COVER SHEET

3 6 3 5 9

SEC Registration Number

BASIC ENERGY CORPORATION
AND SUBSIDIARIES

(Company's Full Name)

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

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

Marietta V. Villafuerte
(Contact Person)

(632) 817-8596 to 98
(Company Telephone Number)

12 31
Month *Day*
(Calendar Year)

AACFS
(Form Type)

07 18
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

6,853
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.

EXHIBIT -1

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

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Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Basic Energy Corporation and subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Basic Energy Corporation and subsidiaries as at December 31, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 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-3 (Group A),
January 18, 2013, valid until January 17, 2016
Tax Identification No. 102-089-397
BIR Accreditation No. 08-001998-58-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3670024, January 2, 2013, Makati City

March 20, 2013

SEC
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BASIC ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱202,436,999**	₱311,754,005
Short-term cash investments	**8,210,000**	8,768,000
Receivables (Note 6)	**45,450,565**	1,705,712
Prepayments and other current assets	**1,430,455**	840,540
Total Current Assets	**257,528,019**	323,068,257
Noncurrent Assets		
Long-term cash investment	**6,157,500**	–
Available-for-sale (AFS) financial assets (Note 7)	**305,867,784**	55,984,380
Investment properties (Note 8)	**193,479,343**	120,086,298
Property and equipment (Note 12)		
At cost	**9,796,834**	10,342,527
At revalued amount	**24,370,645**	14,909,998
Deferred charges (Note 11)	**45,185,414**	40,680,455
Deferred income tax assets (Note 20)	**13,311,942**	9,256,558
Other noncurrent assets (Note 4)	**3,757,602**	3,761,102
Total Noncurrent Assets	**601,927,064**	255,021,318
TOTAL ASSETS	**₱859,455,083**	₱578,089,575
LIABILITIES AND EQUITY		
Current Liability		
Accounts payable and accrued expenses (Note 13)	**₱2,513,258**	₱6,723,074
Noncurrent Liabilities		
Deferred income tax liabilities (Note 20)	**16,852,314**	10,487,136
Accrued retirement benefits (Note 19)	**3,284,513**	2,475,300
Total Noncurrent Liabilities	**20,136,827**	12,962,436
Total Liabilities	**22,650,085**	19,685,510

(Forward)

	December 31	
	2012	2011
Equity		
Capital stock [held by 6,853 and 6,950 equity holders in 2012 and 2011, respectively] (Note 14)	**₱610,623,378**	₱610,623,378
Additional paid-in capital	**32,699,360**	32,699,360
Deposit for future stock subscription (Note 14)	**6,675,000**	–
Revaluation increment in office condominium (Note 12)	**17,059,457**	10,437,004
Net unrealized gains (loss) on changes in fair value of AFS financial assets (Note 7)	**18,069,385**	(509,593)
Retained earnings (Deficit)	**154,918,277**	(91,624,127)
Total equity attributable to equity holders of the Parent Company	**840,044,857**	561,626,022
Noncontrolling interest	**141**	18,043
	840,044,998	561,644,065
Treasury stock - at cost (Note 15)	**(3,240,000)**	(3,240,000)
Total Equity	**836,804,998**	558,404,065
TOTAL LIABILITIES AND EQUITY	**₱859,455,083**	₱578,089,575

See accompanying Notes to Consolidated Financial Statements.

BASIC ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2012	2011	2010
INCOME			
Income from previous sale of Basic Petroleum and Minerals, Inc. (BPMI) (Note 4)	**₱224,955,850**	₱198,467,991	₱78,236,225
Fair value adjustment on investment properties (Note 8)	**73,393,045**	–	–
Gain on settlement (Note 4)	–	8,224,842	–
Sales (Note 9)	–	1,731,720	5,760,875
Foreign exchange gain - net	–	861,796	–
Realized fair value adjustment on AFS financial assets (Note 7)	–	–	24,057,696
Other income - net (Note 16)	**20,285,026**	11,317,463	4,907,914
	318,633,921	220,603,812	112,962,710
COSTS AND EXPENSES			
General and administrative expenses (Note 18)	**(49,544,854)**	(41,881,571)	(31,531,370)
Foreign exchange loss - net	**(5,218,944)**	–	(2,901,106)
Provision for impairment on AFS financial assets (Note 7)	**(3,188,403)**	–	–
Fair value adjustment on agricultural produce (Note 9)	–	–	(16,445,998)
Provision for impairment losses on project development cost and deferred charges (Notes 10 and 11)	–	(46,731,677)	(20,542,635)
Cost of sales (Note 9)	–	(7,201,046)	(9,592,656)
Provision for impairment loss of property and equipment (Note 12)	–	(2,588,970)	–
Others (Notes 4 and 9)	–	(3,474,404)	(10,699,512)
	(57,952,201)	(101,877,668)	(91,713,277)
INCOME BEFORE INCOME TAX	**260,681,720**	118,726,144	21,249,433
PROVISION FOR INCOME TAX (Note 20)	**15,255,960**	2,388,512	6,497,346
NET INCOME	**245,425,760**	116,337,632	14,752,087
OTHER COMPREHENSIVE INCOME (LOSS)			
Revaluation increment in office condominium	**11,030,278**	–	–
Income tax effect	**(3,309,083)**	–	–
	7,721,195	–	–
Unrealized gain (loss) on AFS financial assets (Note 7)	**18,496,932**	(1,790,891)	214,717
Income tax effect	**82,046**	537,267	(64,415)
	18,578,978	(1,253,624)	150,302

(Forward)

	Years Ended December 31		
	2012	2011	2010
Fair value changes of AFS financial assets removed from equity and recognized in profit or loss through sale of investment in AFS financial assets (Note 7)	**₱–**	₱–	(₱17,064,400)
Income tax effect	**–**	–	5,119,320
	–	–	(11,945,080)
	26,300,173	(1,253,624)	(11,794,778)
TOTAL COMPREHENSIVE INCOME	**₱271,725,933**	₱115,084,008	₱2,957,309
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**₱245,443,662**	₱116,358,275	₱15,353,877
Noncontrolling interest	**(17,902)**	(20,643)	(601,790)
	₱245,425,760	₱116,337,632	₱14,752,087
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**₱271,743,835**	₱115,104,651	₱3,559,099
Noncontrolling interest	**(17,902)**	(20,643)	(601,790)
	₱271,725,933	₱115,084,008	₱2,957,309
EARNINGS PER SHARE (Note 21)			
Basic	**₱0.100**	₱0.048	₱0.006
Diluted	**0.083**	0.039	0.005

See accompanying Notes to Consolidated Financial Statements.

BASIC ENERGY CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 and 2010

	Attributable to Equity Holders of the Parent Company										
	Capital Stock (Notes 14)	Additional Paid-in Capital (Note 14)	Deposit for Future Stock Subscription (Note 14)	Revaluation Increment in Office Condominium (Note 12)	Net unrealized gain (loss) on changes in fair value of AFS Financial Assets (Note 7) Equity	Debt	Retained Earnings (Deficit)	Total	Noncontrolling Interest	Treasury stock	Total Equity
BALANCES AT DECEMBER 31, 2009	**₱602,668,833**	**₱27,067,569**	**₱24,386,336**	**₱12,756,334**	**₱12,521,962**	**₱16,847**	**(₱225,655,609)**	**₱453,762,272**	**₱640,476**	**₱–**	**₱454,402,748**
Total comprehensive income	–	–	–	–	(11,777,931)	(16,847)	15,353,877	3,559,099	(601,790)	–	2,957,309
Transfer of portion of revaluation										–	
increment realized through depreciation	–	–	–	(1,159,665)	–	–	1,159,665	–	–	–	–
Issuance of capital stock	7,954,545	5,631,791	(13,586,336)	–	–	–	–	–	–	–	–
Termination of deposit of future stock subscription	–	–	(10,800,000)	–	–	–	–	(10,800,000)	–	–	(10,800,000)
BALANCES AT DECEMBER 31, 2010	**610,623,378**	**32,699,360**	–	**11,596,669**	**744,031**	–	**(209,142,067)**	**446,521,371**	**38,686**	–	**446,560,057**
Total comprehensive income	–	–	–	–	(1,253,624)	–	116,358,275	115,104,651	(20,643)	–	115,084,008
Transfer of portion of revaluation											
increment realized through depreciation	–	–	–	(1,159,665)	–	–	1,159,665	–	–	–	–
Acquisition of treasury stock	–	–	–	–	–	–	–	–	–	(3,240,000)	(3,240,000)
BALANCES AT DECEMBER 31, 2011	**610,623,378**	**32,699,360**	–	**10,437,004**	**(509,593)**	–	**(91,624,127)**	**561,626,022**	**18,043**	**(3,240,000)**	**558,404,065**
Total comprehensive income	–	–	–	7,721,195	(361,316)	18,940,294	245,443,662	271,743,835	(17,902)	–	271,725,933
Transfer of portion of revaluation											–
increment realized through depreciation	–	–	–	(1,098,742)	–	–	1,098,742	–	–	–	–
Increase in deposits for future stock subscription	–	–	6,675,000	–	–	–	–	6,675,000	–	–	6,675,000
BALANCES AT DECEMBER 31, 2012	**₱610,623,378**	**₱32,699,360**	**₱6,675,000**	**₱17,059,457**	**(₱870,909)**	**₱18,940,294**	**₱154,918,277**	**₱840,044,857**	**₱141**	**(₱3,240,000)**	**₱836,804,998**

See accompanying Notes to Consolidated Financial Statements

BASIC ENERGY CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱260,681,720**	₱118,726,144	₱21,249,433
Adjustments for:			
Fair value adjustment on investment properties (Note 8)	**(73,393,045)**	–	–
Interest income (Note 16)	**(17,707,366)**	(11,264,786)	(4,918,095)
Unrealized foreign exchange loss (gain) - net	**4,091,773**	(2,921,992)	2,901,106
Depreciation and amortization (Note 12)	**3,642,532**	3,320,565	3,054,324
Retirement benefits expense (Note 19)	**3,309,213**	1,569,700	1,450,100
Provision for impairment on AFS financial assets (Note 7)	**3,188,403**	–	–
Dividend income (Note 16)	**(754,990)**	(5,508)	(5,666)
Provision for impairment of property and equipment (Note 12)	–	2,588,970	–
Provision for impairment losses on project development cost and deferred charges (Notes 10 and 11)	–	46,731,677	20,542,635
Gain on settlement (Note 4)	–	(8,224,842)	–
Cost of harvested crops (Note 9)	–	6,338,428	7,315,528
Loss on biological assets (Note 9)	–	3,474,404	–
Realized fair value adjustment on AFS financial assets (Note 7)	–	–	(24,057,696)
Fair value adjustment on agricultural produce (Note 9)	–	–	16,445,998
Project settlement (Note 4)	–	–	10,699,512
Others	**402,597**	–	93,729
Operating income before working capital changes	**183,460,837**	160,332,760	54,770,908
Decrease (increase) in:			
Short-term cash investments	**140,702**	(8,768,000)	–
Receivables	**(44,040,071)**	9,326,222	(418,270)
Biological assets	–	(1,302,380)	(10,808,524)
Agricultural produce (Note 9)	–	125,839	(125,839)
Prepayments and other current assets	**(589,914)**	159,422	704,402
Increase (decrease) in accounts payable and accrued expenses	**(4,296,601)**	2,865,167	(225,464)
Net cash generated from operations	**134,674,953**	162,739,030	43,897,213
Interest received	**13,277,419**	10,448,662	5,306,814
Income taxes paid (including final taxes on interest income)	**(12,720,266)**	(2,688,845)	(1,356,276)
Contributions to the retirement fund (Note 19)	**(2,500,000)**	–	–
Net cash flows from operating activities	**132,732,106**	170,498,847	47,847,751
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
AFS financial assets	**(234,571,375)**	(50,592,368)	–
Long term cash investment	**(6,431,500)**		
Deferred charges (Note 11)	**(4,504,959)**	(9,412,768)	(2,510,491)
Property and equipment (Note 12)	**(3,365,792)**	(2,736,939)	(2,658,612)

(Forward)

	Years Ended December 31		
	2012	2011	2010
Proceeds from sale of property and equipment	**₱1,420,000**	₱604,334	₱–
Dividends received (Note 16)	**754,990**	5,508	5,666
Proceeds from settlement (Note 4)	**–**	15,261,300	1,187,195
Proceeds from sale of financial assets at FVPL and AFS financial assets	**–**	–	49,095,360
Net cash flows from (used in) investing activities	**(246,698,636)**	(46,870,933)	45,119,118
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in deposits for future stock subscription	**6,675,000**	–	–
Acquisition of treasury stock (Note 15)	**–**	(3,240,000)	–
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(2,025,476)**	155,525	(1,942,200)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(109,317,006)**	120,543,439	91,024,669
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**311,754,005**	191,210,566	100,185,897
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱202,436,999**	₱311,754,005	₱191,210,566

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information, Organizational Changes and Authorization for Issuance of the Consolidated Financial Statements

Corporate Information

Basic Energy Corporation (the Parent Company), a publicly listed corporation, and its subsidiaries (collectively referred to as the 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 August 10, 2007, the Philippine Securities and Exchange Commission (SEC) approved the amendment of the Parent Company's primary and secondary purposes, transforming the Parent Company into a holding company with diversified business interests in the different fields of renewable energy and alternative fuels, while pursuing its core business in oil and gas exploration and development.

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

Subsidiaries	Date of Incorporation	Percentages of Ownership	Nature of Business
Basic Diversified Industrial Holdings, Inc. (BDIHI)	February 16,1994	100.00	Investment holding
iBasic, Inc. (iBasic)	April 13, 1998	100.00	Real estate (no development activities) and information technology
Basic Ecomarket Farms Inc. (BEFI)	September 18, 2008	100.00	Agriculture
Basic Biofuels Corporation (BBC)	November 21, 2006	100.00	Development of biofuels (no development activities)
Basic Geothermal Energy Corporation (BGEC)	October 11, 2011	100.00	Exploration and development of geothermal energy resources
Southwest Resources, Inc. (SWR)	May 28, 1976	72.58	Oil exploration and investment holding

Organizational Changes

The Parent Company amended its By-laws on June 29, 2011 to delineate the position and responsibilities of the Chairman from the Chief Executive Officer (CEO) of the Parent Company and to define the duties and responsibilities of the President and the Chief Operating Officer (COO). These amendments were in line with corporate governance principles enjoining the separation of the positions and responsibilities of the Chairman and the CEO, and were approved by the SEC on July 29, 2011. On August 31, 2011, the Board of Directors (BOD) appointed Mr. Oscar C. De Venecia as Chairman and Mr. Oscar L. De Venecia, Jr. as President and CEO. The duties and responsibilities of the COO were incorporated with those of the Executive Vice President.

On February 28, 2011, former Speaker of the House of Representatives, Mr. Jose C. De Venecia, Jr., was appointed by the BOD as the Chairman of the Advisory Board.

Authorization for Issuance of the Consolidated Financial Statements
The consolidated financial statements were authorized for issuance by the BOD during its meeting on March 20, 2013.

2. Significant Accounting and Financial Reporting Policies

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale (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 the Parent Company and its subsidiaries as of December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies.

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

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

Noncontrolling Interest
Noncontrolling interest represents the 27.42% equity interest in the net assets of SWR that are not held by the Group as of December 31, 2012 and 2011 and are presented separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and within the equity section in the consolidated balance sheet, separately from the equity attributable to equity holders of the Parent Company. Non-controlling interest shares in the losses even if the losses exceed the non-controlling equity interest in the subsidiary. A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amounts of any non-controlling interest; (c) recognizes the fair value of consideration received; (d) recognizes the fair value of any investment retained; (e) recognizes any surplus or deficit in the consolidated statement of income; and (f) reclassifies the parent's share of components previously recognized in consolidated statement of comprehensive income to the consolidated statement of income or retained earnings, as appropriate.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except that the Group adopted the amendments to PFRS and Philippine Accounting Standards (PAS) effective in 2012. The adoption of the following amended PFRS and PAS are relevant but do not have a significant impact on the consolidated financial statements:

- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets* (Amendments) - require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

- PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendments) - clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset.

Future Changes in Accounting Policies
The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new changes in PFRS, PAS and Philippine Interpretatipons to have a significant impact on the consolidated financial statements. The relevant disclosures will be included in the notes to the consolidated financial statements when these become effective.

Effective in 2013

- Amendments to PFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*, require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements).

  The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information.

  This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a. the gross amounts of those recognized financial assets and recognized financial liabilities;
b. the amounts that are set-off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c. the net amounts presented in the statement of financial position;
d. the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   i. amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   ii. amounts related to financial collateral (including cash collateral); and
e. the net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. The amendment affects disclosures only and will have no impact on the Group's financial position and performance.

- PFRS 10, *Consolidated Financial Statements*, replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

  A reassessment of control was performed by the Parent Company on its subsidiaries in accordance with the provisions of PFRS 10. Following the reassessment, the Parent Company determined that it still controls the subsidiaries.

- PFRS 11, *Joint Arrangements*, replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities (JCEs) - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for JCEs using proportionate consolidation.

  Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013. This standard will not impact the Group's financial position and performance.

- PFRS 12, *Disclosure of Interests with Other Entities*, includes all of the disclosures related to consolidated financial statements that were previously included in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The adoption of PFRS 12 will affect disclosures only and have no impact on the Group's financial position or performance.

- PFRS 13, *Fair Value Measurement*, establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The Group does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). The interpretation addresses the accounting for the benefit from the stripping activity. This interpretation becomes effective for annual periods beginning on or after January 1, 2013. This new interpretation is not relevant to the Group.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments), change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result in the modification of the presentation of items of OCI.

- PAS 19, *Employee Benefits (Amendment),* ranges from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. Once effective, the Group has to apply the amendments retrospectively to the earliest period presented.

  The Group obtained the services of an external actuary to compute the impact to the consolidated financial statements upon adoption of the standard. The effects are detailed below:

	As of December 31, 2012	As of January 1, 2012
Balance Sheet		
Increase (decrease) in:		
Accrued retirement benefits	₱4,629,259	₱3,640,200
Deferred income tax asset	1,388,778	1,092,060
Accumulated other comprehensive income	(3,370,337)	(2,565,106)
Retained earnings	129,856	16,966

Statement of Comprehensive Income	2012	2011
Decrease in retirement benefits cost	₱161,271	₱24,237
Increase in provision for income tax	(48,381)	(7,271)
Increase in net income	112,890	16,966
Increase in other comprehensive loss	(1,150,330)	(3,664,437)
Increase in provision for income tax	345,099	1,099,331
Increase in other comprehensive loss	(805,231)	(2,565,106)
Decrease in total comprehensive income	(₱692,341)	(₱2,548,140)

- PAS 27, *Separate Financial Statements* (Revised). As a consequence of the new PFRS 10 and PFRS 12 what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group presents separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- PAS 28, *Investments in Associates and Joint Ventures* (Revised). As a consequence of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The Group expects that this amendment will not have any impact on the Company's financial position and performance.

Annual Improvements to PFRSs (2009-2011 cycle)
The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

The following improvements effective for annual periods beginning January 1, 2013 will have no impact on the Group:

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs* - clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information* - clarifies the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 16, *Property, Plant and Equipment - Classification of servicing equipment* - clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.

- PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments* - clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Group expects that this amendment will not have any impact on its financial position and performance.

- PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities* - clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

The Group continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to December 31, 2012 on the Group's consolidated financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.

Effective in 2014

- Amendments to PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities*, clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

Effective in 2015

- PFRS 9, *Financial Instruments – Classification and Measurement*, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

  The Group has made an evaluation of the impact of the adoption of this standard. The Group decided not to early adopt PFRS 9 for its 2012 reporting ahead of its effectivity date on January 1, 2015 and therefore the financial statements and as of December 31, 2012 and 2011 do not reflect the impact of the said standard. Based on this evaluation, loans and receivables and other financial liabilities, both carried at amortized cost, will not be significantly affected. Upon adoption, these financial instruments shall continue to be carried at amortized cost, thus, has no impact to the Group's financial position and performance.

The Group shall conduct another impact assessment at the end of the 2013 reporting period using the financial statements as of and for the year ended December 31, 2012. Given the amendments on PFRS 9, the Group at present, does not plan to early adopt in 2013 financial reporting. It plans to reassess its current position once the phases of PFRS 9 on impairment and hedge accounting become effective.

