and fair value less costs to sell is recognized under "Fair value adjustments on agricultural produce" account in the consolidated statement of comprehensive income. Cost of harvested cassava tubers consists of accumulated cost from the land preparation expenses until the point of harvest. Fair value less costs to sell is determined with reference to the market value of cassava tubers in the local market less delivery costs.



Subsequently, agricultural produce are valued at the lower of cost and net realizable value (NRV). Cost incurred in the bringing of each cassava tubers to its present location and condition is accounted for using the first-in, first out basis. NRV is the selling price in the ordinary course of business, less costs of sell.

#### 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.

#### Valued-added Tax (VAT)

Revenue, expenses, assets and liabilities are recognized net of the amount of VAT, except where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of VAT recoverable from or payable to, the taxation authority is included as part of "Prepayments and other current assets" or "Accounts payable and accrued expenses" account respectively, in the consolidated balance sheet.

#### 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 reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss 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.

#### 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 condominium is 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.

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

	Number of Years
Office condominium	15
Office equipment, furniture and fixtures	4 to 5
Building and leasehold improvements	10
Farm equipment	3 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 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 when there are indications of impairment.

#### Deferred Charges

All exploration costs incurred in connection with the participation of the Parent 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.

#### Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### Impairment of Nonfinancial Assets

The Group assesses at each reporting 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 charges 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 CGU'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 and equipment 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.



An assessment is made at each reporting 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.

#### Capital Stock and Additional Paid-in Capital

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

#### Deficit

Deficit includes the cumulative balance of periodic net income or losses, dividend distributions, effects of changes in accounting policy and other capital adjustments.

#### 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.

*Sales* is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

*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* comprises items of income and expense that are not recognized in profit or loss in accordance with PFRS. Other comprehensive income of the Group includes changes in unrealized gains and losses on changes in fair value of AFS financial assets, net of any tax effects.

#### Cost and Expenses

Cost and expenses are recognized in profit or loss when a decrease 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, has arise that can be measured reliably.

#### *Cost of sales*

Cost of sales is recognized as expense when the related goods are sold.

#### *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. These constitute costs of administering the business and selling/distributing the cassava granules. 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.

#### Foreign Currency-denominated Transactions and Translations

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 reporting date. Foreign exchange gains or losses arising from foreign currency-denominated transactions and translations are recognized in profit or loss.

#### 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 reporting date.

### *Deferred income tax*

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

The carrying amount of deferred income tax assets is reviewed at each reporting 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 reporting 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 deferred income tax 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 reporting date.

Deferred income tax relating to items recognized in equity is recognized in equity and not in profit or loss.

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.

### Earnings (Loss) Per Share

Earnings (loss) per share is computed by dividing net income (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 earnings (loss) per share is calculated by dividing the net income (loss) by the weighted average number of shares outstanding during the year, excluding treasury shares, and adjusted for the effects of all potentially dilutive common shares, if any.

The Parent Company does not have any potentially dilutive common shares.

### 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. These 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 Reporting Date

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

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### **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. 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 reporting date.

#### *Impairment of property and equipment*

The Group assesses impairment on property and equipment recorded at cost whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

The carrying value of property and equipment recorded at cost, net of accumulated depreciation and amortization of ₦16,880,220 and ₦15,694,858 as of December 31, 2010 and 2009, respectively, amounted to ₦13,864,989 and ₦25,827,549 as of December 31, 2010 and 2009, respectively (see Note 13).

#### *Impairment and write-off of deferred charges*

The Group assesses impairment on deferred charges 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 charges 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 charges, 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 charges, net of allowance for probable loss amounting to ₦45,742,635 and ₦38,200,000 as of December 31, 2010 and 2009, respectively, amounted to ₦31,267,687 and ₦36,299,832 as of December 31, 2010 and 2009, respectively (see Note 12).

#### *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 assesses whether its assets are impaired when there are impairment indicators. 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, 2010 and 2009, biological assets amounted to ₱7,108,252 and ₱23,522,738, respectively (see Note 10).

#### *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, unrealized foreign exchange losses and fair value adjustments on AFS financial assets and some portion of NOLCO.

