From: no-reply@pse.com.ph (no-reply@pse.com.ph)
To: disclosure@pse.com.ph;
Date: Fri, August 13, 2010 9:30:21 PM
Cc:
Subject: ODiSy - Disclosure Status

Dear Sir/Madam:

We would like to inform you that as of AUG 13, 2010 01:30:21 PM today,

Reference Number: WLIST__2010000012255
Company Name: Basic Energy Corporation
Disclosure Subject: Quarterly Report for period ended June 30, 2010
Status: APPROVED

Should you need further assistance, please e-mail us at odisy@pse.com.ph.

Philippine Stock Exchange, Inc.
PSE Center, One Exchange Road
Ortigas Center, Pasig City.
Philippines 1600

BASIC ENERGY
C O R P O R A T I O N

August 13, 2010

THE DISCLOSURE DEPARTMENT
4/F The Philippine Stock Exchange, Inc.
PSE Centre, Exchange Road, Ortigas Center
Pasig City

Attention : **MS. JANET A. ENCARNACION**
Head, Disclosure Department

Gentlemen:

Attached herewith is a copy of our Quarterly Report (SEC 17-Q) filed with the Securities & Exchange Commission.

Very truly yours,

ANGEL P. GAHOL
Compliance Officer

7F Basic Petroleum Building, 104 Carlos Palanca, Jr. Street, Legaspi Village, Makati City 1229, Philippines

+ (632) 8178596 or 98 + (632) 8170191 www.basicenergy.ph

COVER SHEET

3 6 3 5 9

S. E. C. Registration Number

BASIC ENERGY CORPORATION

(FORMERLY BASIC PETROLEUM CORP)

(Company's Full Name)

7th flr. Basic Petroleum Bldg.

C. Palanca Jr. Street, Legaspi

Village, Makati City

(Business Address)

Marietta V. Villafuerte

Contact Person

(632) 817-85-96 & 98

Telephone Number

1 2 | 3 1

Month | Day

Fiscal Year

1 7 Q

FORM TYPE

Month | Day

Annual Meeting

Not Applicable

Secondary License Type

Dept.

Not Applicable

Amended Articles Number / Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic | Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SRC AND SRC RULE 17(a)-17(b)(2) THEREUNDER

1. For the quarterly period ended June 30, 2010

2. Commission identification number 168063

3.. BIR Tax Identification No. 000-438-702-000

4. Exact name of registrant as specified in its charter
BASIC ENERGY CORPORATION

5. Province, country or other jurisdiction of incorporation or organization Philippines

6. Industry classification code ....

7. Address of registrant's principal office 7th Flr., Basic Petroleum Bldg., C. Palanca St., Legaspi Village, Makati City, Philippines Postal Code 1229

8. Registrant's telephone number, including area code (632) 817-8596 to 98

9. Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the SRC

Title of Each Class	Number of shares of common stock outstanding or amount of debt outstanding
Common Shares	2,410,675,330
Listed with PSE	2,410,675,330

11. Are any or all of the securities listed on the Philippine Stock Exchange?

Yes [x] No [ ]

12. Indicate by check mark whether the registrant:

(a) Has filed all reports required to be filed by Section 17 of the SRC and SRC 17(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports)

Yes [x] No [ ]

(b) has been subject to such filing requirements for the past 90 days.

Yes [x] No [ ]

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

"Attachment A"

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

"Attachment A"

PART II--OTHER INFORMATION

"Attachment A"

The registrant may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

SIGNATURES

Pursuant to the requirements of the SRC, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant **CORAZON M. BEJASA**

Signature and Title **VP & Corporate Secretary**

Date **August 11, 2010**

Principal Financial/
Accounting Officer/Controller **MARIETTA V. VILLAFUERTE**

Signature and Title **VP & Treasurer**

Date **August 11, 2010**

ATTACHMENT "A"
FINANCIAL INFORMATION
For the Quarter Ended June 30, 2010

1. The following unaudited financial statements are contained in this report:

   1.1 Statements of Income and Retained Earnings for the Period Ended June 2010 and June 30, 2009;
   1.2 Balance Sheets as of June 30, 2010 and December 31, 2009;
   1.3 Statements of Cash Flows for the Period Ended June 30, 2010 and June 30, 2009;
   1.4 Statements of Changes in Stockholders' Equity for the Period Ended June 30, 2010 and June 30, 2009.

2. Discussion on Financial Condition for the Period December 31, 2009 to June 30, 2010.

   A. Key Performance Indicators

   Management considers the following as key performance indicators of the company: Return on Investment (ROI), Profit Margin, Performance of Committed Work Programs, Current Ratio and Asset Turnover.

   The following table shows the Top 5 performance indicators for the past interim periods:

KEY PERFORMANCE INDICATORS	2nd Qtr. 2010	2nd Qtr. 2009	2nd Qtr 2008
Return on Investments (ROI) (Net Income/Ave.Stockholders' Equity)	-2.617%	-1.838%	-0.519%
Profit Margin (Net Income/Net Revenue)	-281.31%	-717.1%	-117.1%
Investment in Projects(Non-Petroleum) as a % of Total Assets	39.87%	41.12%	31.79%
Investment in Wells & Other Facilities as a % of Total Assets	8.21%	7.01%	13.69%
Current Ratio (Current Assets/Current Liabilities)	24.25:1	9.29:1	72.17:1
Asset Turnover (Net Revenue/Ave.Total Assets)	0.890%	0.239%	0.417%

ROI (Net Income/Average Stockholders' Equity) measures the profitability of stockholders' investment. Profit Margin (Net Income/Net Revenue) measures the net income produced by each peso of revenue. Investment in Projects as a % of Assets, measures how much the company invested in its committed work programs. Current Ratio (Current Assets/Current Liabilities) measures the short-term debt-paying ability of the company. Asset Turnover (Net Revenue/Average Total Assets) measures how efficiently assets are used to produce profit.