The Group's decision whether to early adopt PFRS 9 for its 2013 financial reporting will be disclosed in the financial statements as of and for the year ending December 31, 2013.

The Group's receivables and accounts payable and accrued expenses may be affected by the adoption of this standard.

Effectivity date to be determined

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. 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 reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The adoption of this Philippine Interpretation may significantly affect the determination of the revenue from real estate sales and the corresponding costs, and the related contracts receivables, deferred income tax assets and retained earnings accounts. The amendment will not have any significant impact on the Group's financial position or performance.

Business Combination and Goodwill

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

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

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

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

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

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

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

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

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

Cash Investments
Short-term cash investments consist of short-term money-market placements and time deposits with original maturities of more than three months but less than a year. Placement and time deposits with maturities of more than one year are classified as noncurrent assets under "Long-term cash investment" account.

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

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

As of December 31, 2012 and 2011, the Group has no HTM financial assets.

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

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

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

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

"Day 1" difference
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" difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference amount.

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

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

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

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

As of December 31, 2012 and 2011, the Group has no investments in financial assets and financial liabilities at FVPL.

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

As of December 31, 2012 and 2011, included under loans and receivables are cash and cash equivalents, short-term and long-term cash investments, and receivables (consisting of receivable from Forum Energy Plc (FEP), interest receivable and other receivables) (see Notes 5 and 6).

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

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

As of December 31, 2012 and 2011, included under AFS financial assets are the Group's investments in shares of stock and government bonds (see Note 7).

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

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

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

As of December 31, 2012 and 2011, included in other financial liabilities are the Group's accounts payable and accrued expenses (see Note 13).

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

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

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

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

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

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

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

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

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

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

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

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

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

In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss is removed from other comprehensive income (loss) and recognized in profit or loss.

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

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

Prepayments

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

Valued-added Tax (VAT)

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

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

Investment Properties

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

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

Property and Equipment

Property and equipment, other than office condominium, are carried at cost less accumulated depreciation and amortization and any impairment in value.

Office condominium is carried at revalued amount less depreciation and any impairment in value charged subsequent to the date of the revaluation. 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 the depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's original cost. Additionally, accumulated depreciation at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation increment relating to the particular asset sold is transferred to retained earnings (deficit).

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

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

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

	Number of Years
Office condominium	15
Office equipment, furniture and fixtures	4 to 5
Farm equipment	3 to 5
Building and leasehold improvements	10
Transportation equipment	5

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

Amortization of leasehold improvements is computed using the straight-line method of amortization based on the estimated useful life of the leased asset or the term of the lease, whichever is shorter.

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

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

Project Development Costs

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

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

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

Deferred Charges

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

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

Borrowing Costs

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

Impairment of Nonfinancial Assets

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

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

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

Capital Stock and Additional Paid-in Capital

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

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

Deposit for Future Stock Subscription

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

Treasury Stock

Treasury stock are own equity instruments which are carried at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of comprehensive income on the purchase, sale, issue, or cancellation of the Group's own equity instruments.

Retained Earnings (Deficit)

Retained earnings (deficit) includes the cumulative balance of periodic net income or losses, dividend distributions, effects of changes in accounting policy and other capital adjustments.

Revenue Recognition

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

Revenue from petroleum operations

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

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

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

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

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

Cost and Expenses
Cost and expenses are recognized in profit or loss when a decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that results in decreases in equity, other than those relating to distributions to equity participants, has arisen that can be measured reliably.

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

General and administrative expenses
General and administrative expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. These constitute costs of administering the business and selling/distributing the cassava granules. General and administrative expenses are generally recognized when the service is incurred or the expense arises while interest expenses, if applicable are accrued in the appropriate period.

Foreign Currency-denominated Transactions and Translations
Transactions in foreign currencies are recorded using the applicable exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are retranslated using the applicable closing functional currency exchange rate at the reporting date. Foreign exchange gains or losses arising from foreign currency-denominated transactions and translations are recognized in profit or loss.

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

Past service cost is recognized as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested following the introduction of, or changes to, the plan, past service cost is recognized immediately. The accrued retirement benefits is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, reduced by past service cost not yet recognized, and the fair value of the plan assets out of which the obligations are to be settled directly.

Income Taxes

Current income tax

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

Current tax for current and prior periods shall, to the extent unpaid, be recognized as a liability under "Income tax payable" account in the consolidated balance sheet. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognized as an asset under "Prepayments and other current assets" account in the consolidated balance sheet.

Deferred income tax

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

Deferred income tax liabilities are provided on taxable temporary differences associated with investments in domestic subsidiaries and associates except to the extent that the Group is able to control the timing of the reversal of the temporary differences 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 reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized before their reversal or expiration. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax asset to be recovered.

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

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

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

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

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

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

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

3. Significant Accounting Judgments and Estimates

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

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

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

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

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

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

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

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

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

As of December 31, 2012, the Company assessed that there were no impairment indicators on its property and equipment The carrying value of property and equipment recorded at cost, net of accumulated depreciation and amortization of ₱14,844,224 and ₱19,226,644 as of December 31, 2012 and 2011, respectively, and allowance for impairment losses of ₱2,558,970 as of December 31, 2011, amounted to ₱9,796,834 and ₱10,342,527 as of December 31, 2012 and 2011, respectively (see Note 12).

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

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

- the period for which the Group has the right to explore in the specific area has expired or will expire in the near future and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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

In 2010, management provided additional allowance for impairment loss on exploration projects amounting to ₱7,542,635 since the Group's right to explore the projects has already expired. There was no provision for impairment loss on deferred charges in 2012 and 2011 (see Note 11).

The carrying amount of deferred charges, net of allowance for impairment loss amounting to ₱45,742,635 as of December 31, 2012 and 2011, amounted to ₱45,185,414 and ₱40,680,455 as of December 31, 2012 and 2011, 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, unrealized foreign exchange losses and fair value adjustments on AFS financial assets and some portion of NOLCO.

The Group recognized deferred income tax assets amounting to ₱13,311,942 and ₱9,256,558 as of December 31, 2012 and 2011, respectively (see Note 20).

<u>Estimates</u>
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of asset and liabilities within the next financial year are discussed below:

Impairment of AFS financial assets
The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" as 20% or more of the cost and "prolonged" as greater than 12 months for quoted equity securities.

Allowance for impairment on unquoted investment in shares of stock amounted to ₱4,090,435 and ₱902,032 as of December 31, 2012 and 2011, respectively (see Note 7).

The carrying value of the Group's AFS financial assets amounted to ₱305,867,784 and ₱55,984,380 as of December 31, 2012 and 2011, respectively (see Note 7).

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

The carrying value of receivables, net of allowance for impairment of accounts receivable amounting to ₱2,641,082 and ₱2,052,707 as of December 31, 2012 and 2011, respectively, amounted to ₱45,450,565 and ₱1,705,712 as of December 31, 2012 and 2011, respectively (see Note 6).

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 2012, 2011 and 2010 amounted to ₱3,642,532, ₱3,320,565 and ₱3,054,324, respectively (see Note 12).

Estimation of fair value of unquoted equity securities classified as AFS financial assets
Management believes that while the range of reasonable fair value estimates is significant, the probabilities of the various estimates cannot be reasonably assessed given the unquoted nature of these equity investments. As a result, the Group carries these financial assets at cost less any impairment in value. As of December 31, 2012 and 2011, unquoted equity securities amounted to ₱135,248 and ₱3,323,651, respectively (see Note 7). Allowance for impairment losses on AFS financial assets amounted to ₱4,090,435 and ₱902,032 as of December 31, 2012 and 2011, respectively (see Note 7).

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

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement obligations. The assumptions made by the Group resulted in accrued retirement benefits amounting to ₱3,284,513 and ₱2,475,300 as of December 31, 2012 and 2011, respectively (see Note 19).

Determination of revalued amount of condominium units
The Group engaged an independent valuation specialist to determine the fair value of office condominium. Management agrees with the valuer's estimate of the fair value of the office condominium using the sales comparison approach. The revalued amount of the office condominium as of June 8, 2012 amounted to ₱25,250,000. Revaluation increase on office condominium recognized as other comprehensive income in 2012 amounted to ₱7,721,195, net of the applicable tax. Net book value of revalued office condominium amounted to ₱24,370,645 and ₱14,909,998 as of December 31, 2012 and 2011, respectively (see Note 12).

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

- 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;
- 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
- 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.

In 2012, the Group recognized a fair value adjustment on its investments properties totaling ₱73,393,045 based on the latest appraisal reports in 2012 for the land in Bolinao, Pangasinan and in San Fabian, Pangasinan. The fair value of the Group's investment properties amounted to ₱193,479,343 and ₱120,086,298 as of December 31, 2012 and 2011, respectively (see Note 8).

4. Status of Investments and Management's Outlook

Purchase of BBC (formerly Zambo Norte Bioenergy Corporation)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In August 2009, ZNB Partners and the Parent Company executed an Agreement for the settlement of the remaining commitments of ZNB Partners under the SPA and the Agreement for the Acquisition of Lands dated June 19, 2007. The Parties agreed to a settlement amount of ₱8,223,653 consisting of a reduction in the consideration of ZNB Partners under the SPA and the payment by ZNB Partners of the values of its undelivered commitments under the aforementioned agreements which consists of 63,258,870 shares of the Parent Company. The aforesaid amount was settled by ZNB Partners on September 30, 2009. As agreed, the Agreement shall constitute the final settlement of the obligations and commitments of ZNB Partners under the SPA and the Agreement for the Acquisition of Lands dated June 19, 2007.

In 2010, the Parent Company sold 7,245,000 shares with total proceeds of ₱1,187,195 which was used as partial settlement of ZNB Partners' obligation. The remaining shares were sold in 2011 with total proceeds of ₱15,261,300 as full settlement of the obligation of ZNB Partners under the agreement, and the Parent Company recognized a gain on settlement amounting to ₱8,224,842 arising from the difference between the total cash proceeds and the remaining liability of ZNB Partners to the Parent Company.

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

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

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

The cost of the business combination amounted to ₱12,500,000, which consists of cash purchase price and transaction costs. The goodwill which is recognized under "Other noncurrent assets" in the 2009 consolidated balance sheet, amounting to ₱3,265,000 is attributed to the synergies and expected benefits from combining the assets and activities of the Project with those of the Group.

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

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

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

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

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

As such, the Parent Company terminated the deposit on subscription of EMF amounting to ₱10,800,000 (see Note 14). The first payment made by the Parent Company for the cash consideration for the acquisition of the cassava project amounting to ₱1,200,000 shall be retained by EMF.

On August 15, 2011, the Parent Company suspended the operations of BEFI in Zamboanga del Norte.

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

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

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

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

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

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

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

        The HCR accounts include SC 14 NW Palawan, SC 6A & 6B NW Palawan, SC 41 Sandakan Basin, SC 42 NW Palawan and GSEC 94 Offshore W Palawan.

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

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

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

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

As of December 31, 2011, receivables from FEP, representing the Parent Company's share in the utilization of the HCRs of BPMI relating to SC 14 NW Palawan and SC 6B NW Palawan (Nido-Matinloc Field), were booked at ₱78,799 (see Note 6). No further accrual of the receivables of the Parent Company from FEP under the SPA relating to SC 14 NW Palawan and SC 6B NW Palawan (Nido-Matinloc Field) was made when the Parent Company found that FEP's method of computation of the Parent Company's share in the HCRs was not in accordance with the SPA.

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

Thus, on February 28, 2008, the Parent Company, through its external counsel, made a final demand on FEP for the Parent Company's share in the HCRs of BPMI relating to SC 14 NW Palawan and SC 6B NW Palawan (Nido-Matinloc Field) in the aggregate amount of US$621,927 as of December 31, 2007, and requested that the Parent Company's new nominee be elected to the FEP's Board. In view of the failure of FEP to comply with these demands, on April 30, 2008, the Parent Company served FEP a notice of default of its obligation under the SPA. On June 5, 2008, FEP was formally declared in default and was advised of the automatic termination of the SPA.

As of November 30, 2009, the Parent Company's share in the HCRs of BPMI relating to SC 14 NW Palawan and SC 6B NW Palawan (Nido-Matinloc Field) due from FEP amounted to US$1,348,347. Considering that negotiations to settle this case proved futile, on November 13, 2009, the Parent Company submitted the dispute with FEP for arbitration. While the case is pending arbitration, the parties were enjoined by the arbitration tribunal to amicably settle their disputes.

On May 10, 2011, parties executed the Settlement Agreement, which stipulated that: (a) FEP shall pay the amount of US$650,000, which is 50% of the claims of the Parent Company for its share in the HCRs in the Nido-Matinloc liftings, as of November 30, 2010. Ten percent (10%) of this amount or US$65,000 had already been paid by FEP to the Parent Company after the execution of the Settlement Agreement; and (b) FEP shall cause to convey 50% of BPMI's participating interests in SC 6-A and 6-B, and SC 14 A, B, C-1, C-2, D –Retention Block and Tara Block, and the historical recovery and other related accounts. To implement the said transfer, the parties agreed to obtain letters of no objection from the other consortium members within a 60-day period, which was subsequently extended for another 60 days.

During the transition period (prior to obtaining the letters of no objection from the consortium members), the parties agreed that FEP shall pay the Parent Company 50% of its cash receipts from liftings, without any deduction, and the Parent Company shall share 50% of cash calls, effective January 19, 2011. The Parent Company and FEP honored their respective obligations under the Settlement Agreement. Unfortunately, both FEP and the Parent Company were not able to get the letters of no objection within the stipulated period, and in view thereof, the arbitration proceeding resumed on December 16, 2011.

On June 14, 2012, the Ad-Hoc Arbitration Tribunal rendered its decision in favor of the Parent Company and awarded payment by FEP of the balance of the shares of the Parent Company on the historical cost recoveries received by the FEP on the oil assets sold to FEP under the SPA and directed the parties to cause the election of the Parent Company's nominee to FEP's Board until full payment of the said obligations. Even prior to the arbitration award, the parties has been in continuing discussions on a global settlement on all issues pertaining to the SPA, as the arbitration proceedings covered only the Parent Company's claim for its share in historical cost recoveries and a global settlement would be beneficial to both parties. On June 21, 2012, the parties executed a Compromise Agreement covering settlement of the aforementioned award by the Ad-Hoc Arbitration Tribunal in favor of the Parent Company in the aggregate amount of US$2.4 million and the other claim of the Parent Company under Article 2.3 of the SPA in the amount of US$2.0 million in consideration of which the Parent Company agreed not to nominate a representative to FEP's board.

Total settlement proceeds received by the Parent Company in 2012 amounting to ₱186,567,854 (US$4.4 million) was recorded as "Income from previous sale of BPMI" in the consolidated statement of comprehensive income. As of December 31, 2012, the remaining balance of the settlement proceeds amounted to ₱41,050,000 (US$1.0 million) which is payable in December 2013 (see Note 6).

The Parent Company received ₱38,387,996 (US$897,965), ₱198,467,991 (US$4,588,200) and ₱78,236,225 (US$1,796,721) in 2012, 2011 and 2010, respectively, for FEP's utilization of the HCRs of BPMI relating to SC 14C NW Palawan (Galoc Field). This was recorded as "Income from previous sale of BPMI" in the consolidated statements of comprehensive income. These receipts representing additional consideration on the sale of BPMI shares to FEP, decreased the loss on sale of investment in BPMI recognized in 2006. Upon execution of the Compromise Agreement, the Parent Company paid capital gains tax amounting to ₱12,589,629 (see Note 18).

Service Contracts (SCs)

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

SC 47. SC 47 was awarded on January 10, 2005 to the Philippine National Oil Company - Exploration Corporation (PNOC-EC) and Petronas Carigali (Petronas) of Malaysia after the consortium decided to convert GSEC 100 to a service contract. Petronas holds an 80% stake as operator while PNOC-EC owns the remaining 20% stake. Upon Petronas' withdrawal in 2007 prior to entry to Sub-Phase 2, PNOC-EC interest became 97% with Petroenergy at 2% and the Parent Company at 1%. SC 47 covers 14,667 square kilometers (sq. km.) and is located within the Northwest Palawan Micro-Continental Block (NPMCB).

The highly encouraging results of the Maniguin drilling have prompted PNOC-EC to pursue additional evaluation studies, including the acquisition of 2D and 3D seismic data. The result of the evaluation studies have shown prospects with reserves ranging from 10.0 million barrels to 500.0 million barrels recoverable oil.

Petronas spudded a well on August 31, 2007 to test the potential of the Kamia prospect. The drilling of the Kamia-1 well is part of the work program committed to the DOE that involves the drilling of an exploratory well. The consortium will have the option to conduct more drilling by committing to the succeeding contract year. A US$4.0 million development costs in shallow water was anticipated, however, Petronas withdrew from the service contract prior to entry of Sub-Phase 2.

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

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

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

On June 10, 2008, the consortium entered into Sub-Phase 2 and presented an alternative work program of acquiring 1,000 sq. km. of two-dimension (2D) seismic program. The proposal was not accepted. PNOC-EC is renegotiating and would be informing the consortium of the acceptable work program.

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

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

On May 28, 2010, a revised work program and extension of the term of the Sub-Phase 2 was requested for approval by the DOE. The processing and interpretation of the new seismic data have resulted in the identification of some lead and prospects.

In 2012, PNOC-EC pursued a new seismic program as the DOE has advised that the extension of the term of the Sub-Phase 2 of the service contract shall be acted upon when there is already a commitment to drill a well in the service contract area.

In March 2013, PNOC-EC requested the DOE for a 2-year term for Sub-Phase 3 in order to allow the potential farminee to undertake all the work commitment including the drilling of one well. PNOC-EC is currently in discussions with a farminee for the service contract.

SC 53. SC 53 was awarded on July 8, 2005. It covers 6,600 sq. km. of the onshore areas of Mindoro Island which is within the NPMCB. The operator of the block is Laxmi Organic Industries Ltd. with 70% participating interest.

The Parent Company's participating interest on SC 53 is at 3%, The Philodrill Corporation's at 22% and Anglo-Philippine Holdings' at 5%.

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$1.5 million.

Pitkin has completed a magneto-telluric in Onshore Mindoro. In April 2009, the DOE approved the one year extension of Sub-Phase 1. Pitkin awarded the 2D seismic acquisition contract to BCG, a Chinese geophysical contractor, which started on November 3, 2009. The 2D seismic is designed to delineate and assess the hydrocarbon potential of the Progreso-1X in San Jose, Mindoro Occidental and in Sablayan, Mindoro Occidental.

The DOE has recently approved the further extension of Sub-Phase 1 to March 2011 for the conduct of geological and geophysical studies and interpretation of the 2D seismic data, which is estimated to cost US$4.5 million and the drilling of two wells between 2011 to 2012, the cost of which is estimated at US$2.0 million.

On July 11, 2011, Resource Management Associates Pty Limited of Australia signed a FIA with Pitkin Petroleum to acquire 35% from its 70% participating interest. In a consortium meeting last November 11, 2011, Pitkin reported that the Sub-Phase , which ended March 6, 2012, was fulfilled with the completion of the 200 kilometers of seismic data. Sub-Phase 2 shall end on July 8, 2014 and carries a minimum work obligation of 2 wells at a minimum cost of US$2.0 million.

The consortium agreed to drill Progreso-2 to fulfill one of the 2 well commitments with the DOE. The environmental impact assessment has been recently commenced, while collation of seismic and other data and the tendering of the long lead items are on-going.

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 50.0 to 150.0 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 Ltd., the contractor, justified that the deeper secondary objectives did not warrant continuing the well due to the more difficult drilling conditions. The block has an inventory of nearly 20 leads and prospects covered by 3D data. Drilling operations are being considered after a thorough evaluation.

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

On June 18, 2009, Tap Oil Ltd. sought for farm-in partners due to the increasing costs of drilling exploratory wells.

On May 12, 2010, Tap Oil requested the DOE that the Wildebeest-I be classified as a discovery well based from the oil samples recovered by the MDT sampling and the interpretation of the 3D seismic data acquired in 2008. This request was not approved by the DOE, in view of which, on July 10, 2010, the consortium decided to withdraw from this SC.

The Parent Company was involved in the block through its subsidiary, SWR, with a 0.608% interest. SWR's participating interest was carried-free from the financial commitments of the work programs to be performed over the concession areas.