The Group recognized deferred income tax assets amounting to ₱8,924,766 and ₱15,188,913 as of December 31, 2010 and 2009, respectively (see Note 20).

#### 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 reporting 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% of cost or more of the cost 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 in 2008. There was no impairment loss in 2010 and 2009.

The carrying value of the Group's AFS financial assets amounted to ₱4,400,674 and ₱44,549,757 as of December 31, 2010 and 2009, respectively (see Note 8).

#### *Estimation of allowance for impairment of loans and receivables*

The Group reviews its receivables at each reporting 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, 2010 and 2009, amounted to ₱10,191,303 and ₱10,940,222 as of December 31, 2010 and 2009, 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 2010, 2009 and 2008 amounted to ₱3,054,324, ₱3,557,317 and ₱3,348,034, respectively (see Note 13).

*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. As of December 31, 2010 and 2009, unquoted equity securities amounted to ₱3,323,651 and ₱3,853,621, respectively (see Note 8). Allowance for impairment losses on AFS financial assets amounted to ₱902,032 as of December 31, 2010 and 2009 (see Note 8).

*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 accrued retirement benefits amounting to ₱905,600 as of December 31, 2010 and net pension assets amounting to ₱544,500 as of December 31, 2009 (see Note 19).

*Determination of fair value of 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.

Fair value was determined based on valuations performed by an independent firm of appraisers as of December 31, 2006. The fair value of the Group's investment properties amounted to ₱120,086,298 as of December 31, 2010 and 2009 (see Note 9).

#### 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 an 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:

	Carry	
Total current assets		
Total noncurrent assets	6.	6
Total assets	₱6.	₱6
Total current liabilities	₱	₱
Total equity	6.	6.
Total liabilities and equity	₱6.	₱6.

The cost of the business combination amounted to ₱64,000,000, which consists of cash purchase price and transaction costs. The goodwill amounted to ₱3,757,603 and is recognized under "Other noncurrent assets" account 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 "Other noncurrent assets" in the 2009 consolidated balance sheet, 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 Group.

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).

In September 2010, the Parent Company, BEFI and EMF entered into a settlement agreement whereby the parties agreed to revert each other to their respective situations prior to the execution of the agreement which includes the return to EMF of all the property and assets acquired from EMF. EMF, on the other hand, shall return a part of the cash consideration for the acquisition of the cassava project amounting to ₱10,800,000. The cost of the settlement amounted to ₱10,699,512, including the reversal of goodwill amounting to ₱3,265,000, which is recorded under "Other expenses" account in the 2010 consolidated statement of comprehensive income.

As such, the Company terminated the deposit on subscription of EMF amounting to ₱10,800,000 (see Note 15). The first payment made by the Parent Company for the cash consideration for the acquisition of the cassava project amounting to ₱1,200,000 shall be retained by EMF.

#### *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.
- The HCR accounts include SC 14 NW Palawan, SC 6A & 6B NW Palawan, SC 41 Sandakan Basin, SC 42 NW Palawan and GSEC 94 Offshore W Palawan.
- 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, 2010 and 2009, receivables from FEP, representing the Parent Company's share in the utilization of the HCRs of BPMI relating to SC 14 NW Palawan and SC 6B NW Palawan (Nido-Matinloc Field), were booked at P9,273,932 and P9,773,167, respectively (see Note 7). No further accrual of the receivables of the Parent Company from FEP under the SPA relating to SC 14 NW Palawan and SC 6B NW Palawan (Nido-Matinloc Field) 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. As of March 31, 2011, 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 relating to SC 14 NW Palawan and SC 6B NW Palawan (Nido-Matinloc Field) 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 Parent Company's share in the HCRs of BPMI relating to SC 14 NW Palawan and SC 6B NW Palawan (Nido-Matinloc Field) 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 31, 2011, the arbitration is ongoing.

In 2010, the Parent Company received ₱78,236,225 (US\$1,796,721) for FEP's utilization of the HCRs of BPMI relating to SC 14C NW Palawan (Galoc Field). This was recorded as "Income from previous sale of BPMI" in the 2010 consolidated statement of comprehensive income. The receipt of ₱78,236,225 in 2010 representing additional consideration on the sale of BPMI shares to FEP decreased the loss on sale of investment in BPMI recognized in 2006. As such, this income from previous sale of BPMI is treated as nontaxable income for capital gains tax purposes in 2010.