ROI (-2.617%) and Profit Margin (-281.31%) for the second quarter of 2010 show negative rates because of the net loss for the quarter. Net loss for the second quarter of 2010 amounted to PhP11.765 million, or an increase of PhP3.833 million compared to the net loss of the same quarter in 2009 of PhP 7.932 million. This was mainly due to the PhP 6.941 million increase in cost and expenses which was partly offset by an increase in revenue for the quarter amounting to PhP 3.108 million.

Investment in Non-Petroleum Projects as a % of Total Assets (39.87%) slightly decreased during the second quarter of 2010 compared to the same quarter in 2009 mainly due to decreased investments in non-petroleum projects and a higher total assets base as of the second quarter 2010 compared to the same quarter in 2009.

Investment in Wells & Other Facilities as a % of Total Assets (8.21%) slightly increased during the second quarter of 2010 compared to the same quarter in 2009 mainly due to additional investments for the quarter and a higher total assets base as of the second quarter of 2010.

Current Ratio (24.25:1) for the second quarter of 2010 increased by 14.96 compared to the same quarter of 2009 mainly due to an increase in current assets and a decrease in current liabilities in 2010 compared to 2009.

B. Discussion and Analysis of Financial Condition as of June 30, 2010

As of the quarter ending June 30, 2010, the Company generated a Net Income on a consolidated basis of PhP 3.958 million from Total Revenues of PhP 27.738 million and Total Cost and Expenses of PhP23.345 million.

Revenues as of the second quarter of 2010 were mainly in realized gain from the sale of our AFS financial assets amounting to PhP 22.337 million. For the same quarter, revenue from sale of cassava chips was also generated amounting to PhP 3.361 million.

Interest Income of PhP 2.041 million as of June 30, 2010, decreased by PhP 468 million from last year's PhP 2.509 million. This was mainly due to the decrease in cash and financial assets base as of June 30, 2010 compared to the same quarter of 2009.

There was no revenue from Petroleum Operations during the quarter.

Cash and Cash Equivalents of PhP 126.711 million as of June 30, 2010 increased by about PhP 26.525 million compared to the balance of PhP100.186 million as of December 31, 2009. The increase was mainly due to the proceeds from the sale and redemption of our investment in AFS financial assets.

Agricultural Produce amounting to PhP 3.904 million was booked as of the second quarter of 2010 representing inventory of harvested cassava tubers.

Investment and Advances of PhP 124.482 million as of June 30, 2010 decreased by PhP 40.154 million during the second quarter of 2010 compared to the balance as of December 31, 2009 of PhP164.636 million. This was mainly attributable to the sale and redemption of our AFS financial assets.

Project Development Costs and Deferred Exploratioon Costs increased by a total of PhP 4.369 million as of the second quarter 2010 compared to the balance as of December 31, 2009. The increase was mainly due to the costs disbursed for the ongoing projects of the Company.

Accounts Payable and Accrued Expenses increased by PhP 1.767 million as of the second quarter of 2010 and closed at PhP 6.700 million compared to PhP 4.933 million as of December 31, 2009. This was mainly due to the accruals of certain payables for the second quarter.

The interim financial report is in compliance with generally accepted accounting principles. The same accounting policies and methods of computation were followed in the interim financial statements, as compared with the most recent audited financial statements, which are as of December 31, 2009.

The interim operations are not characterized by any seasonality or cyclicality. The nature and amount of items affecting assets, liabilities, equity, net income and cash flows are explained in Attachment "A" on Financial Information for the Quarter ending June 30, 2010.

There are no changes in estimates of amounts reported in prior interim periods of the current financial year or those reported in prior financial years.

There are no other issuances, repurchases and repayments of debt and equity securities other than the additional listing of 120,853,366 common shares of Basic Energy Corporation which was approved by the PSE on May 27, 2009.

There were no dividends paid (aggregate or per share) separately for ordinary shares and other shares.

Currently, the company has a single business and geographical segment and therefore, segment disclosures have not been included.

There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

There are no changes in the composition of the company during the interim period, including business conditions, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing of operations.

Since December 31, 2009, there are no other changes in contingent liabilities or assets and no new material contingencies, events or transactions that have occurred during the current interim period. There are no trends, demands, commitments, events or uncertainties, known to management that will have a material impact on the company's liquidity.

There are no material commitments for capital expenditures and no seasonal aspects that have a material effect on the financial conditions or results of operations.

There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.

There are no events that will trigger direct or contingent financial obligations that are material to the company, including any default or acceleration of an obligation.

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

The causes for any material changes (5% of the relevant accounts or such lower amount, which the company deems material on the basis of other factors) from period to period which include vertical and horizontal analysis of any material item, have been presented in this report.

There were no sales of unregistered or exempt securities, nor were there any issuances of securities constituting an exempt transaction.

Finally, there are no other material information for disclosure during the current interim period, whether under this report or under SEC Form 17-C.

BASIC ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of June 30, 2010 and December 31, 2009

		UNAUDITED June 30, 2010		AUDITED December 31, 2009
ASSETS				
Current Assets				
Cash and cash equivalents	₱	126,710,994	₱	100,185,897
Financial assets at fair value through profit and loss				2,105,027
Receivables-net		11,973,594		10,940,222
Agricultural Produce		3,903,721		-
Biological Assets		18,917,375		23,522,738
Other current assets		1,002,128		693,197
Total Current Assets		162,507,811		137,447,081
Non Current Assets				
Investments and Advances - net		124,482,257		164,636,055
Property and Equipment		43,322,315		44,050,881
Project Development costs		64,928,691		62,378,691
Deferred Exploration costs		38,118,627		36,299,832
Deferred income tax asset		15,188,913		15,188,913
Intangible asset		7,022,602		7,022,602
Net Pension Assets		544,500		544,500
Other noncurrent assets		7,983,463		8,227,153
Total Non Current Assets		301,591,368		338,348,627
Total Assets	₱	464,099,179	₱	475,795,708
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued expenses	₱	6,700,571	₱	4,933,372
Income tax payable				40,097
Total Current Liabilities	₱	6,700,571	₱	4,973,469
Non Current Liabilities				
Deferred income tax liabilities		11,271,987		16,419,491
Accrued retirement benefit		0		0
Total Noncurrent liabilities		11,271,987		16,419,491
Total liabilities	₱	17,972,558	₱	21,392,960
Minority Interest		628,154		640,476
Stockholders' Equity				
Attribute to equity holders of the Company:				
Capital stock[held by 7,122 & 7,164 equity holders as of 2010 & 2009 respectively		602,668,832		602,668,833
Additional Paid-In Capital		27,067,569		27,067,569
Deposit for future subscriptions		24,386,336		24,386,336
Revaluation increment in office condominium		12,756,334		12,756,334
Fair value adjustments on financial assets		317,069		12,538,809
Deficit		(221,697,672)		(225,655,609)
Total Equity		445,498,468		453,762,272
Total Liabilities and Stockholders' Equity	₱	464,099,179	₱	475,795,708