The full recovery of the deferred charges, amounting to ₱31,238,982 and ₱27,804,051 as of December 31, 2012 and 2011, respectively, incurred in connection with the Parent Company's participation in the acquisition, exploration and development of petroleum concessions is dependent upon the discovery of oil and gas in commercial quantities from the respective contract areas and the success of future developments thereof (see Note 11).

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

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

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

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

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

The Parent Company recently received the GSCs from the DOE, covering three geothermal projects, namely: Iriga Geothermal Power Project, Mariveles Geothermal Power Project and the East Mankayan Geothermal Power Project.

The East Mankayan Geothermal Power Project lies immediately east of the Cervantes, Ilocos Sur geothermal block of Pan Pacific Power Phils, Inc. and south of the Bontoc-Sadanga block which is operated by Magma Energy Resources. Immediately south is the Daklan block operated by Clean Rock Energy. The area actually covers the 3 provinces of Benguet, Mountain Province and Ifugao. The proposed area is surrounded by lots of known thermal manifestations, e.g., hot springs and thermally altered grounds.

The Mariveles Geothermal Power Project, in Bataan is situated along the West Luzon Volcanic Arc which starts from Mt. Pinatubo in the north and extends farther south across the Manila Bay towards Batangas and northeastern Mindoro.

The Iriga Geothermal Power Project in Camarines Sur is bounded to the north by Isarog geothermal block of PNOC-RC and to the east by the highly productive Tiwi GSC area of formerly Chevron, now AP Renewables Inc. The areal landscape is dominated by Iriga or Asog Volcano, a relatively in stratovolcano, immediately southwest of Lake Buhi in southern Luzon.

5. Cash and Cash Equivalents

	2012	2011
Cash on hand and in banks	**₱59,971,719**	₱4,806,555
Cash equivalents	**142,465,280**	306,947,450
	₱202,436,999	₱311,754,005

Cash in banks and cash equivalents earn interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Group. Interest income amounted to ₱11,026,845, ₱11,039,782 and ₱4,800,702 in 2012, 2011 and 2010, respectively (see Note 16).

6. Receivables

	2012	2011
Receivable from FEP (Note 4)	**₱41,050,000**	₱78,799
Interest receivable	**2,033,495**	976,438
Other receivables	**5,008,152**	2,703,182
	48,091,647	3,758,419
Less allowance for impairment	**2,641,082**	2,052,707
	₱45,450,565	₱1,705,712

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

Movements in allowance for impairment are as follows:

	2012	2011
Beginning balances	**₱2,052,707**	₱2,052,707
Provision for the year (Note 18)	**588,375**	–
Ending balances	**₱2,641,082**	₱2,052,707

7. AFS Financial Assets

	2012	2011
Debt securities - quoted, at fair value	**₱262,669,089**	₱51,248,795
Investments in shares of stock:		
Quoted	**43,063,447**	1,411,934
Unquoted	**135,248**	3,323,651
	43,198,695	4,735,585
	₱305,867,784	₱55,984,380

The cost of debt securities which are stated at fair value amounted to ₱243,728,795 and ₱51,248,795 as of December 31, 2012 and 2011, respectively. Interest rates on these AFS debt securities range from 5.80% to 8.13%. Interest income earned on these securities amounted to ₱6,340,763, ₱192,855 and ₱117,393 in 2012, 2011 and 2010, respectively (see Note 16).

The movements in unrealized gain (loss) in respect of quoted AFS financial assets in 2012 and 2011 follow:

	2012	2011
Beginning balances	**(₱509,593)**	₱744,031
Unrealized gain (loss)	**18,578,978**	(1,253,624)
Ending balances	**₱18,069,385**	(₱509,593)

In 2010, the Group sold quoted investment in shares of stock resulting in gain on realized fair value adjustment amounting to ₱24,057,696.

Unquoted equity securities include unlisted shares of stock with total cost of ₱4,225,683 and which the Company will continue to carry as part of its investments. These are carried at cost less allowance for impairment losses. The movement in allowance for impairment loss are as follows:

	2012	2011
Beginning balances	**₱902,032**	₱902,032
Provision for the year	**3,188,403**	–
Ending balances	**₱4,090,435**	₱902,032

8. Investment Properties

	2012	2011
Beginning balances	**₱120,086,298**	₱120,086,298
Increase in fair value	**73,393,045**	–
Ending balances	**₱193,479,343**	₱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 November 29, 2012. 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. The fair valuation was estimated through the direct market comparison approach; which is a comparative approach that considers the sales of similar or substitute assets and related market data.

Direct operating expenses related to the investment properties include real property taxes paid in 2012, 2011 and 2010 amounting to ₱268,146, ₱267,047 and ₱93,523, respectively.

The Group has no restriction on the realizability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

9. Biological Assets - Standing Crops and Agricultural Produce

BEFI started planting cassava in March 2009. Movement in the biological assets in 2011 follows:

January 1, 2011	₱7,108,252
Additions (Note 12)	2,704,580
Harvested cassava tubers	(6,338,428)
Loss on biological assets	(3,474,404)
December 31, 2011	₱–

On August 15, 2011, BEFI decided to suspend its operations and wrote-off the remaining balance of biological assets resulting in a loss amounting to ₱3,474,404 which is recorded under "Other costs and expenses" account in the 2011 profit or loss.

In 2010, the fair value adjustment on agricultural produce amounted to a loss of ₱16,445,998. Sales of cassava tubers amounted to ₱1,731,720 and ₱5,760,875 in 2011 and 2010, respectively.

10. Project Development Costs

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

In 2009, BBC reduced the project development costs for the planned ethanol project at the time of settlement by the ZNB Partners of its commitment under the SPA (see Note 4).

BBC determined that the cost of its project development cost exceed its recoverable amount hence, the Company recognized impairment loss amounting ₱46,731,677 to fully impair the asset in 2011 with cost of ₱59,731,677 as of December 31, 2012 and 2011.

Project development costs also include the acquired cassava project of EMF by BEFI amounting to ₱2,647,014 in 2009 but was subsequently returned to EMF in 2010 (see Note 4).

11. Deferred Charges

The movements in deferred charges follow:

	2012	2011
Beginning balances	**₱86,423,090**	₱77,010,322
Additions	**4,504,959**	9,412,768
	90,928,049	86,423,090
Less allowance for impairment loss	**45,742,635**	45,742,635
Ending balances	**₱45,185,414**	₱40,680,455

Under the SCs entered into with the DOE covering certain petroleum contract areas in various locations in the Philippines, the participating oil companies (collectively known as Contractors) are obliged to provide, at their sole risk, the services, technology and financing necessary in the performance of their obligations under these contracts. The Contractors are also obliged to spend specified amounts indicated in the contract in direct proportion to their work obligations. However, if the Contractors fail to comply with their work obligations, they shall pay to the government the amount they should have spent but did not, in direct proportion to their work obligations. The participating companies have Operating Agreements among themselves, which govern their rights and obligations under these contracts.

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

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

The accumulated costs incurred in connection with the exploration contracts are shown under "Deferred charges" account in the consolidated balance sheets. 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 2010, management provided additional allowance for impairment loss on exploration projects amounting to ₱7,542,635 since the Group's right to explore the projects has already expired. There was no additional provision for impairment loss on deferred charges in 2012 and 2011.

12. Property and Equipment

At cost:

As of December 31, 2012:

	Land	Office Equipment, Furniture and Fixtures	Farm Equipment	Building and Leasehold Improvement	Transportation Equipment	Total
At Costs						
Beginning balances	₱3,500,000	₱10,214,383	₱8,744,380	₱5,156,648	₱4,542,730	₱32,158,141
Additions	–	192,552	–	–	3,173,240	3,365,792
Disposals	–	847,720	8,744,380	–	1,290,775	10,882,875
Ending balances	3,500,000	9,559,215	–	5,156,648	6,425,195	24,641,058
Accumulated Depreciation and Amortization						
Beginning balances	–	9,330,007	4,346,695	3,291,768	2,258,174	19,226,644
Depreciation and amortization (Note 18)	–	343,107	492,992	172,025	1,064,777	2,072,901
Disposals	–	775,290	4,839,687	–	840,344	6,455,321
Ending balances	–	8,897,824	–	3,463,793	2,482,607	14,844,224
Net Book Values	₱3,500,000	₱661,391	₱–	₱1,692,855	₱3,942,588	₱9,796,834

	Land	Office Equipment, Furniture and Fixtures	Farm Equipment	Building and Leasehold Improvement	Transportation Equipment	Total
At Costs						
Beginning balances	₱3,500,000	₱9,538,171	₱8,744,380	₱5,156,648	₱3,806,010	₱30,745,209
Additions	–	839,719	–	–	1,897,220	2,736,939
Disposals	–	(163,507)	–	–	(1,160,500)	(1,324,007)
Ending balances	3,500,000	10,214,383	8,744,380	5,156,648	4,542,730	32,158,141
Accumulated Depreciation and Amortization						
Beginning balances	–	9,137,000	2,595,014	3,119,743	2,028,463	16,880,220
Depreciation and amortization (Note 18)	–	332,431	1,751,681	172,025	809,961	3,066,098
Disposals	–	(139,424)	–	–	(580,250)	(719,674)
Ending balances		9,330,007	4,346,695	3,291,768	2,258,174	19,226,644
Allowance for impairment losses	–	57,317	2,198,842	–	332,811	2,588,970
Net Book Values	₱3,500,000	₱827,059	₱2,198,843	₱1,864,880	₱1,951,745	₱10,342,527

Depreciation expense capitalized as cost of biological assets amounted to ₱1,402,200 in 2011 (see Note 9).

At revalued amount:

	Office Condominium	
	2012	2011
Cost	**₱25,250,000**	₱26,580,010
Accumulated Depreciation		
Beginning balances	**11,670,012**	10,013,345
Reversal due to revaluation	**(12,360,288)**	–
Depreciation (Note 18)	**1,569,631**	1,656,667
Ending balances	**879,355**	11,670,012
Net Book Values	**₱24,370,645**	₱14,909,998

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 June 8, 2012. The fair value is determined using the generally accepted sales comparison approach. The date of the appraisal was June 14, 2012. The estimated remaining life of the office condominium is 16.75 years as of appraisal date.

Increase in revaluation of office condominium, net of deferred income tax liability, amounted to ₱7,721,195 in 2012 which is presented under "Revaluation increment in office condominium" account in the 2012 parent company statement of comprehensive income. Revaluation increment in office condominium as of December 31, 2012 and 2011 amounted to ₱17,059,457 and ₱10,437,004, respectively, which is presented under the "Revaluation increment in office condominium" account in the consolidated balance sheets and consolidated statements of changes in equity.

If the office condominium was measured using the cost model, the carrying amount as of December 31, 2012 and 2011 would be as follows:

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

The cost of the Group's fully depreciated assets still in use amounted to ₱10,099,014 and ₱11,492,762 as of December 31, 2012 and 2011, respectively.

13. Accounts Payable and Accrued Expenses

	2012	2011
Accounts payable	**₱1,163,608**	₱2,182,176
Dividends payable	**888,714**	888,714
Other payables	**460,936**	3,652,184
	₱2,513,258	₱6,723,074

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

14. Capital Stock

The details of the capital stock as of December 31, 2012 and 2011 are as follows:

	No. of Shares	Amount
Authorized - ₱0.25 par value	10,000,000,000	₱2,500,000,000
Unissued	(8,241,854,545)	(2,060,463,636)
Issued	1,758,145,455	439,536,364
Subscribed	2,146,848,057	536,712,014
Subscriptions receivable	(1,462,500,000)	(365,625,000)
	684,348,057	171,087,014
	2,442,493,512	₱610,623,378

The movements on shares outstanding in 2012 and 2011 are as follows:

	2012	2011
Beginning balances	**2,424,493,512**	2,442,493,512
Treasury stock (Note 15)	–	(18,000,000)
Ending balances	**2,424,493,512**	2,424,493,512

Below is the Parent Company's track record of registration:

a. On January 26, 1973, the SEC authorized the Parent Company to sell to the public 617.5 million shares out of its unissued capital stock as of December 31, 1972 within one year from order date, unless extended by the SEC. As of December 31, 1973, the Parent Company's authorized capital stock is 1.5 billion shares with par value of ₱0.01.

b. On September 8, 1973, the Parent Company applied with the Manila Stock Exchange and Makati Stock Exchange for the listing of its capital stock as of September 8, 1973 (495,251,000 fully paid-up shares and with respect to 1,004,749,000 shares, upon full payment and issuance of the corresponding stock certificates). The applications for listing were approved by the Board of Governors of both the Manila Stock Exchange and Makati Stock Exchange on September 30, 1973 and September 13, 1973 respectively. Said listing was duly approved by the SEC on October 16, 1973.

c. On October 17, 1974, the SEC approved the increase in the Parent Company's authorized capital stock from ₱15.0 million (consisting of 1.5 billion shares) to ₱40.0 million (consisting of 4.0 billion shares) at the same par value of ₱0.01. The SEC also approved the 60% stock dividend (₱9.0 million) declaration to stockholders of record as of August 15, 1974.

The Parent Company granted to stockholders of record as of November 15, 1974 the right to subscribe at par of ₱0.01 per share to the unissued and unsubscribed portion of the increased capital stock amounting to ₱16.0 million (1.6 billion shares), at the ratio of 2 shares of stock for every 3 shares of stock registered in the stockholders' name.

On October 23, 1974, the SEC authorized the listing of the additional 2.5 billion shares of the Parent Company's increased capital stock (900.0 million fully paid-up shares representing the 60% stock dividend, and with respect to 1.60 billion shares, upon full payment and issuance of corresponding stock certificates) in the Manila Stock Exchange , Makati Stock Exchange, Inc. and Metropolitan Stock Exchange, Inc. The listing took effect on November 6, 1974. On October 16, 1973, the SEC had authorized the listing of the Parent Company's original shares of stock of 1.5 billion shares in the first two stock exchanges.

d. On February 4, 1976, the SEC approved the increase in authorized capital stock from ₱40.0 million (₱24.0 million or 60% Class A and ₱16.0 million or 40% Class B) to ₱100.0 million (₱60.0 million or 60% Class A and ₱40.0 million or 40% Class B) both with a par value of ₱0.01 per share. The Parent Company also granted pre-emptive rights to stockholders of record as of October 31, 1975 to subscribe at par value of ₱0.01 per share to ₱20.0 million (₱12.0 million Class A and ₱8.0 million Class B) at the ratio of one share for every two shares held. The right was exercisable on or before January 15, 1976 with a 25% down payment and the balance payable upon call by the BOD.

   On December 22, 1975, the SEC issued to the Parent Company a "Certificate of Permit to Offer Securities for Sale" covering the said capital increase of ₱60.0 million (₱36.0 million Class A and ₱24.0 million Class B). On February 26, 1976, the listing of the shares representing the said ₱60.0 million increase in authorized capital stock of the Parent Company in the stock exchanges was approved.

e. On November 13, 2007, the SEC approved the increase in the capital stock of the Parent Company for ₱500.0 million consisting of the 2 billion shares to ₱2.5 billion consisting of 10.0 billion shares. Pursuant to this increase, 537.5 million shares were issued to the subscribers to the capital increase on January 10, 2008.

f. On May 28, 2009, the Parent Company issued 120,853,182 shares to a new investor, ZN Biofuels, Inc., the registration of which was exempt and confirmed as such by the SEC.

g. On September 22, 2009, the Parent Company issued 31,818,182 shares to Shouk Financial Services Ltd., the registration of which was exempt and likewise confirmed as such by the SEC.

h. On September 8, 2011, the SEC approved the Stock Option Plan of the Parent Company granting directors, members of the advisory board, officers and employees of the Parent Company options to purchase at a par total of 500.0 million shares. Out of these shares, 26.7 million have been paid and listed in the Philippine Stock Exchange on January 21, 2013.

15. Treasury Stock

The treasury stock represents 18.0 million shares of the Parent Company which are held by BGEC.

16. **Other Income** - Net

	2012	2011	2010
Interest income on:			
Cash and cash equivalents (Note 5)	**₱11,026,845**	₱11,039,782	₱4,800,702
AFS financial assets - debt securities (Note 7)	**6,340,763**	192,855	117,393
Short-term cash investments	**282,379**	32,149	–
Long-term cash investment	**57,379**	–	–
	17,707,366	11,264,786	4,918,095
Dividend income	**754,990**	5,508	5,666
Others	**1,822,670**	47,169	(15,847)
	₱20,285,026	₱11,317,463	₱4,907,914

17. **Related Party Transactions and Relationships**

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Group, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Group. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Group and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

Compensation of Key Management Personnel

a. Shares of stock of the Parent Company held by members of the BOD aggregated to 33,787,366 and 35,777,245 as of December 31, 2012 and 2011, respectively.

b. Compensation of key management personnel consists of short-term employee benefits and post-employment benefits. Short-term employee benefits amounted to ₱11.9 million, ₱10.9 million and ₱5.7 million in 2012, 2011 and 2010, respectively, while, post-employment benefits amounted to ₱3.05 million, ₱1.8 million and ₱0.8 million in 2012, 2011 and 2010, respectively.

   Directors' remuneration consists only of per diems for attendance at the BOD and Committee meetings. In 2012, 2011 and 2010, total per diems received by the members of the BOD amounted to ₱2,724,500, ₱2,057,750 and ₱940,500, respectively. There is no existing compensatory plan or arrangement for directors of the Parent Company.

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

   A stock option plan for directors and officers was approved by the stockholders on July 11, 2007, and the exercise period was extended to July 2013. The SEC issued on September 8, 2011 a resolution exempting the SOP from the registration requirements under the Securities Regulation Code.

The Parent Company's outstanding amounts of investments in and advances to subsidiaries which were eliminated in the consolidated level are as follows:

As of December 31, 2012:

	Investments	Allowance for Impairment	Total	Advances	Allowance for Impairment	Total
BDIHI	**₱227,085,800**	**₱227,085,800**	**₱–**	**₱21,453,057**	**₱21,439,342**	**₱13,715**
SWR	**75,341,250**	**75,341,250**	**–**	**–**	**–**	**–**
BBC	**64,000,000**	**64,000,000**	**–**	**5,584,083**	**5,584,083**	**–**
iBasic	**53,547,840**	**53,547,840**	**–**	**3,386,610**	**3,346,880**	**39,730**
BGI	**20,000,000**	**–**	**20,000,000**	**–**	**–**	**–**
BEFI	**20,000,000**	**20,000,000**	**–**	**36,975,000**	**36,975,000**	**–**
	₱459,974,890	**₱439,974,890**	**₱20,000,000**	**₱67,398,750**	**₱67,345,304**	**₱53,445**

As of December 31, 2011:

	Investments	Allowance for Impairment	Total	Advances	Allowance for Impairment	Total
BDIHI	₱227,085,800	₱227,085,800	₱–	₱21,358,166	₱21,358,166	₱–
SWR	75,341,250	75,341,250	–	19,208	–	19,208
BBC	64,000,000	64,000,000	–	5,479,492	5,479,492	–
iBasic	53,547,840	53,547,840	–	3,261,143	3,261,143	–
BGI	20,000,000	–	20,000,000	3,251,845	–	3,251,845
BEFI	20,000,000	20,000,000	–	37,975,000	37,975,000	–
	₱459,974,890	₱439,974,890	₱20,000,000	₱71,344,854	₱68,073,801	₱3,271,053

The amounts of transactions with subsidiaries that were eliminated in the consolidated level are as follows:

Nature of Transaction	Amount of Transactions 2012	2011	Terms and Conditions
BGI			
Advances	**₱6,124**	₱3,251,845	*(a)*
Collection of advances	**3,257,969**	–	
BDIHI			
Advances	**94,891**	112,348	*(a)*
iBasic			
Advances	**125,467**	111,649	*(a)*
SWR			
Advances	**67,177**	18,208	*(a)*
Collection of advances	**86,385**	–	
BBC			
Advances	**104,591**	109,088	*(a)*
BEFI			
Advances	**–**	1,053,215	*(a)*
Collection of advances	**1,000,000**	–	

(a) Noninterest bearing, unsecured advances, due and demandable.

