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ODiSy - Disclosure Status Tuesday, May 19, 2009 7:21 AM

From: "odisy@pse.com.ph" <odisy@pse.com.ph>
To: odisy@pse.com.ph

Dear Sir/Madam:

We would like to inform you that as of MAY 18, 2009 04:21:54 PM today,

Reference Number: WLIST__2009000007426
Company Name: Basic Energy Corporation
Disclosure Subject: Definitive Proxy Statement for Annual Meeting of Stockholders on June 30, 2009, Record Date on June 5, 2009 (Circular No. 3559-2009)
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
CORPORATION

May 15, 2009

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:

We are furnishing you copy of the SEC Form 20 (Definitive Proxy Statement) of Basic Energy Corporation as submitted to the Securities and Exchange Commission (SEC).

Thank you and best regards.

Very truly yours,

ANGEL P. GAHOL
Assistant Corporate Secretary

7F Basic Petroleum Building, 104 Carlos Palanca Jr. Street, Legaspi Village, Makati City 1229, Philippines
(632) 817-8596 and 98 (632) 817-0191 www.basicenergy.ph

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

MAY 18 2009

RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS

May 15, 2009

SECURITIES AND EXCHANGE COMMISSION
SEC Bldg., EDSA Greenhills
Mandaluyong City, Metro Manila

Attention : **ATTY. JUSTINA F. CALLANGAN**
Director, Corporate and Finance Department
c/o MS. TRIXIE POSADAS

Gentlemen:

We are submitting herewith our SEC Form 20 (Definitive Proxy Statement), which already incorporates the corrections in compliance to your comments/requirements per checklist attached to your letter dated May 6, 2009.

Thank you and regards.

Very truly yours,

ANGEL P. GAHOL
Compliance Officer

COVER SHEET

36359

SEC Registration Number

BASIC ENERGY CORPORATION

(Company's Full Name)

7th Floor, Basic Petroleum Building, C. Palanca, Jr. Street, Legaspi Village, Makati City

(Business Address: No. Street City/Town/Province)

Atty. Angel P. Gahol

(Contact Person)

(632) 817-8596 & 98

(Company Telephone Number)

12 31

Month Day

(Calendar Year)

SEC20

(Form Type)

Month Day

(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

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 ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20
PROXY STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Filed by the Registrant BASIC ENERGY CORPORATION

2. Filed by a Party other than the Registrant N/A

3. Check the appropriate box:
   ____ Preliminary Proxy Statement

   ✔ Definitive Proxy Statement

   ____ Additional Materials

4. Name of Registrant as specified in its charter BASIC ENERGY CORPORATION

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

6. SEC Identification Number 36359

7. BIR Tax Identification Code 000-438-702

8. 7/F Basic Petroleum Bldg., C. Palanca St., Legaspi Vill., Makati City 1229

   Address of principal office Postal Code

9. Registrant's telephone number, including area code 817-8596 & 98

10. Name of Persons other than the Registrant Filing Proxy Statement

    NONE

    Address ____

    Phone Number ____

11. Securities registered pursuant to Sections 8 and 12 of the Code (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
Common	2,289,821,964

12. Are any or all of registrant's securities listed on a Stock Exchange?

    Yes ✔ No ____

    If so, disclose name of the Exchange: Philippine Stock Exchange

PART I

GENERAL INFORMATION

ITEM I. DATE, TIME AND PLACE OF MEETING OF SECURITY HOLDERS

The 2009 Annual Meeting of Stockholders of BASIC ENERGY CORPORATION (the Corporation) will be held on Tuesday, June 30, 2009, at 2:00 P.M. at the Manila Golf and Country Club, Harvard Road, Forbes Park, Makati City.

The complete mailing address of the principal office of the Corporation is:

7th Floor, Basic Petroleum Bldg.
104 C. Palanca Jr. St., Legaspi Village
Makati City

RECORD DATE

The record date for the purpose of determining stockholders entitled to notice of, and to vote at, the Annual Meeting is June 5, 2009.

APPROXIMATE DATE OF RELEASE OF PROXY STATEMENT AND PROXY FORM

Date: June 8, 2009

ITEM II - REVOCABILITY OF PROXY

A stockholder giving a proxy has the power to revoke it by a written instrument at any time before the right granted is exercised. A proxy is also considered revoked if the stockholder attends the meeting in person and expresses his intention to vote in person.

ITEM III – DISSENTERS' RIGHT OF APPRAISAL

The appraisal right may be exercised by any stockholder who shall have voted against (1) an amendment to the Articles of Incorporation that changes or restricts the rights of any stockholder or class of shares, or authorizes preferences in any respect superior to the outstanding shares of any class, or extends or shortens the corporate existence; (2) a sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets; or (3) a merger and consolidation; by making a written demand on the Corporation for payment of the fair value of his share(s). The written demand, together with the share certificate/s of the withdrawing stockholder, must be received by the Corporation within thirty (30) calendar days from the date on which the vote was taken. Failure to make the written demand or to surrender the share certificate/s within such period shall be deemed a waiver of the appraisal right.

If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the Corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the Corporation, and the third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the Corporation within thirty (30) days after such award is made. No payment shall be made to any withdrawing stockholder unless the Corporation has unrestricted retained earnings in its books to cover such payment. Upon payment by the Corporation of the agreed or awarded price, the stockholders shall forthwith transfer his shares to the Corporation.

The appraisal right is also available to a dissenting stockholder in case the Corporation decides to invest its funds in another corporation or business or for any purpose other than the primary purpose as provided in Title IV, Section 42 of the Corporation Code. In addition, the Corporation shall take up and seek approval by stockholders of the denial of pre-emptive rights of stockholders to issuances from the un-issued authorized capital stock of the Corporation. This matter may give rise to the exercise of any dissenter's appraisal right.

BASIC ENERGY CORPORATION, IN ITS BEHALF, IS SOLICITING PROXIES IN CONNECTION WITH ITS ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON THE DATE, TIME AND PLACE AFOREMENTIONED.

PART II

SOLICITATION INFORMATION

ITEM IV – PERSON MAKING THE SOLICITATION

The solicitation of proxies is being undertaken by the Corporation in order to obtain the required quorum and the required vote to approve the matters to be taken up at the annual meeting of stockholders. The proxy shall be executed in favor of the Chairman of the Board or in his absence, the Secretary of the meeting.

The Corporation has not received any written information by any director of any intention to oppose any action intended to be taken up by the Corporation in the annual meeting of stockholders.

The Corporation intends to utilize couriers and messengers and the services of the Philippine Post Office to undertake the personal delivery of the proxy statements and proxy forms. Costs will be limited to the normal costs of such services and mailing, estimated at about Php300,000.00 and will be shouldered by the Corporation.

Proxies should be submitted to the Corporate Secretary of the Corporation on or before 3:00 p.m. of June 19, 2009.

ITEM V - INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

No director or officer of the Corporation or nominee for election as director, or officer of the Corporation, and, to the best knowledge of the Corporation, or past director or officer of the Corporation at anytime since the beginning of the last fiscal year, no associate of a director or officer or nominee for election as officer or director of the Corporation has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon at the Annual Meeting of Stockholders, other than election to office as directors.

PART III
CONTROL AND COMPENSATION INFORMATION

ITEM VI - VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

a) **Number of common shares** – 3,752,321,964 shares (inclusive of subscribed and unpaid shares), as of April 30, 2009. Each share is entitled to one vote, except for the election of directors where the Bylaws of the Corporation provide for cumulative voting, as explained below. There are no restrictions that limit the payment of dividends on common shares.

b) **Record Date** – June 5, 2009.

c) **Voting Rights** - At the annual meeting of stockholders, every stockholder entitled to vote shall be entitled to one vote for each share of stock registered in his name in the books of the Corporation. However, in the election of directors, every stockholder entitled to vote shall be entitled to cumulate his vote in accordance with the provisions of law in such case made and provided. Hence, a holder of shares of common stock may vote such number of shares recorded in his name in the books of the Corporation as of Record Date, for as many persons as there are directors to be elected, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute such shares of stock on the same principle among as many candidates as he shall see fit.

d) **Security Ownership of Certain Record and Beneficial Owners and Management**

(1) **Security Ownership of Certain Record and Beneficial Owners**

The entity known to the Registrant to be directly or indirectly the record or beneficial owner of more than 5% of the Corporation's outstanding common shares as of April 30,2009 is:

(1) Title of Class	(2)Name & Address of Record Owner & Relationship with Issuer	(3) Name of Beneficial Ownership and Relationship with Record Owner	(4)Citizenship of ecord Owner	(5) No. of Shares Held & Nature of Ownership (Record/Beneficial)	(6) Percentage
Common Shares	PCD Nominee Corp.* 37/F Tower I Enterprise Center Ayala Avenue cor. Paseo de Roxas Makati City (No relationship with the Corporation)	Various Participants of PCD	Filipino	1,668,742,372 (Record)	72.87%

*PCD Nominee Corporation is the registered owner of shares beneficially owned by participants in the Philippine Central Depository, Inc. (PCD), a private corporation organized to implement an automated book entry system of handling securities transactions in the Philippines. Under the PCD procedures, when an issuer of a PCD-eligible issue will hold a stockholders' meeting, the PCD shall execute a pro-forma proxy in favor of its participants for the total number of shares in their respective principal security account as well as for the total number of shares in their client securities account. For the shares held in the principal securities account, the participant concerned is appointed as proxy with full voting rights and powers as registered owner of such shares. For the shares held in the client securities account, the participant concerned is appointed as proxy, with the obligation to constitute a sub-proxy in favor of its clients with full voting and other rights for the number of shares beneficially owned by such clients. None of the participants of PCD holds more than five percent of the Corporation's total outstanding common shares of stock.

(2) **Security Ownership of Directors and Key Officers**

The following are the number of common shares known to the Corporation to be owned beneficially and/or of record by the incumbent directors and key officers of the Corporation, and the percentage of shareholdings of each, as of April 30, 2009:

DIRECTORS

Title of Class	Name of Beneficial Owner	Amount of Beneficial Ownership & Relationship w/ Beneficial Owner	Citizenship	Percentage
Common	Oscar C. De Venecia	8,110,000(direct)	Filipino	0.354%
Common	Francis C. Chua	2,000,000(direct)	Filipino	0.087%
Common	Ramon L. Mapa	268,635 (direct)	Filipino	0.011%
Common	Oscar L. De Venecia, Jr.	516,334 (direct)	Filipino	0.022%
Common	Josue A. Camba, Jr.	10,000(direct)	Filipino	0.000%
Common	Ma. Florina M. Chan	10,000(indirect)	Filipino	0.000%
Common	Jaime J. Martirez	10,000(indirect)	Filipino	0.000%
Common	Gabriel R. Singson, Jr.	10,000(indirect)	Filipino	0.000%
Common	Isidoro O. Tan	24,822,276(direct)	Filipino	1.084%
Common	Oscar S. Reyes	10,000(direct)	Filipino	0.000%
Common	Dennis D. Decena	10,000(indirect)	Filipino	0.000%
	TOTAL	**35,777,245**		**1.558%**

EXECUTIVE OFFICERS

Title of Class	Name of Beneficial Owner	Amount of Beneficial Ownership & Relationship w/ Beneficial Owner	Citizenship	Percentage
Common	Alberto P. Morillo	303,185 (direct)	Filipino	0.101%
	TOTAL	**303,185**		**0.101%**

DIRECTORS AND OFFICERS AS A GROUP

Title of Class	Name of Beneficial Owner	Amount of Beneficial Ownership & Relationship w/ Beneficial Owner	Citizenship	Percentage
Common	Directors as a Group	35,777,245(direct/indirect)	Filipino	1.558%
	Executive Officers as a Group	303,185(direct)	Filipino	0.101%
	Total	**36,080,430**		**1.659%**

Changes in Control

Management is not aware of any existing arrangement which may result in a change in control of the Corporation by stockholders.

ITEM VII - DIRECTORS AND EXECUTIVE OFFICERS

The following are the incumbent directors of the Corporation:

Name	Period of Service
Oscar C. De Venecia	1988 to July 12, 2007; February 12, 2009 up to the present
Francis C. Chua	1998 up to the present
Ramon L. Mapa	1976 up to the present
Oscar L. de Venecia, Jr.	1999-2006; March 30, 2007 up to the present
Josue A. Camba, Jr.	May 12, 2006 up to the present
Ma. Florina M. Chan	April 3, 2008 up to the present
Jaime J. Martirez	October 10, 2007 up to the present
Gabriel R. Singson, Jr.	April 3, 2008 up to the present
Isidoro O. Tan	1993 up to the present
Oscar S. Reyes	April 04, 2007 up to the present
Dennis D. Decena	August 8, 2008 up to the present

Each director of the Corporation holds office for a one (1) year term beginning on the date of his election and expiring at the annual meeting of stockholders next after his election and until his successor shall have been elected and qualified.

NOMINATION OF DIRECTORS AND INDEPENDENT DIRECTORS

The Nominating Committee of the Board of Directors of the Corporation composed of Mr. Oscar C. De Venecia, as Chairman, with Mr. Oscar S. Reyes, Mr. Ramon L. Mapa, Mr. Oscar L. De Venecia, Jr., and Mr. Dennis D. Decena, as members, has determined that the incumbent directors, shall be nominated for re-election at the annual meeting of stockholders, and that all the nominees possess all the qualifications and have none of the disqualifications for directorship as prescribed in the Corporation's By-Laws and the Manual of Corporate Governance. For the purpose of electing the independent directors, the Nominating Committee adopted the independence criteria set out in the Corporation's Manual of Corporate Governance and under SRC Rule No. 38 and are consistent with SEC Memorandum Circular No. 16, Series of 2002. The two independent directors-nominees, namely: Messrs. Dennis D. Decena and Oscar S. Reyes are not officers or employees of the Corporation nor any of its subsidiaries, and are free from any business or other relationship with the Corporation which could or could reasonably be perceived to materially interfere with the exercise of their independent judgment in carrying out their responsibilities as independent directors

The following are nominated as members of the Board of Directors for 2009:

Oscar C. De Venecia	Francis C. Chua
Ramon L. Mapa	Oscar L. de Venecia, Jr.
Josue A. Camba, Jr.	Ma. Florina M. Chan
Jaime J. Martirez	Gabriel R. Singson, Jr.
Isidoro O. Tan	Dennis D. Decena.-Independent Director
Oscar S. Reyes-Independent Director	

The following nominees for election as independent directors of the Board of Directors were nominated, as follows:

Nominee	Nominating Party	Relationship
Dennis D. Decena	Josue A. Camba, Jr.	none
Oscar S. Reyes	Oscar C. De Venecia	none

None of the above directors declined to stand for re-election to the Board of Directors because of any disagreement with the Corporation or any matter relating to the Corporation's operations, policies or practices. Since the last annual meeting, Mr. Jose R. Reyes, Jr. resigned as director of the Corporation effective February 12, 2009. The vacancy created thereby was filled up with the election of Mr. Oscar C. De Venecia, as director and Chairman of the Board.

Board Committees

The members of the Audit Committee which reviews the audit plans, report and findings of the internal and external auditors of the Corporation, are:

Oscar S. Reyes (Independent Director)	-	Chairman
Dennis D. Decena (Independent Director)	-	Member
Ma. Florina M. Chan	-	Member
Jaime J. Martirez	-	Member
Gabriel R. Singson, Jr.	-	Member

The members of the Nominating Committee, which reviews the qualifications of nominees to the Board of Directors and the key officers of the Corporation, are:

Oscar C. De Venecia	-	Chairman
Oscar S. Reyes (Independent Director)	-	Vice Chairman
Oscar L. De Venecia, Jr.	-	Member
Ramon L. Mapa	-	Member
Dennis D. Decena	-	Member

The members of the Compensation and Remuneration Committee, which is responsible for reviewing the Corporation's compensation and remuneration structure, are:

Oscar L. De Venecia , Jr.	-	Chairman
Francis C. Chua	-	Member
Jaime J. Martirez	-	Member
Isidoro O. Tan	-	Member
Dennis D. Decena (Independent Director)	-	Member

The members of the Finance and Investments Committee, which reviews the financial reports of the Corporation and all project and investment proposals, prior to submission to the Board of Directors, are:

Jaime J. Martirez	-	Chairman
Ramon L. Mapa	-	Vice Chairman
Oscar L. De Venecia, Jr.	-	Member
Josue A. Camba, Jr.	-	Member
Ma. Florina M. Chan	-	Member
Oscar S. Reyes (Independent Director)	-	Member
Gabriel R. Singson, Jr.	-	Member
Isidoro O. Tan	-	Member
Prudencio C. Somera, Jr.	-	Member

The members of the Corporate Governance Committee, which is responsible for maintaining and ensuring good governance of the Corporation, are:

Francis C. Chua	-	Chairman
Gabriel R. Singson, Jr.	-	Vice Chairman
Josue A. Camba, Jr.	-	Member
Ma. Florina M. Chan	-	Member
Jaime J. Martirez	-	Member
Dennis D. Decena (Independent Director)	-	Member

The following are the incumbent officers of the Corporation:

Oscar C. De Venecia	Chairman & CEO
Francis C. Chua	Vice Chairman
Ramon L. Mapa, Jr.	Vice Chairman
Oscar L. De Venecia, Jr.	President & COO
Marietta V. Villafuerte	VP & Treasurer
Corazon M. Bejasa	VP & Corporate Secretary
Alberto P. Morillo	VP- Operations
Angel P. Gahol	AVP-Compliance Officer & Asst. Corporate Secretary
Mary Jean G. Alger	AVP- Corporate Planning

BACKGROUND INFORMATION

The following are the names, ages, positions and period of service in the Corporation of the incumbent directors and nominee-director who were nominated for election as directors for the term 2008-2009, and key officers of the Corporation:

1. DIRECTORS

OSCAR C. DE VENECIA, 76 years old, Filipino, is the Chairman of the Board, effective February 12, 2009. Prior thereto, he was the Chairman of the Advisory Board since July 12, 2007, and was the Chairman of the Board from 1988 to July 12, 2007. He is the Vice-Chairman of Basic Ecomarket Farms, Inc. and Basic Biofuels Corporation, wholly-owned subsidiaries of the Corporation, and the Chairman of the other subsidiaries of the Corporation, namely: iBasic, Inc., Basic Diversified Holdings, Inc., Southwest Resources, Inc. and Pan-Phil Aqua Culture Corporation. He is also the Vice-Chairman, International Relations – in charge of Business Councils, Philippine Chamber of Commerce and Industry, Director of Pangasinan Economic Development Foundation, Inc. and Trustee of the Free Rural Eye Clinic Foundation, Inc. He is the Honorary Consul General of Ukraine in the Philippines and Rear Admiral (Honorary) of the Philippine Coast Guard Auxiliary. He was the Past Chairman of the Rotary Golfing Fellowship Foundation of the Philippines, Inc., and the Past Chairman & President, Petroleum Association of the Philippines; was a director of the Manila Economic & Cultural Office (MECO); and was an Independent Director of Export & Industry Bank. He was also the Past Dean, Consular Corps of the Philippines (2003); and Past District Governor of Rotary International, District 3830. He is a member of the Management Association of the Philippines and the Rotary Club of Makati West. He was the recipient of various awards from private and government institutions and professional and civic organizations.

FRANCIS C. CHUA, 59 years old, Filipino, is a director of the Corporation since 1998 and the second Vice Chairman of the Board of the Directors effective November, 2007. He is the Special Envoy on Trade and Investments of the Department of Foreign Affairs since June, 2007 and was Special Envoy on Trade and Investments (China) from 2006 to May, 2007. He is the Honorary Trade and Investment Representative of the Department of Trade and Industry from 2002 up to the present. He is also the Consul General, Honorary Consulate General of the Republic of Peru in Manila, since 2006. He is a Special Adviser on Economic Affairs, Office of the Speaker of the House of Representatives, Congress of the Philippines, since 1997 and member of the Board of Trustees of the Technical Education and Skills Development Authority (since 2006). He is the Chairman and

President of BA Securities; President of the Philippine Satellite Corporation; Vice-Chairman/Treasurer of Mabuhay Satellite Corporation.; and Director of the subsidiaries of the Corporation. He was a member of the Board of Governors and Treasurer of the Philippine Stock Exchange from 2000 to 2002. For his civic affiliations, among others, he is the Honorary President of the Federation of Filipino Chinese Chambers of Commerce & Industry, President Emeritus of the Chamber of Commerce of the Philippines Foundation; and Eminent Director of the Philippine Chamber of Commerce & Industry. He obtained his degree in Bachelor of Science in Industrial Engineering (Cum Laude) from the University of the Philippines, in 1967.

RAMON L. MAPA, 65 years old, Filipino, is a director of the Corporation since 1976 and a Vice Chairman of the Board of Directors effective October, 2007. He is the President of Wise Securities, Inc. since 1999, and Director of the subsidiaries of the Corporation. He is a Director of Sta. Elena Properties, Inc., since 2002 and Director and Treasurer of Maple Agricultural Corporation, and Maple Realty Corporation since 2002. He was a Director of Wise Holdings, Inc. from 2002 to 2006. He obtained his degree in Bachelor of Arts, major in Economics from the Ateneo University in 1965 and earned MBA credits also at the Ateneo University in 1966.

OSCAR L. DE VENECIA, JR., 41 years old, Filipino, is a director and the President and COO of the Corporation since July, 2007. Prior thereto, he was the Executive Vice President & COO of the Corporation since April 04, 2007. He has served the Corporation in various executive positions, namely, as SVP and COO from June,1997 up to June, 2001 and was the President and CEO from December, 2002 up to November, 2005. He is the President of Basic Ecomarket Farms, Inc. and Basic Biofuels Corporation, the President & COO of Basic Diversified Industrial Holdings, Inc., the Chairman and President of of iBasic, Inc., director of Basic Consolidated International, Inc. and President of Southwest Resources, Inc. He was the President of Forum Energy Philippines, Inc. from November 2005 to April 2007, Chairman and CEO of Blue Bamboo Solutions, Inc. from September, 2002 to December, 2005, a Consultant for Strategic Alliance Development Corporation from March, 2002 and moved as Business Development Manager of Stradcom Corporation from May to November, 2002. He obtained his degree in Bachelor of Arts in Economics from Fordham University, New York City, in 1996 and a Master in Entrepreneurship from the Asian Institute of Management in 2000.