BASIC ENERGY CORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
For the period ended June 30, 2010 and June 30, 2009

		As of June 30, 2010	For the quarter April-June 2010		As of June 30, 2009	For the quarter April - June 2009
REVENUES	₱			₱		
Interest, Dividends and Others		2,040,673	1,056,221		2,508,918	1,105,949
Sales		3,360,985	3,157,580			
Realized Gain on sale of AFS		22,336,609	-			
Other Income			-		2,289	-
		27,738,267	4,213,801		2,511,206	1,105,948
COSTS AND EXPENSES						
General and administrative expenses		13,671,333	7,628,982		29,869,829	13,260,565
Costs of Sales		10,290,632	10,119,499			
Faiv Vaule Adjustments		93,729	(187,048)			
Provision for Impairment Losses		-	-		(3,119,832)	(3,354,202)
Loss on sale of FVPL securities		-	-		248,335	248,335
Fair Value Adjustments on FVPL Investment			-		(1,825,854)	(1,177,191)
Foreign Exchange Loss		(710,532)	(1,582,754)		(116,989)	60,644
		23,345,162	15,978,679		25,055,489	9,038,151
LOSS BEFORE INCOME TAX		4,393,105	(11,764,878)		(22,544,283)	(7,932,203)
PROVISION FOR INCOME TAX						
Current		447,490	0		0	0
Deferred						
		447,490	0		0	0
NET INCOME (LOSS)		3,945,615	(11,764,878)		(22,544,283)	(7,932,203)
MINORITY INTEREST		12,322	5,526		6,096	1,078
		3,957,937	(11,759,352)		(22,538,187)	(7,931,125)
RETAINED EARNINGS AT BEGINNING OF YEAR / QUARTER		(225,655,609)	(209,938,320)		(213,543,203)	(228,150,265)
		-	-			
		-	-			
		-	-		0	
RETAINED EARNINGS (DEFICIT) AT END OF YEAR/ QUARTER	₱	(221,697,672)	(221,697,672)	₱	(236,081,390)	(236,081,390)
Earnings (Loss) Per Share	₱	0.0016	(0.004878032)	₱	(0.0093)	(0.003290002)

Formula: Earnings (Loss) Per Share = *Net Loss / No. of shares for the quarter ended June 30, 2010*
2,410,675,330

= *Net Loss / No. of shares for the quarter ended June 30, 2009*
2,410,675,330

BASIC ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Period Ended June 30, 2010 and June 30, 2009

	As of June 30, 2010	For the quarter Apr. - June 2010	As of June 30, 2009	For the quarter Apr-June 2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income (loss)	₱ 3,945,615	₱ (12,212,367)	₱ (22,544,283)	₱ (7,932,202)
Adjustment to reconcile net income to net cash provided by operating activities				
Interest income	(2,040,673)	(1,056,221)	(2,494,478)	(1,105,949)
Depreciation.depletion and amortization	3,608,153	1,842,690	2,946,977	1,575,311
Loss (gain) on sale of property and equipments and investments		-	248,335	248,335
Fair Value Adjustment on financial assets at FVPL and Impairment losses on AFS	-	-	(4,945,686)	(3,515,764)
Unrealized Foreign Exchange Gain	(710,532)	(1,582,754)	(116,989)	60,644
Dividend Income	-	-	(14,440)	
Operating income (loss) before woring capital changes	4,802,563	(13,008,652)	(26,920,563)	(10,669,624)
Changes in assets and liabilities				
Decrease (Increase) in asset/s				
Financial assets at fair value through profit or loss	2,105,027	-	0	
Receivables	(1,033,372)	(990,765)	553,212	293,337
Prepayments and other current assets	636,401	4,567,785	(463,557)	(21,838)
Increase (Decrease) in liabilities		-		
Accounts payable & accrued expenses	1,727,102	1,029,046	(43,632)	498,518
Accrued Retirement Fund		-	292,933	(86,842)
Other Liabilities	(5,147,504)	(447,490)	0	
Cash generated from (used in) operations	**3,090,217**	**(8,850,076)**	**(26,581,607)**	**(9,986,449)**
Interest received	2,040,673	1,056,221	2,494,478	1,105,949
Taxes paid		-		
Net cash flows from (used) in operating activities	₱ 5,130,890	₱ (7,793,855)	₱ (24,087,129)	₱ (8,880,500)
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale of AFS & FVPL Investments	40,153,798	19,797		
Additions (Deductions) to:	-	-		
Project Development Costs	(2,550,000)	(900,000)	(3,254,082)	(2,238,699)
Unrealized Gain of Fair Value Adjustments	(12,221,740)	(37,127)	5,805,865	6,040,235
Deferred Exploration Costs	(1,818,795)	(727,051)		
Property & Equipment	(2,879,587)	(356,084)	(6,558,405)	(1,600,609)
Dividends received	-	-	14,440	
Net cash provided in investing activities	₱ 20,683,676	₱ (2,020,262)	₱ (3,992,182)	₱ 2,200,927
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of capital stock		₱	₱	₱
Net cash provided by financing activities	-	₱ -	₱ -	₱ -
Effect of Foreign Exchange rate in Cash & Cash Equivalent	710,532	1,582,754	116,989	(60,644)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT	26,525,097	₱ (8,231,364)	₱ (27,962,324)	₱ (6,740,219)
CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR/QUARTER	100,185,897	133,810,891	155,032,996	133,810,891
CASH AND CASH EQUIVALENT AT END	₱ 126,710,994	₱ 125,579,527	₱ 127,070,672	₱ 127,070,672