Movement in the allowance for impairment on investments in subsidiaries as follows:

	2012	2011
Beginning balances	**₱439,974,890**	₱342,782,685
Provision during the year	**–**	97,192,205
Ending balances	**₱439,974,890**	₱439,974,890

Movement in the allowance for impairment on advances to subsidiaries as follows:

	2012	2011
Beginning balances	**₱68,073,801**	₱35,312,132
Recovery of advances to BEFI	**(1,000,000)**	–
Provision during the year	**271,503**	32,761,669
Ending balances	**₱67,345,304**	₱68,073,801

Transactions with Retirement Benefit Fund

a. The Parent Company's retirement benefit fund is in the form a trust being maintained by a trustee bank.

b. The carrying amount and fair value of the retirement benefit fund as of December 31, 2012 amounted to ₱3,659,328 (see Note 19).

c. The assets and investments of the retirement benefit fund as of December 31, 2012 follows:

Special savings deposits	₱2,557,000
Investment in unit investment trust fund	578,361
Investments in bonds	520,777
Others	3,190
	₱3,659,328

d. In 2012, the Parent Company contributed ₱2,500,000 to the retirement benefit fund (see Note 19).

18. General and Administrative Expenses

	2012	2011	2010
Personnel:			
Salaries and wages	**₱14,281,245**	₱15,177,229	₱9,386,450
Retirement benefits cost (Note 19)	**3,309,213**	1,569,700	1,450,100
Other employee benefits	**7,912,734**	3,977,579	2,584,043
Representation and entertainment	**4,643,108**	2,675,620	1,757,961
Transportation and travel	**4,348,504**	3,918,400	3,145,887
Depreciation and amortization (Note 12)	**3,642,532**	3,320,565	3,054,324
Arbitration and legal fees	**2,789,877**	5,514,720	3,628,905
Taxes and licenses	**1,130,770**	1,429,069	652,146
Outside services	**957,196**	1,155,124	529,509
Utilities	**897,430**	707,605	1,126,176
Communication	**602,201**	706,542	649,927
Provision for impairment of receivables (Note 6)	**588,375**	–	–
Office supplies	**278,290**	301,551	575,729
Repairs and maintenance	**180,144**	122,525	73,907
Others	**3,983,235**	1,305,342	2,916,306
	₱49,544,854	₱41,881,571	₱31,531,370

19. 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 profit and loss and the funded status and amounts recognized in the consolidated balance sheets.

a. The components of retirement benefits cost in profit and loss are as follows:

	2012	2011	2010
Current service cost	**₱2,730,254**	₱1,405,000	₱1,366,300
Interest cost	**486,159**	221,000	99,900
Expected return on plan assets	**(90,225)**	(77,300)	(61,100)
Actuarial loss	**183,025**	21,000	45,000
	₱3,309,213	₱1,569,700	₱1,450,100

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

	2012	2011
Present value of defined benefit obligation	**₱11,573,100**	₱7,118,000
Fair value of plan assets	**(3,659,328)**	(1,002,500)
	7,913,772	6,115,500
Unrecognized actuarial losses	**(4,629,259)**	(3,640,200)
	₱3,284,513	₱2,475,300

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

	2012	2011
Beginning balances	**₱7,118,000**	₱2,356,300
Current service cost	**2,730,254**	1,405,000
Interest cost	**486,159**	221,000
Actuarial loss	**1,238,687**	3,135,700
Ending balances	**₱11,573,100**	₱7,118,000

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

	2012	2011
Beginning balances	**₱1,002,500**	₱858,600
Contribution (Note 17)	**2,500,000**	–
Expected return on plan assets	**90,225**	77,300
Actuarial gain	**66,603**	66,600
Ending balances	**₱3,659,328**	₱1,002,500

The actual return on plan assets amounted to ₱156,828, ₱143,900 and ₱94,600 for the years ended December 31, 2012, 2011 and 2010, respectively.

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

	2012	2011
Beginning balances	**₱2,475,300**	₱905,600
Retirement benefits cost	**3,309,213**	1,569,700
Contributions	**(2,500,000)**	–
Ending balances	**₱3,284,513**	₱2,475,300

f. The latest actuarial valuation of the plan is as of December 31, 2012. As of January 1, the principal assumptions used in determining retirement benefits cost for the Parent Company's retirement benefits are as follows:

	2012	2011	2010
Number of employees covered	**20**	20	18
Discount rate	**6.83%**	9.38%	10.58%
Salary projection rate	**8.00%**	8.0%	8.00%
Expected return on plan assets	**9.00%**	9.0%	8.00%

Discount rate used to compute the present value of defined benefit obligation as of December 31, 2012 is 6.09%.

g. Amounts as of December 31 are as follows:

	2012	2011	2010	2009	2008
Present value of defined benefit obligation	**₱11,573,100**	₱7,118,000	₱2,356,300	₱944,200	₱2,387,900
Fair value of plan assets	**3,659,328**	(1,002,500)	(858,600)	(764,000)	(1,557,800)
Deficit	**7,913,772**	6,115,500	1,497,700	180,200	830,100
Experience adjustment on plan liabilities - loss (gain)	**280,987**	1,254,000	(312,300)	508,200	(497,600)
Experience adjustment on plan assets - gain (loss)	**66,603**	66,600	33,500	249,400	(232,300)

h. The major categories of plan assets as of December 31, 2012and 2011 as a percentage of fair value of total plan assets follow:

Money market investments	98%
Cash in bank and other receivables	2%
	100%

i. 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.

j. The Parent Company does not expect to contribute to the plan in 2013.

20. Income Taxes

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

b. Provision for income tax consists of:

	2012	2011	2010
Current	**₱102,770**	₱164,977	₱–
Deferred	**(917,243)**	15,846	5,628,657
	(814,473)	180,823	5,628,657
Capital gains tax (Note 4)	**12,589,629**	–	–
Final tax	**3,480,804**	2,207,689	868,689
	₱15,255,960	₱2,388,512	₱6,497,346

c. The components of net deferred income tax liabilities recognized by the Group as of December 31, 2012 and 2011 are as follows:

	2012	2011
Deferred income tax assets on:		
NOLCO	**₱10,798,613**	₱8,295,571
Unrealized foreign exchange loss	**1,227,532**	–
Accrued retirement benefits	**985,354**	742,590
Fair value adjustment on AFS financial assets	**300,443**	218,397
	13,311,942	9,256,558
Deferred income tax liabilities on:		
Revaluation increment on investment properties	**9,541,120**	5,137,537
Revaluation increment on office condominium	**7,311,194**	4,473,000
Unrealized foreign exchange gain	–	876,599
	16,852,314	10,487,136
Net deferred income tax liabilities	**₱3,540,372**	₱1,230,578

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

	2012	2011
NOLCO	**₱141,127,405**	₱169,889,499
Allowance for impairment of deferred charges	**105,474,312**	105,474,312
Pre-operating expenses	**3,415,997**	7,763,483
Allowance for impairment loss on AFS financial assets	**3,602,361**	3,602,361
Provision for probable loss	**2,732,947**	1,960,842
Allowance for impairment of property and equipment	–	2,588,970
MCIT	**267,747**	205,074

e. As of December 31, 2012, 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
2012	₱40,024,277	₱102,770	2015
2011	42,308,093	164,977	2014
2010	94,790,412	–	2013
	₱177,122,782	₱267,747	

NOLCO that expired in 2012, 2011 and 2010 amounted to ₱32,790,994, ₱73,581,570 and ₱61,413,672, respectively. Excess MCIT over RCIT that expired in 2012 and 2011 amounted to ₱40,097 and ₱196,133, respectively.

The Group's NOLCO includes NOLCO from the Parent Company amounting to ₱159,807,141 and ₱151,248,694 as of December 31, 2012 and 2011, respectively.

For income tax purposes, the BGEC's and BBC's pre-operating expenses totaling ₱3,415,997 and ₱7,763,483 as of December 31, 2012 and 2011, respectively, will be amortized over five years from the start of commercial operations.

f. The reconciliation of the provision for income tax computed at the statutory tax rate to the provision for income tax as shown in the consolidated profit or loss follows:

	2012	2011	2010
Provision for income taxes computed at 30%	**₱78,204,516**	₱35,617,843	₱6,374,830
Adjustments for:			
Income from previous sale of BPMI subject to capital gains tax	**(67,486,755)**	(59,540,397)	(23,470,868)
Effect of lower tax rate on fair value adjustments on investment properties	**(17,614,334)**	–	–
Movements of unrecognized deferred income tax assets	**9,723,633**	27,319,489	24,171,340
Interest and dividend income subject to final tax	**(2,056,983)**	(1,173,400)	(606,075)
Nondeductible expenses	**1,793,484**	–	–
Fair value changes of financial assets at FVPL	–	–	31,508
Gain on sale of financial assets at FVPL	–	–	(3,389)
Capital gains tax	**12,589,629**	–	–
MCIT	**102,770**	164,977	–
Provision for income tax	**₱15,255,960**	₱2,388,512	₱6,497,346

21. Basic/Diluted Earnings Per Share

The following reflects the income and share data used in the basic and diluted earnings per share computation:

	2012	2011	2010
Net income attributable to equity holders of the Parent Company (a)	**₱245,443,662**	₱116,358,275	₱15,353,877
Transaction cost on potential issuance of common shares	**(625,000)**	(625,000)	(625,000)
Net income attributable to holders of the Parent Company adjusted for the effect of dilution (b)	**₱244,818,662**	₱115,733,275	₱14,728,877
Weighted average number of shares for basic earnings per share (c)	**2,442,493,512**	2,442,493,512	2,415,978,360
Stock rights (Note 17)	**500,000,000**	500,000,000	500,000,000
Weighted average number of shares adjusted for the effect of dilution (d)	**2,942,493,512**	2,942,493,512	2,915,978,360
Basic earnings per share (a/c)	**₱0.100**	₱0.048	₱0.006
Diluted earnings per share (b/d)	**0.083**	0.039	0.005

There have been no other transactions involving common shares or potential common shares between the balance sheet date and the date of issuance of these consolidated financial statements.

22. Segment Information

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

As of December 31, 2012 and 2011, the Group has three main business segments - investment holding, agriculture and oil and gas exploration.

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

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

December 31, 2012:

	Investment Holding	Energy, Oil and Gas Exploration	Agriculture	Eliminations	Total
Results					
Income (loss) before income tax	₱262,506,598	₱397,530	(₱1,493,911)	(₱728,497)	₱260,681,720
Provision for income tax	15,125,860	127,066	3,034	–	15,255,960
Net income (loss)	₱247,380,738	₱270,464	(₱1,496,945)	(₱728,497)	₱245,425,760
Assets and Liabilities					
Segment assets	₱602,203,531	₱70,664,627	₱951,483	(₱21,155,843)	₱652,663,798
Investment properties	193,479,343	–	–	–	193,479,343
Deferred income tax assets	13,311,942	–	–	–	13,311,942
Consolidated total assets	₱808,994,816	₱70,664,627	₱951,483	(₱21,155,843)	₱859,455,083
Consolidated total liabilities	₱47,211,568	₱5,795,167	₱37,042,100	(₱67,398,750)	₱22,650,085
Other Segment Information					
Provision for impairment loss	₱3,776,778	₱–	₱–	₱–	₱3,776,778
Additions to property and equipment	3,365,792	–	–	–	3,365,792
Depreciation and amortization	2,892,146	–	750,386	–	3,642,532

December 31, 2011:

	Investment Holding	Energy, Oil and Gas Exploration	Agriculture	Eliminations	Total
Results					
Income (loss) before income tax	₱49,669,531	(₱47,136,204)	(₱13,752,470)	₱129,945,287	₱118,726,144
Provision for income tax	2,377,671	9,561	1,280	–	2,388,512
Net income (loss)	₱47,291,860	(₱47,145,765)	(₱13,753,750)	₱129,945,287	₱116,337,632
(Forward)					
Assets and Liabilities					
Segment assets	₱400,445,646	₱67,444,875	₱3,618,236	(₱22,762,038)	₱448,746,718
Investment properties	120,086,298	–	–	–	120,086,299
Deferred income tax assets	9,256,558	–	–	–	9,256,558
Consolidated total assets	₱529,788,502	₱67,444,875	₱3,618,236	(₱22,762,038)	₱578,089,575
Consolidated total liabilities	₱43,856,205	₱8,962,252	₱38,211,908	(₱71,344,855)	₱19,685,510
Other Segment Information					
Provision for impairment losses	₱129,945,287	₱46,731,677	₱2,588,970	(₱129,945,287)	₱49,320,647
Additions to property and equipment	2,707,719	–	29,220	–	2,736,939
Depreciation and amortization	2,304,278	–	2,418,487	–	4,722,765

December 31, 2010:

	Investment Holding	Energy, Oil and Gas Exploration	Agriculture	Eliminations	Total
Results					
Income (loss) before income tax	₱21,770,149	₱–	(₱33,990,811)	₱33,470,095	₱21,249,433
Provision for income tax	6,496,414	–	932	–	6,497,346
Net income (loss)	₱15,273,735	₱–	(₱33,991,743)	₱33,470,095	₱14,752,087
Assets and Liabilities					
Segment assets	₱417,557,209	₱23,731,677	₱16,471,084	(₱124,810,972)	₱332,948,998
Investment properties	120,086,298	–	–	–	120,086,298
Deferred income tax assets	8,924,766	–	–	–	8,924,766
Consolidated total assets	₱564,568,273	₱23,731,677	₱16,471,084	(₱124,810,972)	₱461,960,062
Consolidated total liabilities	₱44,777,501	₱–	₱37,311,005	(₱66,688,501)	₱15,400,005
Other Segment Information					
Provision for impairment losses	₱38,879,345	₱15,133,385	₱–	(₱33,470,095)	₱20,542,635
Additions to property and equipment	–	–	2,658,612	–	2,658,612
Depreciation and amortization	2,681,441	–	4,331,839	–	7,013,280

23. Financial Instruments

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

	2012		2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
AFS financial assets:				
Quoted debt securities	**₱262,669,089**	**₱262,669,089**	₱51,248,795	₱51,248,795
Unquoted equity investments	**43,063,447**	**43,063,447**	3,323,651	3,323,651
Quoted equity investments	**135,248**	**135,248**	1,411,934	1,411,934
	₱305,867,784	**₱305,867,784**	₱55,984,380	₱55,984,380

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

Long-term cash investment
Long-term cash investment bears market interest during the time of purchase and thus carrying value of this placement approximate its fair value.

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

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

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

As of December 31, 2012 and 2011, the Group considers its AFS financial assets - quoted debt securities and quoted equity securities under Level 1 classification (see Note 7).

During the reporting years ended December 31, 2012, 2011 and 2010, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

There were no financial liabilities measured at fair value as of December 31, 2012 and 2011.

24. **Financial Risk Management Objectives and Policies**

The Group's financial instruments consist of cash and cash equivalents, cash investments receivables, AFS financial assets, accounts payables and dividends payable. Cash and cash equivalents, cash investments and AFS financial assets are being used for investment purposes, while receivables, accounts payable and dividends payable arise from operations.

The Group's activities expose it to a variety of financial risks: foreign exchange risk, equity price risk and credit risk. The Group has no significant exposure to interest rate risk as of December 31, 2012 and 2011. The Group's overall risk management program focuses on minimizing the potential adverse effects on the Group's financial performance due to unpredictability of financial markets.

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

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

The Group's significant foreign currency-denominated financial assets as of December 31, 2012 and 2011 are as follows:

	2012		2011	
	Original Currency	**Peso Equivalent**	Original Currency	Peso Equivalent
Assets:				
Cash and cash equivalents - US$	**$1,408,626**	**₱57,824,097**	$17,738	₱777,627
Receivable from FEP - US$	**1,000,000**	**41,050,000**	1,797	78,799
Short-term investments	**200,000**	**8,210,000**	200,000	8,768,000
Long-term investment	**150,000**	**6,157,500**	–	–
AFS financial assets:				
Quoted equity investments:				
USD	**15,500**	**636,275**	15,500	679,520
GBP	**5,850**	**240,143**	5,850	397,109
		₱114,118,015		₱10,701,055

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

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

	2012	2011
US$	**41.05**	43.84
GBP	**66.32**	67.88

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, 2012 and 2011 until the Group's next financial reporting date:

	Change in peso - foreign exchange rate	Increase (decrease) in income before income tax
2012	**Increase by 5%**	**₱5,705,901**
	Decrease by 5%	**(5,705,901)**
2011	Increase by 5%	96,652
	Decrease by 5%	(96,652)

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

Equity price risk
Equity price risk is the risk that the value of a financial instrument will fluctuate because of changes in market prices. The Group is exposed to equity securities price risk because of investments held by the Group, which are classified on the consolidated balance sheets as AFS financial assets. The Group employs the service of a third party stock broker to manage its investment in shares of stock.

The following table presents the effect on the consolidated financial statements of reasonably possible changes in market prices of AFS financial assets - quoted equity securities as of December 31, 2012 and 2011 until the Group's next financial reporting date:

	Change in Quoted Prices of Investments Carried at Fair Value	Increase (decrease) in equity
2012		
AFS financial assets	**Increase by 9%**	**₱3,875,710**
AFS financial assets	**Decrease by 9%**	**3,875,710**
2011		
AFS financial assets	Increase by 9%	₱127,074
AFS financial assets	Decrease by 9%	(127,074)

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

Credit risk

Credit risk is the risk that the Group will incur a loss because its counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by doing business only with recognized, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group does not have any collateral held as security and other credit enhancements on its financial assets as of December 31, 2012 and 2011. Therefore, the Group's maximum exposure to credit risk is equal to the carrying amount of its financial assets as of December 31, 2012 and 2011.

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

The following table provides information regarding the credit quality by class of financial assets (amounts gross of allowance for credit losses) based on the Group's credit rating system:

	2012		
	Neither Past Due nor Impaired (Satisfactory)	**Past Due and Impaired**	**Total**
Cash and cash equivalents*	**₱202,425,948**	**₱–**	**₱202,425,948**
Short-term cash investments	**8,210,000**	–	**8,210,000**
Receivables:			
Receivable from FEP	**41,050,000**	–	**41,050,000**
Interest receivable	**2,033,495**	–	**2,033,495**
Other receivables	**2,367,070**	**2,641,082**	**5,008,152**
Long-term cash investment	**6,157,500**	–	**6,157,500**
	51,608,065	**2,641,082**	**54,249,147**
AFS financial assets:			
Debt securities - quoted, at fair value	**262,669,089**	–	**262,669,089**
Unquoted equity investments	**135,248**	**4,090,435**	**4,225,683**
	262,804,337	**4,090,435**	**266,894,772**
	₱525,048,350	**₱6,731,517**	**₱531,779,867**

**Excluding cash on hand amounting to ₱11,051 as of December 31, 2012.*

	2011		
	Neither Past Due nor Impaired (Satisfactory)	Past Due and Impaired	Total
Cash and cash equivalents*	₱311,734,597	₱–	₱311,734,597
Short-term cash investments	8,768,000	–	8,768,000
Receivables:			
Receivable from FEP	78,799	–	78,799
Interest receivable	976,438	–	976,438
Other receivables	650,475	2,052,707	2,703,182
	1,705,712	2,052,707	3,758,419
AFS financial assets:			
Quoted debt securities	51,248,795	–	51,248,795
Unquoted equity investments	3,323,651	902,032	4,225,683
	54,572,446	902,032	55,474,478
	₱376,780,755	₱2,954,739	₱379,735,494

**Excluding cash on hand amounting to ₱19,408 as of December 31, 2011.*

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

Financial instruments classified as "satisfactory" are those cash and cash equivalents and cash investments transacted with reputable local and multi-national banks and receivables with some history of default on the agreed terms of the contract. AFS financial assets are considered "satisfactory" since these are invested in blue chip shares of stock. "Past due and impaired" are those that are long outstanding and has been fully provided with an allowance for doubtful accounts. There are no past due but not impaired receivables as of December 31, 2012 and 2011, respectively.

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

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

The Group manages its liquidity profile to be able to finance its working capital requirements and capital expenditures and service due and maturing debts. To cover its financing requirements, the Parent Company intends to use internally generated funds. The BOD closely monitors the Parent Company's financial position during its regular meetings.