JOSUE A. CAMBA, JR., 62 years old, Filipino, was the Chairman of the Board and CEO of the Corporation from July 12, 2007 to February 12, 2009 and director of the subsidiaries of the Corporation. Prior thereto, he was the second Vice Chairman of the Board of Directors from May 25 to July 11, 2007. He is the Chairman of ZN Biofuels Partners, Inc. and the President of Corporate Financial Advisors, Inc. (since 2001) and of BancPros, Inc. (since 2005), Director of New Kanlaon Construction, Inc. (since 2000), Director of Penta Capital Investment Corp. and PentaCapital Finance Corp. (since 2005) and a partner of Camba Reyes & Partners, Inc., a financial advisory, consultancy and management Corporation (since 2006). He was formerly the President of ValueGen Financial Insurance Corporation, Inc. and Banclife Insurance Corporation, Inc., Director of Export and Industry Bank from 2002 to 2006, and President of EIB Realty Developers, Inc. from 2004 up to May 21, 2007. He was the President of FINEX in 1999 and the Chairman of the Capital Markets Development Council in 2000, and was the President of the National Association of Urban Bank, Inc. and Urbancorp Investments, Inc. Depositors and Creditors (NAUD) which initiated PDIC and BSP efforts towards the rehabilitation of said financial institutions in 2001. He obtained his degree in Bachelor of Science in Business

Administration from the University of the East in 1967, Cum Laude, and completed the Program for Management Development at the Harvard Business School at Boston, Massachusetts, U.S.A. in 1978.

MA. FLORINA M. CHAN, 53 years old, Filipino, is a Director of the Corporation since April 3, 2008. She is the President & COO of Philippine Commercial Capital, Inc., with which she has been employed since 1988, and a director of PCCI Insurance Brokerage, Inc., ICC Leasing and Finance Corporation and PCCI Equities, Inc., since 2005. She obtained her degree in Bachelor of Science in Business Economics at the University of the Philippines in 1977 and Master in Business Administration at the Fordham University in 1980.

DENNIS D. DECENA, 57 years old, Filipino, is an independent director of the Corporation since August 8, 2008. He was the EVP and COO of Roxaco Land Corporation from 1997 to 2008 and Treasurer of Roxas & Company from 2003 to 2008. Prior thereto, from 1976 to 1996, he held various responsible positions in the Jaka Group of Companies, Urban Bank, Union Bank, RCBC, UCPB and FEBTC. He is presently a director of Club Punta Fuego, Inc., Fuego Development Corporation, Fuego Land Corporation and Roxaco-ACM Development Corporation. He was and still is active in various professional and civic organizations such as the FINEX Foundation, Rotary International and the Debbie Decena Memorial Educational Foundation. He is an active member of the Rotary Club of Makati West, FINEX, MAP, SHDA, among others. He obtained his degree in Bachelor of Arts in Economics (Cum Laude) from the Ateneo de Manila University in 1974 and his Master Degree in Business Administration from the University of the Philippines in 1976. He is a Postgraduate Fellow of the Fletcher School of Law and Diplomacy, TUFTS University, at Massachusetts, U.S.A., where he obtained his postgraduate certificate in International Business in 1989.

JAIME J. MARTIREZ, 54 years old, Filipino, is a director of the Corporation since October 10, 2007 and director of the subsidiaries of the Corporation. He is the President & CEO of Majalco Finance & Investments, Inc., Senior Vice President, Treasurer and Director of Unicapital, Inc., Treasurer and Director of Unicapital Securities, Inc., Chairman, and President & CEO of Unoventure, Inc., a PEZA registered enterprise facilities provider. He holds other director positions, in Majalco, Inc., a diversified holding corporation, Malayan Savings Bank, CCC Insurance Corporation, HMR PTY Ltd of Australia, and the Philippine Finance Association, and is a member of the Makati Business Club. He has acquired and developed professional expertise in the field of Investment Banking for the last 26 years, since 1976. He obtained his degree in Bachelor of Science in Management from De La Salle University in 1975 and is a candidate for a Masters degree in Business Administration from the Ateneo de Manila University Graduate School in 1979.

OSCAR S. REYES, 63 years old, Filipino, and a director of the Corporation since June 2007 and director of the subsidiaries of the Corporation. He is presently a Director of various listed corporations, like Bank of the Philippine Islands, Manila Water Co., Pepsi Cola Products Phiippines, Inc., Philippine Long Distance Telephone Co., and Universal Robina Corporation, and of various non-listed companies such as Sun Life of Canada (Phils.), Inc., Link Edge, Inc., Unicapital Securities Co., Inc., Smart Communications, Inc., Sun Life Financial Plans, Inc., among others. He is the Chairman of Link Edge, Inc. and MRL Gold Philippines, Inc. He is also a Trustee of the Pilipinas Shell Foundation, Inc., El Nido Foundation, Inc. and the Knowledge Institute. He was a Director of Pilipinas Shell Petroleum Corporation from 2002 to 2006, Managing Director of Shell Phils. Exploration B.V. from 2002 to 2004, Country Chairman of the Shell companies in the Philippines from

1997 to 2001. He obtained his degree in Bachelor of Arts, major in Economics (Cum Laude) from the Ateneo de Manila University in 1965, completed academic units for a Master of Business Administration degree from the Ateneo Graduate School of Business Administration in 1971, a Program for management development at the Harvard Business School in Boston, U.S.A. in 1976 and have undergone a Commercial Management Study program at the Lensbury Centre, Shell International Petroleum Co., at the United Kingdom in 1986.

GABRIEL R. SINGSON, JR., 43 years old, Filipino, is a Director of the Corporation since April 3, 2008 and director of the subsidiaries of the Corporation. He was formerly the Undersecretary of the Department of Finance for Privatization in 2005-2006 and prior thereto, he was the Chairman of SR Capital Holdings, Inc. from 2000 to 2005, the Vice Chairman of Pilipino Cable Corporation from 1998 to 2004 and the President of Telemodial Holdings, Inc. from 1997 to 2004.He was the Chief Financial Officer of Macondray & Co., Inc. from 1990 to 1996, then Chief Operating Officer thereof from 1996 to 1999, and a director of Del Monte Philippines from 1996 to 1999. He obtained his degree in Business Management from the Ateneo de Manila University in 1986, graduating Magna Cum Laude and Master in Business Administration- Finance from the Wharton School, University of Pennsylvania in 1989.

ISIDORO O. TAN, 61 years old, Filipino, is a director of the Corporation since 1993 and director of the subsidiaries of the Corporation. He is also the President & Director of Filspin, Inc.; Vice-President & Director of Filtex Manufacturing Corporation and Foremost Integrated Corporation, for the last five (5) years at least. He obtained his degree in Bachelor of Science in Industrial Engineering at the Adamson University in 1969.

2. OFFICERS

CORAZON M. BEJASA, 61 years old, Filipino, is the Corporate Secretary of the Corporation since July 12, 2007, with the rank of Vice President. She was Head, Legal and Human Resources of ValueGen Insurance Corporation and Banclife Insurance Corporation from 2002 to 2006. Earlier, she was Corporate Secretary and Senior Vice President for Support Services and occupied various department head positions for legal, human resources, credit, administration, mortgage banking and consumer banking at Urban Bank from 1983 to 2000. She was also employed as legal research officer then legal executive assistant at the Central Bank of the Philippines from 1974 to 1983 and Assistant to the Secretary of the Monetary Board in 1991, and as legal researcher at the Supreme Court of the Philippines from 1972 to 1974. She obtained her Bachelor of Laws from the University of Santo Tomas, Magna Cum Laude, in 1972 and was 8th Place in 1972 Bar Examinations.

ALBERTO P. MORILLO, 53 years old, Filipino, first joined the Corporation in July 1987 as Geologist and became Vice President in 1989 until 1997. He continued serving the Corporation as a Consultant from 1997 until he was rehired as Vice President for Petroleum Operations in 2007. Prior to re-joining the Corporation, he was Vice President for Exploration of Forum Exploration, Inc. from 1997 to 1999. His earlier work included stints as Geologist in various exploration and mining companies including PNOC – Exploration Corporation, Semirara Coal Corporation and Jasra Kutei Basin Ltd. in Indonesia among others. He is also concurrently a Director of First Exploration and Development Services, a technical consultancy firm. He obtained his Bachelor of Science degree in Geology from the University of the Philippines in 1978, and has earned MBA units from the Ateneo de Manila University. He has taken the Management Development Program from the Asian Institute of Management in 1994, and an MS in Computer Science (pending thesis) from the AMA Computer College in 2001.

MARIETTA V. VILLAFUERTE, 62 years old, Filipino, is the Vice President for Finance of the Corporation since January, 2008. She was the Senior Vice President & Comptroller of PentaCapital Finance Corporation, with whom she was employed as Comptroller since September, 1993. Previous to that, she assumed various positions in General Credit Corporation (which subsequently became PentaCapital) as Personnel Manager, Credit Manager and then Comptroller. She is a Certified Public Accountant, and obtained her degree in Bachelor of Science in Business Administration, Major in Accounting, from the University of the Philippines, in 1968.

MARY JEAN G. ALGER, 38 years old, Filipino, is the Assistant Vice President for Corporate Planning of the Corporation. She has been involved in financial advisory and investment banking in the last eight years and is also currently connected with BancPros, Inc. (a financial and management services Corporation) as Asst. Vice President. She also served as the Investment Officer of BancLife Insurance Co., Inc. and ValueGen Financial Insurance Corporation, Inc., the wholly owned life and non-life insurance companies of Export and Industry Bank (EIB), respectively from 2002 to 2007. She obtained her Bachelor of Science in Business Economics degree from the University of the Philippines in 1991.

ANGEL P. GAHOL, 55 years old, Filipino, is the Assistant Vice President- Legal Department of the Corporation since August 15, 2006. He is the Assistant Corporate Secretary and Compliance Officer of the Corporation. He has been the Legal and Human Resources Manager of the PHINMA's industrial estate, Bacnotan Industrial Park Corporation,.and Bacnotan Steel Industries, Inc. from 1997 to 2002 and of the mini-steel mill plant project located in Calaca, Batangas as HRD Manager on a concurrent basis. He has been with Bacnotan Consolidated Industries, Inc. for eight years as Legal Assistant and with PHINMA's Legal Department for more than seven years as Assistant Legal Counsel. He obtained his degree in Bachelor of Arts, major in Economics, from the University of Santo Tomas in 1973 and his degree in Bachelor of Laws from the same university in 1979.

SIGNIFICANT EMPLOYEES

The key officers of the Corporation who are expected to make a significant contribution to the business of the Corporation consist of the above-named directors holding executive positions and officers. To retain these key officers, the employee benefits of the Corporation as defined in its Personnel Manual, may be upgraded when warranted by an improved financial condition of the Corporation, to make these benefits competitive with the industry.

FAMILY RELATIONSHIPS

Mr. Oscar L. de Venecia, Jr., President & COO, is the son of Mr. Oscar C. De Venecia, the Chairman & CEO of the Corporation.

INVOLVEMENT IN ANY LEGAL PROCEEDINGS

The Corporation is not aware of any bankruptcy proceedings filed against any of its directors or key officers, nor of any criminal conviction or final judgment barring or limiting any business involvement or on a violation of a securities or commodities law or regulation against any of its directors or key officers during the past five (5) years.

ITEM VIII – COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

NAME/POSITION	FISCAL YEAR	SALARIES	BONUSES	OTHER COMPENSATION
Oscar C. De Venecia Chairman & CEO (effective February 12, 2009) **Josue A. Camba, Jr.** Chairman & CEO (effective July, 2007 up to February 12, 2009) **Oscar L. de Venecia, Jr.** President & COO **Jose R. Reyes, Jr.** EVP & Treasurer (effective July, 2007 up to March 15, 2009) **Marietta V. Villafuerte** VP-Treasurer (effective March 16, 2009) **Corazon M. Bejasa** VP & Corporate Secretary (effective July, 2007) **Alberto P. Morillo** VP-Farm Operations				
Total	*2009* *2008* 2007	6,065,750 (estimated) 10,283,487 7,591,000	510,479 (estimated) 855,291 486,000	0 0 0
All Other Officers as a Group Unnamed	*2009* *2008* *2007*	1,512,250 (estimated) 3,342,473 1,873,000	126,000 (estimated) 1,313,791 146,000	0 0 0

The Directors of the Corporation do not receive compensation from the Corporation, except per diems for attendance at Board and Committee Meetings at Php7,500.00 per attendance. Effective April, 2008, per diems of directors holding executive positions and senior officers of the Corporation have been suspended in line with cost-saving/cutting measures adopted by the

Corporation. Effective March, 2009, per diems of directors were reduced to Php5,000.00 per attendance in the Board meetings and Php2,500.00 per attendance in the Committee meetings.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Except as discussed below, there has been no material transaction during the past two years, nor is there any material transaction currently proposed, to which the Corporation was or is to be a party with any incumbent director and/or officer of the Corporation. In the ordinary course of business, the Corporation may have transactions with other companies in which some of such persons may have an interest.

Director Josue A. Camba, Jr. and former Director Jose R. Reyes, Jr. are directors and stockholders of ZN Biofuels Partners, Inc. (ZNBPI), whose shares in Zambo Norte Biofuels Corporation (ZNBC) were acquired by the Corporation under the Share Purchase Agreement dated July 10, 2007, to effectively make ZNBC a 100% owned subsidiary of the corporation. This acquisition was approved by the stockholders at the Annual Meeting of Stockholders of the Corporation held on July 12, 2007. Under the covering Share Purchase Agreement dated July 10, 2007, and the Amendment to the said Agreement dated September 11, 2007, the consideration for the Corporation's acquisition of ZNBC consisted of a cash component of Php10.82 Million, which has already been paid, and 120,853,366 shares of the Corporation priced at Php0.44 per share, pending issuance upon approval of the listing of the shares by the Philippine Stock Exchange. ZNBC was renamed Basic Biofuels Corporation effective upon approval by the Securities and Exchange Commission of the corresponding amendment of its Articles of Incorporation last November 23, 2007.

ITEM IX. INDEPENDENT AUDITORS

Sycip, Gorres, Velayo & Co. (SGV) has been the Corporation's independent auditors for the year 2008. The same auditing firm is being recommended for appointment as the Corporation's external auditor for the year 2009 by the stockholders at the annual meeting of stockholders. Representatives of SGV will be present during the annual meeting of stockholders and will be given the opportunity to make a statement if they so desire. They are also expected to respond to appropriate questions from stockholders, should there be any. SGV has accepted the Corporation's invitation to stand for re-election this year.

Audit services of SGV for the fiscal year ended December 31, 2008 included the examination of the books and consolidated financial statements of the Corporation, assistance in the preparation of the Corporation's final income tax returns and other services related to filing of reports made with the Securities and Exchange Commission. The audit fees for 2007 and 2008 were Php340,000.00 and Php468,500.00, respectively. The audit fee for 2007 was paid on June 3, 2008, while Php198,017.82 has already been paid on April 2, 2009, as partial payment of the audit fees for 2008.

In addition to the audit related services, SGV rendered tax and financial accounting services in connection with the sale of the Corporation's entire interest in Basic Petroleum and Minerals, Inc. in 2006. In June, 2007, SGV rendered financial accounting services in connection with the acquisition of Zambo Norte Biofuels Corporation.

There was no event in the past five (5) years where SGV and the Corporation had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosures or auditing scope or procedures.

Upon recommendation of the Audit Committee and the Board of Directors, SGV will be recommended as the external auditor who will conduct the audit of the Corporation for the fiscal year 2009, subject to approval by the stockholders. In compliance with SEC Memorandum Circular 8, Series of 2003 (Rotation of External Auditors), the SGV partner in charge of the Corporation for the fiscal years 2008 and 2009 is Ms. Aileen L. Saringan.

ITEM X – COMPENSATION PLANS

A stock option plan was approved by the stockholders at the 2007 annual meeting of stockholders, whereby directors (except the Independent Directors) and members of the Advisory Board, officers and selected employees of the Corporation and its subsidiaries, and other persons as determined by the Board of Directors shall be granted the option to purchase shares of stock of the Corporation from its un-issued capital stock at par value, and exercisable on the 3rd year from approval of the plan by the stockholders. However, the details and mechanics of the plan have yet to be submitted for the approval of the Board of Directors. There is no SEC approval yet on the said stock option plan and the Corporation will seek approval by the SEC, when the mechanics thereof are approved by the Board of Directors.

There are no other plans, under which cash or non-cash compensation may be paid or distributed to officers and employees of the Corporation, which will be taken up at the annual meeting of stockholders.

PART IV

ISSUANCE AND EXCHANGE OF SECURITIES

ITEM XI _ AUTHORIZATION OR ISSUANCE OF SECURITIES OTHER THAN FOR EXCHANGE

(a) Title and Amount of Securities to be Issued

The shares of stock of the Corporation consist only of common shares with a par value of Php 0.25 per share. There is no capital increase or issuance of securities for approval of stockholders at the annual stockholders meeting.

(b) Description of the Corporation's Securities

The Corporation's follow-on offering (FOO) consisting of a maximum of 5.5 Billion common shares has been deferred on September 28, 2008, upon approval by the Securities and Exchange Commission of its deferment for one year or until market conditions improves and/or upon approval of the Corporation's application for an Environmental Compliance Certificate by the Department of Environment and Natural Resources.

(c) Approximate Amount of Consideration and Purpose

The Corporation expected to raise funds of about Php 1.375 Billion from the said FOO, intended to be used for its new projects for the development and production of biofuels and other alternative and renewable energy, and about Php 500 Million to be used for its oil, gas and mining exploration projects and its other related business operations.

(d) Private Placements of New Investors

As an alternative to a follow-on offering, the Corporation initially planned to raise funds from share issuances via private placements of new strategic investors, local and/or foreign, who will be expected to enhance shareholder value and provide support to the Corporation and its various projects. The private placements will have the effect of diluting the equity participation and interests of existing stockholders. Discussions for private placements had been put on hold in view of the current global and local economic downturn.

ITEM XII - MODIFICATION OR EXCHANGE OF SECURITIES

The above actions will not involve any modification or exchange of securities.

ITEM XIII - FINANCIAL AND OTHER INFORMATION

(a) 2008 Audited Financial Statements

The 2008 financial statements of the Corporation and its subsidiaries were audited by the Corporation's external auditors:

SGV & Company
Mailing Address: SGV Building, 6760 Ayala Avenue, Makati City 1226
Certifying Partner: Aileen L. Saringan
C.P.A. No. 86735
PTR No. 0266534 dated January 2, 2007

The Consolidated Audited Financial Statements of the Corporation as of December 31, 2008 are attached as part of this Proxy Statement.

(b) Changes in and disagreements with accountants on accounting and financial disclosures

There are no changes in or disagreements with the Corporation's external auditors on any accounting principles or practices, and financial statement disclosures or auditing scope or procedures in the 2008 audited financial statements of the Corporation.

(c) Participation of Representatives of External Auditors

Representatives of SGV and Corporation, which audited the aforementioned financial statements of the Corporation (i) are expected to be present at the annual meeting of stockholders (ii) will have the opportunity to make a statement if they desire to do so; and (iii)are expected to be available to respond to appropriate questions from stockholders during said meeting.

(d) Incorporation by Reference

The following documents are incorporated herein by reference and are attachments to this Proxy Statement:

(1) The Proxy Form for the Annual Meeting of Stockholders;
(2) 2008 Management Report
(3) The Audited Financial Statements of the Corporation as of December 31, 2008; and
(4) SEC Form 17-Q covering the Interim Financial Statements of the Corporation as of March 31, 2009.

ITEM XIV - MERGER, CONSOLIDATION, ACQUISITION & SIMILAR MATTERS

There are no actions to be taken up at the annual meeting of stockholders which will involve the merger or consolidation of the Corporation with another entity or acquisition by the Corporation of any other going business or the assets thereof.

ITEM XV – ACQUISITION/DISPOSITION OF PROPERTY

There are no actions to be taken up at the annual meeting of stockholders which will involve the acquisition or disposition of property, whether real or personal, of the Corporation.

ITEM XVI - RESTATEMENT OF ACCOUNTS

There are no actions to be taken up at the annual meeting of stockholders which will involve the restatement of any asset, capital or surplus account of the Corporation.

PART V

OTHER MATTERS

ITEM XVII – ACTION WITH RESPECT TO REPORTS

The following actions on reports of the Corporation shall be sought for in the annual meeting of stockholders:

(a) Approval of the Minutes of the 2008 Annual Stockholders' Meeting held on August 8, 2008.

The Minutes contain the following:

- Approval of the Minutes of the 2007 Stockholders' Meeting.
- Notation of the 2007 Management Report and the 2007 Audited Financial Statements.
- Ratification of all acts done by the outgoing Board of Directors and Management
- Election of the Directors of the Corporation for the term 2008-2009
- Appointment of SGV & Co. as the external auditor for 2008

(b) Notation of the 2008 Management Report and the Audited Financial Statements for the year ending December 31, 2008.

ITEM XVIII - MATTERS NOT REQUIRED TO BE SUBMITTED

There are no matters to be taken up at the annual meeting of stockholders which are not required to be submitted for stockholders' vote or approval.

ITEM XIX – AMENDMENTS TO THE ARTICLES OF INCORPORATION AND BY-LAWS

There are no proposed amendments to the Amended Articles of Incorporation and Amended By-laws of the Corporation for stockholders' approval at the annual meeting of stockholders.