#### *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 (Petronas) of Malaysia after the consortium decided to convert GSEC 100 to a service contract. Petronas holds an 80% stake as operator while PNOC-EC owns the remaining 20% stake. Upon Petronas' withdrawal in 2007 prior to entry to Sub-Phase 2, PNOC-EC interest became 97% with Petroenergy at 2% and the Parent Company at 1%. SC 47 covers 14,667 square kilometers (sq. km.) and is located within the Northwest Palawan Micro-Continental Block (NPMCB).

The highly encouraging results of the Maniguin drilling have prompted PNOC-EC to pursue additional evaluation studies, including the acquisition of 2D and 3D seismic data. The result of the evaluation studies have shown prospects with reserves ranging from 10 million barrels to 500 million barrels recoverable oil.

Petronas spudded a well on August 31, 2007 to test the potential of the Kamia prospect. The drilling of the Kamia-1 well is part of the work program committed to the DOE that involves the drilling of an exploratory well. The consortium will have the option to conduct more drilling by committing to the succeeding contract year. A US\$ 40 million development costs in shallow water was anticipated, however, Petronas withdrew from the service contract prior to entry of Sub-Phase 2.

On January 9, 2008, PNOC-EC informed the DOE of the continued interest on the 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 1,000 sq. km. of two-dimension (2D) seismic program. The proposal was not accepted. PNOG-EC is renegotiating and would be informing the consortium of the acceptable work program.

In 2009, the Parent Company along with its partners, continued exploration efforts in the SC 47. The DOE approved the seismic program commitment under Sub-Phase 2 (January 2008 to January 2010). The 2D seismic survey was carried out by CGG Veritas from August 19-29, 2009 covering a total of 1,091.6 sq. km. at a cost of \$637,417. The seismic data are to be processed by Fairchild Industries and interpretation works are expected to be completed by the middle of 2010. As of March 31, 2011, processing works are still ongoing.

On August 14, 2009, the DOE approved the relinquishment of 25% of the original area of the service contract, reducing the area to 1,098,000 hectares, where the islands of Caluya, Sibay and Semirara were retained.

The consortium is presently in discussions with the DOE on Coal Bed Methane development in the Semirara island, maintaining that the consortium has the right to explore and develop all gas resources in the service contract area. The DOE has yet to issue the guidelines on the matter.

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 is at 3%, The Philodrill Corporation's at 22% and Anglo-Philippine 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 3.0% on the 2D seismic program which is estimated to cost a minimum of US\$1,500,000.

Pitkin has completed a magneto-telluric in onshore Mindoro. In April 2009, the DOE approved the one year extension of Sub-Phase 1. Pitkin awarded the 2D seismic acquisition contract to BCG, a Chinese geophysical contractor, which started on November 3, 2009.

The 2D seismic is designed to delineate and assess the hydrocarbon potential of the Progreso-1X in San Jose, Mindoro Occidental and in Sablayan, Mindoro Occidental.

The DOE has recently approved the further extension of Sub-Phase 1 to March 2011 for the conduct of geological and geophysical studies and interpretation of the 2D seismic data, which is estimated to cost \$4,500,000 and the drilling of two wells between 2011 to 2012, the cost of which is estimated at \$2 million.



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.

On June 18, 2009, Tap Oil Ltd. sought for farm-in partners due to the increasing costs of drilling exploratory wells, and in this regard, the Cost Recovery Agreement is being finalized among the consortium partners.

The Group 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 exploration costs, amounting to P31,267,687 and P36,299,832 as of December 31, 2010 and 2009, respectively, incurred in connection with the Group'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 (see Note 12).

#### *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.

The Parent Company is in the process of conducting the first stage of the exploration program consisting of geophysical and geological surveys covering 3,481 hectares in the Calumpan Peninsula. A Controlled Source Magento-Telluric Survey covering the area had been conducted and completed on March 8, 2010. The data obtained from the survey is presently being processed by a Japanese consultant, with the objective of establishing the geothermal resource and the exploration drilling site in the area.