BASIC ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Period Ended June 30, 2010 and June 30, 2009

	Jan to June	Jan to June	Quarters Ended June 30	
	2010	2009	2010	2009
CAPITAL STOCK - P 0.25 par value				
Authorized - 2,000,000,000 shares				
Issued and Subscribed	2,410,675,330	2,410,675,330	2,410,675,330	2,410,675,330
Held by a Subsidiary				
Paid-up Capital Stock at beginning of year	602,668,833	572,455,491	602,668,833	572,455,491
Issuance of capital stock		30,213,342		30,213,342
Paid-up Capital Stock at end of period/quarter	602,668,833	602,668,833	602,668,833	602,668,833
ADDITIONAL PAID-IN CAPITAL				
Balance at beginning of year	27,067,569	4,105,430	27,067,569	4,105,430
Equity restructuring				
Issuance of Capital Stock		22,962,139		22,962,139
Balance at end of period	27,067,569	27,067,569	27,067,569	27,067,569
Deposits for Future Stock Subscription	24,386,336	13,586,336	24,386,336	13,586,336
Revaluation increment in office condominium	12,756,333	13,915,999	12,756,333	13,915,999
Fair value adjustments on financial assets	317,069	(988,594)	317,069	(988,594)
RETAINED EARNINGS (Deficit)				
Balance at beginning of the year	(225,655,609)	(213,543,203)	(209,938,320)	(228,150,265)
Net loss for the period	3,957,937	(22,538,187)	(11,759,352)	(7,931,124)
Equity Restructuring				
Balance at end of period	(221,697,672)	(236,081,390)	(221,697,672)	(236,081,390)
TOTAL STOCKHOLDERS' EQUITY	445,498,468	420,168,752	445,498,467	420,168,752

BASIC ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE OF ACCOUNTS RECEIVABLES
As of June 30, 2010

Receivable from Stockholders	1,718,887
Forum PLC	9,809,129
Vital Resources Corp.	113,165
Advances to Officers & Employees	191,008
Others	2,194,111
Less: Allowance for uncollectible accounts	(2,052,707)
	11,973,594

Basic Energy Corporation. & Subsidiaries
Aging of Accounts Receivable
As of June 30, 2010

Type of Accounts Receivable	Total	1 Month	2-3 Mos.	4-6 Mos.	7 Mos. To 1 Year	1-2 Years	3-5 Years	5 Years - above	Pas due accounts & Items in Litigation
a) Trade Receivables									
1)		-	-	-	-	-			
2)	-								
3)	-								
Subtotal	-	-	-	-	-	-			
Less: Allow. For Doubtful Acct.	-								
Net Trade receivable	-	-	-	-	-	-			
b) Non-Trade Receivables									
1) Forum PLC	9,809,129		-		-		9,809,129		
2) Advances to officers/employees	191,008	151,008				40,000			
3) Receivables from stockholders	1,718,887	-	-		-			1,718,887	
3) Others	2,307,277	1,092,117	35,341	67,498	386,147	314,940	411,234		
Subtotal	14,026,302	1,243,126	35,341	67,498	386,147	354,940	10,220,363	1,718,887	
Less: Allow. For Doubtful Acct.	(2,052,708)	-				(20,112)	(319,369)	(1,713,227)	
Net Non-trade receivable	11,973,594	1,243,126	35,341	67,498	386,147	334,828	9,900,994	5,660	-
Net Receivables (a + b)	11,973,594	1,243,126	35,341	67,498	386,147	334,828	9,900,994	5,660	

Notes: If the Company's collection period does not match with the above schedule and revision is necessary to make the schedule not misleading, the proposed collection period in this schedule may be changed to appropriately reflect the Company's actual collection period.

Type of Receivable	Nature / Description	Collection period
1)		
2)		
3)		

Notes: Indicate a brief description of the nature and collection period of each receivable accounts with major balances or separate receivable captions, both for trade and non-trade accounts.

BASIC ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE OF ACCOUNTS PAYABLE AND ACCRUED EXPENSES
As of June 30, 2010

Accrued Expense Payables	5,532,630
Others	858,550
SSS/Philhealth/HDMF/BIR Payables	294,891
Carlos A. Rosales	14,500
Total	**6,700,571**

ADDITIONAL DISCLOSURES

Part I – Financial Information

Item 1. Financial Instruments Recognition and Measurements & Disclosure (PAS 39 and PFRS 7)

Classification of Financial Instruments

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

The Company determines the classification at initial recognition and re-evaluates the classification at every balance sheet date.

As of June 30, 2010, the Company has not reclassified any of its existing financial assets into and from the above mentioned categories. The financial assets are maintained on their initial classification.

Item 2. Management's Discussion and Analysis (MDA) of Financial Condition and Results of Operations

(1) Plan of Operations for 2010

Oil and Gas Operations

For 2009, the Company will continue with its business in oil and gas exploration, being a party, together with other oil exploration companies, to service contracts for the exploration, development and exploitation of certain contract areas situated in offshore Mindoro (Service Contract 53) and onshore Mindoro (Service Contract 47). One of its subsidiaries, Southwest Resources, Inc. (SWR) shall continue with its participation in Service Contract 41 covering the Sandakan Basin. The Company together with the consortium members will be undertaking work programs committed to the Department of Energy (DOE).