ITEM XX - OTHER PROPOSED ACTIONS

The following matters will also be submitted for stockholders' action at the annual meeting of stockholders:

(a) Ratification of all acts of the Board of Directors and Management for the period covering the term 2008-2009, which consist of the following actions:

- Appointment of officers, members of the Board and Management Committees and directors and officers of subsidiaries effective August 8, 2008
- Undertaking a Cassava Project in the Zamboanga peninsula, acquisition of the assets of the cassava project of Ecomarket Farms, Inc. in Zamboanga Sibugay and Zamboanga City, incorporation of Basic Ecomarket Farms, Inc. for the Corporation's cassava project, with an authorized capital stock of Php50 Million, and an initial paid-up capital of Php20 Million, and engagement of Ecomarket Farms, Inc., as project managers for the cassava project
- Authority of Management to sell the Forum Energy Plc shares held by the Corporation
- Deferment of the Follow-On Offering of the Corporation for 1 year or until economic conditions improve or upon issuance of the Corporation's ECC for the ethanol project
- Formation of a consortium to undertake a feasibility study on the San Mateo Landfill project for the purpose of transforming the dumpsite into an alternative energy source
- Authority of Management to look for farm-in, joint venture, or participation arrangements for the Mabini, Batangas Geothermal Project and other projects
- Authority of Management to engage the services of consultants for the ethanol and other projects, and investment bankers for capital or debt raising activities for the various projects of the Corporation
- Authority of Management to enter into agreements for the entry of financial and strategic investors in the various projects of the Corporation
- Appointment of Mr. Prudencio C. Somera, Jr. as member of the Finance and Investments Committee
- Organizational changes effective March 16, 2009 with the objective of preserving the capital of the Corporation during the current economic downturn and involving a right sizing of the manpower complement and salary cuts for officers and employees who were retained
- Election of Mr. Oscar C. De Venecia as Chairman and CEO, vice Mr. Josue A. Camba, Jr., who was appointed as Chairman of the Advisory Board while remaining as director, resignation of Mr. Jose R. Reyes, Jr. as director and Treasurer and election of Ms. Marietta V. Villafuerte as Treasurer
- Designation of the new set of authorized signatories for the Corporation

- Authority of Management to negotiate the terms of the amendment of the Share Purchase Agreement with Shouk Financial Services Ltd. which requested to limit the purchase of the Corporation's shares under the Agreement originally at 127,272,727 shares to 31,818,182 shares, the payment for which, at Php0.44 per share, has been remitted on July 16, 2007
- Reduction of per diems of directors from Php7,500.00 to Php5,000 per Board meeting attended and Php2,500 per Board/Management Committee meeting attended
- Approval for issuance of the 2009 Consolidated Audited Financial Statements of the Corporation and its subsidiaries
- Authority of Management to advise the Corporation's external counsel, Romulo Mabanta Buenaventura Sayoc Delos Angeles (RMBSA), to pursue arbitration proceedings for the settlement of the Corporation's claim for payment of the historical cost recoveries on the assets sold to Forum Energy Plc under the Sale and Purchase Agreement dated April 3, 2006, and such other legal actions or remedies as may be recommended by RMBSA.
- Appointment of the members of the various Board and Management Committees and the directors and officers of the Corporation's subsidiaries effective March 26, 2009
- Additional equity investment in Basic Ecomarket Farms, Inc. handling the cassava project in the Zamboanga peninsula of Php31.25 Million, for a total investment of Php51.25 Million and authority for Management to look for new investors for the project
- Approval of the budget for the Mabini, Batangas geothermal project for 2009 to 2011 at USD235,000.00
- Authority of Management to negotiate the terms for sale of the real estate properties of the Corporation located in Bolinao and San Fabian, Pangasinan and in Tanay, Rizal
- Other acts which will be summarized in the list of resolutions adopted/actions taken by the Board during the period to be furnished to all stockholders of the Corporation.

(b) Election of the Members of the Board of Directors including Independent Directors for the ensuing year; and
(c) Appointment of External Auditors.

ITEM XXI - VOTING PROCEDURES

(a) VOTE REQUIRED

Motions in general require the affirmative vote of a majority of the shares of the Corporation's common stock present and/or represented and entitled to vote in the annual meeting of stockholders.. There are no items that will require the affirmative vote of at least two thirds ($^2/_3$) of the outstanding and issued capital stock of the Corporation.

(b) **ELECTION OF DIRECTORS**

In the election of directors, every stockholder entitled to vote shall be allowed to accumulate his vote in accordance with the provisions of law. For this year's election, the top eleven (11) nominees with the most number of votes will be declared as the elected directors. If the number of the nominees does not exceed the number of directors to be elected, all the shares present or represented at the meeting will be cast in favor of the nominees. If the number of nominees exceeds the number of directors to be elected, voting will be done by ballot.

(c) METHOD OF COUNTING VOTES

Counting of votes will be done by the Corporate Secretary (or his authorized representatives) with the assistance of the representatives of the independent auditors and stock transfer agent of the Corporation. All votes attaching to the shares of common stock owned by stockholders whose proxies were received by the Corporation will be cast in accordance with the instructions given or authority granted under the proxies.

ATTACHMENTS

The attachments to this Proxy Statement consist of the Proxy Form, the Corporation's 2008 Management Report, the 2008 Consolidated Audited Financial Statements of the Corporation and SEC Form 17-Q covering the Interim Financial Statements of the Corporation as of March 31, 2009.

The Corporation will provide without charge each person solicited, on the written requirement of any such person, a copy of the Corporation's Annual Report for 2008 (SEC Form 17-A). Such written request should be directed to the:

Corporate Secretary
Basic Energy Corporation
7th Floor, Basic Petroleum Bldg.
104 C. Palanca St., Legaspi Village
Makati City

Copies of resolutions of the Board of Directors, since the date of the 2008 Annual Stockholders' Meeting, are available for examination during office hours at the office of the Corporate Secretary.

PART VI

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, and after reasonable inquiry and to the best of our knowledge and belief, on behalf of the Corporation, we certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on May 12, 2009.

OSCAR L. DE VENECIA, JR.
President & COO

MARIETTA V. VILLAFUERTE
Treasurer

CORAZON M. BEJASA
Corporate Secretary

BASIC ENERGY
CORPORATION

NOTICE OF ANNUAL STOCKHOLDERS MEETING

NOTICE is hereby given that the regular Annual Meeting of Stockholders of **BASIC ENERGY CORPORATION** will be held at the MANILA GOLF AND COUNTRY CLUB, Harvard Road, Forbes Park, Makati City, on Tuesday, June 30, 2009 at 2:00 p.m., with the following agenda:

AGENDA

1. Call to Order
2. Certification of Due Notice of Meeting and Existence of Quorum
3. Approval of Minutes of the Stockholders Meeting Held on August 8, 2008
4. Presentation of the 2008 Annual Report
5. Ratification of All Acts of the Board and Management
6. Election of Directors
7. Appointment of External Auditors
8. Other Matters
9. Adjournment

Only stockholders of record at the close of business on June 5, 2009 are entitled to notice of, and to vote at, this meeting. For this purpose, the Stock and Transfer Books of the Corporation will be closed from June 8 to June 30, 2009.

In case you cannot attend in person, please accomplish the attached Proxy Form and deliver at the office of the Corporate Secretary at the Corporation's address mentioned below, on or before June 19, 2009 at 3:00 p.m.

Minutes of the 2008 Annual Stockholders Meeting are available for your perusal at the office of the Corporation during business hours.

We look forward to your attendance at the Annual Stockholders Meeting.

Makati City, May 12, 2009.

CORAZON M. BEJASA
Corporate Secretary

7F Basic Petroleum Building, 104 Carlos Palanca Jr. Street, Legaspi Village, Makati City 1229, Philippines
(632) 817-8596 and 98 (632) 817-0191 www.basicenergy.ph

PROXY FORM
ANNUAL STOCKHOLDERS' MEETING
June 30, 2009 – 2:00 P.M.
MANILA GOLF AND COUNTRY CLUB
Harvard Road, Forbes Park, Makati City

The undersigned stockholder of **BASIC ENERGY CORPORATION** (the "Corporation"), hereby appoints, names and constitutes ______________________ or, in his absence, or with his consent, the Chairman of the Board, or in the latter's absence, the Secretary of the Meeting, as proxy to represent and vote all shares registered in the name of the undersigned at the Annual Meeting of the stockholders of Corporation scheduled on June 30, 2009, at 2:00 P.M., and any postponements or adjournment(s) thereof, and hereby ratifying and confirming any and all action taken by said proxy on matters which may properly come before such meeting or its postponements or adjournment(s) thereof. In particular, the undersigned hereby directs the proxy to vote the shares on the following agenda items in the manner indicated below, or if not so indicated, the proxy shall exercise full discretion in acting thereon.

	AGENDA ITEMS	**ACTION** Approve	Disapprove	Abstain	
1.	Approval of the Minutes of the August 8, 2008 Meeting				
2.	Notation of the 2008 Annual Report				
3.	Ratification of all acts of the Board and Management for 2008				
4.	Election of Directors				**Authority to Vote Withheld**
	Oscar C. De Venecia				
	Francis C. Chua				
	Ramon L. Mapa				
	Oscar L. De Venecia, Jr.				
	Josue A. Camba, Jr.				
	Ma. Florina M. Chan				
	Jaime J. Martirez				
	Gabriel R. Singson, Jr.				
	Isidoro O. Tan				
	Dennis D. Decena (Independent Director)				
	Oscar S. Reyes (Independent Director)				
5.	Appointment of SGV & Co. as External Auditor				

The above-named nominees were screened and pre-qualified in accordance with the Corporation's Code of Corporate Governance and SEC Circular No. 16, Series of 2002.

Signed this ______________, 2009 at ____________________.

Name of Stockholder

Signature of Stockholder or Authorized Signatory

Notes:

(a) All proxies for the meeting should be received by the Corporate Secretary on or before June 19, 2009 at 3:00 P.M.
(b) The proxy for a stockholder which is a corporation or a partnership should be executed by a duly authorized officer of the corporation or partnership and must be accompanied by a Corporate Secretary's Certificate quoting the Board or Partners' resolution or extracts thereof authorizing the said corporate officer to execute said proxy.

(THIS PROXY IS BEING SOLICITED ON BEHALF OF BASIC ENERGY CORPORATION)

CERTIFICATION OF INDEPENDENT DIRECTORS

I, **DENNIS D. DECENA**, Filipino of legal age and a resident of c/o Roxaco Land Corporation, 7F, CG Bldg., 101 Aguirre St., Legaspi Village, Makati City, after having been duly sworn to in accordance with law, do hereby declare that:

1. I am an independent director of BASIC ENERGY CORPORATION;

2. I am presently affiliated with the following companies or organizations:

COMPANY / ORGANIZATION	POSITION / RELATIONSHIP	PERIOD OF SERVICE
Club Punta Fuego, Inc.	Founding Member, Director	1999 to Present
Punta Fuego Village Homeowners' Association, Inc	Director	2006 to Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of BASIC ENERGY CORPORATION, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations;

4. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code;

5. I shall inform the Corporate Secretary of BASIC ENERGY CORPORATION of any changes in the abovementioned information within five days from its occurrence.

Done this 28th day of April, 2009 at Makati City.

Dennis D. Decena

DENNIS D. DECENA
Affiant

SUBSCRIBED AND SWORN TO, before me a Notary Public for and in Makati City, this APR 29 2009 day of April, 2009, affiant exhibited to me his Tax Identification No. 110-179-495.

Doc. No. 109;
Page No. 20;
Book No. XVIII
Series of 2009.

ATTY. GERVACIO B. ORTIZ JR.
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2009
PTR NO. 0017551-1/05/09 AT MAKATI CITY
IBP NO. 656155-LIFETIME MEMBER
APPT M-84/2009 ROLL NO. 4009[illegible]

SEC
HRAD
CENTRAL RECEIVING AND RECORDS DIVISION
APR 29 2009
RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS

CERTIFICATION OF INDEPENDENT DIRECTOR

I, OSCAR S. REYES, Filipino, of legal age and a resident of Unit 6, Kasiyahan Homes, 58 McKinley Road, Forbes Park, Makati City, after having been duly sworn in accordance with law, declare that:

1. I am an independent director of Basic Energy Corporation.

2. I am affiliated with the following companies or organizations:

Company Organization	Position/Relationship	Period of Service
Bank of the Philippine Islands	Director	2003-present
Manila Water Company	Director	2005-present
Ayala Land, Inc.	Director	2009
Philippine Long Distance Telephone Company	Director	2001-present
SMART Communications Inc.	Director	2006-present
Sun Life of Canada Philippines, Inc.	Director	2004-present
Sun Life Financial Plans Inc.	Director	2006-present
Sun Life Prosperity Dollar Abundance Fund Inc.	Director	2003-present
Sun Life Prosperity Dollar Advantage Fund Inc.	Director	2003-present
Pepsi Cola Products Philippines, Inc.	Director	2007-present
Basic EcoMarket Farms, Inc.	Chairman	2009
First Philippine Electric Company	Director	2003-present
Petrolift Inc.	Director	2007-present
Mindoro Resources Ltd.	Director	2003-present
MRL Gold Philippines Inc.	Chairman	2008-Present
Global Resources for Outsourced Workers (GROW), Inc.	Director	2003-present
Link Edge Inc.	Chairman	2002-present
CEO's Inc.	Chairman	2002-present
Tower Club	Director	2004-present

3. I possess all the qualifications and none of the disqualifications to serve as an independent director of Basic Energy Corporation as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

4. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.

5. I shall inform the corporate secretary of Basic Energy Corporation of any change in the abovementioned information within five days from its occurrence.

_______________, Makati City.

Reyes

OSCAR S. REYES
Affiant

SUBSCRIBED AND SWORN to before me this APR 29 2009 day of April, 2009, the Affiant exhibiting to me his Passport No. XX2143931 issued 29 September 2008 in Manila.

ATTY. SERVACIO B. ORTIZ JR.
NOTARY PUBLIC FOR MAKATI CITY
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2008 MANAGEMENT REPORT

BUSINESS AND GENERAL INFORMATION

PART I. BUSINESS

(A) Description of Business

(1) Business Development

The Company was organized initially as Basic Enterprises, Inc., a stock corporation, on September 19, 1968. The Company became an oil and gas exploration and development company on April 26, 1971, and a year after, it assumed a new name, Basic Petroleum and Minerals, Inc. Over the years, the Company evolved from an operating company into a holding company under the corporate name, Basic Consolidated, Inc. As a holding company, it held equity investments in the following wholly owned subsidiaries: Basic Petroleum & Minerals Inc., an oil and gas exploration and mining company, Basic Diversified Industrial Holdings, Inc., an investment holding company, iBasic, Inc., an information technology management company and service integrator, and in Southwest Resources, Inc., an oil exploration company, which is owned 72.58% by the Company. To date, the Company has two additional wholly owned subsidiaries: Basic Biofuels Corporation, which is into the development of biofuels and Basic Ecomarket Farms, Inc., which is into agriculture, focusing initially on cassava development and production.

On the Company's oil and gas business, the Company is presently a party, together with other oil exploration companies, in the exploration, development and production of contract areas in Service Contract 47 in offshore Mindoro and Service Contract 53 in onshore Mindoro. Through its subsidiary, Southwest Resources, Inc., the Company is involved in Service Contract 41 in the Sulu Sea.

In 2006, the Company adopted a rationalization program for its equity investments by disposing investments in subsidiaries in exchange for cash and asset values to generate funds for the various projects of the Company, and by winding down the operations of subsidiaries and affiliates affecting the Company's bottom line. In line with this rationalization program, on April 3, 2006, the Company entered into a Sale and Purchase Agreement (SPA) covering the sale of its shares in its wholly owned subsidiary, Basic Petroleum & Minerals, Inc. (BPMI) to Forum Energy Plc (FEP), for a total consideration of US$ 17,000,000.00. Of this amount, US$ 5,000,000 was in cash and FEP shares, while US$10,000,000 was payable upon FEP's utilization of the historical cost recoveries of BPMI and US$ 2,000,000 was payable upon oil production by FEP in excess of 5,420,000 barrels. By April, 2007, the Company received full payment and delivery of the first tranche of US$ 5,000,000.00. As of December 31, 2008, the Company has a receivable of US $ 947,849.00 from FEP based on the Nido and Matinloc liftings from April, 2006 up to December 31, 2008, as reported by FEP. This claim is the subject of arbitration proceedings being initiated by the Company's external counsel.

On November 27, 2006, the Securities and Exchange Commission approved the Company's change in corporate name from Basic Consolidated, Inc. to Basic Petroleum Corporation and its equity restructuring involving the following: (a) the reduction of the par value of the Company's shares from Php1.00 to Php0.25; (b) the reduction of the amount of its capital stock from Php2 Billion to Php 500 Million, retaining the same number of shares at 2,000,000,000 shares. One major effect of this quasi-reorganization was the creation of a reduction surplus, which was used to wipe out the deficits of the Company, as of December 31, 2005, as of April 30, 2006 and as of December 31, 2006. This equity restructuring paved the way not only for a stronger balance sheet designed to attract new investors into the Company, but more so, for the transformation of the Company into a more dynamic institution that will include among its endeavors, the development and production of alternative fuels and renewable energy resources.

On July 12, 2007, the shareholders of the Company approved the inclusion among its primary purposes the production of ethanol and other biofuels, and the development of renewable energy resources. In line therewith, the Company changed its corporate name from Basic Petroleum Corporation to Basic Energy Corporation. The Company's Amended Articles of Incorporation embodying the expansion of its primary and secondary purposes, the change of its corporate name to Basic Energy Corporation, and the various amendments to its by-laws were approved by the Securities and Exchange Commission on August 10, 2007.

The Company subsequently planned for a follow-on offering of its shares to raise funds for the integrated ethanol plant of the Company and for its oil and gas and other energy projects. With the support of both new and existing investors who contributed to the minimum required 25% paid-up capital for a Php2 Billion capital increase, the Company increased its authorized capital stock from Php500 Million consisting of 2 Billion shares to Php2.5 Billion consisting of 10 Billion shares. This capital increase was approved by the Securities and Exchange Commission on November 13, 2007. In view, however, of the weak market conditions which began at the end of 2007 and which continued to prevail in 2008, the Company decided to defer its follow-on offering for a year or until economic conditions improve or upon issuance of the Company's Environmental Clearance Certification for the ethanol project. The deferment was approved by the Securities and Exchange Commission on September 10, 2008.

With the corporate framework in place for its various projects, the Company considered expanding its business horizons by embarking in the development and production of the biofuel – ethanol, and other alternative fuels and renewable energy resources. On July 10, 2007, the Company acquired Zambo Norte Bioenergy Corporation (ZNBC), a company undertaking a planned integrated ethanol production plant in Gutalac, Zamboanga del Norte, and the development of a dedicated sugarcane farm covering approximately 6,000 hectares of leased lands in Gutalac, Labason and Kalawit, Zamboanga del Norte. Under the covering Share Purchase Agreement dated July 10, 2007 and the Amendment to the said Agreement dated September 11, 2007, the consideration for the Company's acquisition of ZNBC consisted of a cash component of Php10.82 Million, which has already been paid, and shares of the Company worth Php53.18 Million priced at Php0.44 per share, pending listing with the Philippine Stock Exchange. On November 23, 2007, the Securities and Exchange Commission approved the change in name of ZNBC to Basic Biofuels Corporation (BBC).

Through BBC, the Company commenced the preparation and development of the sugarcane farm component of the integrated ethanol plant, starting with a nursery for the propagation of sugarcane at the plant site located in Gutalac, Zamboanga del Norte, with an area of approximately 22 hectares. Access to about 4,700 hectares of farmlands in Kalawit, Labason and adjacent areas in Zamboanga del Norte were identified for the propagation of the feedstock for the planned ethanol project. In August, 2008, the Company decided to develop initially cassava, over sugarcane, as the feedstock for its first planned ethanol plant, thus, further action on these farmlands has been deferred. The Company then decided to undertake a cassava project in the Zamboanga peninsula with the acquisition of the cassava project of Ecomarket Farms, Inc. in Zamboanga Sibugay and Zamboanga City. For this purpose, Basic Ecomarket Farms, Inc. (BEF) was established as a wholly owned subsidiary of the Company, with an authorized capital stock of Php50 Million and an initial paid up capital of Php20 Million, and Ecomarket Farms, Inc. was engaged to manage the cassava project. In line therewith, the ethanol plant project was deferred while the capability of BEF to produce the cassava feedstock as required by the planned ethanol project is being developed. In the meantime, the Company continues to look for strategic and financial investors or partners for the planned ethanol project.

On July 10, 2008, the Department of Energy awarded to the Company the service contract for the exploration and development of geothermal energy at Mabini, Batangas. A comprehensive technical review, geological survey and the conduct of a magneto-telluric survey has been planned for the sub-phase 1 of the Geothermal Service Contract. This would be followed by an exploratory well in the succeeding sub-phase. The geological works, magneto-telluric survey and drilling should verify the estimated 20 to 40 megawatts geothermal resource of the contract area. The Company is in discussions with possible service providers or contractors for the exploratory works of the project.

The Company has already met with the Local Government Units in Batangas province which indicated support to the project. The Certificate of Non Coverage was issued by the Environmental Management Bureau on March 25, 2009 and the Certificate of Non-Overlap from the National Commission on Indigenous People was issued on April 15, 2009.The Company is also currently looking for farm-in partners to explore and develop the Mabini, Batangas geothermal area.

On August 28, 2008, the Company led a consortium to undertake a feasibility study on the San Mateo Landfill project for the purpose of transforming the dumpsite into an alternative energy source. The Company is in discussions with prospective investors for a possible sale, farm-in or joint venture arrangement on this project.

The Company continues to look for business opportunities for the development of alternative fuels and renewable energy, such as wind energy in areas with good business potentials, as it continues to pursue its core business in oil and gas exploration and development.

(2) Business of the Company and its Subsidiaries

Oil and Gas Operations

The Company and its subsidiary, Southwest Resources, Inc. (SWR), are involved in various oil exploration and development activities. The Company is presently a party together with other oil exploration companies (the consortium), through the Department of Energy, in the exploration, development and exploitation of the contract areas in Service Contract 47 in offshore Mindoro and Service Contract 53 in onshore Mindoro. Through its subsidiary, SWR, the Company is involved in Service Contract 41 in the Sulu sea.