The Parent Company has completed due diligence studies and preliminary technical data collection, collation and re-evaluation as part of its commitment under Sub-Phase 1 (Years 1 and 2) of the work program committed with the DOE. Initial assessments disclosed that the area has a good potential for 20-megawatts capacity and could be developed within a two-year period considering the existence of adequate infrastructure, adjacency to transmission lines and a strong power demand in the area.

On February 28, 2011, the Parent Company entered into an Agreement for Services with Filtech Energy Drilling Corporation for the conduct of a pre-feasibility study that will cover technical studies for the project's pre-development and development phases, environment and social studies, financial and economic aspects, project schedule and implementation and risks assessment.

The Parent Company is currently looking for farm-in partners to explore and develop the Mabini, Batangas geothermal area.

## 5. Cash and Cash Equivalents

	2010	2009
Cash on hand and in banks	<b>₱15,129,153</b>	₱6,034,011
Short-term investments	<b>176,081,413</b>	94,151,886
	<b>₱191,210,566</b>	₱100,185,897

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 ₱4,800,702, ₱5,179,548 and ₱8,631,952 in 2010, 2009 and 2008, respectively (see Note 16).

## 6. Financial Assets at FVPL

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, 2010 and 2009.

As of December 31, 2009, investment in Philippine mutual funds amounted to ₱2,105,027. In 2010, the Parent Company sold the outstanding financial assets at FVPL. Trading gains recognized in profit or loss under "Other income - net" account amounted to ₱11,298, ₱3,250,390 and ₱9,778,448 in 2010, 2009 and 2008, respectively (see Note 16).

Fair value adjustments recognized on these financial assets presented under "Other income - net" account in the consolidated statement of comprehensive income amounting to a unrealized gain of ₱105,027 in 2009 and unrealized loss of ₱105,027 and ₱7,237,912 in 2010 and 2008, respectively (see Note 16).

## 7. Receivables

	2010	2009
Receivable from FEP (Note 4)	<b>₱9,273,932</b>	₱9,773,167
Interest receivable	<b>160,314</b>	548,931
Other receivables	<b>2,809,764</b>	2,670,831
	<b>12,244,010</b>	12,992,929
Less allowance for impairment	<b>2,052,707</b>	2,052,707
	<b>₱10,191,303</b>	₱10,940,222

The receivable from FEP as of December 31, 2010 and 2009 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.

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

There were no movements in the allowance for impairment on individually impaired other receivables in 2010 and 2009.

## 8. AFS Financial Assets

	2010	2009
Investments in shares of stock:		
Unquoted	₱3,323,651	₱3,853,621
Quoted	1,077,023	34,183,915
	4,400,674	38,037,536
Investment in peso-quoted government bonds	—	6,512,221
Total AFS financial assets	₱4,400,674	₱44,549,757

Quoted shares consist of equity investments in FEP shares, a company listed on London AIM market. The fair values of these listed shares are based on their bid market price as of reporting date. The fair value of FEP shares increased to £0.585 as of December 31, 2010 from £0.535 as of December 31, 2009.

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 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 semi-annually. Interest income recognized using effective interest rate method on investment in government bonds amounted to ₱117,393, ₱428,007 and ₱357,450 in 2010, 2009 and 2008, respectively (see Note 16).

The movements in unrealized gain in respect of AFS financial assets in 2010 and 2009 follow:

	2010	2009
<b>Investments in shares of stock</b>		
Beginning balances	₱12,521,962	(₱981,993)
Unrealized gain	104,370	13,503,955
Transferred to profit or loss through sale	(11,882,301)	—
Ending balances	₱744,031	₱12,521,962
<b>Investment in peso-quoted government bonds</b>		
Beginning balances	₱16,847	(₱6,601)
Unrealized gain	45,932	23,448
Transferred to profit or loss through sale	(62,779)	—
Ending balances	₱—	₱16,847

As of December 31, 2010 and 2009, allowance for impairment on unquoted investment in shares of stock amounted to ₱902,032.