In Service Contract 41, through the Company's subsidiary, Southwest Resources Inc., a reprocessing of 3D seismic data was approved by the DOE along with two year extension of the term of the service contract. Such reprocessing of data is expected to be completed in mid-2010. The Company is carried free in 2010. In Service Contract 47, the consortium entered the second sub phase of the contract on June 10, 2008. The seismic data are to be processed by Fairchild and interpretation works are expected to be completed by the middle of 2010. 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. In Service Contract 53, the DOE has recently approved the further extension of Subphase 1 to March, 2011 for the conduct of geological geophysical studies and interpretation of the 2D seismic data, which is estimated to cost US$4.5 Million, and the drilling of two wells from 2011 to 2012, the cost of which is estimated at US$ 2 Million. The Company is carried free in the 2D seismic program.

The Company's cash requirements for the operations of its oil and gas business for the whole year of 2010 is budgeted at about Php 0.5 Million, which will be adequately funded by its cash and short-term investments. There is no need for the Company to raise additional funds for its existing oil and gas projects, and there is no plan to increase its present manpower staff nor acquire any significant equipment for these projects.

Geothermal Energy Operations

The Company will continue discussions with other companies interested in the exploration and development of geothermal resources for the formation of a consortium to jointly undertake exploration and development activities at the Mabini, Batangas Geothermal area. In the meantime, the necessary exploratory works are being undertaken as a commitment under the service contract approved by the DOE. Once successful exploration and the steam resource is determined, the Company, together with possible investors, will consider setting up a geothermal power plant in the Mabini, Batangas area. Initial assessment of the steam resource in the area is about 20 megawatts. Power from the plant would be sold to the local cooperatives and the Wholesale Electricity Stock Market (WESM).

The Company has allocated a budget of US$10,000 for 2010, for software and 2D seismic processing and will be funded from the cash and short-term investments of the Company. Subject to positive results of the magneto-telluric survey conducted on the project, the Company plans to raise funds within the next twelve (12) months from strategic or financial investors, or otherwise, pursue its search for farm-in partners in the project. It is expected that at most two (2) additional technical staff will be required if this project proceeds to its next phase of development as committed to the Department of Energy. There is no plan to acquire any significant equipment this year for this project.

Cassava Operations

For 2010, the Company will continue its focus on the development of its capability to produce sufficient cassava feedstock to supply its planned ethanol plant through its wholly owned subsidiary, BEF.

BEF's operations will be focused in the Zamboanga peninsula, developing cassava farmlands to be chipped and dried. The cassava nurseries that have been put up in Zamboanga del Norte and Zamboanga City covering a total area of 30 hectares will be supplying the planting materials for the expansion farms that will be planted in 2010. The pilot 300 hectares planted in 2009 including the cassavas in the nurseries will also be harvested in 2010. The cassava produced from the farms will be dried, granulated and sold mainly to San Miguel Foods, Inc. and any excess production to other feeds manufacturers.

In the first quarter of 2010, BEF completed the fabrication of its mechanical dryer to be able to dry cassava tubers in large quantities relatively insulated from weather conditions. BEF has commissioned designs for a tailor-fit mechanical dryer suitable for its needs and the available power sources in the area. The first mechanical dryer built is located in Gutalac, Zamboanga del Norte and to be largely powered by biomass abundant in the vicinity. BEF is undergoing rehabilitation of a steam dryer/boiler which it acquired last year, which has a larger capacity and will address the dryer requirements of the project, as expanded.

The Company's cash requirements to support the cassava operations of BEF for 2010 is budgeted at Php 5.0 Million, which will be adequately funded by its cash and short-term investments. The Company has no plans of raising funds for this cassava development project within the year, but is open to discussions with strategic and/or financial investors for the expansion of this cassava development project and development of a feedstock program for a cassava-based ethanol plant. With such expansion, the increase in manpower requirements will happen at BEF, the Company's subsidiary responsible for this project, the number of which will depend on the extent of expansion and degree of acceleration required for this project by the investors. BEF plans this year to acquire additional farm machineries and equipment such as dump and hauling trucks with a budget of about Php 5.0 Million, and which will be funded by its cash and short term investments.

Employees

The Company has eighteen (18) officers and employees, of which eight (8) are executive officers, six (6) are assigned as accounting, administrative and support staff and four (4) are assigned for utility and service staff. The Company expects to hire additional personnel in 2010 as technical staff for its various projects. When the Company's planned ethanol plant project is pursued with the entry of strategic and financial funders or investors, project managers, and engineering, technical and other support personnel may be required for the project.

Item 3. Financial Risk Disclosure

a. Risk Management

In the Oil and Gas and Geothermal Operations, the Company is faced with the following risks, in order of importance:

(a) Probability of Exploration and Development Success. Oil and gas exploration and geothermal projects are inherently high-risk undertakings. There can be no assurance that the Company's activities will be successful in discovering commercially viable oil and gas reservoirs and/or a viable geothermal resource. Even if an apparently feasible resource is determined, there is no guarantee that it can be economically exploited. Despite the Company's reliance on advanced technology such as 3-D seismic data to improve the probability of success of discovery, oil and gas exploration and geothermal is still a speculative business. Advanced technology, even with the correct interpretation, only assist geologists in identifying subsurface structures and does not ensure the certainty of the presence of hydrocarbons if drilled. Moreover, 3-D seismic data and other advanced technology require higher investments that may result in higher losses, should the drilling prove unsuccessful.

Risk of heavy financial losses if prospects would prove unsuccessful could be mitigated through:

Farm-Out of Interest. A Farm-Out Agreement is a contract whereby a third party agrees to acquire from a licensee an interest in a production license and the corresponding operating agreement for a consideration normally comprising of an undertaking to perform a specified work obligation in the drilling of one or more wells. Farming out is usually undertaken by the seller of interest as a source for funding or as part of the rationalization of a licensee's interests. The seller may want to dispose of areas or interests which are peripheral to its main operations or in which it has small equity holdings but would take up as much management time as a larger holding.

Spreading Exploration Risks through Joint Ventures in Several Exploration Blocks. Forming alliances and jointly bidding for the development of a range of opportunities in oil and gas exploration and geothermal projects, mitigates exploration risks of a corporation as there is risk-sharing - the cost and responsibilities of drilling and production are spread over a number of entities. Joint ventures also enable companies to free up funds otherwise tied up in a single drilling project and enable these companies to build a portfolio of prospects.