Service Contract 41 (Sandakan Basin)

Service Contract 41 (SC 41) 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.

The search for oil and gas in the Service Contract resulted in the acquisition of 2,496 sq. km. of 3D seismic data and 2,000 km. of 2D seismic data, and the drilling of 5 exploration wells. The exploration efforts were encouraging as sub-commercial oil and gas deposits were encountered by the exploration wells. A recent technical review of the area has resulted in the identification of drilling prospects that could be considered for drilling and as delivery of work commitments to the Department of Energy. The estimated recoverable reserves of the prospects and leads range from 50 million barrels to 210 million barrels.

The current operator of the Service Contract, Tap Oil Ltd.(Tap), farmed-in in SC 41 in July, 2006 and had a 70% participation in the block. In October 2006, Salamander Oil Ltd. joined the Service Contract and was assigned a 35% interest. Tap completed the acquisition of 600 sq. km. of 3D seismic and is geared to commit to drill a well before the end of Contract Year 10 scheduled on May 10, 2008. 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 m to the west of the previous location due to some technical difficulties. The Lumba-Lumba 1A drilled through the primary objectives of the prospect with elevated gas readings recorded but there were no reservoir quality rocks encountered. Tap believes that SC41 still has significant untested prospectivity as Lumba Lumba-1A tested only one play type of several identified prospects. The block has an inventory of nearly 20 leads and prospects covered by 3D data. Drilling operations are being considered after thorough evaluation works.

On October 3, 2008, the Department of Energy approved Tap'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. The reprocessing is estimated to cost A$ .1MM (Cost to SWR at .608% is UA$ 6,688). Tap intends to have the contract farmed out before the end of 3rd quarter of 2009 before it commits to a well.

After farm-in work commitment delivery, the Company, through its subsidiary, Southwest Resources Inc.'s 0.608% interest, will pay participation cost on a pro-rata basis. It is anticipated that after a successful exploration well in 2008, back to back delineation wells at US$ 10MM each (2 wells) will be drilled in 2009. Development of the field could come in 2010 with development cost reaching US$ 120MM.

Service Contract 47 (Offshore Mindoro)

Service Contract 47 (SC 47) was awarded on January 10, 2005 to PNOC EC and Petronas Carigali (Petronas) 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. The Company has an agreement with PNOC-EC that the latter recognizes the Company's 0.2% stake in the Service Contract.

SC 47 covers 14,667 sq. km and is located within the Northwest Palawan Micro-Continental Block (NPMCB). The NPMCB is the only area in the Philippines where there is oil and gas and includes the Nido Oilfield, Matinloc Oilfield and the Malampaya Gasfield, all in the northwest Palawan area. SC 47 has been the site of the first significant oil discovery outside the proven petroleum province of offshore northwest Palawan. PNOC-EC drilled the Maniguin-2 well on the island of Maniguin in 1994. This well flowed sub-commercial quantities of oil and proved the existence of a valid petroleum system in the area.

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 results of the evaluation studies have shown prospects with reserves ranging from 10 million barrels to 600 million barrels recoverable oil.

Petronas spudded a well in August 31, 2007 to test the potential of the Kamia prospect. The well reportedly encountered oil and gas shows and evaluation is on going to justify testing. The drilling of the Kamia-1 well is part of the work program committed to the Department of Energy 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$ 40MM development cost in shallow water is anticipated. Petronas decided to withdraw from the contact prior to entry to sub phase 2.

On April 16, 2008, the DOE approved the requested 6 months 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 1000km of 2D Seismic. The proposal was not, however, accepted. PNOC-EC is renegotiating and would be informing the consortium of the acceptable work program.

Service Contract 53 (Onshore Mindoro)

Service Contract 53 (SC53) was awarded on July 8, 2005. It covers 6,600 sq. km. of the onshore areas of Mindoro Island which is within the North Palawan Micro-Continental Block. The operator of the block is Laxmi Organic Industries Ltd. (Laxmi) with a 70% interest and members of the consortium and their respective interests include the Company-3%, Philodrill-22% and Anglo-Philippines- 7%.

Past exploration efforts in SC 53 included the acquisition of 2,000 kilometers of 2D seismic data and the drilling of 4 exploration wells. Three of the 4 wells encountered oil and gas but were considered non-commercial at the time of their drilling.

Laxmi conducted a geochemical survey of the area previously identified through seismic and geological interpretation. The results were found inconclusive. The consortium entered into a Farm-In Agreement with Pitkin Petroleum Ltd. (Pitkin). The Deed of Assignment of Laxmi's interest in SC 53 in favor of Pitkin was signed on March 21, 2008 and was approved by the Department of Energy on June 11, 2008. Under the Farm-In Agreement, Pitkin would carry the parties on the acquisition of 2D seismic at a cost of US$ 4.2 MM.

Pitkin Petroleum has completed a magneto-telluric in onshore Mindoro and is preparing for the 2D onshore seismic operation. The 2D seismic is designed to delineate and assess the hydrocarbon potential of the Progreso-1X in San Jose, Mindoro Occidental and the Sablayan, Mindoro Occidental areas. Gas and oil have been documented in Mindoro.

A positive 2D seismic program could be followed by two wells in 2009 and development in 2010. Drilling of an onshore well could cost US$ 10 million and development cost could reach as high as US$ 40 million.

The Company has a carried-free interest of 3.0 % in the 2D seismic scheduled in 2008.

Renewable Energy (Geothermal Energy)

Mabini, Batangas Geothermal Service Contract

The Mabini, Batangas Geothermal Service Contract was signed and awarded to the Company on July 10, 2008. The contract area is approximately 32.5 square kilometres and covers the Calumpan Peninsula. The contract period is 5 years and subdivided in 3 Phases. Sub Phase 1 (Years 1 and 2) and sub phase 2 (Year 3) minimum work commitments include geological, geophysical and geochemical works that are designed to identify a drilling location and assess the geothermal potential of the contract area. The Company has the option to drill a well or return the Service Contract to the Department of Energy in case there is no technical justification to drill a well.

Exploration and Development History

The Commission on Volcanology (COMVOL) initiated the detailed geoscientific investigation of the Mabini, Batangas geothermal prospect in the late 1970's. A shallow well was drilled in Santo Tomas, Batangas in 1981 with a depth of 304m and maximum temperature of 118°C. Succeeding surveys commenced in the 1980's, this time led by PNOC-EDC. Geological and geochemical surveys were conducted in 1981 and a more detailed geoscientific study was completed in 1988. Based on Geothermal Model and Resource Potential from PNOC- EDC's latest assessment, Mabini, Batangas is an intermediate-temperature geothermal resource with reservoir temperature of at least 180°C. It was postulated that the upflowing neutral-pH alkali chloride fluids are associated with the Pleistocene Mt. Binanderahan volcanics. Hot fluids outflow toward Mainit to the south, while it flows to Santo Tomas, Batangas at the west and to the east section of the area. It is envisaged that this prospect is suitable for direct utilization for binary system power generation.

Ethanol Project

On July 10, 2007, the Company acquired Zambo Norte Bioenergy Corporation (ZNBC), (now Basic Biofuels Corporation), a corporation undertaking a planned integrated ethanol production plant in Gutalac, Zamboanga del Norte, and the development of a dedicated feedstock farm in the neighboring areas. BBC commenced the preparation and development of the feedstock nursery farm component of the ethanol plant, starting with the plant site located in Gutalac, Zamboanga del Norte, with an area of approximately 22 hectares. The nursery farm initially propagated various varieties of sugarcane, and had planned to propagate other crops such as cassava and sweet sorghum. In August, 2008, however, the Company decided to initially develop cassava as the preferred feedstock for the planned ethanol plant project. Thus, for 2009, the Company will focus on the development of its capability to produce sufficient cassava feedstock to supply its planned ethanol plant through its wholly owned subsidiary, Basic Ecomarket Farms, Inc., while the Company continues to look for strategic and financial investors or partners for the ethanol plant project.

Cassava Project

Following the decision to use cassava as the preferred feedstock for the planned ethanol plant project, the Company entered into a Memorandum of Agreement with Ecomarket Farms, Inc. (EMF) for a joint venture project on cassava development and production in the Zamboanga peninsula (the Project). Basic Ecomarket Farms, Inc. (BEF) was subsequently established as the joint venture vehicle for the Project and acquired all the rights and interests of EMF in its cassava project and all the properties and assets thereof located in Tungawan, Zamboanga City, for a total consideration of Php12.5 Million, 10% of which is payable in cash and the balance in shares of stock of the Company valued at the par value of said shares.

BEF has established two nurseries covering a total of 30 hectares in Gutalac, Zamboanga del Norte and in Binaloy, Zamboanga City and targets to cover 300 hectares of managed farms for 2009, 600 hectares by 2010 and expanding to 2,000 hectares by 2013. By 2011, the Company would have adequate data and resources to determine BEF's capability to produce the feedstock required by the planned ethanol plant project.

Other Equity Investments

The Company has other direct and indirect equity investments in the following subsidiaries and affiliates:

(a) The Company also wholly owns iBasic, Inc., which is an information technology (IT) management corporation and service integrator, and Basic Diversified Holdings, Inc., an investment holding corporation; and

(b) The Company presently holds 933,759 shares of Forum Energy Plc, the remaining shares acquired by the Company from Forum as part of the consideration for the sale of the

Corporation's entire interest in Basic Petroleum and Minerals, Inc. and as stipulated in the Sale and Purchase Agreement dated April 3, 2006. Forum Energy Plc is a corporation listed and based in the United Kingdom and is engaged in oil, gas and coal exploration with operations in the Philippines.

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.

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 and consultants 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 set as policy to seek out a strategic and financial partner that has a proven track record worldwide in the construction and operation of the ethanol plant. The prospective strategic partner shall co-invest with the Company in the ethanol project, to minimize the Company's risk exposure. 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.

(3) Employees

The Company has seventeen (17) officers and employees, of which seven (7) are executive officers, six (6) are assigned as accounting, administrative and support staff and four (4) are assigned for utility and service assistance, and two (2) consultants and two (2) contractual employees, engaged for the sourcing of equity and/or debt funders and investors for the planned ethanol plant project. The Company does not expect to hire additional personnel for the rest of

2009, and until the Company's planned ethanol plant project is pursued with the entry of strategic and financial funders or investors, at which time, project managers, and engineering, technical and other support personnel may be required for the project.

B) Description of Properties.

The Company owns one floor (7th Floor) of the Basic Petroleum Building located at 104 C. Palanca, Jr. St., Legaspi Village, Makati City, consisting of 461 square meters, which the Company uses as its office premises.

The Company and its subsidiaries own several parcels of land located in Bolinao, Pangasinan, containing an aggregate area of 415,895.80 square meters. The property is located approximately 4.3 kilometers southwest from the Bolinao-Bani Provincial Road and is best suited for agro-industrial land development. The Company, through a subsidiary, also owns a major interest (58%) in a real estate property located at Barangay Bolasi, San Fabian, Pangasinan with an aggregate area of 178,634 square meters, beside the San Fabian PTA Beach Resort managed by the Philippine Tourism Authority. The beachfront is suitable for beach resort development while a portion of it is suitable for a residential development. The Company also owns a property located at Tanay, Rizal with an area of 35,000 square meters, near the town proper with good roads and is suitable for residential housing development or for an agricultural farm project.

To date, the Company or its subsidiaries do not have any plan to own additional lands for its various projects.

C) Legal Proceedings

The San Fabian property which is registered in the name of Pan-Phil Aqua Culture Company and which the Company has a majority interest, is the subject of a pending administrative case filed by Pan-Phil Aqua Culture Company against one Warlito Pedral with the Land Management Bureau of the Department of Environment and Natural Resources, Regional Office No. 1, San Fernando, La Union. The case is docketed as Claim Case No. 01-Pang-101 for the denial of the application for titling of a parcel land being claimed by said Warlito Pedral, as it falls within 20 meters legal easement or salvage zone of the foreshore area fronting the subject property. The case is still pending with said office.

On June 5, 2008, the Company declared Forum Energy Plc (FEP) in default for non-payment of the Company's share in the utilization of the historical cost recovery accounts sold to forum under the Sale and Purchase Agreement (SPA) dated April 3, 2006 covering the sale by the Company of its shares in Basic Petroleum Minerals, Inc. including its participating interests and costs recovery accounts in certain geophysical Survey and Exploration and Service Contracts. The amount due from and unpaid by FEP as of December 31, 2008 is US Dollars: 947,840.49 based on the reports furnished to the Company by Forum on the Nido and Matinloc liftings. Due to said default, the Company served FEP a written notice of declaration of default and automatic termination of the SPA, and as a consequence thereof, all payments made by FEP and the FEP shares delivered to the Company prior to the default are considered forfeited in favor of the Company, without prejudice to any legal recourse that the Company may subsequently take. The Company's external counsel has been advised to proceed with the arbitration of the case.

Except for the above proceedings, the Company or its subsidiaries and affiliates are not involved in any pending legal proceeding relative to the other properties or property interests of the Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS AND PLAN OF OPERATIONS

(1) Plan of Operations for 2009

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 53, a Farm In Agreement with Pitkin Petroleum was approved by the DOE on June 11, 2008. The Company will be carried in a US$ 4.2 million 2D seismic program. In Service Contract 47, the consortium entered the second sub phase of the contract on June 10, 2008. The work program for the second sub phase is being negotiated by PNOC-EC as operator. In Service Contract 41, through the Company's subsidiary, Southwest Resources Inc., a reprocessing of 3D seismic was approved by the DOE along with two year extension of the term of the service contract.

The Company's cash requirements for the operations of its oil and gas business for the whole year of 2009 is budgeted at about Php.0.5 Million, which will be adequately funded by its cash and short-term investments.

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 evaluated as a commitment under the service contract approved by the Department of Energy. All government permits such as the Certificate of Non Coverage from the Environment Management Bureau and the Certificate of Non Overlap from the National Commission in Indigenous Peoples have been approved.

On 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).

Ethanol and Cassava Operations

For 2009, the Company will 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. Cassava nurseries have been put up in Zamboanga del Norte and Zamboanga City that will supply the planting materials for the planned managed or corporate farms around the area. Planting in the managed or corporate farms has commenced and for 2009, a pilot of 300 hectares will be launched. The hectare-age will be increased yearly until it reaches the minimum area required to be able to produce adequate feedstock for the ethanol plant. In the meantime while fund raising, securing strategic partner/s and completing the plans of the ethanol plant (with cassava as feedstock) are ongoing, BEF's production of dried cassava chips will be sold to local animal feeds manufacturers and starch producers and exported to China, South Korea, among others. The cassava operations of BEF will be by itself a profit generating operation while the development of the ethanol plant is being completed.

The Company's cash requirements for these activities for the whole year of 2009 are budgeted at Php31.25 Million, which will be adequately funded by its cash and short-term investments.

(2) Management's Discussion and Analysis of Financial Condition and Results of Operations for 2008

(a) Full Fiscal Years (Three Years)

2008

For 2008, total assets of the Company stood at PhP474.172 million down by PhP 56.191 million compared to 2007's level of PhP 530.363 million. Current assets are mainly in cash and cash equivalents amounting to PhP 155.033 million decreasing by PhP 36.362 million compared to last year's balance of PhP 191.395 million mainly due to operating expenses and additional investments booked for the year. Non-current assets are mainly in investment properties amounting to PhP 120.086 million and project development costs amounting to PhP 63.284 million. Deferred oil exploration costs amounting to PhP 31.681 million decreased by PhP 38.200 million compared to last year's figure of PhP 69.881 million mainly due to the provision for impairment loss booked for the year. Deferred income tax assets of PhP 8.624 million likewise, registered a decline of PhP 30.006 million compared to last year's balance due to the provision for deferred income tax booked for the year.

Total liabilities of PhP 30.749 million slightly decreased compared to last year's balance of PhP 30.746 million. Current liabilities are in accounts payable and accrued expenses which for the year amounted to PhP 15.688 million which increased by PhP 9.616 million from last year's figure due to a payable for an additional investment. Non-current liabilities totaled PhP 15.062 million composed of deferred income tax liabilities amounting to PhP 9.854 million and accrued retirement benefits amounting to PhP 5.297 million. Deferred income tax liabilities decreased by PhP 13.055 million due to an adjustment in the tax rate in relation to the companies investment properties. Additional accruals for retirement benefits amounting to PhP 3.441 million accounted for the increase in this account.

Total stockholders' equity stood at PhP 443.423 million composed mainly of capital stock amounting to PhP 572.455 million, deposits for future stock subscriptions of PhP 66.762 million and revaluation increment in office condominium of PhP 13.916 million. These were partly offset however by a deficit amounting to PhP 213.543 million and a net unrealized loss on decrease in value of AFS financial assets amounting to PhP 988 thousand. The increase in deposit on subscriptions amounting to PhP 53.175 million was due to additional subscriptions which have not been issued pending approval of the listing of the shares by the Philippine Stock Exchange.

For the year ended December 31, 2008, the Company posted revenues of PhP 13.433 million mostly in interest on cash and placements, gain on sale of financial assets, and foreign exchange gain. Costs and expenses amounted to PhP 103.540 million composed of general and administrative expenses amounting to PhP 64.666 million and provision for impairment losses on deferred oil exploration costs and financial assets totalling to PhP 38.874 million. These, after deducting provision for income tax resulted to a net loss for the year of PhP 108.576 million.

2007

For 2007, total assets of the Company stood at PhP 530.363 million up by PhP 87.786 million compared to 2006. Current assets are composed mainly of cash and cash equivalents which registered a significant increase of PhP 160.210 million compared to last year's PhP 31.185 million. Non-current assets are mostly in investment properties amounting to PhP 120.086 million which showed a slight increase of PhP4.159 million from last year due to revaluation. Available for sale financial assets (AFS) significantly dropped to PhP35.429 million from last year's figure of PhP 156.028 million mainly because of the provision for impairment of Forum Energy Plc Corp. (FEP) shares held by the Company. The year also recorded deferred tax asset of PhP 38.630 million pertaining to the income tax effect on the impairment provision on said FEP shares and the revaluation increment on the Company's office condominium unit, and an intangible asset of PhP 8.0 million in relation to the acquisition of lands in preparation for its ethanol project.

Total liabilities of the Company amounted to PhP 30.746 million, of which PhP 22.909 million is deferred income tax liabilities representing the income tax effect on the fair value adjustments of the Company's investment properties.

Total stockholder's equity amounted to PhP 499.617 million mainly composed of Capital Stock amounting to PhP 572.455 million and a deficit of Php 104.494 million. Capital stock recorded an increase of PhP 197.614 million due to additional subscriptions in connection with the SEC approved increase in authorized capital stock. The deficit recorded for the year of P104.494 million dropped significantly by PhP 227.399 million from last year's figure mainly due to the SEC approved equity restructuring which applied outstanding reduction surplus of PhP 358.615 million and additional paid-in capital of PhP 14.782 million against deficit.

On February 22, 2007, the Parent Company applied for equity restructuring to apply the outstanding reduction surplus of PhP 358.615 million and additional paid-in capital of PhP 14.782 million against deficit as of April 30, 2006 of PhP 373.397 million. The application was approved by the SEC on March 23, 2007.

On November 13, 2007, the SEC approved the Parent Company's increase in authorized capital stock from PhP 500 million divided into 2 billion shares with the par value of PhP0.25 each, to PhP2.5 billion divided into 10 billion shares with the par value of PhP0.25 each. Accordingly, of the said increase in authorized capital stock, PHP 500 million consisting of 2 billion shares have been subscribed, and more than 25% thereof amounting to PhP134.375 million have been paid in cash to the Parent Company on October 2, 2007. The deposit for future stock subscription is equivalent to 54,345,344 shares at PhP0.25 par value per share as of December 31, 2007 and 39,623,907 shares at PhP1.00 par value per share as of December 31, 2006 have not been included.

On April 4, 2007, the Company entered into a Memorandum of Understanding with ZN Biofuels Partners, Inc. for the acquisition of the latter's ownership and interests in Zambo Norte Bioenergy Company (ZNBC), a domestic Company established and organized to embark in the development and production of biofuels and other alternative and renewable energy. The acquisition was approved by the Board of Directors and the Company's stockholders during its annual stockholders' meeting held on July 12, 2007. Based on the agreement, full recognition in the Company's books of the acquisition shall be upon compliance of certain deliverables from both buyer and seller.

2006

For 2006, total assets of the Company stood at Php442.557 Million, with cash and other current assets increasing from Php18.681 Million to Php76.429 Million, registering a remarkable increase of about 409%. The bulk of total assets is accounted for by investments in shares of Forum Energy PLC (FEP), valued at Php97.141 Million, which is part of the consideration for the sale of the interests of the Company in Basic Petroleum and Minerals, Inc. to FEP, investments in government bonds purchased in 2006, valued at Php53.602 Million and investment properties valued at Php115.927 Million.

Total liabilities of the Company amounted to only Php31.762 Million, of which Php30.393 Million is deferred income tax liabilities pertaining to the income tax effect on the fair value adjustments on the investment properties of the Company and its subsidiaries and the Company's revaluation increment in its office condominium.

Total stockholders' equity amounted to Php410.814 Million, the major components of which are capital stock, additional paid-in capital and deposits on future subscriptions totaling Php429.247 Million and reduction surplus in the amount of Php358.615 Million as a result of the reduction of the par value of the Company's shares from Php1.00 to Php0.25. Total stockholders' equity is however net of fair value adjustments on "available for sale" investments of the Company as a result of the decline in the value of these investments amounting to Php61.181 Million and the deficit largely caused by the accumulated depletion, depreciation and amortization related to the Company's various service contracts for oil exploration amounting to Php331.893 Million.

The Company undertook several measures to ensure the long-term viability of the Company and provide for the necessary platforms and environment that will enable the Company to operate profitably in the future, and thus become an attractive investment outlet for local and foreign investors.