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

	2010	2009	2008
Current	P-	P40,097	P196,133
Deferred	5,628,657	(5,207,972)	16,487,076
	5,628,657	(5,167,875)	16,683,209
Final tax	868,689	1,110,524	1,785,534
	P6,497,346	(P4,057,351)	P18,468,743

- c. The components of net deferred income tax liabilities recognized by the Group as of December 31, 2010 and 2009 are as follows:

	2010	2009
Deferred income tax assets on:		
NOLCO	P8,070,426	P7,837,728
Unrealized foreign exchange loss	582,660	95,210
Accrued retirement benefits	271,680	-
Allowance for impairment loss on AFS financial assets	-	7,255,975
	8,924,766	15,188,913
Deferred income tax liabilities on:		
Revaluation increment on investment properties	5,137,537	5,137,537
Revaluation increment on office condominium	4,970,000	5,467,000
Net unrealized gain on AFS financial assets	318,870	5,207,972
Unrealized foreign exchange gain	210,091	443,632
Net pension asset	-	163,350
	10,636,498	16,419,491
Net deferred income tax liability	P1,711,732	P1,230,578

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

	2010	2009
NOLCO	P173,234,333	P144,544,215
Allowance for impairment of deferred charges	58,742,635	38,200,000
Pre-operating expenses	5,993,463	9,321,412
Allowance for impairment loss on AFS financial assets	3,602,361	64,957,151
Provision for probable loss	1,960,842	1,960,842
MCIT	236,230	236,230

- e. As of December 31, 2010, 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
2010	P94,790,412	P-	2013
2009	32,790,994	40,097	2012
2008	73,581,570	196,133	2011
	P200,135,753	P236,230	

NOLCO that expired in 2010, 2009 and 2008 amounted to ₱61,413,672, ₱21,235,387 and ₱11,000,019, 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 ₱5,993,463 and ₱7,051,133 as of December 31, 2010 and 2009, 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 rate to the provision for (benefit from) income tax as shown in the consolidated profit or loss follows:

	2010	2009	2008
Benefit from income taxes computed at statutory tax rate	₱6,374,830	(₱5,221,579)	(₱31,537,522)
Adjustments for:			
Movements of unrecognized deferred income tax assets	24,171,340	2,489,324	65,894,970
Income from previous sale of BPMI and other nontaxable income	(23,470,868)	(141,375)	-
Interest and dividend income subject to final tax	(606,075)	(578,840)	(1,364,950)
Fair value changes of financial assets at FVPL	31,508	(31,508)	-
Gain on sale of financial assets at FVPL	(3,389)	(573,373)	(7,875)
Nondeductible loss and expense	-	-	1,451,436
Effect of change in tax rate	-	-	(15,967,316)
Provision for (benefit from) income tax	₱6,497,346	(₱4,057,351)	₱18,468,743

## 21. Basic/Diluted Earnings (Loss) Per Share

	2010	2009	2008
Net income (loss) attributable to equity holders of the Parent Company	₱15,353,877	(₱13,272,072)	(₱108,551,605)
Divided by weighted average number of shares outstanding	2,415,978,360	2,360,319,761	2,289,821,964
Basic/diluted earnings (loss) per share	₱0.006	(₱0.006)	(₱0.047)

The Parent Company does not have potentially dilutive common shares as of December 31, 2010, 2009 and 2008. Therefore, the basic and diluted earnings (loss) per share are the same as of those dates.

## 22. 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, 2010 and 2009, 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, 2010:

	Investment Holding	Energy, Oil and Gas Exploration	Agriculture	Eliminations	Total
<b>Results</b>					
Income (loss) before income tax	P12,741,378	P-	(P33,990,811)	P-	P21,249,433
Provision for (benefit from) income tax	(6,496,414)	-	(932)	-	6,497,346
<b>Net income (loss)</b>	<b>P6,244,964</b>	<b>P-</b>	<b>(P33,991,743)</b>	<b>P-</b>	<b>P14,752,087</b>
<b>Assets and Liabilities</b>					
Segment assets	P417,557,209	P23,731,677	P16,471,084	(P124,810,972)	P332,948,998
Investment properties	120,086,298	-	-	-	120,086,298
Deferred income tax assets	8,924,766	-	-	-	8,924,766
<b>Consolidated total assets</b>	<b>P564,568,273</b>	<b>P23,731,677</b>	<b>P16,471,084</b>	<b>(P124,810,972)</b>	<b>P461,960,062</b>
<b>Consolidated total liabilities</b>	<b>P44,777,501</b>	<b>P-</b>	<b>P37,311,005</b>	<b>(P66,688,501)</b>	<b>P15,400,005</b>
<b>Other Segment Information</b>					
Addition to property and equipment	P-	P-	P2,658,612	P-	P2,658,612
Depreciation and amortization	2,681,441	-	4,331,839	-	7,013,280