Exploring in Geological Proven Petroleum Areas. The Company has been making investments and will continue to invest in geologically proven petroleum provinces only.

(b) Operating Hazards of Exploratory Drilling Activities and Environmental Risks. Drilling operations may be delayed, curtailed or subjected to operating and technical difficulties. Unexpected drilling conditions, adverse weather conditions, unanticipated pressure or formations, equipment breakdowns, industrial and environmental accidents and other such events may occur which may have adverse effects on the Company's operations and correspondingly on its financial performance and condition. Oil and gas and geothermal exploration and drilling activities will be subject to Philippine environmental laws and regulations. Normal exploration and drilling operations involve certain operating hazards such as explosions, craterings, well blowouts, uncontrollable flows of oil, natural gas or well fluids, releases of toxic gas, accidental leakages, formations with abnormal pressures, fires, pollution and other environmental perils and risks, any of which may subject the Company to extensive liability or loss of assets.

Operating risks in the exploration and development drilling and production phases are generally directly driven by standards in design, procurement and installation, operating procedures and contingency planning. The Company, in its investment evaluation process, considers the presence and implementation of the following measures and strategies to mitigate risk exposures: (i) hiring of technically competent staff that are adept in utilizing state-of-the-art technology and could conduct effective evaluation work; and (ii) ensuring adherence to the various environmental laws and regulations, taking into account not only local but international expectations as well.

(c) *Volatility of Oil and Gas Prices and Exchange Rate Risks.* Revenues derived from successful exploration and drilling activities depend on the world price of oil. The price of oil is sensitive to minor changes in the global supply and demand conditions, quality of oil, forward selling activities, domestic and foreign government regulations, environmental trends, overall global economic condition and other macroeconomic and political factors that are beyond the Company's control. Furthermore, revenues from drilling activities are pegged to the US dollar, hence, the Company is exposed to exchange rate risks given the volatility of the rate of exchange between the US dollar and Philippine peso.

(d) Government Regulations and Approvals. Government action such as changes in regulations may affect the Company's business and eventual operating and financial performance. Government may limit access to prospective development areas, implement stricter environmental laws to protect human health and the environment, impose higher taxes and royalties, all of which may adversely affect the Company's financial performance.

For the risks mentioned in items (c) and (d) above, these risks could be mitigated through early identification systems of risk exposures to external threats such as changes in government regulations and changes in the geo-political environment of operating locations. The Company will continue to negotiate oil price agreements with inputs from experts. The Company, as a member of a consortium, adheres to its policy of involving competent technical professionals in the preparation and negotiations of oil price agreements. The Company will also continue to involve competent technical professionals in the preparation and negotiations of power purchase agreements for its geothermal projects.

In the Ethanol Plant and Cassava Project Operations, the Company is faced with the following risks, in order of importance:

The "green field" nature of these projects exposes the Company to start-up risks, to wit:

(a) Since the lands identified for the growing of cassava or even sugarcane or sweet sorghum to be used as feedstock for the ethanol plant have not been planted with these crops on a large scale basis, productivity in terms of amount of crops that can be produced per hectare could be uncertain. To determine the maximum yield per unit area, the Company must establish actual agronomic data on crop yields using a variety of available technologies and farming methodologies. This would require additional investment in land development and preparation, which may affect the Company's development timetable and ultimately, the project's viability.

(b) The Company will depend on a selected equipment and technology provider to design and build the ethanol plant or the drying facilities for the cassava project. The Company has gone through the process of screening the contractors from a list of pre-qualified international technology and equipment suppliers/contractors that would have the technical capabilities, the optimum and most efficient solution and the ability to complete the project in a timely manner and within the approved budget. Failure to forge a binding agreement with the selected EPC contractor and the selected contractor's failure to perform will cause significant delays in the construction of the plant and the projected income of the Company due to the project's operations may not be realized. For the drying facilities for the cassava project, BEF is in the process of evaluating the structure designs and mechanics and will conduct testing of similarly designed or structured drying facilities before adopting or considering the fabrication and installation of the drying facilities for the cassava project.

(c) The Company is in the process of obtaining the necessary permits and consents for the construction and operation of the ethanol plant. Failure to obtain these permits as scheduled may delay operations and materially affect projected income. Considering, however, the deferment of the ethanol plant project, the Company has the time to work on the issuance of such permits and licenses prior to the construction of the planned ethanol plant.

(d) The farm and plant sites may have unknown environmental and topographical, social, security and political problems that may be costly and time consuming to remedy or may be beyond the Company's control to correct.

(e) The Company has no direct experience in ethanol and cassava production, which may result in mis-judgments and operating errors, materially affecting projected profitability.

(f) The Company may fail to finalize critical agreements such as off-take agreements or supply contracts or the final contracts may be unfavorable compared to what the Company envisions these to be. Supply contracts with prospective customers are material basis for projecting revenues and the definitive versions of such agreements may contain terms or conditions that may be significantly different from what were assumed in the project's financial model.

Relative to the management of the risks mentioned in items (d) to (f) above, the Company decided to focus first on the development of its capability to produce the feedstock required by the planned ethanol plant, through its subsidiary, Basic Ecomarket Farms, Inc. The services of Ecomarket Farms, Inc., which had proven experiences in the development, production, drying and marketing of cassava in Zamboanga City, had been engaged as project manager of the Company's cassava project in the Zamboanga peninsula. The managed farms for the propagation and development of cassava will be gradually increased from 300 hectares in 2009, expanding to 2,000 hectares by 2013, to provide the Company adequate expertise and experience to handle larger plantation areas. BEF is also evaluating a proposal to study the security risks in the area and the remedial measures needed to be taken by the Company.