On April 3, 2006, the Company sold its entire interest in a wholly owned subsidiary, Basic Petroleum & Minerals, Inc. (BPMI) to Forum Energy PLC (FEP) for a total consideration of US$17,000,000, in two(2) tranches: US$ 5,000,000 in cash and FEP shares and US$ 12,000,000 upon FEP's utilization of the historical cost recoveries of BPMI and upon oil production by FEP in excess of 5,420,000 barrels. The sale was intended to consolidate and generate investment funds for the Company's oil and gas projects and other viable businesses. In the same month, the first payment of US$880,000 and 1,333,759 shares of FEP valued at US$2,800,000 were delivered to the Company. On October 4, 2006, the Company received the second payment of US$ 660,000 from FEP and by April, 2007, the Company received another US$660,000 from FEP, to complete the first tranche of US$ 5,000,000.00. The amounts of US$ 10,000,000.00 shall be forthcoming upon FEP's utilization of the historical cost recovery accounts of BPMI and US $ 2,000,000 from the productivity of the service contracts that are part of the sale of BPMI. The above payments enabled the Company to have approximately P100 Million in investible funds in 2006. As part of the US $ 10,000,000 historical cost recovery consideration in its SPA with FEP, the Company had an approximate receivable of US $ 22,000.00 from the Nido and Matinloc liftings for year 2006 and part of 2007.

On November 27, 2006, the Securities and Exchange Commission (SEC) approved the Company's equity restructuring with the reduction of the par value of the Company's shares from Php1.00 to Php0.25, thereby creating a reduction surplus used to offset the reported deficit of the Company as of December 31, 2005. On March 23, 2007, the SEC approved, in line with its earlier approval of the Company's equity restructuring, the application of the remaining outstanding reduction surplus and additional paid-in capital against the deficit of the Company as of April 30, 2006. As of March 31, 2007, the reported deficit of the Company as of December 31, 2006, was accordingly wiped-out, with the Company reflecting retained earnings of Php41 Million.

(b) Interim Period- First Quarter, 2009 (Unaudited as of March 31, 2009)

For the quarter ending March 31, 2009, Total Assets stood at PhP 459.398 Million, Total Liabilities at PhP 30.587 Million and Stockholders' Equity at PhP 428.100 Million , with minority interest comprising PhP 0.711 Million.

Total Revenues was reported at PhP 1.405 Million, while Total Costs and Expenses amounted to PhP16.017 Million, resulting into a Net Loss on a consolidated basis of PhP 14.607 Million. Interest and Dividends of PhP 1.403 Million made up the bulk of revenues for the quarter. There was no revenue from Petroleum Operations during the quarter. Total Cost and Expenses for the quarter was mainly composed of General and Administrative expenses recorded at PhP 16.609 million.

(c) Key Performance Indicators

The following table shows the top Key Performance indicators for the past three (3) years:

Key Performance Indicators	Year 2008	Year 2007	Year 2006
Return on Investment (ROI) (Net Income / Ave. Stockholders' Equity)	-23.03%	-32.44%	-58.08%
Net Profit Margin (Net Income / Net Revenue)	-808.29%	-1,181.35%	-1,274.81%
Investment in Projects (Non-Petroleum) (As a % of Total Assets)	38.67%	22.64%	26.19%
Investment in Wells and Other Facilities (As a % of Total Assets)	6.68%	13.18%	15.79%
Current Ratio (Current Assets / Current Liabilities)	11.32:1	38.13:1	55.79:1
Asset Turnover (Net Revenue / Average Total Assets)	2.67%	2.57%	4.56%

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 (-23.03%) and Profit Margin (-808.29%) show both negative rates due to losses during the year 2008, primarily due to the general and administrative expenses and provisions for impairment losses which exceed revenues for the year.

Investment in Non-Petroleum Projects as a % of Assets increased from 22.64% in 2007 to 38.67% in 2008 due to the increase in investments for 2008.

Investment in Wells and Other Facilities as a % of Assets decreased from 13.18% in 2007 to 6.68% in 2008 due to the provisions for impairment losses on deferred oil exploration costs booked for 2008.

The Company's investments in Wells and Other Facilities include the exploration, development and exploitation of the contract areas situated in offshore and onshore Mindoro (SC47, Offshore Mindoro and SC53, Onshore Mindoro). Another service contract, SC 41 is tied up with Tap Oil, an Australian Company that will test the hydrocarbon potential of the service area.

Current ratio declined to 11.32:1 in 2008 from 38.13:1 in 2007 due to the decline in current assets while current liabilities increased in 2008 compared to 2007.

Asset Turnover in 2008 slightly increased to 2.67% compared to 2.57% in 2007 due to a slight increase in revenue in relation to a slightly increased average asset base in 2008 compared to 2007.

There are no known events or trends that will affect or trigger direct or contingent financial obligations on the part of the Company or will result in any default or acceleration of an obligation of the Company.

There are no material off-balance sheet transactions, arrangements or obligations, including contingent obligations of the Company with unconsolidated entities or other persons created in 2008.

(d) Comparative Analysis

First Quarter of 2009 (Interim Unaudited) vs. Fiscal Year 2008 Results of Operations

Total Assets as of end March 2009 stood at PhP 459.398 Million, down by PhP 14.774 Million compared to end December 2008 level of PhP 474.172 Million. The decrease was due primarily to the decrease in Cash and Cash Equivalents amounting to PhP 21.222 Million, the balance of which closed at PhP 133.811 Million as of end March 2009 compared to the balance as of end December 2008 of PhP 155.033 Million. This decrease in cash and cash equivalents was mainly due to the operating costs and expenses incurred for the first quarter.

Total Liabilities slightly dipped by PhP 0.162 Million settling at PhP 30.587 Million as of end March 2009 compared to PhP 30.749 Million as of end December 2008.

Stockholders' Equity as of end March 2009 slid by PhP 14.607 Million and closed at PhP 428.100 Million from the previous quarter's level of PhP 442.707 Million attributable mainly to the Net Loss recorded for the quarter ending March 2009.

First Quarter, 2009 (Interim Unaudited) vs. First Quarter, 2008 Results of Operations

The Company recorded Total Revenues of PhP 1.405 Million for the quarter ending March 2009 down by PhP 1.729 Million from the same quarter of 2008 of PhP 3.134 Million.

Interest Income made up the bulk of Total Revenues for both quarters recorded at PhP 1.403 Million for the quarter ending March 2009, down by PhP 0.866 Million from the quarter ending March 2008 balance of PhP 2.269 Million. The decrease was brought about by the decrease in cash and cash equivalents .

Cost and expenses for the first quarter of 2009 was recorded at PhP 16.017 Million down by PhP 2.517 Million compared to last year's level of PhP18.535 Million. The decrease was mainly due to less provisions for impairment losses booked for the first quarter of 2009 compared to the same quarter of 2008 and fair value adjustments of FVPL securities booked for the 1st quarter of 2009.

For the first quarter of 2009, the Company recorded a Net Loss of PhP 14.607 Million compared to the Net Loss for the quarter ending March 2008 of PhP 15.836 Million.

Total Assets stood at PhP 459.398 Million as of end March 2009 down by PhP 55.030 Million compared to end March 2008 level of PhP 514.428 Million. The decrease was attributable mainly to the decrease in Cash and Cash Equivalents due to operating costs and expenses as previously mentioned.

Total Liabilities as of end March 2009 was recorded at PhP 30.587 Million down by Php 0.0623 Million compared to end March 2008 level of PhP 30.649 Million. The decrease was mainly due to the decrease in Deferred Income Tax Liabilities due to an adjustment in the tax rate partly offset by the increase in Accounts Payable and Accrued Expenses due to a payable for an additional investment.

Stockholders' Equity as of end March 2009 stood at PhP 428.100 Million down by PhP 54.941 Million compared to the level of March 2008 of PhP 483.041 Million. The decrease was attributable mainly to the increase in the deficit level due to the recorded losses and the additional provisions booked for impairment losses which were, however, partly offset by an increase in deposit for future subscriptions.

2007 vs. 2006 Results of Operations

For the year ended December 31, 2007, the Company reported a Net Loss on a consolidated basis of Php 147.680 Million. Total Revenues amounted to Php 12.501 Million while Cost and Expenses amounted to Php 204.556 Million. Net Loss for the year was mainly due to the impairment provision on the Company's investment in Forum Energy Plc (FEP) shares amounting to Php 133 Million. The fair value adjustment in 2006 was directly recorded as adjustment on available for sale investments in the balance sheet.

Revenues are mostly in interests on placements amounting to Php 8.409 Million up by Php 1.5 Million from last year's figure of of Php 6.922 Million. Additional cash from private placements generated additional interest income for the year.

General and administrative expenses increased by Php 41.268 Million compared to 2006 mainly due to accruals for retirement benefits amounting to Php 13.766 Million and the increase in manpower costs in line with prospective projects in alternative and renewable energy, oil and gas exploration, and mining.

2006 vs. 2005 Results of Operations

In 2006, the Company concluded the sale of its entire interests in Basic Petroleum and Minerals, Inc. (BPMI) to Forum Energy PLC (FEP), converting its equity investments therein into cash and FEP shares totaling US$5 Million and US$12 Million upon FEP's utilization of the historical cost recoveries of BPMI and upon oil production by FEP in excess of 5,420,000 barrels. In April, 2006, the first payment of US$880,000 and 1,333,759 shares of FEP valued at US$2,800,000 were delivered to the Company. On October 4, 2006, the Company received the second payment of US$ 660,000 from FEP and by April, 2007, the Company received another US$660,000 from FEP, to complete the first tranche of US$ 5,000,000.00. The amount of US$ 12,000,000.00 shall be forthcoming upon FEP's utilization of the historical cost recovery accounts of BPMI and the productivity of the service contracts that are part of the sale of BPMI.

While the transaction resulted in increases in cash and receivables, and "available for sale" investments comprising mainly of the FEP shares, there were significant decreases in the property and equipment account as a result of the said disposition of BPMI, compared to 2005 level. Investment properties increased in 2006 from Php68.716 Million in 2005 to Php115.927 in Million in 2006, as a result not only of additions but from net gain from fair value adjustments after re-appraisal of the subject properties. There was also a reduction in the deferred exploration costs account from Php343.460 Million in 2005 to Php69.881 Million in 2006. In 2005, two subsidiaries of the Company (BPMI and SWR) wrote-off certain accumulated costs related to two (2) contract areas (GSEC94 and 100) amounting to Php 25.147 Million, in line with the decision to cease further participation in the future exploration activities of said contract areas. Overall, from total assets of Php820.852 Million in 2005, total assets in 2006 decreased to P442.577 Million.

In the liabilities account, total current liabilities decreased in 2006, from Php17.913 in 2005 to Php1.370 Million in 2006, as a result of the full liquidation of the advances of the Company from FEP from payments received from FEP in 2006. On the other hand, non-current liabilities increased from Php14 .704 Million in 2005 to Php31.762 Million in 2006, with the booking of additional deferred income tax liabilities resulting from the fair value adjustments on the investment properties of the Company and its subsidiaries, and the revaluation increment in the office condominium owned by the Company. With the off-setting of the aforementioned decreases and increases in the liability accounts, the total liabilities account showed a minimal decrease from Php32.617 Million in 2005 to Php31.762 Million in 2006.

Stockholders' equity decreased in 2006 at Php410.815 Million, compared to Php820.853 Million in 2005, as a result of the quasi-reorganization undertaken by the Company in 2006. Part of the reduction surplus resulting from such quasi-reorganization was used to off-set the deficit account as of December 31, 2005, reflecting a reduction in the deficit account from Php732.857 Million as of December 31, 2005 to Php331.893 Million as of December 31 2006.

(e) Changes in and disagreements with accountants on accounting and financial disclosures

There were no disagreements with the Company's external auditors on any accounting and financial disclosures in the 2008 audited financial statements of the Company.

PART II. SECURITIES OF THE COMPANY

(A) Market Price and Dividends Information

(1) Market Information

The shares of stock of the Company are traded in the Philippine Stock Exchange.

The Company's high and low closing prices for each quarter of years 2007 and 2008, and the 1st quarter of 2009, are as follows:

	HIGH			LOW		
	2007	2008	2009	2007	2008	2009
1st Quarter	Php0.58	Php0.32	Php0.13	Php0.27	Php0.22	Php0.11
2nd Quarter	0.54	0.27		0.35	0.21	
3rd Quarter	0.56	0.25		0.30	0.16	
4th Quarter	0.38	0.18		0.28	0.10	

The last trading price of shares of the Company, as of April 30, 2009, is Php0.13 per share.

No cash or stock dividends have been declared in 2008.

(2) Holders

Top 20 Stockholders as of April 30, 2009:

NAME	OUTSTANDING SHARES	PERCENTAGE
PCD Nominee Corporation (Fil.)	1,668,742,372	72.87%
Shirley Tan	60,000,000	2.62%
SR Capital Holdings, Inc	50,000,000	2.18%
Christodel Phils., Inc.	25,736,744	1.12%
Isidoro O. Tan	24,882,276	1.42%
PCD Nominee Corporation (For.)	21,569,651	0.94%
Phases Realtors, Inc.	20,989,439	0.92%
Northwest Traders Corporation	20,745,757	0.91%
Eduardo L. de Guzman	10,200,000	0.45%
Jose C. De Venecia, Jr.	10,013,225	0.44%
Samuel Uy	10,000,000	0.44%
Jose Ma. L. De Venecia	9,075,833	0.40%
Northwest Investors, Inc.	8,708,890	0.38%
Mark Anthony L. De Venecia	8,363,333	0.37%
Oscar C. De Venecia	8,110,000	0.35%

Ernesto Chiaco Chua	8,000,000	0.34%
JLV Holdings, Inc.	7,200,000	0.31%
Jose Chan Man Chuan	5,512,409	0.24%
MDV Holdings, Inc.	5,070,000	0.22%
Mario T. Buenconsejo	4,595,000	0.20%

CORPORATE GOVERNANCE

Corporate Governance Manual

In August, 2002, the Board adopted its Corporate Governance Manual which it submitted to the Securities and Exchange Commission and the Philippine Stock Exchange. The Manual includes provisions for the following:

- Compliance System
- Duties and responsibilities of Compliance Officer
- Plan for Compliance including the general responsibilities and qualifications of:
  - Board of Directors
  - Board Committees
  - Corporate Secretary
  - External Auditor
  - Internal Auditor
- Communication Process
- Training Process
- Reportorial and Disclosure System
- Monitoring Assessment

Corporate Governance Committee

The Committee is responsible for maintaining and ensuring good governance of the Company, and to ensure a high standard of best practice for the Company and its Board of Directors and management, the Committee shall guide the Board in the exercise of its authority, ensuring compliance with all relevant laws, regulations and codes of best business practices. The Committee is composed of the following:

Francis C. Chua	-	Chairman
Gabriel R. Singson, Jr.	-	Vice Chairman
Josue A. Camba, Jr.	-	Member
Ma. Florina M. Chan	-	Member
Jaime J. Martirez	-	Member
Dennis D. Decena (Independent Director)	-	Member

Compliance with Leading Practices on Corporate Governance

The Company has adopted the SEC Corporate Governance Self Rating Form to evaluate the level of compliance of the Company with its Manual on Corporate Governance. In addition, the Compliance Officer reviews on a periodic basis the level of compliance of its directors, officers and employees with leading practices contemplated in the Company's Manual. The officers and directors of the Company have attended the seminars on Corporate Governance and Anti-Money Laundering Laws and Regulations. The Board of Directors organized the Corporate Governance Committee to monitor and ensure compliance by the Board and Management of its Manual on Corporate Governance and applicable best corporate governance practices. To date, the Company has complied with the provisions of its Manual on Corporate Governance.

For 2008, the Board of Directors organized the various Board and Management Committees, in addition to the Corporate Governance Committee, namely: the Audit Committee, Nominating Committee, Compensation and Remuneration Committee, and the Finance and Investments Committee. The Company's reportorial and disclosure system has been likewise enhanced to ensure close coordination between the Board of Directors and the officers in charge of legal and regulatory compliance.

INTERNAL CONTROL

In the performance of their duties, the Directors acknowledge their responsibility for the Company's system of internal financial control. This system is designed in order to promote reasonable assurance against any material misstatement or loss. It aims to ensure that the assets of the Company are safeguarded, proper accounting records are maintained and that the financial information used within the business and for publication is reliable.

The Company's books of accounts are prepared and maintained by the Company's designated Accountant, under the oversight and supervision of the Treasurer and Vice-President for Finance. All expenses and disbursements are prepared by a separate unit and prior to booking and approval, these are verified by the Accounting Department. Regular reports are prepared for the Chairman & CEO, the President & COO, and the Board and the Finance and Investments Committee, to ensure that top management and the Board of Directors are supplied with all the information they require in a timely and appropriate manner.

ANTI-MONEY LAUNDERING MANUAL

In compliance with the directive of the Philippine Government and the SEC, and following the SEC Model Manual, the Board adopted its Anti-Money Laundering Manual and submitted the same to SEC last October 14, 2002. The Company is in compliance with its Anti-Money Laundering Manual.

Executed this 12th day of May, 2009 at Makati City.

JOSUE A. CAMBA, JR.
Chairman & CEO
(From July 12, 2007 to
February 12, 2009)

OSCAR C. DE VENECIA
Chairman & CEO
(Effective February 12, 2009)

OSCAR L. DE VENECIA, JR.
President & COO

BASIC ENERGY CORPORATION

STATEMENT OF MANAGEMENT RESPONSIBILITY
FOR FINANCIAL STATEMENT

The management of BASIC ENERGY CORPORATION, is responsible for all information and representations contained in the consolidated financial statements as of December 31, 2008 and December 31, 2007.

These financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized.

The management likewise discloses to the company's audit committee and to its external auditors: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process and report financial data; (ii) material weaknesses in the internal controls; (iii) and any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the consolidated financial statements before such statements are approved and submitted to the stockholders of the Company. Sycip Gorres Velayo & Co., the independent auditors appointed by the Board of Directors, have audited the financial statements of the Company in accordance with generally accepted auditing standards and have expressed their opinion on the fairness of presentation upon completion of such examination, in their report to the Board of Directors and stockholders.

MARIETTA V. VILLAFUERTE	**OSCAR L. DE VENECIA, JR.**
Vice President - Treasurer	President & COO

SUBSCRIBED AND SWORN to before me this APR 17 2009 day of ____________ 2008 affiant having exhibited to me their TIN # as follows:

Name	TIN Number
Marietta V. Villafuerte	100-168-986-000
Oscar L. De Venecia, Jr.	149-709-049-000

Notary Public

MA. ESMERALDA R. CUNANAN
Notary Public
Until December 31, 2009
Appt. No. M-15 (2008-2009) Attorney's Roll No. 34562
PTR No. 1567601/1-5-09/Makati City
IBP Lifetime Member Roll No. 05413

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Ernst & Young

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Basic Energy Corporation (formerly Basic Petroleum Corporation) and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2008 and 2007, and the consolidated statements of operations, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years ended December 31, 2008, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Basic Energy Corporation and Subsidiaries as of December 31, 2008 and 2007, and their financial performance and their cash flows for each of the three years ended December 31, 2008 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-1
Tax Identification No. 102-089-397
PTR No. 1566467, January 5, 2009, Makati City

March 26, 2009

BASIC ENERGY CORPORATION
(Formerly Basic Petroleum Corporation)
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱155,032,996**	₱191,394,839
Financial assets at fair value through profit or loss (FVPL) (Note 6)	**6,244,291**	14,268,401
Receivables - net (Note 7)	**11,552,619**	11,478,771
Prepayments and other current assets (Notes 4 and 8)	**4,757,146**	14,339,127
Total Current Assets	**177,587,052**	231,481,138
Noncurrent Assets		
Available-for-sale (AFS) financial assets (Note 9)	**26,992,252**	35,429,062
Investment properties (Note 10)	**120,086,298**	120,086,298
Property and equipment - net (Note 12)		
At cost	**19,014,928**	5,318,638
At revalued amounts	**19,879,999**	21,536,666
Project development costs (Note 4)	**63,284,430**	–
Deferred oil exploration costs (Notes 4 and 11)	**31,681,173**	69,881,173
Deferred income tax assets - net (Note 19)	**8,623,748**	38,630,272
Intangible assets (Note 4)	**7,022,602**	8,000,000
Total Noncurrent Assets	**296,585,430**	298,882,109
TOTAL ASSETS	**₱474,172,482**	₱530,363,247
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 13)	**₱15,687,601**	₱6,071,174
Noncurrent Liabilities		
Deferred income tax liabilities (Note 19)	**9,854,325**	22,909,008
Accrued retirement benefits (Note 18)	**5,207,300**	1,765,800
Total Noncurrent Liabilities	**15,061,625**	24,674,808
Total Liabilities	**30,749,226**	30,745,982
Equity		
Attributable to equity holders of the Parent Company:		
Capital stock [held by 7,231 and 7,291 equity holders in 2008 and 2007, respectively] (Notes 14 and 22)	**572,455,491**	572,455,491
Additional paid-in capital (Note 22)	**4,105,430**	4,105,430
Deposits for future stock subscription (Note 14)	**66,761,817**	13,586,336
Revaluation increment in office condominium (Note 12)	**13,915,999**	13,998,833
Net unrealized loss on decrease in value of AFS financial assets (Note 9)	**(988,594)**	(774,891)
Deficit	**(213,543,202)**	(104,494,597)
Total equity attributable to equity holders of the Parent Company	**442,706,941**	498,876,602
Minority interest	**716,315**	740,663
Total Equity	**443,423,256**	499,617,265
TOTAL LIABILITIES AND EQUITY	**₱474,172,482**	₱530,363,247

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2008	2007	2006
GENERAL AND ADMINISTRATIVE EXPENSES (Note 17)	**₱64,666,103**	₱59,803,818	₱18,535,681
PROVISION FOR IMPAIRMENT LOSSES ON DEFERRED OIL EXPLORATION COSTS (Note 11)	**38,200,000**	–	–
FOREIGN EXCHANGE LOSS (GAIN) (Note 24)	**(1,806,630)**	11,688,003	4,603,288
PROVISION FOR IMPAIRMENT LOSSES ON AFS FINANCIAL ASSETS (Note 9)	**673,892**	133,064,296	–
LOSS ON SALE OF INVESTMENTS (Note 4)	**–**	–	364,798,200
OTHER INCOME - net (Note 15)	**(11,626,155)**	(12,500,912)	(28,779,335)
LOSS BEFORE INCOME TAX	**90,107,210**	192,055,205	359,157,834
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 19)			
Deferred	**16,487,076**	(45,116,853)	7,571,069
Final	**1,785,534**	741,910	142,343
Current	**196,133**	–	10,837
	18,468,743	(44,374,943)	7,724,249
NET LOSS	**₱108,575,953**	₱147,680,262	₱366,882,083
Net loss attributable to:			
Equity holders of the Parent Company	**₱108,551,605**	₱147,655,541	₱366,600,170
Minority interest	**24,348**	24,721	281,913
	₱108,575,953	₱147,680,262	₱366,882,083
LOSS PER SHARE (Note 20)	**₱0.05**	₱0.09	₱0.24

See accompanying Notes to Consolidated Financial Statements.