December 31, 2009:

	Investment Holding	Energy, Oil and Gas Exploration	Agriculture	Eliminations	Total
<b>Results</b>					
Loss before income tax	(P14,361,931)	P-	(P3,043,331)	P-	(P17,405,262)
Provision for (benefit from) income tax	(4,063,085)	-	5,734	-	(4,057,351)
<b>Net loss</b>	<b>(P10,298,846)</b>	<b>P-</b>	<b>(P3,049,065)</b>	<b>-</b>	<b>(P13,347,911)</b>
<b>Assets and Liabilities</b>					
Segment assets	P409,142,319	P36,299,831	P49,415,521	(P154,337,174)	P340,520,497
Investment properties	120,086,298	-	-	-	120,086,298
Deferred income tax assets	15,188,913	-	-	-	15,188,913
<b>Consolidated total assets</b>	<b>P544,417,530</b>	<b>P36,299,831</b>	<b>P49,415,521</b>	<b>(P154,337,174)</b>	<b>P475,795,708</b>
<b>Consolidated total liabilities</b>	<b>P47,873,868</b>	<b>P-</b>	<b>P36,263,700</b>	<b>(P62,744,608)</b>	<b>P21,392,960</b>
<b>Other Segment Information</b>					
Addition to property and equipment	P-	P-	P12,852,104	P-	P12,852,104
Depreciation and amortization	2,942,156	-	615,118	-	3,557,274

December 31, 2008:

	Investment Holding	Energy, Oil and Gas Exploration	Agriculture	Eliminations	Total
<b>Results</b>					
Loss before income tax	(P86,344,099)	P-	(P3,763,111)	P-	(P90,107,210)
Provision for income tax	(18,432,740)	-	(36,003)	-	(18,468,743)
<b>Net loss</b>	<b>(P104,776,839)</b>	<b>P-</b>	<b>(P3,799,114)</b>	<b>-</b>	<b>(P108,575,953)</b>

	Investment Holding	Energy, Oil and Gas Exploration	Agriculture	Eliminations	Total
<b>Assets and Liabilities</b>					
Segment assets	P408,977,454	P31,681,173	P29,135,432	(P124,331,623)	P345,462,436
Investment properties	120,086,298	—	—	—	120,086,298
Deferred income tax assets	8,623,748	—	—	—	8,623,748
<b>Consolidated total assets</b>	<b>P537,687,500</b>	<b>P31,681,173</b>	<b>P29,135,432</b>	<b>(P124,331,623)</b>	<b>P474,172,482</b>
<b>Consolidated total liabilities</b>	<b>P50,553,736</b>	<b>P—</b>	<b>P12,934,546</b>	<b>(P32,739,056)</b>	<b>P30,749,226</b>
<b>Other Segment Information</b>					
Addition to property and equipment	P772,901	P—	P10,802,756	P—	P11,575,657
Depreciation and amortization	1,406,577	—	1,941,457	—	3,348,034