For the ethanol plant, the Company has already identified at least three (3) reputable suppliers with proven track record worldwide in the construction of the ethanol plant, and continuous data and information update are being undertaken by the Company, with the technological expertise transfer being tagged as a major consideration for the supply and construction agreement. The applications for the necessary government permits and clearances have been filed and are in process, and regular follow-ups are being made to ensure that these permits and clearances are being acted upon within the targeted schedules. Finally, agreements in preparation for the off-take arrangements with the major oil companies have already been signed and executed, specifically for the undertaking of the necessary studies for the terms of the definitive off-take arrangements. Seeing through the completion of these studies in time for the operation of the ethanol plant will be undertaken in due time.

b. Financial Instruments

Date of Recognition
The Company recognizes a financial asset or a financial liability in the balance sheets 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 Instrument
Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those classified at FVPL, includes transaction cost.

On initial recognition, the Company classifies its financial assets in the following categories: financial assets at FVPL, HTM financial assets, loans and receivables and AFS financial assets. On the other hand, the Company classifies its financial liabilities as financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the financial assets are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every balance sheet date.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, 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.

Financial Assets or 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 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 as 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 the consolidated statement of operations.

Financial instruments may be designated at initial recognition as 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 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 balance sheet at fair value. Changes in fair value are recognized in consolidated statement of operations. Interest and dividend income or expense are recognized in the consolidated statement of operations, according to the terms of the contract, or when the right to the payment has been established.

The Company classifies its held-for-trading investments as financial assets at FVPL.

Embedded Derivatives

An embedded derivative is separated from the host financial or nonfinancial contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized at FVPL.

The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company first becomes a party to the contract. Re-assessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets at FVPL. Changes in fair values are included in the consolidated statement of operations.

As of June 30, 2010, the Company has no embedded derivatives.

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 the consolidated statement of operations 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 twelve months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

As of June 30, 2010, included under loans and receivables are the Company's receivables consisting of cash in banks and cash equivalents, accounts receivable, accrued interest receivable on AFS bond investment, advances to subsidiaries, advances to employees and others and receivables from Forum Energy Plc (FEP).

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 Company designates financial instruments as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity as "Fair value adjustments on AFS financial assets" net of the related deferred income tax. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the consolidated statement of operations.

When the investment is disposed of, the cumulative gains or loss previously recorded in equity is recognized in the consolidated statement of operations. Interest earned on the investments is reported as interest income using the effective interest rate method. Dividends earned on investments are recognized in the consolidated statement of operations as "Dividend income" when the right of payment has been established. The Company 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 Company 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 twelve months from the balance sheet date.

As of June 30, 2010, included under AFS financial assets are the Company's investments in shares of stocks.

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

As of June 30, 2010, included in other financial liabilities are the Group's accounts payable and accrued expenses.

<u>Offsetting Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount 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 asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated balance sheet.

<u>Derecognition of Financial Assets and Liabilities</u>

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 rights to receive cash flows from the asset have expired;
- the Company 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 rights 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.

Where the Company has transferred its rights 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 Company'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 Company could be required to repay.

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

Where 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 the consolidated statement of operations.

Impairment of Financial Assets
The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or a group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets Carried at Amortized Cost
If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future 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 shall be reduced through the use of an allowance account. The amount of loss is recognized in the consolidated statement of operations.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continue to be recognized are not included in a collective assessment of impairment. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as payment history and past-due status and term.

Loans and receivables, together with the related allowance, are written off when there is no realistic prospect of future recovery. 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. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of operations, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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 Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the financial assets below its cost. 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 the consolidated statement of operations - is removed from equity and recognized in the consolidated statement of operations. Impairment losses on equity investments are not reversed through the consolidated statement of operations. 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 part of "Interest income" in the consolidated statement of operations. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of operations, the impairment loss is reversed through the consolidated statement of operations.

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

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

Cash in Banks and Cash Equivalents, Receivables and
Accounts Payable and Accrued Expenses
Due to the short-term nature of the cash and cash equivalents, receivables and accounts payable and accrued expenses, the carrying values of these accounts were assessed to approximate their fair values.

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

2. Investments in Foreign Securities

Quoted shares consist of equity investments in FEC Resources, Inc., an independent company listed on the NASD OTC Bulletin Board and the Frankfurt and Munich Stock Exchanges, and Forum Energy Plc, a company listed on London AIM market. The fair values of these listed shares are based on their bid market price as of balance sheet date. Unquoted equity securities include unlisted shares of stock in which the Group will continue to carry as part of its investments. These are carried at cost less impairment, if any.

As of June 30, 2010, investments in FEC Resources Inc. and Forum Energy Plc shares of stocks amounted to PhP 529,970 and PhP 542,337, respectively.

3. Significant Accounting Judgments, Estimates and Assumptions

Management is required to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Future events may occur which can cause the assumptions used in arriving at those judgments and estimates to change. The effects of any changes will be reflected in the financial statements as they became reasonably determinable.

Judgments

In the process of applying the Company'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 financial statements:

Determination of the Company's Functional Currency

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

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities follow:

Impairment of AFS Financial assets

For AFS bond investments, the Company performs annual impairment testing when there are indications of impairment. The impairment testing of these financial assets requires estimation of the difference between the assets' carrying amount and the present value of

estimated future cash flows discounted at the current market rate of return for a similar financial asset. The Company treats AFS equity 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" and "prolonged" requires judgment. The Company treats "significant" generally as 20% or more and "prolonged" greater than six months. In addition, the Company evaluates other factors including normal volatility in shares price for quoted equities and future cash flows and the discount factors of unquoted equities.

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 taxable profit 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 taxable profit against which the deferred income tax assets will be utilized except for the deferred income tax assets related to the provision for impairment loss on AFS investment.

Impairment of Property and Equipment and Deferred Exploration Costs
PFRS requires that an impairment review be performed when certain impairment indicators are present. Determining the value of property and equipment and deferred exploration costs, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets requires the Company to make estimates and assumptions that can materially affect its financial statements. For deferred exploration costs, impairment is recognized when an SC/GSEC where the Company has participating interest is permanently abandoned. Future events could cause the Company to conclude that these assets are impaired.

Estimation of Allowance for Impairment of Receivables
The Company maintains allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts.

Estimation of Useful Lives of Property and Equipment
The Company 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 Company 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.