The table below summarizes the maturity profile of the financial instruments of the Group based on remaining contractual undiscounted cash flows:

	2012			
	Less than 3 months	More than 3 months but less than one year	More than one year	Total
Financial assets				
Loans and receivable:				
Cash and cash equivalents	₱202,436,999	₱–	₱–	₱202,436,999
Short-term cash investments	–	8,210,000	–	8,210,000
Receivables:				
Receivable from FEP	41,050,000	–	–	41,050,000
Accrued interest receivable	2,033,495	–	–	2,033,495
Other receivables	2,367,070	–	–	2,367,070
Long-term cash investment	–	–	6,157,500	6,157,500
	247,887,564	8,210,000	6,157,500	262,255,064
AFS financial assets:				
Quoted debt securities	–	–	262,669,089	262,669,089
Unquoted equity investments	–	–	135,248	135,248
Quoted equity investments	–	–	43,063,447	43,063,447
	–	–	305,856,784	305,856,784
	247,887,564	8,210,000	312,025,284	568,122,848
Financial liabilities				
Other financial liabilities:				
Accounts payable	1,163,608	–	–	1,163,608
Dividends payable	–	888,714	–	888,714
	1,163,608	888,714	–	2,052,322
Net liquidity position	₱246,723,956	₱7,321,286	₱312,025,284	₱566,070,526

	2011			
	Less than 3 months	More than 3 months but less than one year	More than one year	Total
Financial Assets				
Loans and receivable:				
Cash and cash equivalents	₱311,754,005	₱–	₱–	₱311,754,005
Short-term cash investments	–	8,768,000	–	8,768,000
Receivables:			–	
Receivable from FEP	78,799	–	–	78,799
Interest receivable	976,438	–	–	976,438
Other receivables	650,475	–	–	650,475
	313,459,717	8,768,000	–	322,227,717
AFS financial assets:				
Quoted debt securities	–		51,248,795	51,248,795
Unquoted equity investments	–		3,323,651	3,323,651
Quoted equity investments	–		1,411,934	1,411,934
	–	–	55,984,380	55,984,380
	313,459,717	8,768,000	55,984,380	378,212,097
Financial Liabilities				
Other financial liabilities:				
Accounts payable	2,182,176	–	–	2,182,176
Dividends payable	–	888,714	–	888,714
	2,182,176	888,714	–	3,070,890
Net liquidity position	₱311,277,541	₱7,789,286	₱55,984,380	₱375,141,207

Capital Management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares. No changes were made on the objectives, policies or processes during the years ended December 31, 2012 and 2011.

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.

As of December 31, 2012 and 2011, the Group is not subject to any externally imposed capital requirements.

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

	2012	2011
Capital stock	**₱610,623,378**	₱610,623,378
Additional paid-in capital	**32,699,360**	32,699,360
Retained earnings (deficit)	**154,918,277**	(91,624,127)
	₱798,241,015	₱551,698,611

BASIC ENERGY
CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of **BASIC ENERGY CORPORATION, INC.** is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012 and December 31, 2011, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated 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.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.

Sycip Gorres Velayo & Co., the independent auditors, appointed by the stockholders has examined the consolidated financial statements of the company in accordance the Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

OSCAR C. DE VENECIA
Chairman of the Board

OSCAR L. DE VENECIA, JR.
President & CEO

MARIETTA V. VILLAFUERTE
Vice President & Treasurer

Signed this 20th day of March, 2013.

SUBSCRIBED AND SWORN to before me this APR 11 2013 day of _______ 2013 affiants having exhibited to me their TIN # as follows:

Name	TIN Number
Oscar C. De Venecia	130-704-840-000
Oscar L De Venecia	149-709-049-000
Marietta V. Villafuerte	100-168-986-000

Notary Public ATTY. HOBERT N. LLUZ
NOTARY PUBLIC
Until December 31 2013
Appt No M-521 Makati City
IBP #899793, May 22 2012 RSM
PTR #3685485, Jan 15 2013-Makati
S.C. Roll No. 59597
MCLE Compliance No. IV-0011330
Unit 6E Cityland Herrera Tower
#98 Rufino St. cor Valero St.
Salcedo Village, Makati City

Doc. No. 282
Page No. 58
Book No. 30
Series of 2013

COVER SHEET

3	6	3	5	9

SEC Registration Number

BASIC ENERGY CORPORATION
AND SUBSIDIARIES

(Company's Full Name)

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

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

Marietta V. Villafuerte
(Contact Person)

(632) 817-8596 to 98
(Company Telephone Number)

12 **31**
Month *Day*
(Calendar Year)

AACFS
(Form Type)

07 **18**
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

6,853
Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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SGV & Co
ERNST & YOUNG

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Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Basic Energy Corporation and subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Basic Energy Corporation and subsidiaries as at December 31, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 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-3 (Group A),
January 18, 2013, valid until January 17, 2016
Tax Identification No. 102-089-397
BIR Accreditation No. 08-001998-58-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3670024, January 2, 2013, Makati City

March 20, 2013

BASIC ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱202,436,999**	₱311,754,005
Short-term cash investments	**8,210,000**	8,768,000
Receivables (Note 6)	**45,450,565**	1,705,712
Prepayments and other current assets	**1,430,455**	840,540
Total Current Assets	**257,528,019**	323,068,257
Noncurrent Assets		
Long-term cash investment	**6,157,500**	–
Available-for-sale (AFS) financial assets (Note 7)	**305,867,784**	55,984,380
Investment properties (Note 8)	**193,479,343**	120,086,298
Property and equipment (Note 12)		
At cost	**9,796,834**	10,342,527
At revalued amount	**24,370,645**	14,909,998
Deferred charges (Note 11)	**45,185,414**	40,680,455
Deferred income tax assets (Note 20)	**13,311,942**	9,256,558
Other noncurrent assets (Note 4)	**3,757,602**	3,761,102
Total Noncurrent Assets	**601,927,064**	255,021,318
TOTAL ASSETS	**₱859,455,083**	₱578,089,575
LIABILITIES AND EQUITY		
Current Liability		
Accounts payable and accrued expenses (Note 13)	**₱2,513,258**	₱6,723,074
Noncurrent Liabilities		
Deferred income tax liabilities (Note 20)	**16,852,314**	10,487,136
Accrued retirement benefits (Note 19)	**3,284,513**	2,475,300
Total Noncurrent Liabilities	**20,136,827**	12,962,436
Total Liabilities	**22,650,085**	19,685,510

(Forward)

	December 31	
	2012	2011
Equity		
Capital stock [held by 6,853 and 6,950 equity holders in 2012 and 2011, respectively] (Note 14)	**₱610,623,378**	₱610,623,378
Additional paid-in capital	**32,699,360**	32,699,360
Deposit for future stock subscription (Note 14)	**6,675,000**	–
Revaluation increment in office condominium (Note 12)	**17,059,457**	10,437,004
Net unrealized gains (loss) on changes in fair value of AFS financial assets (Note 7)	**18,069,385**	(509,593)
Retained earnings (Deficit)	**154,918,277**	(91,624,127)
Total equity attributable to equity holders of the Parent Company	**840,044,857**	561,626,022
Noncontrolling interest	**141**	18,043
	840,044,998	561,644,065
Treasury stock - at cost (Note 15)	**(3,240,000)**	(3,240,000)
Total Equity	**836,804,998**	558,404,065
TOTAL LIABILITIES AND EQUITY	**₱859,455,083**	₱578,089,575

See accompanying Notes to Consolidated Financial Statements.

BASIC ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2012	2011	2010
INCOME			
Income from previous sale of Basic Petroleum and Minerals, Inc. (BPMI) (Note 4)	**₱224,955,850**	₱198,467,991	₱78,236,225
Fair value adjustment on investment properties (Note 8)	**73,393,045**	–	–
Gain on settlement (Note 4)	–	8,224,842	–
Sales (Note 9)	–	1,731,720	5,760,875
Foreign exchange gain - net	–	861,796	–
Realized fair value adjustment on AFS financial assets (Note 7)	–	–	24,057,696
Other income - net (Note 16)	**20,285,026**	11,317,463	4,907,914
	318,633,921	220,603,812	112,962,710
COSTS AND EXPENSES			
General and administrative expenses (Note 18)	**(49,544,854)**	(41,881,571)	(31,531,370)
Foreign exchange loss - net	**(5,218,944)**	–	(2,901,106)
Provision for impairment on AFS financial assets (Note 7)	**(3,188,403)**	–	–
Fair value adjustment on agricultural produce (Note 9)	–	–	(16,445,998)
Provision for impairment losses on project development cost and deferred charges (Notes 10 and 11)	–	(46,731,677)	(20,542,635)
Cost of sales (Note 9)	–	(7,201,046)	(9,592,656)
Provision for impairment loss of property and equipment (Note 12)	–	(2,588,970)	–
Others (Notes 4 and 9)	–	(3,474,404)	(10,699,512)
	(57,952,201)	(101,877,668)	(91,713,277)
INCOME BEFORE INCOME TAX	**260,681,720**	118,726,144	21,249,433
PROVISION FOR INCOME TAX (Note 20)	**15,255,960**	2,388,512	6,497,346
NET INCOME	**245,425,760**	116,337,632	14,752,087
OTHER COMPREHENSIVE INCOME (LOSS)			
Revaluation increment in office condominium	**11,030,278**	–	–
Income tax effect	**(3,309,083)**	–	–
	7,721,195	–	–
Unrealized gain (loss) on AFS financial assets (Note 7)	**18,496,932**	(1,790,891)	214,717
Income tax effect	**82,046**	537,267	(64,415)
	18,578,978	(1,253,624)	150,302

(Forward)

	Years Ended December 31		
	2012	2011	2010
Fair value changes of AFS financial assets removed from equity and recognized in profit or loss through sale of investment in AFS financial assets (Note 7)	**₱–**	₱–	(₱17,064,400)
Income tax effect	**–**	–	5,119,320
	–	–	(11,945,080)
	26,300,173	(1,253,624)	(11,794,778)
TOTAL COMPREHENSIVE INCOME	**₱271,725,933**	₱115,084,008	₱2,957,309
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**₱245,443,662**	₱116,358,275	₱15,353,877
Noncontrolling interest	**(17,902)**	(20,643)	(601,790)
	₱245,425,760	₱116,337,632	₱14,752,087
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**₱271,743,835**	₱115,104,651	₱3,559,099
Noncontrolling interest	**(17,902)**	(20,643)	(601,790)
	₱271,725,933	₱115,084,008	₱2,957,309
EARNINGS PER SHARE (Note 21)			
Basic	**₱0.100**	₱0.048	₱0.006
Diluted	**0.083**	0.039	0.005

See accompanying Notes to Consolidated Financial Statements.

BASIC ENERGY CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 and 2010

	Attributable to Equity Holders of the Parent Company										
					Net unrealized gain (loss) on changes in fair value of AFS Financial Assets (Note 7)						
	Capital Stock (Notes 14)	Additional Paid-in Capital (Note 14)	Deposit for Future Stock Subscription (Note 14)	Revaluation Increment in Office Condominium (Note 12)	Equity	Debt	Retained Earnings (Deficit)	Total	Noncontrolling Interest	Treasury stock	Total Equity
BALANCES AT DECEMBER 31, 2009	**₱602,668,833**	**₱27,067,569**	**₱24,386,336**	**₱12,756,334**	**₱12,521,962**	**₱16,847**	**(₱225,655,609)**	**₱453,762,272**	**₱640,476**	**₱–**	**₱454,402,748**
Total comprehensive income	–	–	–	–	(11,777,931)	(16,847)	15,353,877	3,559,099	(601,790)	–	2,957,309
Transfer of portion of revaluation										–	
increment realized through depreciation	–	–	–	(1,159,665)	–	–	1,159,665	–	–	–	–
Issuance of capital stock	7,954,545	5,631,791	(13,586,336)	–	–	–	–	–	–	–	–
Termination of deposit of future stock subscription	–	–	(10,800,000)	–	–	–	–	(10,800,000)	–	–	(10,800,000)
BALANCES AT DECEMBER 31, 2010	**610,623,378**	**32,699,360**	**–**	**11,596,669**	**744,031**	**–**	**(209,142,067)**	**446,521,371**	**38,686**	**–**	**446,560,057**
Total comprehensive income	–	–	–	–	(1,253,624)	–	116,358,275	115,104,651	(20,643)	–	115,084,008
Transfer of portion of revaluation											
increment realized through depreciation	–	–	–	(1,159,665)	–	–	1,159,665	–	–	–	–
Acquisition of treasury stock	–	–	–	–	–	–	–	–	–	(3,240,000)	(3,240,000)
BALANCES AT DECEMBER 31, 2011	**610,623,378**	**32,699,360**	**–**	**10,437,004**	**(509,593)**	**–**	**(91,624,127)**	**561,626,022**	**18,043**	**(3,240,000)**	**558,404,065**
Total comprehensive income	–	–	–	7,721,195	(361,316)	18,940,294	245,443,662	271,743,835	(17,902)	–	271,725,933
Transfer of portion of revaluation											–
increment realized through depreciation	–	–	–	(1,098,742)	–	–	1,098,742	–	–	–	–
Increase in deposits for future stock subscription	–	–	6,675,000	–	–	–	–	6,675,000	–	–	6,675,000
BALANCES AT DECEMBER 31, 2012	**₱610,623,378**	**₱32,699,360**	**₱6,675,000**	**₱17,059,457**	**(₱870,909)**	**₱18,940,294**	**₱154,918,277**	**₱840,044,857**	**₱141**	**(₱3,240,000)**	**₱836,804,998**

See accompanying Notes to Consolidated Financial Statements

BASIC ENERGY CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱260,681,720**	₱118,726,144	₱21,249,433
Adjustments for:			
Fair value adjustment on investment properties (Note 8)	**(73,393,045)**	–	–
Interest income (Note 16)	**(17,707,366)**	(11,264,786)	(4,918,095)
Unrealized foreign exchange loss (gain) - net	**4,091,773**	(2,921,992)	2,901,106
Depreciation and amortization (Note 12)	**3,642,532**	3,320,565	3,054,324
Retirement benefits expense (Note 19)	**3,309,213**	1,569,700	1,450,100
Provision for impairment on AFS financial assets (Note 7)	**3,188,403**	–	–
Dividend income (Note 16)	**(754,990)**	(5,508)	(5,666)
Provision for impairment of property and equipment (Note 12)	–	2,588,970	–
Provision for impairment losses on project development cost and deferred charges (Notes 10 and 11)	–	46,731,677	20,542,635
Gain on settlement (Note 4)	–	(8,224,842)	–
Cost of harvested crops (Note 9)	–	6,338,428	7,315,528
Loss on biological assets (Note 9)	–	3,474,404	–
Realized fair value adjustment on AFS financial assets (Note 7)	–	–	(24,057,696)
Fair value adjustment on agricultural produce (Note 9)	–	–	16,445,998
Project settlement (Note 4)	–	–	10,699,512
Others	**402,597**	–	93,729
Operating income before working capital changes	**183,460,837**	160,332,760	54,770,908
Decrease (increase) in:			
Short-term cash investments	**140,702**	(8,768,000)	–
Receivables	**(44,040,071)**	9,326,222	(418,270)
Biological assets	–	(1,302,380)	(10,808,524)
Agricultural produce (Note 9)	–	125,839	(125,839)
Prepayments and other current assets	**(589,914)**	159,422	704,402
Increase (decrease) in accounts payable and accrued expenses	**(4,296,601)**	2,865,167	(225,464)
Net cash generated from operations	**134,674,953**	162,739,030	43,897,213
Interest received	**13,277,419**	10,448,662	5,306,814
Income taxes paid (including final taxes on interest income)	**(12,720,266)**	(2,688,845)	(1,356,276)
Contributions to the retirement fund (Note 19)	**(2,500,000)**	–	–
Net cash flows from operating activities	**132,732,106**	170,498,847	47,847,751
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
AFS financial assets	**(234,571,375)**	(50,592,368)	–
Long term cash investment	**(6,431,500)**		
Deferred charges (Note 11)	**(4,504,959)**	(9,412,768)	(2,510,491)
Property and equipment (Note 12)	**(3,365,792)**	(2,736,939)	(2,658,612)

(Forward)

	Years Ended December 31		
	2012	2011	2010
Proceeds from sale of property and equipment	**₱1,420,000**	₱604,334	₱–
Dividends received (Note 16)	**754,990**	5,508	5,666
Proceeds from settlement (Note 4)	–	15,261,300	1,187,195
Proceeds from sale of financial assets at FVPL and AFS financial assets	–	–	49,095,360
Net cash flows from (used in) investing activities	**(246,698,636)**	(46,870,933)	45,119,118
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in deposits for future stock subscription	**6,675,000**	–	–
Acquisition of treasury stock (Note 15)	–	(3,240,000)	–
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(2,025,476)**	155,525	(1,942,200)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(109,317,006)**	120,543,439	91,024,669
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**311,754,005**	191,210,566	100,185,897
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱202,436,999**	₱311,754,005	₱191,210,566

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information, Organizational Changes and Authorization for Issuance of the Consolidated Financial Statements

Corporate Information

Basic Energy Corporation (the Parent Company), a publicly listed corporation, and its subsidiaries (collectively referred to as the 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 August 10, 2007, the Philippine Securities and Exchange Commission (SEC) approved the amendment of the Parent Company's primary and secondary purposes, transforming the Parent Company into a holding company with diversified business interests in the different fields of renewable energy and alternative fuels, while pursuing its core business in oil and gas exploration and development.

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

Subsidiaries	Date of Incorporation	Percentages of Ownership	Nature of Business
Basic Diversified Industrial Holdings, Inc. (BDIHI)	February 16,1994	100.00	Investment holding
iBasic, Inc. (iBasic)	April 13, 1998	100.00	Real estate (no development activities) and information technology
Basic Ecomarket Farms Inc. (BEFI)	September 18, 2008	100.00	Agriculture
Basic Biofuels Corporation (BBC)	November 21, 2006	100.00	Development of biofuels (no development activities)
Basic Geothermal Energy Corporation (BGEC)	October 11, 2011	100.00	Exploration and development of geothermal energy resources
Southwest Resources, Inc. (SWR)	May 28, 1976	72.58	Oil exploration and investment holding

Organizational Changes

The Parent Company amended its By-laws on June 29, 2011 to delineate the position and responsibilities of the Chairman from the Chief Executive Officer (CEO) of the Parent Company and to define the duties and responsibilities of the President and the Chief Operating Officer (COO). These amendments were in line with corporate governance principles enjoining the separation of the positions and responsibilities of the Chairman and the CEO, and were approved by the SEC on July 29, 2011. On August 31, 2011, the Board of Directors (BOD) appointed Mr. Oscar C. De Venecia as Chairman and Mr. Oscar L. De Venecia, Jr. as President and CEO. The duties and responsibilities of the COO were incorporated with those of the Executive Vice President.

On February 28, 2011, former Speaker of the House of Representatives, Mr. Jose C. De Venecia, Jr., was appointed by the BOD as the Chairman of the Advisory Board.

Authorization for Issuance of the Consolidated Financial Statements
The consolidated financial statements were authorized for issuance by the BOD during its meeting on March 20, 2013.

2. Significant Accounting and Financial Reporting Policies

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale (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 the Parent Company and its subsidiaries as of December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies.

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

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

Noncontrolling Interest
Noncontrolling interest represents the 27.42% equity interest in the net assets of SWR that are not held by the Group as of December 31, 2012 and 2011 and are presented separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and within the equity section in the consolidated balance sheet, separately from the equity attributable to equity holders of the Parent Company. Non-controlling interest shares in the losses even if the losses exceed the non-controlling equity interest in the subsidiary. A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amounts of any non-controlling interest; (c) recognizes the fair value of consideration received; (d) recognizes the fair value of any investment retained; (e) recognizes any surplus or deficit in the consolidated statement of income; and (f) reclassifies the parent's share of components previously recognized in consolidated statement of comprehensive income to the consolidated statement of income or retained earnings, as appropriate.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except that the Group adopted the amendments to PFRS and Philippine Accounting Standards (PAS) effective in 2012. The adoption of the following amended PFRS and PAS are relevant but do not have a significant impact on the consolidated financial statements:

- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets* (Amendments) - require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

- PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendments) - clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset.

Future Changes in Accounting Policies
The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new changes in PFRS, PAS and Philippine Interpretatipons to have a significant impact on the consolidated financial statements. The relevant disclosures will be included in the notes to the consolidated financial statements when these become effective.

Effective in 2013
- Amendments to PFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*, require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements).

  The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information.

  This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a. the gross amounts of those recognized financial assets and recognized financial liabilities;
b. the amounts that are set-off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c. the net amounts presented in the statement of financial position;
d. the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   i. amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   ii. amounts related to financial collateral (including cash collateral); and
e. the net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. The amendment affects disclosures only and will have no impact on the Group's financial position and performance.