## 23. 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:

	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Loans and receivables:				
Cash and cash equivalents	P191,210,566	P191,210,566	P100,185,897	P100,185,897
Receivables:				
Receivable from FEP	9,273,932	9,273,932	9,773,167	9,773,167
Interest receivable	160,314	160,314	548,931	548,931
Other receivables	757,057	757,057	618,124	618,124
	<b>201,401,869</b>	<b>201,401,869</b>	<b>111,118,074</b>	<b>111,118,074</b>
AFS financial assets (Note 8):				
Unquoted equity investments	3,323,651	3,323,651	3,853,621	3,853,621
Quoted equity investments	1,077,023	1,077,023	34,183,915	34,183,915
Quoted government bonds	—	—	6,512,221	6,512,221
	<b>4,400,674</b>	<b>4,400,674</b>	<b>44,549,757</b>	<b>44,549,757</b>
Financial assets at FVPL				
Investments in:				
Philippine mutual funds	—	—	2,105,027	2,105,027
	<b>P205,802,543</b>	<b>P205,802,543</b>	<b>P157,780,903</b>	<b>P157,780,903</b>
<b>Financial Liabilities</b>				
Other financial liabilities:				
Accounts payable	P2,591,051	P2,591,051	P3,885,847	P3,885,847
Dividends payable	888,714	888,714	888,714	888,714
	<b>P3,479,765</b>	<b>P3,479,765</b>	<b>P4,774,561</b>	<b>P4,774,561</b>

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 reporting 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 dividends payable*

Due to the short-term nature of cash and cash equivalents, receivables and accounts payable and dividends payable, 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 reporting 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 Group uses the following hierarchy for determining and disclosing the fair value of financial instruments 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, 2010 and 2009, the Group considers its quoted financial assets at FVPL and AFS financial assets under Level 1 classification (see Notes 6 and 8).

During the reporting years ended December 31, 2010 and 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, 2010 and 2009.

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## **24. 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 dividends payable. Cash and cash equivalents, financial assets at FVPL and AFS financial assets are being used for investment purposes, while receivables and accounts payable and dividends payable 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, 2010 and 2009 are as follows:

	2010		2009	
	Original Currency	Peso Equivalent	Original Currency	Peso Equivalent
Cash and cash equivalents -				
US\$	\$300,317	₱13,165,897	83,161	₱3,842,038
Receivable from FEP - US\$	211,540	9,273,914	211,540	9,773,148
AFS financial assets:				
Quoted equity investments				
USD	15,500	679,520	—	—
GBP	5,850	397,917	460,774	34,184,823
EURO	—	—	6,500	433,290
		<b>₱23,517,248</b>		<b>₱48,233,299</b>

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:

	2010	2009
US\$	43.84	46.20
GBP	68.02	74.19
EURO	53.03	66.66

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, 2010 and 2009 until the Group's next financial reporting date:

	Change in peso - foreign exchange rate	Increase (decrease) in income before income tax
2010	Increase by 5%	₱1,175,863
	Decrease by 5%	(1,175,863)
2009	Increase by 5%	1,781,665
	Decrease by 5%	(1,781,665)

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

### 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 Group employs the service of a third party stock broker to manage its investment in shares of stock.

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, 2010 and 2009 until the Group's next financial reporting date:

	Change in Quoted Prices of Investments Carried at Fair Value	Increase (decrease) in income (loss) before income tax	Increase (decrease) in equity
<b>2010</b>			
AFS financial assets	<b>Increase by 9%</b>	<b>₱—</b>	<b>₱5,115,746</b>
AFS financial assets	<b>Decrease by 9%</b>	<b>—</b>	<b>(5,115,746)</b>
<b>2009</b>			
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)

The effect on the Group's equity in relation to equity price 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. Management closely monitors the behavior of interest rates to ensure that interest rate risk is kept within management's tolerable level.

The following tables demonstrate the sensitivity to a reasonable possible change in interest rates in 2009:

Change in Market Rate of Interest	Increase (Decrease) in Income Before Income Tax
100 basis points (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. The Group's exposure to credit risk from default of the counterparty with maximum exposure equal to the carrying amount of these instruments.