BASIC ENERGY CORPORATION
(Formerly Basic Petroleum Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

	Attributable to Equity Holders of the Parent Company										
	Capital Stock (Notes 14 and 22)	Additional Paid-in Capital (Note 22)	Deposits for Future Stock Subscription (Note 14)	Reduction Surplus (Notes 14 and 22)	Revaluation Increment in Office Condominium (Note 12)	Net unrealized loss on increase (decrease) in fair value of AFS Financial Assets (Note 9) Equity	Debt	Deficit (Note 21)	Total	Minority Interest	Total Equity
BALANCES AT DECEMBER 31, 2005	₱1,499,364,451	₱14,782,251	₱5,473,907	₱–	₱–	₱–	₱–	(₱732,857,809)	₱786,762,800	₱1,472,903	₱788,235,703
Income and expense recognized for the year:											
Revaluation increment in office condominium					16,152,500				16,152,500		16,152,500
Unrealized loss on AFS financial assets	–	–	–	–	–	(60,723,423)	(457,356)		(61,180,779)	–	(61,180,779)
Transfer of depreciation on office condominium	–	–	–	–	(1,076,834)	–	–	1,656,667	579,833	–	579,833
Net loss for the year	–	–	–	–	–	–	–	(366,600,170)	(366,600,170)	(281,913)	(366,882,083)
	–	–	–	–	15,075,666	(60,723,423)	(457,356)	(364,943,503)	(411,048,616)	(281,913)	(411,330,529)
Reduction of par value	(1,124,523,338)	–	–	1,124,523,338	–	–	–	–	–	–	–
Equity restructuring of Parent Company (Note 21)	–	–	–	(765,908,172)	–	–	–	765,908,172	–	–	–
Deposit for future stock subscription	–	–	34,150,000	–	–	–	–	–	34,150,000	–	34,150,000
Decrease in minority interest due to additional investment in SWR	–	–	–	–	–	–	–	–	–	(240,577)	(240,577)
BALANCES AT DECEMBER 31, 2006	374,841,113	14,782,251	39,623,907	358,615,166	15,075,666	(60,723,423)	(457,356)	(331,893,140)	409,864,184	950,413	410,814,597
Income and expense recognized for the year:											
Unrealized loss on AFS financial assets	–	–	–	–	–	(73,079,013)	(409,669)	–	(73,488,682)	–	(73,488,682)
Transfer to profit and loss due to sale of investment in bonds (Note 9)	–	–	–	–	–	–	830,274	–	830,274	–	830,274
Transfer of impairment loss on AFS to profit and loss	–	–	–	–	–	133,064,296	–	–	133,064,296	–	133,064,296

(Forward)

	Attributable to Equity Holders of the Parent Company										
	Capital Stock (Notes 14 and 22)	Additional Paid-in Capital (Note 22)	Deposits for Future Stock Subscription (Note 14)	Reduction Surplus (Notes 14 and 22)	Revaluation Increment in Office Condominium (Note 12)	Net unrealized loss on increase (decrease) in fair value of AFS Financial Assets (Note 9) Equity	Debt	Deficit (Note 21)	Total	Minority Interest	Total Equity
Transfer of depreciation on office condominium	₱–	₱–	₱–	₱–	(₱1,076,833)	₱–	₱–	₱1,656,667	₱579,834	₱–	₱579,834
Net loss for the year	–	–	–	–	–	–	–	(147,655,541)	(147,655,541)	(24,721)	(147,680,262)
	–	–	–	–	(1,076,833)	59,985,283	420,605	(145,998,874)	(86,669,819)	(24,721)	(86,694,540)
Equity restructuring of Parent Company (Note 21)	–	(14,782,251)	–	(358,615,166)	–	–	–	373,397,417	–	–	–
Issuance of capital stock	26,527,364	4,105,430	(39,623,907)	–	–	–	–	–	(8,991,113)	–	(8,991,113)
Subscription of capital stock	171,087,014	–	–	–	–	–	–	–	171,087,014	–	171,087,014
Deposits for future stock subscription	–	–	13,586,336	–	–	–	–	–	13,586,336	–	13,586,336
Decrease in minority interest due to the additional investment in SWR	–	–	–	–	–	–	–	–	–	(185,029)	(185,029)
BALANCES AT DECEMBER 31, 2007	**572,455,491**	**4,105,430**	**13,586,336**	**–**	**13,998,833**	**(738,140)**	**(36,751)**	**(104,494,597)**	**498,876,602**	**740,663**	**499,617,265**
Income and expense recognized for the year:											
Unrealized loss on AFS financial assets	–	–	–	–	–	(243,853)	30,150	–	(213,703)	–	(213,703)
Transfer of depreciation on office condominium – net of adjustment in tax rate	–	–	–	–	(82,834)	–	–	(497,000)	(579,834)	–	(579,834)
Net loss for the year	–	–	–	–	–	–	–	(108,551,605)	(108,551,605)	(24,348)	(108,575,953)
	–	–	–	–	(82,834)	(243,853)	30,150	(109,048,605)	(109,345,142)	(24,348)	(109,369,490)
Subscription of capital stock	–	–	53,175,481	–	–	–	–	–	53,175,481	–	53,175,481
BALANCES AT DECEMBER 31, 2008	**₱572,455,491**	**₱4,105,430**	**₱66,761,817**	**₱–**	**₱13,915,999**	**(₱981,993)**	**(₱6,601)**	**(₱213,543,202)**	**₱442,706,941**	**₱716,315**	**₱443,423,256**

See accompanying Notes to Consolidated Financial Statements

BASIC ENERGY CORPORATION
(Formerly Basic Petroleum Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	**(₱90,107,210)**	(₱192,055,205)	(₱359,157,834)
Adjustments for:			
Provision for impairment of deferred exploration costs (Note 11)	**38,200,000**	–	–
Gain on sale of financial assets at FVPL and AFS financial assets (Notes 6, 9 and 15)	**(9,778,448)**	(1,694,890)	–
Interest income (Note 15)	**(8,989,402)**	(6,649,109)	(1,715,803)
Fair value adjustments on financial assets at FVPL and impairment loss on AFS financial assets (Notes 6, 9 and 15)	**7,260,413**	133,131,795	(225,000)
Depreciation and amortization (Notes 12 and 17)	**3,348,034**	2,205,243	1,770,286
Unrealized foreign exchange loss (gain)	**(1,806,630)**	4,486,852	955,103
Dividend income (Note 15)	**(47,985)**	(65,411)	(62,711)
Unrealized gain from increase in fair value of investment properties (Notes 10 and 15)	–	(4,159,001)	(21,631,627)
Loss on sale investments (Note 4)	–	–	364,798,200
Operating loss before working capital changes	**(61,921,228)**	(64,799,726)	(15,269,386)
Decrease (increase) in:			
Receivables	**1,595,413**	28,200,714	(20,603,829)
Prepayments and other current assets	**63,756**	(21,583,547)	(755,580)
Increase in:			
Accounts payable and accrued expenses	**9,594,603**	4,712,262	608,459
Accrued retirement benefits	**3,441,500**	1,765,800	–
Cash used in operations	**(47,225,956)**	(51,704,497)	(36,020,336)
Interest received	**8,798,910**	6,333,909	2,321,383
Income taxes paid (including final taxes on interest income)	**(1,981,667)**	(752,747)	(161,044)
Net cash used in operating activities	**(40,408,713)**	(46,123,335)	(33,859,997)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of financial assets at FVPL and AFS financial assets	**17,889,984**	70,220,794	–
Additions to:			
Property and equipment (Note 12)	**(11,575,657)**	(4,748,674)	(1,232,159)
Project development costs	**(3,265,000)**	–	–
Financial assets at FVPL	**763,697**	(18,410,100)	(2,500,000)
AFS financial assets (Note 9)	–	(16,128,326)	(54,634,954)
Investment properties	–	–	(25,579,364)
Deferred oil exploration costs	–	–	(437,043)
Payment for project development cost	**(141,999)**	–	–
Dividends received	**47,985**	65,411	62,711
Proceeds from sale of deferred oil exploration costs	–	–	118,974,381
Net cash from investing activities	**3,719,010**	30,999,105	34,653,572

(Forward)

	Years Ended December 31		
	2008	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of capital stock	₱–	₱171,245,901	₱–
Increase in deposits for future stock subscription	–	4,324,322	34,150,000
Decrease in minority interest	–	(185,029)	(240,577)
Net change in amount payable to Forum Energy Plc (FEP)	–	–	(15,927,000)
Net cash from financing activities	–	175,385,194	17,982,423
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**327,860**	(51,116)	–
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(36,361,843)**	160,209,848	18,775,998
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**191,394,839**	31,184,991	12,408,993
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱155,032,996**	₱191,394,839	₱31,184,991

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Corporate Information

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

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

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

	Percentages of Ownership		
Subsidiaries	**2008**	2007	Nature of Business
Basic Diversified Industrial Holdings, Inc. (BDIHI)	**100.00**	100.00	Investment holding
iBasic, Inc. (iBasic)	**100.00**	100.00	Real estate (no development activities) and information technology
Basic Ecomarket Farms Inc. (BEFI)	**100.00**	–	Agriculture
Basic Biofuel Corporation (BBC)	**100.00**	–	Development of biofuels (no development activities)
Southwest Resources, Inc. (SWR)	**72.58**	72.58	Oil exploration and investment holding

Organizational Changes

The Board of Directors (BOD) of the Parent Company implemented certain organizational changes aimed at the preservation of cash and capital during the current global and local economic downturn. These organizational changes were taken in the light of the decision to pursue the cassava project in the Zamboanga peninsula, through its subsidiary, 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 Parent Company 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 26, 2009.

2. **Significant Accounting and Financial Reporting Policies**

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

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

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

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

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

Minority Interests
Minority interest represents the 27.42% equity interest in the net assets of SWR that are not held by the Group as of December 31, 2008 and 2007 and are presented separately in the consolidated statements of operations, consolidated statements of changes in equity and within the equity section in the consolidated balance sheets, separately from the equity attributable to equity holders of the Parent Company. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) interpretations which became effective on January 1, 2008, and

amendments to an existing standard that became effective on July 1, 2008. Adoption of these changes did not have any significant effect on the Group' financial statements:

- Philippine Interpretation IFRIC 11, PFRS 2 - *Group and Treasury Share Transactions*
- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*
- Philippine Interpretation IFRIC 14, PAS 19, *The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction*
- Amendments to Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement,* and PFRS 7, *Financial Instruments: Disclosures - Reclassification of Financial Assets*

Business Combination and Goodwill

Business combinations are accounted for using the purchase method. This involves recognizing identifiable assets and liabilities of the acquired business initially at fair value. If the acquirer's interest in the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination, the acquirer shall (a) reassess the identification and measurement of the acquiree's identifiable assets and liabilities and the measurement of the cost of the combination; and (b) recognize immediately in profit or loss any excess remaining after that reassessment.

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

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

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

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

Cash and Cash Equivalents

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

Financial Instruments

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

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

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, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

Determination of Fair Value

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

"Day 1" Profit

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group recognizes the difference between the transaction price and fair value (a "Day 1" profit) in the consolidated statement of 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 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 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 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 the 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.

As of December 31, 2008 and 2007, 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 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 December 31, 2008 and 2007, included under loans and receivables are the Group's receivables consisting of cash in banks and cash equivalents, accounts receivable, accrued interest receivable on AFS bond investment, advances to employees, receivables from FEP, due from ZNB Partners and due from ZNBC (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 equity as "Net unrealized loss on decrease in value of AFS financial assets" net of the related deferred income tax. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the consolidated statement of operations.

When the investment is disposed of, the cumulative gains or losses 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 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 twelve months from the balance sheet date.

As of December 31, 2008 and 2007, included under AFS financial assets are the Group's investments in shares of stock and government bonds (see Note 9).

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

As of December 31, 2008 and 2007, included in other financial liabilities are the Group's accounts payable and accrued expenses (see Note 13).

<u>Offsetting Financial Instruments</u>
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.

<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 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 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 Group 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

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.

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

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

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

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 the consolidated statement of operations.

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

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

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

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

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

Deferred Oil Exploration Costs
All exploration costs incurred in connection with the participation of the Company and SWR in the exploration and development of oil contract areas are capitalized and accounted for under the "full cost method" [determined on the basis of each Service Contract (SC)/Geophysical Survey and Exploration Contract (GSEC)]. These costs include materials and fuel used, surveying costs, drilling costs and payments made to contractors. When oil in commercial quantity is discovered, the amounts capitalized are amortized at the start of commercial operations. On the other hand,

when an SC/GSEC is permanently abandoned, the related capitalized exploration costs are written-off. SCs/GSECs are considered permanently abandoned if the SCs/GSECs have expired and/or if there are no definite plans for further exploration and/or development.

Once the technical feasibility and commercial viability of extracting mineral resources are demonstrable, all exploration and evaluation are tested for impairment, and will be reclassified in the consolidated balance sheet as "Wells, platforms and other facilities."

Property and Equipment

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

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

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

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

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

Depreciation of assets commences once the assets are available for use and is provided on all property and equipment at rates calculated to write off the cost or revalued amount, less estimated residual value based on prices prevailing at the balance sheet date. Each asset is depreciated evenly over its expected useful lives as follows:

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

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

The useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods, method of depreciation and amortization and residual values 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 the parent company statement of operations.

Project Development Costs

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

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

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

Impairment of Nonfinancial Assets

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

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

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

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific revenue recognition criteria must also be met before revenue is recognized:

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

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

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

Foreign Currency-denominated Transactions and Translations

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

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 the consolidated statement of operations on a straight line basis over the average period until the benefits become vested. If the benefits are already vested following the introduction of, or changes to, the plan, past service cost is recognized immediately.

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

Income Taxes

Current Income Tax

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

Deferred Income Tax

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

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

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

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

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

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

Loss Per Share

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

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

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

Segment Information
The Group considers energy and oil and gas exploration as its primary activities. However, the Group has investment properties that are not within the Group's primary activity. The Group also has agriculture activities related to its energy and oil and gas exploration. The Group has no geographical segmentation. Except for the Group's investment properties amounting to ₱120,086,298 in 2008 and 2007, the assets, liabilities and results of operation of the Group pertains to its energy and oil and gas exploration business.

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. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of operations, net of any reimbursement.

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

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

Future Changes in Accounting Policies
The Group will adopt the following amendments to accounting standards when these become effective. The Group does not expect that their adoptions would have significant impact on the consolidated financial statements.

Effective in 2009

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: (a) cost determined in accordance with PAS 27; (b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or (c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

- PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*, clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires nonvesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a nonvesting condition that is within the control of either the entity or the counterparty is accounted for as cancellation. However, failure to satisfy a nonvesting condition that is beyond the control of either party does not give rise to a cancellation. The Group currently does not have any share-based payment schemes and therefore, does not expect this standard to have a significant impact on its financial statements.

- PFRS 8, *Operating Segments*, replaces PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the balance sheet and statement of income and the Group will provide explanations and reconciliations of the differences. This standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its financial statements with a securities commission or similar party.

- Amendments to PAS 1, *Presentation of Financial Statements*, introduces a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with 'other comprehensive income'. Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. This amendment also requires additional requirements in the presentation of the balance sheet and owner's equity as well as additional disclosures to be included in the financial statements. The Group is still evaluating whether it will have one or two statements.

- Revised PAS 23, *Borrowing Costs*, requires capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

- Amendments to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, which has changes in respect of the holding companies separate financial statements including (a) the deletion of 'cost method', making the distinction between pre-acquisition and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in profit or loss. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.

- Amendment to PAS 32, *Financial Instruments: Presentation and PAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*, specifies, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro-rata share of the entity's net assets, (b) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation, (c) all instruments in the subordinate class have identical features, (d) the instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets, and (e) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or expired.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*, provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of a net investment; where within the group the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group does not expect this interpretation to have any impact on the financial statements.

Improvements to PFRS

In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard:

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, specifies when a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.

- PAS 1, *Presentation of Financial Statements*, clarifies that assets and liabilities classified as held for trading are not automatically classified as current in the balance sheet.

- Amendment to PAS 16, *Property, Plant and Equipment*, replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* and PAS 36, *Impairment of Asset*. It also clarifies that items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

- PAS 19, *Employee Benefits*, revises the definition of 'past service costs' to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment. It also revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation. It also revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled. It also deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*, clarifies that loans granted with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant.

- PAS 23, *Borrowing Costs*, revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs', i.e., components of the interest expense calculated using the effective interest rate method. This revised standard disallows the alternative treatment of borrowing costs, which permits the recognition of borrowing costs as expense.

- PAS 28, *Investment in Associates*, clarifies that, if an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. It also defines an investment in an associate as a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

- PAS 29, *Financial Reporting in Hyperinflationary Economies*, revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

- PAS 31, *Interest in Joint Ventures*, clarifies that if a joint venture is accounted for at fair value, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

- PAS 36, *Impairment of Assets*, provides that, when discounted cash flows are used to estimate 'fair value less cost to sell', additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value-in-use'.

- PAS 38, *Intangible Assets*, provides that, expenditure on advertising and promotional activities is to be recognized as an expense when the Group either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues. It also deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method.

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

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

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

Effective in 2010

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

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

- Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners*, covers accounting for all non-reciprocal distribution of non-cash assets to owners. It provides guidance on when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability and the consequences of doing so.

- Philippine Interpretation IFRIC 18, *Transfer of Assets from Customers*, provides guidance on the transfers of items of property, plant and equipment (PPE) and/or transfers of cash to acquire or construct items of PPE, for the entity that receives such transfers from their customers.

Effective in 2012

- 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 the stage of completion.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgments, estimates and assumptions 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.

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

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

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

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

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

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

The carrying value of property and equipment, net of accumulated depreciation and amortization of ₱17,621,219 and ₱14,438,485 as of December 31, 2008 and 2007, respectively, amounted to ₱38,894,927 and ₱26,855,304 as of December 31, 2008 and 2007, respectively (see Note 12).

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

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

- The period for which the Group has the right to explore in the specific area has expired or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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

The carrying amount of deferred oil exploration costs, net of allowance for probable loss amounting to ₱38,200,000 as of December 31, 2008, amounted to ₱31,681,173 and ₱69,881,173 as of December 31, 2008 and 2007, respectively (see Note 11).

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

The Group recognized deferred income tax assets amounting to ₱8,081,759 and ₱38,630,272 as of December 31, 2008 and 2007, respectively (see Note 19).

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

Impairment of AFS Financial assets
The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 30% or more and 'prolonged' as greater than 12 months for quoted equity securities. Impairment losses of AFS financial assets amounted to ₱673,892 and ₱133,064,296 in 2008 and 2007, respectively (see Note 9).

The carrying value of the Group's AFS financial assets amounted to ₱26,992,252 and ₱35,429,062 as of December 31, 2008 and 2007, respectively (see Note 9).

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

In addition to specific allowance against individually significant receivables, the Group also makes a collective impairment allowance which takes into consideration the customers' ability to pay, age of receivables, collection experience and other factors that may affect collectibility.

The carrying value of receivables, net of allowance for impairment of accounts receivable amounting to ₱2,052,707 and ₱1,713,227 as of December 31, 2008 and 2007, respectively, amounted to ₱11,552,619 and ₱11,478,771 as of December 31, 2008 and 2007, 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 2008, 2007 and 2006 amounted to ₱3,348,034, ₱2,205,243 and ₱1,770,286, respectively (see Notes 12 and 17).

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

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

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

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

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement obligations. The assumptions made by the Group resulted in accrued retirement benefits of ₱5,207,300 and ₱1,765,800 as of December 31, 2008 and 2007, respectively (see Note 18).

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

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

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

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

The fair value of the Group's investment properties amounted to ₱120,086,298 as of December 31, 2008 and 2007 (see Note 10).

4. Status of Investments and Management's Outlook

A. Purchase of BBC (formerly Zambo Norte Bioenergy Corporation)

Share Purchase Agreement (SPA)

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

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

a. Cash consideration amounting to ₱10,000,000; and

b. 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, the 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 will be treated as additional cash payment to ZNB Partners.

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.

As of December 31, 2008, the 120,853,366 shares have not been issued to ZNB Partners, pending approval of the listing of the shares by the Philippine Stock Exchange.

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

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

The initial accounting for this business combination is provisional primarily in view of the inherent uncertainties in the biofuel industry that could impact the determination of the fair value of the identifiable assets acquired and liabilities assumed.

The cost of the business combination amounted to ₱64,000,000, which consists of cash purchase price and transaction costs. The goodwill, based on the initial accounting for business combination, amounted to ₱3,757,602 and is recognized under "intangible assets" in the consolidated balances sheets. From the date of acquisition, BBC contributed a net loss of ₱1,700,163 to the profit and loss of the Group.

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 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. As of March 28, 2008, approximately 2,600 hectares have been surveyed. 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 these lands 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 lands 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.