- PFRS 10, *Consolidated Financial Statements*, replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

  A reassessment of control was performed by the Parent Company on its subsidiaries in accordance with the provisions of PFRS 10. Following the reassessment, the Parent Company determined that it still controls the subsidiaries.

- PFRS 11, *Joint Arrangements*, replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities (JCEs) - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for JCEs using proportionate consolidation.

  Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013. This standard will not impact the Group's financial position and performance.

- PFRS 12, *Disclosure of Interests with Other Entities*, includes all of the disclosures related to consolidated financial statements that were previously included in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The adoption of PFRS 12 will affect disclosures only and have no impact on the Group's financial position or performance.

- PFRS 13, *Fair Value Measurement*, establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The Group does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). The interpretation addresses the accounting for the benefit from the stripping activity. This interpretation becomes effective for annual periods beginning on or after January 1, 2013. This new interpretation is not relevant to the Group.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments), change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result in the modification of the presentation of items of OCI.

- PAS 19, *Employee Benefits (Amendment),* ranges from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. Once effective, the Group has to apply the amendments retrospectively to the earliest period presented.

  The Group obtained the services of an external actuary to compute the impact to the consolidated financial statements upon adoption of the standard. The effects are detailed below:

	As of December 31, 2012	As of January 1, 2012
Balance Sheet		
Increase (decrease) in:		
Accrued retirement benefits	₱4,629,259	₱3,640,200
Deferred income tax asset	1,388,778	1,092,060
Accumulated other comprehensive income	(3,370,337)	(2,565,106)
Retained earnings	129,856	16,966
Statement of Comprehensive Income		
	2012	2011
Decrease in retirement benefits cost	₱161,271	₱24,237
Increase in provision for income tax	(48,381)	(7,271)
Increase in net income	112,890	16,966
Increase in other comprehensive loss	(1,150,330)	(3,664,437)
Increase in provision for income tax	345,099	1,099,331
Increase in other comprehensive loss	(805,231)	(2,565,106)
Decrease in total comprehensive income	(₱692,341)	(₱2,548,140)

- PAS 27, *Separate Financial Statements* (Revised). As a consequence of the new PFRS 10 and PFRS 12 what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group presents separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- PAS 28, *Investments in Associates and Joint Ventures* (Revised). As a consequence of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures,* and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The Group expects that this amendment will not have any impact on the Company's financial position and performance.

Annual Improvements to PFRSs (2009-2011 cycle)
The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

The following improvements effective for annual periods beginning January 1, 2013 will have no impact on the Group:

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs* - clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs.* The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information* - clarifies the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 16, *Property, Plant and Equipment - Classification of servicing equipment* - clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.

- PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments* - clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes.* The Group expects that this amendment will not have any impact on its financial position and performance.

- PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities* - clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

The Group continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to December 31, 2012 on the Group's consolidated financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.

Effective in 2014

- Amendments to PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities*, clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

Effective in 2015

- PFRS 9, *Financial Instruments – Classification and Measurement*, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement.* Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

  The Group has made an evaluation of the impact of the adoption of this standard. The Group decided not to early adopt PFRS 9 for its 2012 reporting ahead of its effectivity date on January 1, 2015 and therefore the financial statements and as of December 31, 2012 and 2011 do not reflect the impact of the said standard. Based on this evaluation, loans and receivables and other financial liabilities, both carried at amortized cost, will not be significantly affected. Upon adoption, these financial instruments shall continue to be carried at amortized cost, thus, has no impact to the Group's financial position and performance.

The Group shall conduct another impact assessment at the end of the 2013 reporting period using the financial statements as of and for the year ended December 31, 2012. Given the amendments on PFRS 9, the Group at present, does not plan to early adopt in 2013 financial reporting. It plans to reassess its current position once the phases of PFRS 9 on impairment and hedge accounting become effective.

The Group's decision whether to early adopt PFRS 9 for its 2013 financial reporting will be disclosed in the financial statements as of and for the year ending December 31, 2013.

The Group's receivables and accounts payable and accrued expenses may be affected by the adoption of this standard.

Effectivity date to be determined

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. 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 reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The adoption of this Philippine Interpretation may significantly affect the determination of the revenue from real estate sales and the corresponding costs, and the related contracts receivables, deferred income tax assets and retained earnings accounts. The amendment will not have any significant impact on the Group's financial position or performance.

Business Combination and Goodwill

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

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

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

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

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

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

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

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

<u>Cash and Cash Equivalents</u>
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.

<u>Cash Investments</u>
Short-term cash investments consist of short-term money-market placements and time deposits with original maturities of more than three months but less than a year. Placement and time deposits with maturities of more than one year are classified as noncurrent assets under "Long-term cash investment" account.

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

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

As of December 31, 2012 and 2011, the Group has no HTM financial assets.

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

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

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

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

"Day 1" difference
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" difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference amount.

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

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

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

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

As of December 31, 2012 and 2011, the Group has no investments in financial assets and financial liabilities at FVPL.

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

As of December 31, 2012 and 2011, included under loans and receivables are cash and cash equivalents, short-term and long-term cash investments, and receivables (consisting of receivable from Forum Energy Plc (FEP), interest receivable and other receivables) (see Notes 5 and 6).

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

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

As of December 31, 2012 and 2011, included under AFS financial assets are the Group's investments in shares of stock and government bonds (see Note 7).

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

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

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

As of December 31, 2012 and 2011, included in other financial liabilities are the Group's accounts payable and accrued expenses (see Note 13).

Offsetting of Financial Instruments

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

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

Financial liabilities

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss is removed from other comprehensive income (loss) and recognized in profit or loss.

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

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

Prepayments

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

Valued-added Tax (VAT)

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

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

Investment Properties

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

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

Property and Equipment

Property and equipment, other than office condominium, are carried at cost less accumulated depreciation and amortization and any impairment in value.

Office condominium is carried at revalued amount less depreciation and any impairment in value charged subsequent to the date of the revaluation. 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 the depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's original cost. Additionally, accumulated depreciation at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation increment relating to the particular asset sold is transferred to retained earnings (deficit).

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

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

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

	Number of Years
Office condominium	15
Office equipment, furniture and fixtures	4 to 5
Farm equipment	3 to 5
Building and leasehold improvements	10
Transportation equipment	5

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

Amortization of leasehold improvements is computed using the straight-line method of amortization based on the estimated useful life of the leased asset or the term of the lease, whichever is shorter.

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

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

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

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

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

Deferred Charges

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

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

Borrowing Costs

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

Impairment of Nonfinancial Assets

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

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

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

Capital Stock and Additional Paid-in Capital

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

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

Deposit for Future Stock Subscription

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

Treasury Stock

Treasury stock are own equity instruments which are carried at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of comprehensive income on the purchase, sale, issue, or cancellation of the Group's own equity instruments.

Retained Earnings (Deficit)

Retained earnings (deficit) includes the cumulative balance of periodic net income or losses, dividend distributions, effects of changes in accounting policy and other capital adjustments.

Revenue Recognition

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

Revenue from petroleum operations

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

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

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

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

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

Cost and Expenses
Cost and expenses are recognized in profit or loss when a decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that results in decreases in equity, other than those relating to distributions to equity participants, has arisen that can be measured reliably.

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

General and administrative expenses
General and administrative expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. These constitute costs of administering the business and selling/distributing the cassava granules. General and administrative expenses are generally recognized when the service is incurred or the expense arises while interest expenses, if applicable are accrued in the appropriate period.

Foreign Currency-denominated Transactions and Translations
Transactions in foreign currencies are recorded using the applicable exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are retranslated using the applicable closing functional currency exchange rate at the reporting date. Foreign exchange gains or losses arising from foreign currency-denominated transactions and translations are recognized in profit or loss.

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

Past service cost is recognized as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested following the introduction of, or changes to, the plan, past service cost is recognized immediately. The accrued retirement benefits is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, reduced by past service cost not yet recognized, and the fair value of the plan assets out of which the obligations are to be settled directly.

Income Taxes

Current income tax

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

Current tax for current and prior periods shall, to the extent unpaid, be recognized as a liability under "Income tax payable" account in the consolidated balance sheet. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognized as an asset under "Prepayments and other current assets" account in the consolidated balance sheet.

Deferred income tax

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

Deferred income tax liabilities are provided on taxable temporary differences associated with investments in domestic subsidiaries and associates except to the extent that the Group is able to control the timing of the reversal of the temporary differences 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 reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized before their reversal or expiration. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax asset to be recovered.

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

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

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

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

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

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

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

3. Significant Accounting Judgments and Estimates

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

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

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

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

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

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

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

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

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

As of December 31, 2012, the Company assessed that there were no impairment indicators on its property and equipment The carrying value of property and equipment recorded at cost, net of accumulated depreciation and amortization of ₱14,844,224 and ₱19,226,644 as of December 31, 2012 and 2011, respectively, and allowance for impairment losses of ₱2,558,970 as of December 31, 2011, amounted to ₱9,796,834 and ₱10,342,527 as of December 31, 2012 and 2011, respectively (see Note 12).

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

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

- the period for which the Group has the right to explore in the specific area has expired or will expire in the near future and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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

In 2010, management provided additional allowance for impairment loss on exploration projects amounting to ₱7,542,635 since the Group's right to explore the projects has already expired. There was no provision for impairment loss on deferred charges in 2012 and 2011 (see Note 11).

The carrying amount of deferred charges, net of allowance for impairment loss amounting to ₱45,742,635 as of December 31, 2012 and 2011, amounted to ₱45,185,414 and ₱40,680,455 as of December 31, 2012 and 2011, 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, unrealized foreign exchange losses and fair value adjustments on AFS financial assets and some portion of NOLCO.

The Group recognized deferred income tax assets amounting to ₱13,311,942 and ₱9,256,558 as of December 31, 2012 and 2011, respectively (see Note 20).

<u>Estimates</u>
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of asset and liabilities within the next financial year are discussed below:

Impairment of AFS financial assets
The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" as 20% or more of the cost and "prolonged" as greater than 12 months for quoted equity securities.

Allowance for impairment on unquoted investment in shares of stock amounted to ₱4,090,435 and ₱902,032 as of December 31, 2012 and 2011, respectively (see Note 7).

The carrying value of the Group's AFS financial assets amounted to ₱305,867,784 and ₱55,984,380 as of December 31, 2012 and 2011, respectively (see Note 7).

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

The carrying value of receivables, net of allowance for impairment of accounts receivable amounting to ₱2,641,082 and ₱2,052,707 as of December 31, 2012 and 2011, respectively, amounted to ₱45,450,565 and ₱1,705,712 as of December 31, 2012 and 2011, respectively (see Note 6).

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 2012, 2011 and 2010 amounted to ₱3,642,532, ₱3,320,565 and ₱3,054,324, respectively (see Note 12).

Estimation of fair value of unquoted equity securities classified as AFS financial assets
Management believes that while the range of reasonable fair value estimates is significant, the probabilities of the various estimates cannot be reasonably assessed given the unquoted nature of these equity investments. As a result, the Group carries these financial assets at cost less any impairment in value. As of December 31, 2012 and 2011, unquoted equity securities amounted to ₱135,248 and ₱3,323,651, respectively (see Note 7). Allowance for impairment losses on AFS financial assets amounted to ₱4,090,435 and ₱902,032 as of December 31, 2012 and 2011, respectively (see Note 7).

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

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement obligations. The assumptions made by the Group resulted in accrued retirement benefits amounting to ₱3,284,513 and ₱2,475,300 as of December 31, 2012 and 2011, respectively (see Note 19).

Determination of revalued amount of condominium units
The Group engaged an independent valuation specialist to determine the fair value of office condominium. Management agrees with the valuer's estimate of the fair value of the office condominium using the sales comparison approach. The revalued amount of the office condominium as of June 8, 2012 amounted to ₱25,250,000. Revaluation increase on office condominium recognized as other comprehensive income in 2012 amounted to ₱7,721,195, net of the applicable tax. Net book value of revalued office condominium amounted to ₱24,370,645 and ₱14,909,998 as of December 31, 2012 and 2011, respectively (see Note 12).

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

- 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;
- 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
- 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.

In 2012, the Group recognized a fair value adjustment on its investments properties totaling ₱73,393,045 based on the latest appraisal reports in 2012 for the land in Bolinao, Pangasinan and in San Fabian, Pangasinan. The fair value of the Group's investment properties amounted to ₱193,479,343 and ₱120,086,298 as of December 31, 2012 and 2011, respectively (see Note 8).

4. Status of Investments and Management's Outlook

Purchase of BBC (formerly Zambo Norte Bioenergy Corporation)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In August 2009, ZNB Partners and the Parent Company executed an Agreement for the settlement of the remaining commitments of ZNB Partners under the SPA and the Agreement for the Acquisition of Lands dated June 19, 2007. The Parties agreed to a settlement amount of ₱8,223,653 consisting of a reduction in the consideration of ZNB Partners under the SPA and the payment by ZNB Partners of the values of its undelivered commitments under the aforementioned agreements which consists of 63,258,870 shares of the Parent Company. The aforesaid amount was settled by ZNB Partners on September 30, 2009. As agreed, the Agreement shall constitute the final settlement of the obligations and commitments of ZNB Partners under the SPA and the Agreement for the Acquisition of Lands dated June 19, 2007.

In 2010, the Parent Company sold 7,245,000 shares with total proceeds of ₱1,187,195 which was used as partial settlement of ZNB Partners' obligation. The remaining shares were sold in 2011 with total proceeds of ₱15,261,300 as full settlement of the obligation of ZNB Partners under the agreement, and the Parent Company recognized a gain on settlement amounting to ₱8,224,842 arising from the difference between the total cash proceeds and the remaining liability of ZNB Partners to the Parent Company.

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

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

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

The cost of the business combination amounted to ₱12,500,000, which consists of cash purchase price and transaction costs. The goodwill which is recognized under "Other noncurrent assets" in the 2009 consolidated balance sheet, amounting to ₱3,265,000 is attributed to the synergies and expected benefits from combining the assets and activities of the Project with those of the Group.

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

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

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

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

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

As such, the Parent Company terminated the deposit on subscription of EMF amounting to ₱10,800,000 (see Note 14). The first payment made by the Parent Company for the cash consideration for the acquisition of the cassava project amounting to ₱1,200,000 shall be retained by EMF.

On August 15, 2011, the Parent Company suspended the operations of BEFI in Zamboanga del Norte.

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

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

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

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

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

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

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

        The HCR accounts include SC 14 NW Palawan, SC 6A & 6B NW Palawan, SC 41 Sandakan Basin, SC 42 NW Palawan and GSEC 94 Offshore W Palawan.

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

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

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

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

As of December 31, 2011, receivables from FEP, representing the Parent Company's share in the utilization of the HCRs of BPMI relating to SC 14 NW Palawan and SC 6B NW Palawan (Nido-Matinloc Field), were booked at ₱78,799 (see Note 6). No further accrual of the receivables of the Parent Company from FEP under the SPA relating to SC 14 NW Palawan and SC 6B NW Palawan (Nido-Matinloc Field) was made when the Parent Company found that FEP's method of computation of the Parent Company's share in the HCRs was not in accordance with the SPA.

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

Thus, on February 28, 2008, the Parent Company, through its external counsel, made a final demand on FEP for the Parent Company's share in the HCRs of BPMI relating to SC 14 NW Palawan and SC 6B NW Palawan (Nido-Matinloc Field) in the aggregate amount of US$621,927 as of December 31, 2007, and requested that the Parent Company's new nominee be elected to the FEP's Board. In view of the failure of FEP to comply with these demands, on April 30, 2008, the Parent Company served FEP a notice of default of its obligation under the SPA. On June 5, 2008, FEP was formally declared in default and was advised of the automatic termination of the SPA.

As of November 30, 2009, the Parent Company's share in the HCRs of BPMI relating to SC 14 NW Palawan and SC 6B NW Palawan (Nido-Matinloc Field) due from FEP amounted to US$1,348,347. Considering that negotiations to settle this case proved futile, on November 13, 2009, the Parent Company submitted the dispute with FEP for arbitration. While the case is pending arbitration, the parties were enjoined by the arbitration tribunal to amicably settle their disputes.

On May 10, 2011, parties executed the Settlement Agreement, which stipulated that: (a) FEP shall pay the amount of US$650,000, which is 50% of the claims of the Parent Company for its share in the HCRs in the Nido-Matinloc liftings, as of November 30, 2010. Ten percent (10%) of this amount or US$65,000 had already been paid by FEP to the Parent Company after the execution of the Settlement Agreement; and (b) FEP shall cause to convey 50% of BPMI's participating interests in SC 6-A and 6-B, and SC 14 A, B, C-1, C-2, D –Retention Block and Tara Block, and the historical recovery and other related accounts. To implement the said transfer, the parties agreed to obtain letters of no objection from the other consortium members within a 60-day period, which was subsequently extended for another 60 days.

During the transition period (prior to obtaining the letters of no objection from the consortium members), the parties agreed that FEP shall pay the Parent Company 50% of its cash receipts from liftings, without any deduction, and the Parent Company shall share 50% of cash calls, effective January 19, 2011. The Parent Company and FEP honored their respective obligations under the Settlement Agreement. Unfortunately, both FEP and the Parent Company were not able to get the letters of no objection within the stipulated period, and in view thereof, the arbitration proceeding resumed on December 16, 2011.

On June 14, 2012, the Ad-Hoc Arbitration Tribunal rendered its decision in favor of the Parent Company and awarded payment by FEP of the balance of the shares of the Parent Company on the historical cost recoveries received by the FEP on the oil assets sold to FEP under the SPA and directed the parties to cause the election of the Parent Company's nominee to FEP's Board until full payment of the said obligations. Even prior to the arbitration award, the parties has been in continuing discussions on a global settlement on all issues pertaining to the SPA, as the arbitration proceedings covered only the Parent Company's claim for its share in historical cost recoveries and a global settlement would be beneficial to both parties. On June 21, 2012, the parties executed a Compromise Agreement covering settlement of the aforementioned award by the Ad-Hoc Arbitration Tribunal in favor of the Parent Company in the aggregate amount of US$2.4 million and the other claim of the Parent Company under Article 2.3 of the SPA in the amount of US$2.0 million in consideration of which the Parent Company agreed not to nominate a representative to FEP's board.

Total settlement proceeds received by the Parent Company in 2012 amounting to ₱186,567,854 (US$4.4 million) was recorded as "Income from previous sale of BPMI" in the consolidated statement of comprehensive income. As of December 31, 2012, the remaining balance of the settlement proceeds amounted to ₱41,050,000 (US$1.0 million) which is payable in December 2013 (see Note 6).

The Parent Company received ₱38,387,996 (US$897,965), ₱198,467,991 (US$4,588,200) and ₱78,236,225 (US$1,796,721) in 2012, 2011 and 2010, respectively, for FEP's utilization of the HCRs of BPMI relating to SC 14C NW Palawan (Galoc Field). This was recorded as "Income from previous sale of BPMI" in the consolidated statements of comprehensive income. These receipts representing additional consideration on the sale of BPMI shares to FEP, decreased the loss on sale of investment in BPMI recognized in 2006. Upon execution of the Compromise Agreement, the Parent Company paid capital gains tax amounting to ₱12,589,629 (see Note 18).

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

SC 47. SC 47 was awarded on January 10, 2005 to the Philippine National Oil Company - Exploration Corporation (PNOC-EC) and Petronas Carigali (Petronas) of Malaysia after the consortium decided to convert GSEC 100 to a service contract. Petronas holds an 80% stake as operator while PNOC-EC owns the remaining 20% stake. Upon Petronas' withdrawal in 2007 prior to entry to Sub-Phase 2, PNOC-EC interest became 97% with Petroenergy at 2% and the Parent Company at 1%. SC 47 covers 14,667 square kilometers (sq. km.) and is located within the Northwest Palawan Micro-Continental Block (NPMCB).

The highly encouraging results of the Maniguin drilling have prompted PNOC-EC to pursue additional evaluation studies, including the acquisition of 2D and 3D seismic data. The result of the evaluation studies have shown prospects with reserves ranging from 10.0 million barrels to 500.0 million barrels recoverable oil.

Petronas spudded a well on August 31, 2007 to test the potential of the Kamia prospect. The drilling of the Kamia-1 well is part of the work program committed to the DOE that involves the drilling of an exploratory well. The consortium will have the option to conduct more drilling by committing to the succeeding contract year. A US$4.0 million development costs in shallow water was anticipated, however, Petronas withdrew from the service contract prior to entry of Sub-Phase 2.