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

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

Estimation of Fair Value of Unquoted Equity Securities Classified as AFS Financial assets
Management believes that while the range of reasonable fair value estimates is significant, the probabilities of the various estimates cannot be reasonably assessed given the unquoted nature of these equity investments. As a result, the Company carries these financial assets at cost, less any impairment in value.

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 Company's assumptions are accumulated and amortized over future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations.

Determination of Fair Value of the Investment Properties
The best evidence of fair value is current prices in an active market for similar lease and other contracts. In absence of such information, the Company 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.

4. Financial Risks

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

The Company's exposures to these risks are managed through close monitoring by the Company's key management and BOD.

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

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

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 Company's exposure to market risk for changes in interest rates is related primarily to the Company's AFS financial assets.

Credit Risk
Credit risk is the risk that the Company will incur a loss because its counterparties failed to discharge their contractual obligations. The Company 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 Company's exposure to bad debts is not significant.

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

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

Cash and cash equivalents, financial assets at FVPL and AFS financial assets - these are classified as "Satisfactory" since cash and cash equivalents are placed in high profile banking institutions while the concentration of financial assets at FVPL and AFS equity investments are invested in blue chip shares of stocks. Quoted government bonds have insignificant risk of default from the counterparty.

Receivables - satisfactory pertains to receivables from existing and active parties.

Liquidity Risk
Liquidity risk is defined as the risk that the Company 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. The management also ensures that the Company will maximize its gain on trading of marketable securities to finance future capital intensive projects. The Company 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.

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

The Company manages its capital structure and make adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may issue new shares. No changes were made on the objectives, policies or processes as of June 30, 2010.

5. Comparison of Fair Values as of June 30, 2010 & March 31, 2010

BASIC ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of June 30, 2010 and March 31, 2010

		UNAUDITED June 30, 2010		UNAUDITED March 31, 2010
ASSETS				
Current Assets				
Cash and cash equivalents	₱	126,710,994	₱	134,475,071
Financial assets at fair value through profit and loss				
Receivables-net		11,973,594		10,982,829
Agricultural Produce		3,903,721		526,353
Biological Assets		18,917,375		26,572,017
Other current assets		1,002,128		1,292,642
Total Current Assets		162,507,812		173,848,910
Non Current Assets				
Investments and Advances - net		124,482,257		124,502,054
Property and Equipment		43,322,315		44,808,921
Project Development costs		64,928,691		64,028,691
Deferred Exploration costs		38,118,627		37,391,576
Deferred income tax asset		15,188,913		15,188,913
Intangible asset		7,022,602		7,022,602
Net Pension Assets		544,500		544,500
Other Non-Current assets		7,983,463		7,983,463
Total Non Current Assets		301,591,368		301,470,720
Total Assets	₱	464,099,179	₱	475,319,630
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued expenses	₱	6,700,571	₱	5,631,428
Income tax payable		0		487,587
Total Current Liabilities	₱	6,700,571	₱	6,119,015
Non Current Liabilities				
Deferred income tax liabilities		11,271,987		11,271,987
Accrued retirement benefit				
Total Noncurrent liabilities		11,271,987		11,271,987
Total liabilities	₱	17,972,558	₱	17,391,002
Minority Interest		628,154		633,680
Stockholders' Equity				
Attribute to equity holders of the Company:				
Capital stock[held by 7,122 & 7,164 equity holders as of 2010 & 2009 respectively		602,668,833		602,668,833
Additional Paid-In Capital		27,067,569		27,067,569
Deposit for future subscriptions		24,386,336		24,386,336
Revaluation increment in office condominium		12,756,334		12,756,334
Fair value adjustments on financial assets		317,069		354,196
Deficit		(221,697,672)		(209,938,322)
Total Equity		445,498,468		457,294,947
Total Liabilities and Stockholders' Equity	₱	464,099,179	₱	475,319,630

BASIC ENERGY CORPORATION, INC. AND SUBSIDIARIES -2-
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
For the period ended June 30, 2010 and March 31, 2010

	As of June 30, 2010	As of March 31, 2010	Increase (Decrease)
REVENUES			
	₱	₱	
Interest, Dividends and Others	2,040,673	984,452	1,056,221
Sales	3,360,985	203,405	3,157,580
Realized on Gain on sale of AFS	22,336,609	22,336,609	-
Other Income	-	-	-
	27,738,267	23,524,465	4,213,801
COSTS AND EXPENSES			
General and administrative expenses	13,671,333	6,042,351	7,628,982
Cost of Sales	10,290,632	171,133	10,119,499
Fair Value Adjustments	93,729	280,777	(187,048)
Provision for Impairment Losses			-
Loss on sale of FVPL securities			-
Fair Value Adjustments on FVPL Investment			-
Foreign Exchange Loss	(710,532)	872,222	(1,582,754)
	23,345,162	7,366,483	15,978,679
LOSS BEFORE INCOME TAX	**4,393,105**	**16,157,982**	**(11,764,878)**
PROVISION FOR INCOME TAX			
Current	447,490	447,490	0
Deferred			
	447,490	**447,490**	**0**
NET INCOME (LOSS)	**3,945,615**	**15,710,492**	**(11,764,877)**
MINORITY INTEREST	**12,322**	**6,796**	**5,526**
	3,957,937	**15,717,288**	**(11,759,351)**
RETAINED EARNINGS AT BEGINNING OF YEAR / QUARTER	**(225,655,609)**	**(225,655,609)**	**0**
	- -		
	-	**0**	
RETAINED EARNINGS (DEFICIT) AT END OF YEAR/ QUARTER	₱ **(221,697,672)**	₱ **(209,938,321)**	**(11,759,351)**

Formula: Earnings (Loss) Per Share = *Net Loss / No. of shares for the quarter ended June 30, 2010*
2,410,675,330

= *Net Loss / No. of shares for the quarter ended March 31,2010*
2,410,675,330

6. **Criteria used to determine whether the market for a financial instrument is active or inactive**

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

"Day 1" Profit
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" profit) in the consolidated statement of operations 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 the consolidated statement of operations when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" profit amount.