B. Incorporation of BEFI

On August 8, 2008, the Parent Company entered into a Memorandum of Agreement 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 property and equipment of the Project to the Parent Company for a fair value broken down as follows:

Property and equipment	₱7,985,000
Land	1,250,000
Total	₱9,235,000

The initial accounting for this business combination is provisional primarily in view of the inherent uncertainties in the energy industry that could impact the determination of the fair value of the identifiable assets acquired.

The cost of the business combination amounted to ₱12,500,000, which consists of cash purchase price and transaction costs. The goodwill which is recognized under "intangible assets" in the consolidated balance sheets, amounting to ₱3,265,000, based on the initial accounting for business combination, is attributed to the synergies and expected benefits from combining the assets and activities of the Project with those of the Parent Company. From the date of acquisition, BEFI contributed a net loss of ₱3,799,114 to the profit and loss of the Group.

C. 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:

a. Shares of stock of BPMI shall be transferred to FEP; and

b. 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 twelve 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 eighteen months from date of official execution of BPMI-SPA, or upon completion of the farm-in of SC 14 and SC 6A and 6B, whichever comes first.

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

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

c. 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, 2008 and 2007, receivables from FEP, representing the Parent Company's share in the utilization of the HCRs of BPMI, were booked at ₱10,052,401 and ₱10,545,816, respectively (see Note 7). No further accrual of the receivables of the Parent Company from FEP under the SPA was made when the Parent Company found that FEP's method of computation of the Parent Company's share in the HCRs was not in accordance with the SPA. To date, this issue remains unresolved.

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

Thus, on February 28, 2008, the Parent Company, through its external counsel, made a final demand on FEP for the Parent Company's share in the HCRs of BPMI in the aggregate amount of US$621,927 as of December 31, 2007, and requested that the Parent Company's new nominee be elected to the FEP's Board. In view of the failure of FEP to comply with these demands, on April 30, 2008, the Parent Company served FEP a notice of default of its obligation under the SPA. On June 5, 2008, FEP was formally declared in default and was advised of the automatic termination of the SPA. The effect of which, under the SPA, are the forfeiture of all payments made by FEP and the return to the Parent Company of all the assets sold under the SPA. Considering that negotiations to settle this case proved futile, on March 26, 2009, the BOD of the Parent Company authorized management to advice 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.

D. SCs

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

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

On January 9, 2008, PNOC-EC informed the DOE of the continued interest on SC 47. However, PNOC-EC requested for a six-month extension of the decision date (from January 10, 2008 to June 10, 2008) to commit to Sub-Phase 2 of the SC. The extension period would provide time for the remaining parties to conduct post-well analysis on the Kamia-1 well.

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

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

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

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

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

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

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

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

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

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

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

The full recovery of the deferred oil exploration costs, amounting to ₱31,681,173 and ₱69,881,173 as of December 31, 2008 and 2007, respectively (see Note 11), incurred in connection with the Parent Company's and SWR's participation in the acquisition, exploration and development of petroleum concessions, is dependent upon the discovery of oil and gas in commercial quantities from the respective contract areas and the success of future developments thereof.

E. Geothermal Service Contract (GSC)

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

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

5. Cash and Cash Equivalents

	2008	2007
Cash on hand and in banks	₱13,306,503	₱7,956,010
Short-term investments	141,726,493	183,438,829
	₱155,032,996	₱191,394,839

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.

6. Financial Assets at FVPL

	2008	2007
Investments in:		
Publicly - listed shares of stock	₱4,514,912	₱9,926,000
Philippine mutual funds	1,729,379	4,342,401
	₱6,244,291	₱14,268,401

The investment in publicly-listed shares of stock are quoted at the bid price of Philippine Stock Exchange and the mutual fund is valued at its net asset value as of December 31, 2008 and 2007. Fair value adjustments recognized on these financial assets amounted to unrealized loss, presented under "Other Income - net" account of ₱7,237,912 and ₱67,499 for the years ended December 31, 2008 and 2007, respectively. Trading losses and gains recognized in the consolidated statements of operations amounted to ₱26,789 and ₱1,533,467 in 2008 and 2007, respectively and none in 2006.

7. Receivables

	2008	2007
Receivable from FEP (Note 4)	₱10,052,401	₱10,545,816
Accounts receivable	2,572,733	2,223,025
Accrued interest receivable on AFS bond investments	505,692	315,200
Advances to employees	474,500	107,957
	13,605,326	13,191,998
Less allowance for impairment of accounts receivable	2,052,707	1,713,227
	₱11,552,619	₱11,478,771

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

The receivable from FEP as of December 31, 2008 and 2007 are the booked portions of the Parent Company's share in the cost recovery incurred in connection with the Parent Company's sale of BPMI's participation in the acquisition, exploration and development of petroleum concessions under SC 14.

Movements in the allowance for doubtful accounts of individually impaired trade receivables as of December 31, 2008 and 2007 were as follows:

	2008	2007
Beginning balances	**₱1,713,227**	₱1,713,227
Provision for the year	**339,480**	–
Ending balances	**₱2,052,707**	₱1,713,227

8. Prepayments and Other Current Assets

	2008	2007
Prepayments	**₱86,246**	₱153,500
Other current assets:		
Due from ZNB Partners (Note 4)	**4,670,900**	10,824,519
Due from ZNBC (Note 4)	**–**	3,361,108
	₱4,757,146	₱14,339,127

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

9. AFS Financial Assets

	2008	2007
Investment in peso-quoted government bonds	**₱6,446,603**	₱6,479,746
Investments in shares of stock:		
Quoted	**17,218,499**	25,625,666
Unquoted	**3,327,150**	3,323,650
	20,545,649	28,949,316
Total AFS financial assets	**₱26,992,252**	₱35,429,062

The fair value of FEP shares increased to £0.255 as of December 31, 2008 from £0.225 as of December 31, 2007.

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% to 7.5% per annum which are payable to the Parent Company semiannually. Interest income recognized using effective interest rate method on investment in government bonds amounted to ₱357,450 and ₱3,307,748 for 2008 and 2007, respectively.

Quoted shares consist of equity investments in FEC Resources, Inc., an independent company listed on the NASD OTC Bulletin Board and the Frankfurt and Munich Stock Exchanges, and FEP, a company listed on London AIM market. The fair values of these listed shares are based on their bid market price as of balance sheet date. 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, if any.

The movements in unrealized gains in respect of AFS financial assets as of December 31, 2008 and 2007 follow:

	2008	2007
Investment in peso-quoted government bonds		
Beginning balances	**₱36,751**	₱457,356
Unrealized loss (gain) recognized directly in equity	**(30,150)**	409,669
Realization of increase in fair value through sale of investment in government bonds	–	(830,274)
Ending balances	**₱6,601**	₱36,751
Investments in shares of stock		
Beginning balances	**₱738,140**	₱60,723,423
Unrealized loss recognized directly in equity	**243,853**	73,079,013
Unrealized loss transferred from equity to profit or loss	–	(133,064,296)
Ending balances	**₱981,993**	₱738,140

10. Investment Properties

	2008	2007
Beginning balances	**₱120,086,298**	₱115,927,297
Unrealized gain from increase in fair value (Note 15)	–	4,159,001
Ending balances	**₱120,086,298**	₱120,086,298

Investment properties consisting of land, are stated at fair value, which has been determined based on valuations performed by Asian Appraisal, Inc., an independent firm of appraisers, as of December 31, 2006. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and knowledgeable, willing seller in an arm's length transaction at the date of the valuation. Management believes that movement in fair value of these investment properties from 2007 and 2008 is not significant.

11. Deferred Oil Exploration Costs

The movements in deferred oil exploration costs follow:

	2008	2007
Beginning balances	**₱69,881,173**	₱69,881,173
Less allowance for impairment	**38,200,000**	–
Ending balances	**₱31,681,173**	₱69,881,173

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

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

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

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

12. Property and Equipment

Property and equipment consist of:

At cost:

As of December 31, 2008:

	Land	Office Equipment, Furniture and Fixtures	Farm Equipment	Building and Leasehold Improvement	Transportation Equipment	Construction in Progress	Total
At Costs							
Beginning balances	₱–	₱8,242,647	₱–	₱5,042,177	₱1,383,955	₱45,000	₱14,713,779
Additions	1,250,000	4,964,955	7,683,481	69,471	1,419,750	–	15,387,657
Disposals		(165,300)	–	–	–	–	(165,300)
Reclassification	–	–	–	45,000	–	(45,000)	–
Ending balances	1,250,000	13,042,302	7,683,481	5,156,648	2,803,705	–	29,936,136
Accumulated Depreciation and Amortization							
Beginning balance	–	6,129,140	–	2,603,667	662,334	–	9,395,141
Depreciation and amortization	–	982,370	248,500	172,025	288,472	–	1,691,367
Disposals	–	(165,300)	–	–	–	–	(165,300)
Ending balances	–	6,946,210	248,500	2,775,692	950,806	–	10,921,208
Net Book Values	₱1,250,000	₱6,096,092	₱7,434,981	₱2,380,956	₱1,852,899	₱–	₱19,014,928

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

As of December 31, 2007:

	Office Equipment, Furniture and Fixtures	Building and Leasehold Improvement	Transportation Equipment	Construction in Progress	Total
At Costs					
Beginning balances	₱6,004,882	₱2,576,268	₱1,383,955	₱–	₱9,965,105
Additions	2,237,765	2,465,909	–	45,000	4,748,674
Ending balances	8,242,647	5,042,177	1,383,955	45,000	14,713,779
Accumulated Depreciation and Amortization					
Beginning balance	5,788,370	2,576,268	481,927	–	8,846,565
Depreciation and amortization	340,770	27,399	180,407	–	548,576
Ending balances	6,129,140	2,603,667	662,334	–	9,395,141
Net Book Values	₱2,113,507	₱2,438,510	₱721,621	₱45,000	₱5,318,638

At revalued amount:

	2008	2007
Office Condominium At Revalued Amount	₱26,580,010	₱26,580,010
Accumulated Depreciation		
Beginning balances	5,043,344	3,386,677
Depreciation	1,656,667	1,656,667
Ending balances	6,700,011	5,043,344
Net Book Values	₱19,879,999	₱21,536,666

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

If the office condominium was measured using the cost model, the carrying amount as of December 31, 2008 and 2007 would be as follows:

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

The Group's fully depreciated assets still in use amounted to ₱8,732,946 as of December 31, 2008 and 2007.

13. Accounts Payable and Accrued Expenses

	2008	2007
Accounts payable	₱14,359,914	₱4,488,535
Dividends payable	888,714	888,714
Other payables	438,973	693,925
	₱15,687,601	₱6,071,174

The accounts payable consists of short-term and noninterest-bearing trade payables to the Group's local suppliers. Other payables are liabilities to various government agencies.

14. Capital Stock

	December 31, 2008		December 31, 2007	
	No. of Shares	Amount	No. of Shares	Amount
Authorized - ₱0.25 par value in 2008 and 2007 (Note 21)	10,000,000,000	₱2,500,000,000	10,000,000,000	₱2,500,000,000
Unissued	(8,394,526,093)	(2,098,631,523)	(8,394,526,093)	(2,098,631,523)
Issued	1,605,473,907	401,368,477	1,605,473,907	401,368,477
Subscribed	2,267,701,423	536,712,014	2,146,848,057	536,712,014
Subscriptions receivable	(1,462,500,000)	(365,625,000)	(1,462,500,000)	(365,625,000)
	805,201,423	171,087,014	684,348,057	171,087,014
	2,410,675,330	₱572,455,491	2,289,821,964	₱572,455,491

The movements on shares outstanding as of December 31, 2008 and 2007 are as follows:

	2008	2007
Beginning balances	**2,289,821,964**	1,499,364,452
Issuances during the year	–	106,109,455
Subscriptions during the year	**120,853,366**	684,348,057
Ending balances	**2,410,675,330**	2,289,821,964

On November 13, 2007, the SEC approved the Parent Company's increase in authorized capital stock from ₱500,000,000 divided into 2,000,000,000 shares with the par value of ₱0.25 each, to ₱2,500,000,000 divided into 10,000,000,000 shares with the par value of ₱0.25 each. Accordingly, of the said increase in authorized capital stock, ₱500,000,000 consisting of 2,000,000,000 shares have been subscribed, and more than 25% thereof amounting to ₱134,375,000 have been paid in cash to the Parent Company on October 2, 2007. The deposit for future stock subscription is equivalent to 54,345,344 shares at ₱0.25 par value per share as of December 31, 2007.

In 2008, additional deposit for future stock subscription was made for 120,853,366 shares at ₱0.44 per share.

15. Other Income (Charges)

	2008	2007	2006
Gain on sale of AFS financial assets (Notes 6 and 9):	**₱9,751,659**	₱1,694,890	₱–
Gain on sale of financial assets as at FVPL (Notes 6 and 9)	**26,789**	–	–
Interest income on			
Cash and cash equivalents	**8,631,952**	3,341,361	1,516,449
AFS financial assets - investment in government bonds (Note 9)	**357,450**	3,307,748	199,354
Fair value adjustments on financial assets at FVPL (Note 6)	**(7,237,912)**	(67,499)	225,000
Dividend income	**47,985**	65,411	62,711
Unrealized gain from increase in fair value of investment properties (Note 10)	–	4,159,001	21,631,627
Reversal of allowance for doubtful accounts	–	–	4,558,680
Others	**48,232**	–	585,514
	₱11,626,155	₱12,500,912	₱28,779,335

16. Compensation of Key Management Personnel

Compensation of key management personnel consists of short-term employee benefits and post-employment benefits. Short-term employee benefits amounted to ₱11.1 million, ₱10.1 million and ₱3.1 million for 2008, 2007 and 2006, respectively, while post-employment benefits amounted to ₱1.6 million for 2008, ₱1.21 million for 2007 and none for 2006.

17. General and Administrative Expenses

	2008	2007	2006
Personnel:			
Employee benefits (Note 18)	**₱18,881,497**	₱14,045,635	₱99,669
Salaries and wages	**5,346,842**	12,967,773	4,089,682
Outside services	**16,087,460**	7,916,606	3,351,057
Transportation and travel	**8,554,625**	7,852,493	2,217,162
Entertainment, amusement and recreation	**4,030,883**	1,529,961	2,255,877
Depreciation and amortization	**3,348,034**	2,205,243	1,770,286
Taxes and licenses	**1,789,409**	6,228,499	654,579
Communication	**1,349,034**	2,181,969	627,485
Office supplies	**833,848**	936,933	205,517
Utilities	**670,866**	738,734	562,685
Repairs and maintenance	**235,224**	357,683	252,450
Others	**3,538,381**	2,842,289	2,449,232
	₱64,666,103	₱59,803,818	₱18,535,681

18. Retirement Benefits

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

The following tables summarize the components of the retirement benefits cost recognized in the consolidated statements of operations and the funded status and amounts recognized in the consolidated balances sheets.

a. The components of retirement benefits cost in the consolidated statement of operations are as follows:

	2008	2007
Current service cost	**₱3,401,500**	₱12,128,300
Interest cost	**223,700**	1,676,300
Expected return in plan assets	**(132,600)**	(38,800)
Actuarial gain	**(51,100)**	–
	₱3,441,500	₱13,765,800

b. The following table summarizes the accrued retirement benefits recognized in the consolidated balance sheets:

	2008	2007
Funded obligation:		
Present value of defined benefit obligation at end of period	**₱2,387,900**	₱2,183,100
Fair value of plan assets at end of period	**1,557,800**	1,657,500
	830,100	525,600
Unrecognized actuarial gain	**4,377,200**	1,240,200
	₱5,207,300	₱1,765,800

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

	2008	2007
Beginning balances	₱2,183,100	₱–
Current service cost	3,401,500	12,128,300
Interest cost	223,700	1,676,300
Benefits paid	–	(10,342,500)
Actuarial gain	(3,420,400)	(1,279,000)
Ending balances	₱2,387,900	₱2,183,100

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

	2008	2007
Beginning balance	₱1,657,500	₱–
Actuarial gain	(232,300)	(38,800)
Expected return on plan assets	132,600	38,800
Actual contributions	–	12,000,000
Benefits paid	–	(10,342,500)
Ending balances	₱1,557,800	₱1,657,500

The actual return on plan assets amounted to ₱99,700 in 2008 and none for 2007.

e. Movements of accrued retirement benefits recognized in the consolidated balance sheets are as follows:

	2008	2007
Beginning balance	₱1,765,800	₱–
Retirement benefits costs charged during the year	3,441,500	13,765,800
Actual contributions	–	(12,000,000)
Ending balances	₱5,207,300	₱1,765,800

The principal assumptions used in determining retirement benefits for the Parent Company's retirement benefits are as follows:

	2008	2007
Number of employees covered	28	20
Discount rate per annum	10.25%	9.50%
Salary projection rate	8.00%	9.00%
Expected return on plan asset	8.00%	8.00%

Discount rate as of December 31, 2008 is 16.05%.

Amounts as of December 31, 2008 and 2007 are as follows:

	2008	2007
Present value of defined benefit obligation	(₱2,387,900)	(₱2,183,100)
Fair value of plan assets	1,557,800	1,657,500
Deficit	830,100	525,600
Experience adjustment on plan liabilities	(497,600)	(1,029,800)
Experience adjustment on plan assets	(232,300)	(38,800)

f. The major categories of plan assets as of December 31, 2008 and 2007 as a percentage of fair value of total plan assets follow:

	2008	2007
Cash in banks	64%	64%
Money market investments	36%	36%
	100%	100%

The latest actuarial valuation report of the plan is as of December 31, 2008.

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

The Parent Company does not expect to contribute to the plan in 2009.

19. Income Taxes

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

b. Deferred income tax liabilities amounting to ₱9,854,325 and ₱22,909,008 as of December 31, 2008 and 2007, respectively, pertain to the income tax effect on the fair value adjustments on the Group's investment properties and movement in revaluation increment in property. The components of net deferred income tax assets recognized by the Group in 2008 and 2007 are as follows:

	2008	2007
Deductible temporary difference arising from provision for impairment loss on AFS financial assets	₱7,625,484	₱46,572,504
NOLCO	541,989	–
Fair value adjustments on AFS financial assets	456,275	417,250
Taxable temporary difference arising from revaluation increment in office condominium and fair value adjustments in investment properties	–	(8,359,482)
	₱8,623,748	₱38,630,272

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

	2008	2007	2006
NOLCO	₱157,307,738	₱89,452,486	₱34,693,431
Allowance for impairment of deferred oil exploration costs	38,200,000	–	–
Fair value adjustment loss on financial assets at FVPL	7,327,912	67,499	–

(Forward)

	2008	2007	2006
Unamortized past service cost and accrued retirement cost	**₱5,207,300**	₱1,765,800	₱–
Provision for probable loss	**1,960,842**	1,713,227	1,713,227
Excess MCIT over RCIT	**206,970**	311,099	311,099
Unrealized foreign exchange loss	**–**	4,486,852	640,596

d. As of December 31, 2008, 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
2008	₱73,581,570	₱196,133	2011
2007	64,297,411	–	2010
2006	21,235,387	10,837	2009
	₱159,114,368	₱206,970	

In 2008, the Group recognized deferred income tax asset amounting to ₱541,989 related to its NOLCO amounting to ₱1,806,630 and deferred income tax liability amounting to ₱541,989 related to its unrealized foreign exchange gain amounting to ₱1,806,630.

NOLCO that expired in 2008 and 2007 amounted to ₱11,000,019 and ₱21,800,538, respectively. Excess MCIT over RCIT that expired in 2008 and 2006 amounted to ₱300,262 and ₱228,307, respectively.

e. 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 statement of operations follows:

	2008	2007	2006
Benefit from income tax computed at statutory tax rate	**(₱31,537,522)**	(₱67,219,322)	(₱125,705,242)
Adjustments for:			
Movements of unrecognized deferred income tax assets	**38,909,003**	19,653,802	12,489,048
Write-off of deferred income tax assets	**26,985,967**	–	–
Nondeductible loss and expense	**1,451,436**	1,115,320	128,991,298
Interest income subject to final tax at lower rates	**(1,348,024)**	(1,585,278)	(458,187)
Dividend income	**(16,926)**	(22,893)	(21,599)
Gain on sale of investments	**(7,875)**	(593,212)	–
Nontaxable income	**–**	–	(7,571,069)
Effect of change in tax rate	**(15,967,316)**	4,276,640	–
Provision for (benefit from) income tax	**₱18,468,743**	(₱44,374,943)	₱7,724,249

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

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

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

20. Loss Per Share

	2008	2007	2006
Net loss attributable to equity holders of the Parent Company	**₱108,551,605**	₱147,655,541	₱366,600,170
Divided by weighted average number of shares outstanding	**2,350,248,647**	1,707,320,733	1,499,364,451
Loss per share	**₱0.05**	₱0.09	₱0.24

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

21. 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, 2008, the Group has three main business segments - investment holding, agriculture and oil and gas exploration.

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

The following table presents certain assets and liability information regarding the Group's business segments as of December 31, 2008:

	Investment Holding and Real Estate	Agriculture	Oil and gas exploration	*Eliminations*	Total
Results					
Loss before income tax	(₱84,560,192)	(₱5,463,209)	(₱83,809)	₱–	(₱90,107,210)
Provision for income tax	(18,427,670)	(36,068)	(5,005)	–	(18,468,743)
Net loss	(₱102,987,862)	(₱5,499,277)	(₱88,814)	–	(₱108,575,953)

	Investment Holding and Real Estate	Agriculture	Oil and gas exploration	*Eliminations*	Total
Assets and Liabilities					
Segment assets	₱370,818,875	₱96,694,662	₱2,675,571	*(₱124,726,673)*	₱345,462,435
Investment properties	120,086,299	–	–	–	120,086,299
Deferred income tax assets	8,081,759	–	–	–	8,081,759
Consolidated total assets	₱498,986,933	₱96,694,662	₱2,675,571	*(₱124,726,673)*	₱473,630,493
Consolidated total liabilities	₱41,327,067	21,951,541	₱62,735	*(₱33,134,106)*	₱30,207,237
Other Segment Information					
Addition to property and equipment	₱772,901	₱10,802,756	₱–	₱–	₱11,575,657
Depreciation and amortization	3,063,244	284,790	–	–	3,348,034

22. Equity Restructuring

a. On November 27, 2006, the SEC approved the Parent Company's equity restructuring as follows:

   i. Reducing the par value of its shares from ₱1.00 per share to ₱0.25 per share;

   ii. Amendment of the Parent Company's Articles of Incorporation by reducing the amount of capital stock from ₱2 billion divided into 2,000,000,000 common shares with par value of ₱1.00 per share to ₱500 million divided into 2,000,000,000 common shares with par value of ₱0.25 per share; which resulted in a creation of reduction surplus amounting to ₱1,124,523,338; and

   iii. Application of a portion of reduction surplus amounting to ₱765,908,172 against the Parent Company's deficit as of December 31, 2005 of the same amount. As of December 31, 2006, the balance of reduction surplus amounted to ₱358,615,166.

b. On February 22, 2007, the Parent Company applied for another equity restructuring to apply the outstanding reduction surplus of ₱358,615,166 and additional paid-in capital of ₱14,782,251 against the deficit as of April 30, 2006 of ₱373,397,417. The application was approved by the SEC on March 23, 2007.