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

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

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

On June 10, 2008, the consortium entered into Sub-Phase 2 and presented an alternative work program of acquiring 1,000 sq. km. of two-dimension (2D) seismic program. The proposal was not accepted. PNOC-EC is renegotiating and would be informing the consortium of the acceptable work program.

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

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

On May 28, 2010, a revised work program and extension of the term of the Sub-Phase 2 was requested for approval by the DOE. The processing and interpretation of the new seismic data have resulted in the identification of some lead and prospects.

In 2012, PNOC-EC pursued a new seismic program as the DOE has advised that the extension of the term of the Sub-Phase 2 of the service contract shall be acted upon when there is already a commitment to drill a well in the service contract area.

In March 2013, PNOC-EC requested the DOE for a 2-year term for Sub-Phase 3 in order to allow the potential farminee to undertake all the work commitment including the drilling of one well. PNOC-EC is currently in discussions with a farminee for the service contract.

SC 53. SC 53 was awarded on July 8, 2005. It covers 6,600 sq. km. of the onshore areas of Mindoro Island which is within the NPMCB. The operator of the block is Laxmi Organic Industries Ltd. with 70% participating interest.

The Parent Company's participating interest on SC 53 is at 3%, The Philodrill Corporation's at 22% and Anglo-Philippine Holdings' at 5%.

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$1.5 million.

Pitkin has completed a magneto-telluric in Onshore Mindoro. In April 2009, the DOE approved the one year extension of Sub-Phase 1. Pitkin awarded the 2D seismic acquisition contract to BCG, a Chinese geophysical contractor, which started on November 3, 2009. The 2D seismic is designed to delineate and assess the hydrocarbon potential of the Progreso-1X in San Jose, Mindoro Occidental and in Sablayan, Mindoro Occidental.

The DOE has recently approved the further extension of Sub-Phase 1 to March 2011 for the conduct of geological and geophysical studies and interpretation of the 2D seismic data, which is estimated to cost US$4.5 million and the drilling of two wells between 2011 to 2012, the cost of which is estimated at US$2.0 million.

On July 11, 2011, Resource Management Associates Pty Limited of Australia signed a FIA with Pitkin Petroleum to acquire 35% from its 70% participating interest. In a consortium meeting last November 11, 2011, Pitkin reported that the Sub-Phase , which ended March 6, 2012, was fulfilled with the completion of the 200 kilometers of seismic data. Sub-Phase 2 shall end on July 8, 2014 and carries a minimum work obligation of 2 wells at a minimum cost of US$2.0 million.

The consortium agreed to drill Progreso-2 to fulfill one of the 2 well commitments with the DOE. The environmental impact assessment has been recently commenced, while collation of seismic and other data and the tendering of the long lead items are on-going.

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 50.0 to 150.0 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 Ltd., the contractor, justified that the deeper secondary objectives did not warrant continuing the well due to the more difficult drilling conditions. The block has an inventory of nearly 20 leads and prospects covered by 3D data. Drilling operations are being considered after a thorough evaluation.

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

On June 18, 2009, Tap Oil Ltd. sought for farm-in partners due to the increasing costs of drilling exploratory wells.

On May 12, 2010, Tap Oil requested the DOE that the Wildebeest-I be classified as a discovery well based from the oil samples recovered by the MDT sampling and the interpretation of the 3D seismic data acquired in 2008. This request was not approved by the DOE, in view of which, on July 10, 2010, the consortium decided to withdraw from this SC.

The Parent Company was involved in the block through its subsidiary, SWR, with a 0.608% interest. SWR's participating interest was carried-free from the financial commitments of the work programs to be performed over the concession areas.

The full recovery of the deferred charges, amounting to ₱31,238,982 and ₱27,804,051 as of December 31, 2012 and 2011, respectively, incurred in connection with the Parent Company's participation in the acquisition, exploration and development of petroleum concessions is dependent upon the discovery of oil and gas in commercial quantities from the respective contract areas and the success of future developments thereof (see Note 11).

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

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

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

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

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

The Parent Company recently received the GSCs from the DOE, covering three geothermal projects, namely: Iriga Geothermal Power Project, Mariveles Geothermal Power Project and the East Mankayan Geothermal Power Project.

The East Mankayan Geothermal Power Project lies immediately east of the Cervantes, Ilocos Sur geothermal block of Pan Pacific Power Phils, Inc. and south of the Bontoc-Sadanga block which is operated by Magma Energy Resources. Immediately south is the Daklan block operated by Clean Rock Energy. The area actually covers the 3 provinces of Benguet, Mountain Province and Ifugao. The proposed area is surrounded by lots of known thermal manifestations, e.g., hot springs and thermally altered grounds.

The Mariveles Geothermal Power Project, in Bataan is situated along the West Luzon Volcanic Arc which starts from Mt. Pinatubo in the north and extends farther south across the Manila Bay towards Batangas and northeastern Mindoro.

The Iriga Geothermal Power Project in Camarines Sur is bounded to the north by Isarog geothermal block of PNOC-RC and to the east by the highly productive Tiwi GSC area of formerly Chevron, now AP Renewables Inc. The areal landscape is dominated by Iriga or Asog Volcano, a relatively in stratovolcano, immediately southwest of Lake Buhi in southern Luzon.

5. Cash and Cash Equivalents

	2012	2011
Cash on hand and in banks	**₱59,971,719**	₱4,806,555
Cash equivalents	**142,465,280**	306,947,450
	₱202,436,999	₱311,754,005

Cash in banks and cash equivalents earn interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Group. Interest income amounted to ₱11,026,845, ₱11,039,782 and ₱4,800,702 in 2012, 2011 and 2010, respectively (see Note 16).

6. Receivables

	2012	2011
Receivable from FEP (Note 4)	**₱41,050,000**	₱78,799
Interest receivable	**2,033,495**	976,438
Other receivables	**5,008,152**	2,703,182
	48,091,647	3,758,419
Less allowance for impairment	**2,641,082**	2,052,707
	₱45,450,565	₱1,705,712

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

Movements in allowance for impairment are as follows:

	2012	2011
Beginning balances	**₱2,052,707**	₱2,052,707
Provision for the year (Note 18)	**588,375**	–
Ending balances	**₱2,641,082**	₱2,052,707

7. AFS Financial Assets

	2012	2011
Debt securities - quoted, at fair value	**₱262,669,089**	₱51,248,795
Investments in shares of stock:		
Quoted	**43,063,447**	1,411,934
Unquoted	**135,248**	3,323,651
	43,198,695	4,735,585
	₱305,867,784	₱55,984,380

The cost of debt securities which are stated at fair value amounted to ₱243,728,795 and ₱51,248,795 as of December 31, 2012 and 2011, respectively. Interest rates on these AFS debt securities range from 5.80% to 8.13%. Interest income earned on these securities amounted to ₱6,340,763, ₱192,855 and ₱117,393 in 2012, 2011 and 2010, respectively (see Note 16).

The movements in unrealized gain (loss) in respect of quoted AFS financial assets in 2012 and 2011 follow:

	2012	2011
Beginning balances	**(₱509,593)**	₱744,031
Unrealized gain (loss)	**18,578,978**	(1,253,624)
Ending balances	**₱18,069,385**	(₱509,593)

In 2010, the Group sold quoted investment in shares of stock resulting in gain on realized fair value adjustment amounting to ₱24,057,696.

Unquoted equity securities include unlisted shares of stock with total cost of ₱4,225,683 and which the Company will continue to carry as part of its investments. These are carried at cost less allowance for impairment losses. The movement in allowance for impairment loss are as follows:

	2012	2011
Beginning balances	**₱902,032**	₱902,032
Provision for the year	**3,188,403**	–
Ending balances	**₱4,090,435**	₱902,032

8. **Investment Properties**

	2012	2011
Beginning balances	**₱120,086,298**	₱120,086,298
Increase in fair value	**73,393,045**	–
Ending balances	**₱193,479,343**	₱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 November 29, 2012. 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. The fair valuation was estimated through the direct market comparison approach; which is a comparative approach that considers the sales of similar or substitute assets and related market data.

Direct operating expenses related to the investment properties include real property taxes paid in 2012, 2011 and 2010 amounting to ₱268,146, ₱267,047 and ₱93,523, respectively.

The Group has no restriction on the realizability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

9. Biological Assets - Standing Crops and Agricultural Produce

BEFI started planting cassava in March 2009. Movement in the biological assets in 2011 follows:

January 1, 2011	₱7,108,252
Additions (Note 12)	2,704,580
Harvested cassava tubers	(6,338,428)
Loss on biological assets	(3,474,404)
December 31, 2011	₱–

On August 15, 2011, BEFI decided to suspend its operations and wrote-off the remaining balance of biological assets resulting in a loss amounting to ₱3,474,404 which is recorded under "Other costs and expenses" account in the 2011 profit or loss.

In 2010, the fair value adjustment on agricultural produce amounted to a loss of ₱16,445,998. Sales of cassava tubers amounted to ₱1,731,720 and ₱5,760,875 in 2011 and 2010, respectively.

10. Project Development Costs

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

In 2009, BBC reduced the project development costs for the planned ethanol project at the time of settlement by the ZNB Partners of its commitment under the SPA (see Note 4).

BBC determined that the cost of its project development cost exceed its recoverable amount hence, the Company recognized impairment loss amounting ₱46,731,677 to fully impair the asset in 2011 with cost of ₱59,731,677 as of December 31, 2012 and 2011.

Project development costs also include the acquired cassava project of EMF by BEFI amounting to ₱2,647,014 in 2009 but was subsequently returned to EMF in 2010 (see Note 4).

11. Deferred Charges

The movements in deferred charges follow:

	2012	2011
Beginning balances	**₱86,423,090**	₱77,010,322
Additions	**4,504,959**	9,412,768
	90,928,049	86,423,090
Less allowance for impairment loss	**45,742,635**	45,742,635
Ending balances	**₱45,185,414**	₱40,680,455

Under the SCs entered into with the DOE covering certain petroleum contract areas in various locations in the Philippines, the participating oil companies (collectively known as Contractors) are obliged to provide, at their sole risk, the services, technology and financing necessary in the performance of their obligations under these contracts. The Contractors are also obliged to spend specified amounts indicated in the contract in direct proportion to their work obligations. However, if the Contractors fail to comply with their work obligations, they shall pay to the government the amount they should have spent but did not, in direct proportion to their work obligations. The participating companies have Operating Agreements among themselves, which govern their rights and obligations under these contracts.

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

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

The accumulated costs incurred in connection with the exploration contracts are shown under "Deferred charges" account in the consolidated balance sheets. 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 2010, management provided additional allowance for impairment loss on exploration projects amounting to ₱7,542,635 since the Group's right to explore the projects has already expired. There was no additional provision for impairment loss on deferred charges in 2012 and 2011.

12. Property and Equipment

At cost:

As of December 31, 2012:

	Land	Office Equipment, Furniture and Fixtures	Farm Equipment	Building and Leasehold Improvement	Transportation Equipment	Total
At Costs						
Beginning balances	₱3,500,000	₱10,214,383	₱8,744,380	₱5,156,648	₱4,542,730	₱32,158,141
Additions	–	192,552	–	–	3,173,240	3,365,792
Disposals	–	847,720	8,744,380	–	1,290,775	10,882,875
Ending balances	3,500,000	9,559,215	–	5,156,648	6,425,195	24,641,058
Accumulated Depreciation and Amortization						
Beginning balances	–	9,330,007	4,346,695	3,291,768	2,258,174	19,226,644
Depreciation and amortization (Note 18)	–	343,107	492,992	172,025	1,064,777	2,072,901
Disposals	–	775,290	4,839,687	–	840,344	6,455,321
Ending balances	–	8,897,824	–	3,463,793	2,482,607	14,844,224
Net Book Values	₱3,500,000	₱661,391	₱–	₱1,692,855	₱3,942,588	₱9,796,834

	Land	Office Equipment, Furniture and Fixtures	Farm Equipment	Building and Leasehold Improvement	Transportation Equipment	Total
At Costs						
Beginning balances	₱3,500,000	₱9,538,171	₱8,744,380	₱5,156,648	₱3,806,010	₱30,745,209
Additions	–	839,719	–	–	1,897,220	2,736,939
Disposals	–	(163,507)	–	–	(1,160,500)	(1,324,007)
Ending balances	3,500,000	10,214,383	8,744,380	5,156,648	4,542,730	32,158,141
Accumulated Depreciation and Amortization						
Beginning balances	–	9,137,000	2,595,014	3,119,743	2,028,463	16,880,220
Depreciation and amortization (Note 18)	–	332,431	1,751,681	172,025	809,961	3,066,098
Disposals	–	(139,424)	–	–	(580,250)	(719,674)
Ending balances		9,330,007	4,346,695	3,291,768	2,258,174	19,226,644
Allowance for impairment losses	–	57,317	2,198,842	–	332,811	2,588,970
Net Book Values	₱3,500,000	₱827,059	₱2,198,843	₱1,864,880	₱1,951,745	₱10,342,527

Depreciation expense capitalized as cost of biological assets amounted to ₱1,402,200 in 2011 (see Note 9).

At revalued amount:

	Office Condominium	
	2012	2011
Cost	**₱25,250,000**	₱26,580,010
Accumulated Depreciation		
Beginning balances	**11,670,012**	10,013,345
Reversal due to revaluation	**(12,360,288)**	–
Depreciation (Note 18)	**1,569,631**	1,656,667
Ending balances	**879,355**	11,670,012
Net Book Values	**₱24,370,645**	₱14,909,998

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 June 8, 2012. The fair value is determined using the generally accepted sales comparison approach. The date of the appraisal was June 14, 2012. The estimated remaining life of the office condominium is 16.75 years as of appraisal date.

Increase in revaluation of office condominium, net of deferred income tax liability, amounted to ₱7,721,195 in 2012 which is presented under "Revaluation increment in office condominium" account in the 2012 parent company statement of comprehensive income. Revaluation increment in office condominium as of December 31, 2012 and 2011 amounted to ₱17,059,457 and ₱10,437,004, respectively, which is presented under the "Revaluation increment in office condominium" account in the consolidated balance sheets and consolidated statements of changes in equity.

If the office condominium was measured using the cost model, the carrying amount as of December 31, 2012 and 2011 would be as follows:

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

The cost of the Group's fully depreciated assets still in use amounted to ₱10,099,014 and ₱11,492,762 as of December 31, 2012 and 2011, respectively.

13. Accounts Payable and Accrued Expenses

	2012	2011
Accounts payable	**₱1,163,608**	₱2,182,176
Dividends payable	**888,714**	888,714
Other payables	**460,936**	3,652,184
	₱2,513,258	₱6,723,074

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

14. Capital Stock

The details of the capital stock as of December 31, 2012 and 2011 are as follows:

	No. of Shares	Amount
Authorized - ₱0.25 par value	10,000,000,000	₱2,500,000,000
Unissued	(8,241,854,545)	(2,060,463,636)
Issued	1,758,145,455	439,536,364
Subscribed	2,146,848,057	536,712,014
Subscriptions receivable	(1,462,500,000)	(365,625,000)
	684,348,057	171,087,014
	2,442,493,512	₱610,623,378

The movements on shares outstanding in 2012 and 2011 are as follows:

	2012	2011
Beginning balances	**2,424,493,512**	2,442,493,512
Treasury stock (Note 15)	–	(18,000,000)
Ending balances	**2,424,493,512**	2,424,493,512

Below is the Parent Company's track record of registration:

a. On January 26, 1973, the SEC authorized the Parent Company to sell to the public 617.5 million shares out of its unissued capital stock as of December 31, 1972 within one year from order date, unless extended by the SEC. As of December 31, 1973, the Parent Company's authorized capital stock is 1.5 billion shares with par value of ₱0.01.

b. On September 8, 1973, the Parent Company applied with the Manila Stock Exchange and Makati Stock Exchange for the listing of its capital stock as of September 8, 1973 (495,251,000 fully paid-up shares and with respect to 1,004,749,000 shares, upon full payment and issuance of the corresponding stock certificates). The applications for listing were approved by the Board of Governors of both the Manila Stock Exchange and Makati Stock Exchange on September 30, 1973 and September 13, 1973 respectively. Said listing was duly approved by the SEC on October 16, 1973.

c. On October 17, 1974, the SEC approved the increase in the Parent Company's authorized capital stock from ₱15.0 million (consisting of 1.5 billion shares) to ₱40.0 million (consisting of 4.0 billion shares) at the same par value of ₱0.01. The SEC also approved the 60% stock dividend (₱9.0 million) declaration to stockholders of record as of August 15, 1974.

The Parent Company granted to stockholders of record as of November 15, 1974 the right to subscribe at par of ₱0.01 per share to the unissued and unsubscribed portion of the increased capital stock amounting to ₱16.0 million (1.6 billion shares), at the ratio of 2 shares of stock for every 3 shares of stock registered in the stockholders' name.

On October 23, 1974, the SEC authorized the listing of the additional 2.5 billion shares of the Parent Company's increased capital stock (900.0 million fully paid-up shares representing the 60% stock dividend, and with respect to 1.60 billion shares, upon full payment and issuance of corresponding stock certificates) in the Manila Stock Exchange , Makati Stock Exchange, Inc. and Metropolitan Stock Exchange, Inc. The listing took effect on November 6, 1974. On October 16, 1973, the SEC had authorized the listing of the Parent Company's original shares of stock of 1.5 billion shares in the first two stock exchanges.

d. On February 4, 1976, the SEC approved the increase in authorized capital stock from ₱40.0 million (₱24.0 million or 60% Class A and ₱16.0 million or 40% Class B) to ₱100.0 million (₱60.0 million or 60% Class A and ₱40.0 million or 40% Class B) both with a par value of ₱0.01 per share. The Parent Company also granted pre-emptive rights to stockholders of record as of October 31, 1975 to subscribe at par value of ₱0.01 per share to ₱20.0 million (₱12.0 million Class A and ₱8.0 million Class B) at the ratio of one share for every two shares held. The right was exercisable on or before January 15, 1976 with a 25% down payment and the balance payable upon call by the BOD.

   On December 22, 1975, the SEC issued to the Parent Company a "Certificate of Permit to Offer Securities for Sale" covering the said capital increase of ₱60.0 million (₱36.0 million Class A and ₱24.0 million Class B). On February 26, 1976, the listing of the shares representing the said ₱60.0 million increase in authorized capital stock of the Parent Company in the stock exchanges was approved.

e. On November 13, 2007, the SEC approved the increase in the capital stock of the Parent Company for ₱500.0 million consisting of the 2 billion shares to ₱2.5 billion consisting of 10.0 billion shares. Pursuant to this increase, 537.5 million shares were issued to the subscribers to the capital increase on January 10, 2008.

f. On May 28, 2009, the Parent Company issued 120,853,182 shares to a new investor, ZN Biofuels, Inc., the registration of which was exempt and confirmed as such by the SEC.

g. On September 22, 2009, the Parent Company issued 31,818,182 shares to Shouk Financial Services Ltd., the registration of which was exempt and likewise confirmed as such by the SEC.

h. On September 8, 2011, the SEC approved the Stock Option Plan of the Parent Company granting directors, members of the advisory board, officers and employees of the Parent Company options to purchase at a par total of 500.0 million shares. Out of these shares, 26.7 million have been paid and listed in the Philippine Stock Exchange on January 21, 2013.

15. Treasury Stock

The treasury stock represents 18.0 million shares of the Parent Company which are held by BGEC.

16. **Other Income** - Net

	2012	2011	2010
Interest income on:			
Cash and cash equivalents (Note 5)	**₱11,026,845**	₱11,039,782	₱4,800,702
AFS financial assets - debt securities (Note 7)	**6,340,763**	192,855	117,393
Short-term cash investments	**282,379**	32,149	–
Long-term cash investment	**57,379**	–	–
	17,707,366	11,264,786	4,918,095
Dividend income	**754,990**	5,508	5,666
Others	**1,822,670**	47,169	(15,847)
	₱20,285,026	₱11,317,463	₱4,907,914

17. **Related Party Transactions and Relationships**

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Group, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Group. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Group and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

Compensation of Key Management Personnel

a. Shares of stock of the Parent Company held by members of the BOD aggregated to 33,787,366 and 35,777,245 as of December 31, 2012 and 2011, respectively.

b. Compensation of key management personnel consists of short-term employee benefits and post-employment benefits. Short-term employee benefits amounted to ₱11.9 million, ₱10.9 million and ₱5.7 million in 2012, 2011 and 2010, respectively, while, post-employment benefits amounted to ₱3.05 million, ₱1.8 million and ₱0.8 million in 2012, 2011 and 2010, respectively.