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 quality by class of financial assets (amounts gross of allowance for credit losses) based on the Group's credit rating system:

2010			
	Neither Past Due nor Impaired (Satisfactory)	Past Due and Impaired	Total
Cash and cash equivalents (net of cash on hand)	₱191,201,103	₱-	₱191,201,103
Receivables:			
Receivable from FEP	9,273,932	-	9,273,932
Interest receivable	160,314	-	160,314
Other receivables	757,057	2,052,707	2,809,764
	10,191,303	2,052,707	12,244,010
AFS financial assets:			
Unquoted equity investments	3,323,651	-	3,323,651
Quoted equity investments	1,077,023	-	1,077,023
	4,400,674	-	4,400,674
	₱205,793,080	₱2,052,707	₱207,845,787
2009			
	Neither Past Due nor Impaired (Satisfactory)	Past Due and Impaired	Total
Cash and cash equivalents (net of cash on hand)	₱100,177,852	₱-	₱100,177,852
Receivables:			
Receivable from FEP	9,773,167	-	9,773,167
Interest receivable	548,931	-	548,931
Other receivables	618,124	2,052,707	2,670,831
	10,940,222	2,052,707	12,992,929
AFS financial assets:			
Unquoted equity investments	3,853,621	-	3,853,621
Quoted equity investments	34,183,915	-	34,183,915
Quoted government bonds	6,512,221	-	6,512,221
	44,549,757	-	44,549,757
Financial assets at FVPL:			
Philippine mutual funds	2,105,027	-	2,105,027
	₱157,772,858	₱2,052,707	₱159,825,565

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 and impaired" are those that are long outstanding and has been fully provided with an allowance for doubtful accounts. There are no past due but not impaired receivables.

Concentrations of credit risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. There are no significant concentrations of credit risk within the Group arising from financial assets since these are not directly affected by changes in economic or other external conditions.

#### *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 instruments of the Group based on remaining contractual undiscounted cash flows:

	2010		Total
	Less than 3 months	More than 3 months but less than one year	
<i>Financial assets</i>			
Loans and receivable:			
Cash and cash equivalents (net of cash on hand)	₱191,201,103	₱—	₱191,201,103
Receivables:			
Receivable from FEP	—	9,273,932	9,273,932
Interest receivable	160,314	—	160,314
Other receivables	—	2,809,764	2,809,764
	191,361,417	12,083,696	203,445,113
AFS financial assets:			
Unquoted equity investments	—	3,323,651	3,323,651
Quoted equity investments	—	1,077,023	1,077,023
	—	4,400,674	4,400,674
	₱191,361,417	₱16,484,370	₱207,845,787
<i>Financial liabilities</i>			
Other financial liabilities:			
Accounts payable	₱2,591,051	₱—	₱2,591,051
Dividends payable	—	888,714	888,714
	₱2,591,051	₱888,714	₱3,479,765
	2009		Total
	Less than 3 months	More than 3 months but less than one year	
<i>Financial assets</i>			
Loans and receivable:			
Cash and cash equivalents (net of cash on hand)	₱100,177,852	₱—	₱100,177,852

(Forward)

	2009		Total
	Less than 3 months	More than 3 months but less than one year	
<b>Receivables:</b>			
Receivable from FEP	P-	P9,773,167	P9,773,167
Interest receivable	548,931	-	548,931
Other receivables	-	2,670,831	2,670,831
	100,726,783	12,443,998	113,170,781
<b>AFS financial assets:</b>			
Unquoted equity investments	-	3,853,621	3,853,621
Quoted equity investments	-	34,183,915	34,183,915
Quoted government bonds	-	6,512,221	6,512,221
	-	44,549,757	44,549,757
<b>Financial assets at FVPL:</b>			
Philippine mutual funds	2,105,027	-	2,105,027
	P102,831,810	P56,993,775	P159,825,565
<b>Financial liabilities</b>			
<b>Other financial liabilities:</b>			
Accounts payable	P3,885,847	P-	P3,885,847
Dividends payable	-	888,714	888,714
	P3,885,847	P888,714	P4,774,561

#### *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 makes 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, 2010 and 2009.

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:

	2010	2009
Capital stock	<b>₱610,623,378</b>	₱602,668,833
Additional paid-in capital	<b>32,699,360</b>	27,067,569
Deposits for future stock subscription	—	24,386,336
Deficit	<b>(209,142,067)</b>	(225,655,609)
	<b>₱434,180,671</b>	₱428,467,129

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### **25. 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.

In 2010, BEFI sold 677,750 kilograms of cassava granules amounting to ₱5,760,875.

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### **26. Registration with the Board of Investments**

On March 23, 2010, BEFI was granted a non-pioneer status and registered as a New Producer of Dried Cassava Granules. 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.