23. Financial Instruments

Fair value 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, 2008 and 2007:

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Financial assets at FVPL				
Investments in:				
Publicly-listed shares of stocks	₱4,514,912	₱4,514,912	₱9,926,000	₱9,926,000
Philippine mutual funds	1,729,379	1,729,379	4,342,401	4,342,401
	6,244,291	6,244,291	14,268,401	14,268,401
Loans and receivables:				
Cash and cash equivalents	155,032,996	155,032,996	191,394,839	191,394,839
Receivables:				
Receivable from FEP	10,052,401	10,052,401	10,545,816	10,545,816
Due from ZNB Partners	4,670,900	4,670,900	10,824,519	10,824,519
Account receivable - net	520,026	520,026	509,798	509,798
Accrued interest receivable on AFS bond investments	505,692	505,692	315,200	315,200
Advances to employees	474,500	474,500	107,957	107,957
Due from ZNBC	–	–	3,361,108	3,361,108
	171,256,515	171,256,515	217,059,237	217,059,237
AFS financial assets (Note 9):				
Quoted government bonds	6,446,603	6,446,603	6,479,746	6,479,746
Quoted equity investments	17,218,499	17,218,499	25,625,666	25,625,666
Unquoted equity investments	3,327,150	3,327,150	3,323,650	3,323,650
	26,992,252	26,992,252	35,429,062	35,429,062
	₱204,493,058	₱204,493,058	₱266,756,700	₱266,756,700
Financial Liabilities				
Other Financial Liabilities:				
Accounts payable	₱14,359,914	₱14,359,914	₱4,488,535	₱4,488,535
Dividends payable	888,714	888,714	888,714	888,714
Other payables	438,973	438,973	693,925	693,925
	₱15,687,601	₱15,687,601	₱6,071,174	₱6,071,174

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

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

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

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

24. Financial Risk Management Objectives and Policies

The Group'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 are being used for investment purposes, while loans and receivables and accounts payable and accrued expenses arises 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.

Foreign Exchange Risk

Foreign exchange 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, 2008 and 2007 are as follows:

	2008		2007	
	Original Currency	**Peso Equivalent**	Original Currency	Peso Equivalent
Assets:				
Cash and cash equivalents - US$	**200,278**	**₱9,517,205**	31,596	₱1,304,233
Receivable from FEP - US$	**211,540**	**10,052,401**	255,700	10,555,296
AFS financial assets:				
Quoted equity investments				
Euro	**8,000**	**529,971**	13,633	825,600
GBP	**238,109**	**16,688,528**	300,096	24,800,083
		₱36,788,105		₱37,485,212

The Group recognized foreign exchange gain amounting to ₱1,806,630 for December 31, 2008 and foreign exchange loss amounting to ₱11,688,003 and ₱4,603,288 for December 31, 2007 and 2006, respectively, arising from the translation of foreign-currency denominated financial instruments.

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

For purposes of restating the foreign currency-denominated monetary assets and liabilities as of December 31, 2008 and 2007, the exchange rates applied were as follows:

	2008	2007
US$	**47.52**	41.28
GBP	**70.09**	82.64
EURO	**66.25**	60.56

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, 2008 and 2007 until the Group's next financial reporting date:

On US Dollar Denominated Assets:

	Change in Peso - Foreign Exchange Rate	Increase (decrease) in loss before income tax
2008	**Increase by 5%**	**(₱978,480)**
	Decrease by 5%	**978,480**
2007	Increase by 5%	(592,976)
	Decrease by 5%	592,976

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

On EURO Denominated Assets:

	Change in Peso - Foreign Exchange Rate	Increase (decrease) in equity
2008	**Increase by 5%**	**(₱26,499)**
	Decrease by 5%	**26,499**
2007	Increase by 5%	(41,280)
	Decrease by 5%	41,280

On GBP Denominated Assets:

	Change in Peso - Foreign Exchange Rate	Increase (decrease) in equity
2008	**Increase by 5%**	**(₱834,426)**
	Decrease by 5%	**834,426**
2007	Increase by 5%	1,240,004
	Decrease by 5%	(1,240,004)

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

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, 2008 and 2007 until the Group's next financial reporting date:

	Change in Quoted Prices of Investments Carried at Fair Value	Increase (decrease) on loss before income Tax	Increase (decrease) in Equity
2008			
Financial assets at FVPL	**Increase by 9%**	**₱561,986**	**₱–**
AFS financial assets	**Increase by 9%**	**–**	**1,549,665**
Financial assets at FVPL	**Decrease by 9%**	**(561,986)**	**–**
AFS financial assets	**Decrease by 9%**	**–**	**(1,549,665)**
2007			
Financial assets at FVPL	Increase by 9%	627,941	–
AFS financial assets	Increase by 9%	–	1,602,974
Financial assets at FVPL	Decrease by 9%	(627,941)	–
AFS financial assets	Decrease by 9%	–	(1,602,974)

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

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

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

	Change in Market Rate of Interest	Increase (decrease) on loss before income tax
2008		
	100 basis points (bp) rise	**₱65,000**
	100 bp fall	**(65,000)**
2007		
	100 basis points (bp)rise	96,710
	100 bp fall	(96,710)

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 table below summarizes the maximum exposure of the Group to credit risk for the components of the consolidated balance sheets.

	2008	2007
Cash and cash equivalents	₱155,032,996	₱191,394,839
Receivables:		
Receivable from FEP	10,052,401	10,545,816
Due from ZNB Partners	4,670,900	10,824,519
Accounts receivable	520,026	509,798
Accrued interest receivable on AFS bond investment	505,692	315,200
Advances to employees	474,500	107,957
Due from ZNBC Partners	–	3,361,108
	171,256,515	217,059,237
Financial assets at FVPL:		
Publicly-listed shares of stock	4,514,912	9,926,000
Philippine mutual funds	1,729,379	4,342,401
	6,244,291	14,268,401
AFS financial assets:		
Quoted government bonds	6,446,603	6,479,746
Quoted equity investments	17,218,499	25,625,666
Unquoted equity investments	3,327,150	3,323,650
	26,992,252	35,429,062
Total credit risk exposure	₱204,493,058	₱266,756,700

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 these parties have no history of default especially on transactions as agreed on the contract.

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

	2008		
	Neither Past Due nor Impaired (Satisfactory)	Past Due And Impaired	Total
Cash and cash equivalents	₱155,032,996	₱–	₱155,032,996
Receivables:			
Receivable from FEP	10,052,401	–	10,052,401
Accounts receivable	520,026	2,052,707	2,572,733
Accrued interest receivable on AFS bond investments	505,692	–	505,692
Advances to employees	474,500	–	474,500
Due from ZNB Partners	4,670,900	–	4,670,900
	16,223,519	2,052,707	18,276,226
Financial assets at FVPL:			
Publicly-listed shares of stock	4,514,912	–	4,514,912
Philippine mutual funds	1,729,379	–	1,729,379
	6,244,291	–	6,244,291
AFS financial assets:			
Quoted government bonds	6,446,603	–	6,446,603
Quoted equity investments	17,218,499	–	17,218,499
Unquoted equity investments	3,327,150	–	3,327,150
	26,992,252	–	26,992,252
	₱204,493,058	₱2,052,707	₱206,545,765

	2007		
	Neither Past Due nor Impaired (Satisfactory)	Past Due And Impaired	Total
Cash and cash equivalents	₱191,394,839	₱–	₱191,394,839
Receivables:			
Due from ZNB Partners	10,824,519	–	10,824,519
Receivable from FEP	10,545,816	–	10,545,816
Due from ZNBC	3,361,108	–	3,361,108
Accounts receivable	509,798	1,713,227	2,223,025
Advances to employees	107,957	–	107,957
Accrued interest receivable on AFS bonds investments	315,200	–	315,200
	25,664,398	1,713,227	27,377,625
Financial assets at FVPL:			
Publicly-listed shares of stocks	9,926,000	–	9,926,000
Philippine mutual funds	4,342,401	–	4,342,401
	14,268,401	–	14,268,401
AFS financial assets:			
Quoted government bonds	6,479,746	–	6,479,746
Quoted equity investments	25,625,666	–	25,625,666
Unquoted equity investments	3,323,650	–	3,323,650
	35,429,062	–	35,429,062
	₱266,756,700	₱1,713,227	₱268,469,927

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

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

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

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

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

	2008		
	Less than 3 months	**More than 3 months but less than one year**	**Total**
Accounts payable and accrued expenses:			
Accounts payable	₱14,359,914	₱–	₱14,359,914
Dividends payable	–	888,714	888,714
Other payables	438,953	–	438,953
	₱14,798,867	₱888,714	₱15,687,581

	2007		
	Less than 3 months	More than 3 months but less than one year	Total
Accounts payable and accrued expenses:			
Accounts payable	₱4,488,535	₱–	₱4,488,535
Dividends payable	–	888,714	888,714
Other payables	693,925	–	693,925
	₱5,182,460	₱888,714	₱6,071,174

Capital Management

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

The Group manages its capital structure and make adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares. No changes were made on the objectives, policies or processes during the years ended December 31, 2008 and 2007.

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:

	2008	2007
Capital stock	**₱572,455,491**	₱572,455,491
Additional paid-in capital	**4,105,430**	4,105,430
Deposits for future stock subscription	**66,761,817**	13,586,336
Deficit	**(213,543,202)**	(104,494,597)
	₱429,779,536	₱485,652,660

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 March 31, 2009
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	2,289,821,964
Listed with PSE	2,289,821,964

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 May 12, 2009

Principal Financial/
Accounting Officer/Controller MARIETTA V. VILLAFUERTE

Signature and Title VP & Treasurer

Date May 12, 2009

ATTACHMENT "A"
FINANCIAL INFORMATION
For the Quarter Ended March 31, 2009

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

   1.1 Statements of Income and Retained Earnings for the Period Ended March 31, 2009 and March 31, 2008;
   1.2 Balance Sheets as of March 31, 2009 and December 31, 2008;
   1.3 Statements of Cash Flows for the Period Ended March 31, 2009 and March 31, 2008;
   1.4 Statements of Changes in Stockholders' Equity for the Period Ended March 31, 2009 and March 31, 2008.

2. Discussion on Financial Condition for the Period December 31, 2008 to March 31, 2009.

   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 three interim periods:

KEY PERFORMANCE INDICATORS	1st Qtr 2009	1st Qtr 2008	1st Qtr 2007
Return on Investments (ROI) (Net Income/Ave.Stockholders' Equity)	-3.355%	-3.226%	-0.863%
Profit Margin (Net Income/Net Revenue)	-1039.46%	-505.3%	-252.50%
Investment in Projects(Non-Petroleum) as a % of Total Assets	40.41%	23.34%	27.8%
Investment in Wells & Other Facilities as a % of Total Assets	6.90%	13.58%	16.7%
Current Ratio (Current Asset/Current Liabilities)	10.38:1	42.54:1	53.33:1
Asset turnover (Net revenue/Ave.Total Assets)	0.301%	0.673%	0.478%

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 (-3.355%) and Profit Margin (-1,039.462%) show negative rates because of the loss for the first quarter. Net loss for the 1st quarter of 2009 was PhP 14.607 million, was less by PhP 1.229 million compared to the net loss booked for the 1st quarter of 2008 of PhP 15.836 million. This was due to the decrease in costs and expenses for the 1st quarter of 2009 which partly offset the decline in revenue for the same quarter.

Investment in Projects (Non- Petroleum) as a % of Total Assets increased during the 1st quarter of 2009 compared to the same quarter in 2008 mainly due to the additional investments in non-petroleum projects booked for the year.

Investment in Wells & Other Facilities as a % of Total Assets decreased during the 1st quarter of 2009 compared to the same quarter in 2008 due to provisions for impairment losses on deferred exploration costs.

B. Discussion and Analysis of Financial Condition as of March 31, 2009

For the quarter ending March 31, 2009, Net Loss on a consolidated basis was PhP 14.607 million from Total Revenues of PhP 1.405 million and Total Costs and Expenses of PhP 16.017 million.

There was no revenue from Petroleum Operations during the quarter.

Total revenue for the quarter amounted to PhP 1.405 million which was mostly in interest income from cash and placements. Compared to the same quarter last year, total revenue registered a decline of PhP 1.729 million. This was due to the decrease in interest income of PhP 866 thousand due to the decrease in cash and cash placements. Other income likewise registered a decrease of PhP 863 thousand as last year booked an extraordinary income from the sale of shares of stock which were already written off in the books.

Cash and Cash Equivalents of PhP 133.811 million decreased by PhP 21.222 million during the first quarter of 2009 compared to the balance as of December 31, 2008 of PhP 155.033 million. The decrease was due to the operating costs incurred and additional investments and property and equipment booked for the 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, 2008.

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 March 31, 2009.

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 537,500,000 common shares of Basic Energy Corporation which was approved by the PSE on January 09, 2008.

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, 2008, 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 March 31, 2009 and December 31, 2008

		UNAUDITED March 31, 2009		AUDITED December 31, 2008
ASSETS				
Current Assets				
Cash and cash equivalents	₱	133,810,891	₱	155,032,996
Financial assets at fair value through profit and loss		6,892,954		6,244,291
Receivables-net		11,292,744		11,552,619
Other current assets		5,198,865		4,757,146
Total Current Assets		157,195,455		177,587,052
Investments and Advances - net		148,094,180		147,078,550
Property and Equipment		42,481,055		38,894,927
Project Development costs		64,299,812		63,284,430
Deferred Exploration costs		31,681,173		31,681,173
Deferred income tax asset		8,623,748		8,623,748
Intangible asset		7,022,602		7,022,602
		302,202,570		296,585,430
Total Assets	₱	459,398,025	₱	474,172,482
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued expenses	₱	15,145,451	₱	15,687,601
Income tax payable				0
Total Current Liabilities	₱	15,145,451	₱	15,687,601
Non Current Liabilities				
Deferred income tax liabilities		9,854,325		9,854,325
Accrued retirement benefit		5,587,075		5,207,300
Total Noncurrent liabilities		15,441,400		15,061,625
Total liabilities	₱	30,586,851	₱	30,749,226
Minority Interest		711,297		716,315
Stockholders' Equity				
Atribute to equity holders of the Company:				
Capital stock[held by 7,231 & 7,291 equity holders as of 2008 & 2007 respectively		572,455,491		572,455,491
Additional Paid-In Capital		4,105,430		4,105,430
Deposit for future subscriptions		66,761,817		66,761,817
Revaluation increment in office condominium		13,915,999		13,915,999
Fair value adjustments on financial assets		(988,594)		(988,594)
Deficit		(228,150,267)		(213,543,202)
Total Equity		428,099,877		442,706,941
Total Liabilities and Stockholders' Equity	₱	459,398,025	₱	474,172,482

BASIC ENERGY CORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
For the period ended March 31, 2009 and March 31, 2008

	As of March 31, 2009	As of March 31, 2008
REVENUES		
Interest, dividendsand others	₱ 1,402,969	₱ 2,269,181
Other Income	2,289	865,190
Fair Value Adjustments on FVPL Investment	-	
	1,405,257	3,134,371
COSTS AND EXPENSES		
General and administrative expenses	16,609,264	15,285,840
Provision for Impairment Losses	234,370	1,974,750
Loss on sale of FVPL securities	(648,663)	1,274,384
Foreign Exchange Loss	(177,633)	-75
	16,017,338	18,534,899
LOSS BEFORE INCOME TAX	(14,612,081)	(15,400,528)
PROVISION FOR INCOME TAX		
Current	0	437,931
Deferred		
	0	437,931
NET INCOME (LOSS)	(14,612,081)	(15,838,459)
MINORITY INTEREST	5,018	2,526
	(14,607,063)	(15,835,933)
RETAINED EARNINGS AT BEGINNING OF YEAR / QUARTER	(213,543,203)	(104,494,597)
	-	
	-	0
RETAINED EARNINGS (DEFICIT) AT END OF YEAR/ QUARTER	₱ (228,150,267)	₱ (120,330,530)
Earnings (Loss) Per Share	₱ (0.0064)	₱ (0.0069)

Formula: Earnings (Loss) Per Share = *Net Loss / No. of shares for period ended March 31, 2009*
2,289,821,964

= *Net Loss / No. of share for the quarter ended march 31, 2008*
2,289,821,964

BASIC ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Period Ended March 31, 2009 and March 31, 2008

	1st quarter 2009	1st quarter 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (loss)	₱ (14,612,081)	₱ (15,400,528)
Adjustment to reconcile net income to net cash provided by operating activities		
Interest Income	(1,388,529)	(2,261,318)
Depreciation.depletion and amortization	1,371,666	725,882
Loss (gain) on sale of property and equipments and investments	-	424,000
Fair Value Adjustment on financial assets at FVPL and impairment losses on AFS	(414,292)	2,825,134
Unrealized Foreign Exchange Gain	(177,633)	
Dividend Income	(14,440)	(7,863)
Operating Income (loss) before woring capital changes	(15,235,309)	(13,894,893)
Changes in assets and liabilities		
Decrease (Increase) in asset/s		
Financial assets at faiv value through profit or loss	-	-
Receivables	259,875	(321,346)
Prepayments and other current assets	(441,719)	(606,857)
Increase (Decrease) in liabilities		
Accounts payable & accrued expenses	(542,150)	(957,205)
Accrued Retirement Fund	379,775	860,378
Other Liabilities	-	-
Cash generated from (used in) operations	(15,579,528)	(14,821,528)
Interest received	1,388,529	2,361,442
Taxes paid		(437,931)
Net cash flows from (used) in operating activities	₱ (14,190,999)	₱ (12,998,015)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to AFS Investment	(1,015,630)	₱ (2,443,900)
Financial Assets at FVPL	(234,370)	
Payment for Project Development Cost	(1,015,383)	918,500
Purchase of property and equipment	(4,957,796)	(688,451)
Dividends received	14,440	7,863
Net cash provided in investing activities	₱ (7,208,739)	₱ (2,205,988)
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	177,633	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT	(21,222,105)	₱ (15,204,003)
CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR/QUARTER	155,032,996	191,394,839
CASH AND CASH EQUIVALENT AT END	₱ 133,810,891	₱ 176,190,836

BASIC ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY -4-
For the Period Ended March 31, 2009 and March 31, 2008

	Quarters Ended March 31	
	2009	2008
CAPITAL STOCK - P 0.25 par value		
Authorized - 2,000,000,000 shares		
Issued and Subscribed	2,289,821,964	2,289,821,964
Held by a Subsidiary		
Paid-up Capital Stock at beginning of year	572,455,491	572,455,491
Issuance of capital stock		
Paid-up Capital Stock at end of period/quarter	572,455,491	572,455,491
ADDITIONAL PAID-IN CAPITAL		
Balance at beginning of year	4,105,430	4,105,430
Equity restructuring		
Issuance of Capital Stock		
Balance at end of period	4,105,430	4,105,430
DEPOSITS FOR FUTURE STOCK SUBSCRIPTION	66,761,817	13,586,336
Revaluation Increment in office condominium	13,915,999	13,998,833
Fair value adjustments on financial assets	(988,594)	(774,891)
RETAINED EARNINGS (Deficit)		
Balance at beginning of the year	(213,543,203)	(104,494,597)
Net loss for the period	(14,607,063)	(15,835,933)
Equity Restructuring		
Balance at end of period	(228,150,267)	(120,330,530)
TOTAL STOCKHOLDERS' EQUITY	428,099,877	483,040,669

BASIC ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE OF ACCOUNTS PAYABLE AND ACCRUED EXPENSES
As of March 31, 2009

Ecomarketfarms, Inc.	12,500,000
Astra Securities	375,000
Sycip Salazar Law Offices	181,108
SSS/Philhealth/HDMF/BIR Payables	293,566
Accrued Expense Payables	799,797
Others	995,980
Total	15,145,451

Basic Energy Corporation. & Subsidiaries
Aging of Accounts Receivable
As of March 31, 2009

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	Past 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	10,052,400		-		-	10,052,400			
2) Advances to officers/employ	757,446	450,879	306,567						
3) Receivables from stockholde	1,718,887	-	-		-		-	1,718,887	
3) Others	816,718	6,053		133,024			677,641		
Subtotal	13,345,451	456,932	306,567	133,024	-	10,052,400	677,641	1,718,887	
Less: Allow. For Doubtful Acct.	(2,052,707)	-	(339,480)		-	-	-	(1,713,227)	
Net Non-trade receivable	11,292,744	456,932	(32,913)	133,024	-	10,052,400	677,641	5,660	-
Net Receivables (a + b)	11,292,744	456,932	(32,913)	133,024	-	10,052,400	677,641	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.

BASIC ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE OF ACCOUNTS RECEIVABLES
As of March 31, 2009

Receivable from Stockholders	1,718,887
Forum PLC	10,052,401
Vital Resources Corp.	113,165
Advances to Officers & Employees	757,446
Others	703,553
Vital Resources Corp.	0
Less: Allowance for uncollectible accounts	(2,052,707)
	11,292,744