   Directors' remuneration consists only of per diems for attendance at the BOD and Committee meetings. In 2012, 2011 and 2010, total per diems received by the members of the BOD amounted to ₱2,724,500, ₱2,057,750 and ₱940,500, respectively. There is no existing compensatory plan or arrangement for directors of the Parent Company.

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

   A stock option plan for directors and officers was approved by the stockholders on July 11, 2007, and the exercise period was extended to July 2013. The SEC issued on September 8, 2011 a resolution exempting the SOP from the registration requirements under the Securities Regulation Code.

The Parent Company's outstanding amounts of investments in and advances to subsidiaries which were eliminated in the consolidated level are as follows:

As of December 31, 2012:

	Investments	Allowance for Impairment	Total	Advances	Allowance for Impairment	Total
BDIHI	**₱227,085,800**	**₱227,085,800**	**₱–**	**₱21,453,057**	**₱21,439,342**	**₱13,715**
SWR	**75,341,250**	**75,341,250**	**–**	**–**	**–**	**–**
BBC	**64,000,000**	**64,000,000**	**–**	**5,584,083**	**5,584,083**	**–**
iBasic	**53,547,840**	**53,547,840**	**–**	**3,386,610**	**3,346,880**	**39,730**
BGI	**20,000,000**	**–**	**20,000,000**	**–**	**–**	**–**
BEFI	**20,000,000**	**20,000,000**	**–**	**36,975,000**	**36,975,000**	**–**
	₱459,974,890	**₱439,974,890**	**₱20,000,000**	**₱67,398,750**	**₱67,345,304**	**₱53,445**

As of December 31, 2011:

	Investments	Allowance for Impairment	Total	Advances	Allowance for Impairment	Total
BDIHI	₱227,085,800	₱227,085,800	₱–	₱21,358,166	₱21,358,166	₱–
SWR	75,341,250	75,341,250	–	19,208	–	19,208
BBC	64,000,000	64,000,000	–	5,479,492	5,479,492	–
iBasic	53,547,840	53,547,840	–	3,261,143	3,261,143	–
BGI	20,000,000	–	20,000,000	3,251,845	–	3,251,845
BEFI	20,000,000	20,000,000	–	37,975,000	37,975,000	–
	₱459,974,890	₱439,974,890	₱20,000,000	₱71,344,854	₱68,073,801	₱3,271,053

The amounts of transactions with subsidiaries that were eliminated in the consolidated level are as follows:

Nature of Transaction	Amount of Transactions 2012	2011	Terms and Conditions
BGI			
Advances	**₱6,124**	₱3,251,845	*(a)*
Collection of advances	**3,257,969**	–	
BDIHI			
Advances	**94,891**	112,348	*(a)*
iBasic			
Advances	**125,467**	111,649	*(a)*
SWR			
Advances	**67,177**	18,208	*(a)*
Collection of advances	**86,385**	–	
BBC			
Advances	**104,591**	109,088	*(a)*
BEFI			
Advances	–	1,053,215	*(a)*
Collection of advances	**1,000,000**	–	

(a) Noninterest bearing, unsecured advances, due and demandable.

Movement in the allowance for impairment on investments in subsidiaries as follows:

	2012	2011
Beginning balances	**₱439,974,890**	₱342,782,685
Provision during the year	–	97,192,205
Ending balances	**₱439,974,890**	₱439,974,890

Movement in the allowance for impairment on advances to subsidiaries as follows:

	2012	2011
Beginning balances	**₱68,073,801**	₱35,312,132
Recovery of advances to BEFI	**(1,000,000)**	–
Provision during the year	**271,503**	32,761,669
Ending balances	**₱67,345,304**	₱68,073,801

Transactions with Retirement Benefit Fund

a. The Parent Company's retirement benefit fund is in the form a trust being maintained by a trustee bank.

b. The carrying amount and fair value of the retirement benefit fund as of December 31, 2012 amounted to ₱3,659,328 (see Note 19).

c. The assets and investments of the retirement benefit fund as of December 31, 2012 follows:

Special savings deposits	₱2,557,000
Investment in unit investment trust fund	578,361
Investments in bonds	520,777
Others	3,190
	₱3,659,328

d. In 2012, the Parent Company contributed ₱2,500,000 to the retirement benefit fund (see Note 19).

18. General and Administrative Expenses

	2012	2011	2010
Personnel:			
Salaries and wages	**₱14,281,245**	₱15,177,229	₱9,386,450
Retirement benefits cost (Note 19)	**3,309,213**	1,569,700	1,450,100
Other employee benefits	**7,912,734**	3,977,579	2,584,043
Representation and entertainment	**4,643,108**	2,675,620	1,757,961
Transportation and travel	**4,348,504**	3,918,400	3,145,887
Depreciation and amortization (Note 12)	**3,642,532**	3,320,565	3,054,324
Arbitration and legal fees	**2,789,877**	5,514,720	3,628,905
Taxes and licenses	**1,130,770**	1,429,069	652,146
Outside services	**957,196**	1,155,124	529,509
Utilities	**897,430**	707,605	1,126,176
Communication	**602,201**	706,542	649,927
Provision for impairment of receivables (Note 6)	**588,375**	–	–
Office supplies	**278,290**	301,551	575,729
Repairs and maintenance	**180,144**	122,525	73,907
Others	**3,983,235**	1,305,342	2,916,306
	₱49,544,854	₱41,881,571	₱31,531,370

19. 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 profit and loss and the funded status and amounts recognized in the consolidated balance sheets.

a. The components of retirement benefits cost in profit and loss are as follows:

	2012	2011	2010
Current service cost	**₱2,730,254**	₱1,405,000	₱1,366,300
Interest cost	**486,159**	221,000	99,900
Expected return on plan assets	**(90,225)**	(77,300)	(61,100)
Actuarial loss	**183,025**	21,000	45,000
	₱3,309,213	₱1,569,700	₱1,450,100

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

	2012	2011
Present value of defined benefit obligation	**₱11,573,100**	₱7,118,000
Fair value of plan assets	**(3,659,328)**	(1,002,500)
	7,913,772	6,115,500
Unrecognized actuarial losses	**(4,629,259)**	(3,640,200)
	₱3,284,513	₱2,475,300

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

	2012	2011
Beginning balances	**₱7,118,000**	₱2,356,300
Current service cost	**2,730,254**	1,405,000
Interest cost	**486,159**	221,000
Actuarial loss	**1,238,687**	3,135,700
Ending balances	**₱11,573,100**	₱7,118,000

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

	2012	2011
Beginning balances	**₱1,002,500**	₱858,600
Contribution (Note 17)	**2,500,000**	–
Expected return on plan assets	**90,225**	77,300
Actuarial gain	**66,603**	66,600
Ending balances	**₱3,659,328**	₱1,002,500

The actual return on plan assets amounted to ₱156,828, ₱143,900 and ₱94,600 for the years ended December 31, 2012, 2011 and 2010, respectively.

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

	2012	2011
Beginning balances	**₱2,475,300**	₱905,600
Retirement benefits cost	**3,309,213**	1,569,700
Contributions	**(2,500,000)**	–
Ending balances	**₱3,284,513**	₱2,475,300

f. The latest actuarial valuation of the plan is as of December 31, 2012. As of January 1, the principal assumptions used in determining retirement benefits cost for the Parent Company's retirement benefits are as follows:

	2012	2011	2010
Number of employees covered	**20**	20	18
Discount rate	**6.83%**	9.38%	10.58%
Salary projection rate	**8.00%**	8.0%	8.00%
Expected return on plan assets	**9.00%**	9.0%	8.00%

Discount rate used to compute the present value of defined benefit obligation as of December 31, 2012 is 6.09%.

g. Amounts as of December 31 are as follows:

	2012	2011	2010	2009	2008
Present value of defined benefit obligation	**₱11,573,100**	₱7,118,000	₱2,356,300	₱944,200	₱2,387,900
Fair value of plan assets	**3,659,328**	(1,002,500)	(858,600)	(764,000)	(1,557,800)
Deficit	**7,913,772**	6,115,500	1,497,700	180,200	830,100
Experience adjustment on plan liabilities - loss (gain)	**280,987**	1,254,000	(312,300)	508,200	(497,600)
Experience adjustment on plan assets - gain (loss)	**66,603**	66,600	33,500	249,400	(232,300)

h. The major categories of plan assets as of December 31, 2012and 2011 as a percentage of fair value of total plan assets follow:

Money market investments	98%
Cash in bank and other receivables	2%
	100%

i. 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.

j. The Parent Company does not expect to contribute to the plan in 2013.

20. Income Taxes

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

b. Provision for income tax consists of:

	2012	2011	2010
Current	**₱102,770**	₱164,977	₱–
Deferred	**(917,243)**	15,846	5,628,657
	(814,473)	180,823	5,628,657
Capital gains tax (Note 4)	**12,589,629**	–	–
Final tax	**3,480,804**	2,207,689	868,689
	₱15,255,960	₱2,388,512	₱6,497,346

c. The components of net deferred income tax liabilities recognized by the Group as of December 31, 2012 and 2011 are as follows:

	2012	2011
Deferred income tax assets on:		
NOLCO	**₱10,798,613**	₱8,295,571
Unrealized foreign exchange loss	**1,227,532**	–
Accrued retirement benefits	**985,354**	742,590
Fair value adjustment on AFS financial assets	**300,443**	218,397
	13,311,942	9,256,558
Deferred income tax liabilities on:		
Revaluation increment on investment properties	**9,541,120**	5,137,537
Revaluation increment on office condominium	**7,311,194**	4,473,000
Unrealized foreign exchange gain	–	876,599
	16,852,314	10,487,136
Net deferred income tax liabilities	**₱3,540,372**	₱1,230,578

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

	2012	2011
NOLCO	**₱141,127,405**	₱169,889,499
Allowance for impairment of deferred charges	**105,474,312**	105,474,312
Pre-operating expenses	**3,415,997**	7,763,483
Allowance for impairment loss on AFS financial assets	**3,602,361**	3,602,361
Provision for probable loss	**2,732,947**	1,960,842
Allowance for impairment of property and equipment	–	2,588,970
MCIT	**267,747**	205,074

e. As of December 31, 2012, 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
2012	₱40,024,277	₱102,770	2015
2011	42,308,093	164,977	2014
2010	94,790,412	–	2013
	₱177,122,782	₱267,747	

NOLCO that expired in 2012, 2011 and 2010 amounted to ₱32,790,994, ₱73,581,570 and ₱61,413,672, respectively. Excess MCIT over RCIT that expired in 2012 and 2011 amounted to ₱40,097 and ₱196,133, respectively.

The Group's NOLCO includes NOLCO from the Parent Company amounting to ₱159,807,141 and ₱151,248,694 as of December 31, 2012 and 2011, respectively.

For income tax purposes, the BGEC's and BBC's pre-operating expenses totaling ₱3,415,997 and ₱7,763,483 as of December 31, 2012 and 2011, respectively, will be amortized over five years from the start of commercial operations.

f. The reconciliation of the provision for income tax computed at the statutory tax rate to the provision for income tax as shown in the consolidated profit or loss follows:

	2012	2011	2010
Provision for income taxes computed at 30%	**₱78,204,516**	₱35,617,843	₱6,374,830
Adjustments for:			
Income from previous sale of BPMI subject to capital gains tax	**(67,486,755)**	(59,540,397)	(23,470,868)
Effect of lower tax rate on fair value adjustments on investment properties	**(17,614,334)**	–	–
Movements of unrecognized deferred income tax assets	**9,723,633**	27,319,489	24,171,340
Interest and dividend income subject to final tax	**(2,056,983)**	(1,173,400)	(606,075)
Nondeductible expenses	**1,793,484**	–	–
Fair value changes of financial assets at FVPL	–	–	31,508
Gain on sale of financial assets at FVPL	–	–	(3,389)
Capital gains tax	**12,589,629**	–	–
MCIT	**102,770**	164,977	–
Provision for income tax	**₱15,255,960**	₱2,388,512	₱6,497,346

21. Basic/Diluted Earnings Per Share

The following reflects the income and share data used in the basic and diluted earnings per share computation:

	2012	2011	2010
Net income attributable to equity holders of the Parent Company (a)	**₱245,443,662**	₱116,358,275	₱15,353,877
Transaction cost on potential issuance of common shares	**(625,000)**	(625,000)	(625,000)
Net income attributable to holders of the Parent Company adjusted for the effect of dilution (b)	**₱244,818,662**	₱115,733,275	₱14,728,877
Weighted average number of shares for basic earnings per share (c)	**2,442,493,512**	2,442,493,512	2,415,978,360
Stock rights (Note 17)	**500,000,000**	500,000,000	500,000,000
Weighted average number of shares adjusted for the effect of dilution (d)	**2,942,493,512**	2,942,493,512	2,915,978,360
Basic earnings per share (a/c)	**₱0.100**	₱0.048	₱0.006
Diluted earnings per share (b/d)	**0.083**	0.039	0.005

There have been no other transactions involving common shares or potential common shares between the balance sheet date and the date of issuance of these consolidated financial statements.

22. Segment Information

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

As of December 31, 2012 and 2011, the Group has three main business segments - investment holding, agriculture and oil and gas exploration.

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

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

December 31, 2012:

	Investment Holding	Energy, Oil and Gas Exploration	Agriculture	Eliminations	Total
Results					
Income (loss) before income tax	₱262,506,598	₱397,530	(₱1,493,911)	(₱728,497)	₱260,681,720
Provision for income tax	15,125,860	127,066	3,034	–	15,255,960
Net income (loss)	₱247,380,738	₱270,464	(₱1,496,945)	(₱728,497)	₱245,425,760
Assets and Liabilities					
Segment assets	₱602,203,531	₱70,664,627	₱951,483	(₱21,155,843)	₱652,663,798
Investment properties	193,479,343	–	–	–	193,479,343
Deferred income tax assets	13,311,942	–	–	–	13,311,942
Consolidated total assets	₱808,994,816	₱70,664,627	₱951,483	(₱21,155,843)	₱859,455,083
Consolidated total liabilities	₱47,211,568	₱5,795,167	₱37,042,100	(₱67,398,750)	₱22,650,085
Other Segment Information					
Provision for impairment loss	₱3,776,778	₱–	₱–	₱–	₱3,776,778
Additions to property and equipment	3,365,792	–	–	–	3,365,792
Depreciation and amortization	2,892,146	–	750,386	–	3,642,532

December 31, 2011:

	Investment Holding	Energy, Oil and Gas Exploration	Agriculture	Eliminations	Total
Results					
Income (loss) before income tax	₱49,669,531	(₱47,136,204)	(₱13,752,470)	₱129,945,287	₱118,726,144
Provision for income tax	2,377,671	9,561	1,280	–	2,388,512
Net income (loss)	₱47,291,860	(₱47,145,765)	(₱13,753,750)	₱129,945,287	₱116,337,632
(Forward)					
Assets and Liabilities					
Segment assets	₱400,445,646	₱67,444,875	₱3,618,236	(₱22,762,038)	₱448,746,718
Investment properties	120,086,298	–	–	–	120,086,299
Deferred income tax assets	9,256,558	–	–	–	9,256,558
Consolidated total assets	₱529,788,502	₱67,444,875	₱3,618,236	(₱22,762,038)	₱578,089,575
Consolidated total liabilities	₱43,856,205	₱8,962,252	₱38,211,908	(₱71,344,855)	₱19,685,510
Other Segment Information					
Provision for impairment losses	₱129,945,287	₱46,731,677	₱2,588,970	(₱129,945,287)	₱49,320,647
Additions to property and equipment	2,707,719	–	29,220	–	2,736,939
Depreciation and amortization	2,304,278	–	2,418,487	–	4,722,765

December 31, 2010:

	Investment Holding	Energy, Oil and Gas Exploration	Agriculture	Eliminations	Total
Results					
Income (loss) before income tax	₱21,770,149	₱–	(₱33,990,811)	₱33,470,095	₱21,249,433
Provision for income tax	6,496,414	–	932	–	6,497,346
Net income (loss)	₱15,273,735	₱–	(₱33,991,743)	₱33,470,095	₱14,752,087
Assets and Liabilities					
Segment assets	₱417,557,209	₱23,731,677	₱16,471,084	(₱124,810,972)	₱332,948,998
Investment properties	120,086,298	–	–	–	120,086,298
Deferred income tax assets	8,924,766	–	–	–	8,924,766
Consolidated total assets	₱564,568,273	₱23,731,677	₱16,471,084	(₱124,810,972)	₱461,960,062
Consolidated total liabilities	₱44,777,501	₱–	₱37,311,005	(₱66,688,501)	₱15,400,005
Other Segment Information					
Provision for impairment losses	₱38,879,345	₱15,133,385	₱–	(₱33,470,095)	₱20,542,635
Additions to property and equipment	–	–	2,658,612	–	2,658,612
Depreciation and amortization	2,681,441	–	4,331,839	–	7,013,280

23. Financial Instruments

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

	2012		2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
AFS financial assets:				
Quoted debt securities	**₱262,669,089**	**₱262,669,089**	₱51,248,795	₱51,248,795
Unquoted equity investments	**43,063,447**	**43,063,447**	3,323,651	3,323,651
Quoted equity investments	**135,248**	**135,248**	1,411,934	1,411,934
	₱305,867,784	**₱305,867,784**	₱55,984,380	₱55,984,380

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

Long-term cash investment
Long-term cash investment bears market interest during the time of purchase and thus carrying value of this placement approximate its fair value.

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

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

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

As of December 31, 2012 and 2011, the Group considers its AFS financial assets - quoted debt securities and quoted equity securities under Level 1 classification (see Note 7).

During the reporting years ended December 31, 2012, 2011 and 2010, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

There were no financial liabilities measured at fair value as of December 31, 2012 and 2011.

24. **Financial Risk Management Objectives and Policies**

The Group's financial instruments consist of cash and cash equivalents, cash investments receivables, AFS financial assets, accounts payables and dividends payable. Cash and cash equivalents, cash investments and AFS financial assets are being used for investment purposes, while receivables, accounts payable and dividends payable arise from operations.

The Group's activities expose it to a variety of financial risks: foreign exchange risk, equity price risk and credit risk. The Group has no significant exposure to interest rate risk as of December 31, 2012 and 2011. The Group's overall risk management program focuses on minimizing the potential adverse effects on the Group's financial performance due to unpredictability of financial markets.

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

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

The Group's significant foreign currency-denominated financial assets as of December 31, 2012 and 2011 are as follows:

	2012		2011	
	Original Currency	**Peso Equivalent**	Original Currency	Peso Equivalent
Assets:				
Cash and cash equivalents - US$	**$1,408,626**	**₱57,824,097**	$17,738	₱777,627
Receivable from FEP - US$	**1,000,000**	**41,050,000**	1,797	78,799
Short-term investments	**200,000**	**8,210,000**	200,000	8,768,000
Long-term investment	**150,000**	**6,157,500**	–	–
AFS financial assets:				
Quoted equity investments:				
USD	**15,500**	**636,275**	15,500	679,520
GBP	**5,850**	**240,143**	5,850	397,109
		₱114,118,015		₱10,701,055

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

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

	2012	2011
US$	**41.05**	43.84
GBP	**66.32**	67.88

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, 2012 and 2011 until the Group's next financial reporting date:

	Change in peso - foreign exchange rate	Increase (decrease) in income before income tax
2012	**Increase by 5%**	**₱5,705,901**
	Decrease by 5%	**(5,705,901)**
2011	Increase by 5%	96,652
	Decrease by 5%	(96,652)

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

Equity price risk

Equity price risk is the risk that the value of a financial instrument will fluctuate because of changes in market prices. The Group is exposed to equity securities price risk because of investments held by the Group, which are classified on the consolidated balance sheets as AFS financial assets. The Group employs the service of a third party stock broker to manage its investment in shares of stock.

The following table presents the effect on the consolidated financial statements of reasonably possible changes in market prices of AFS financial assets - quoted equity securities as of December 31, 2012 and 2011 until the Group's next financial reporting date:

	Change in Quoted Prices of Investments Carried at Fair Value	Increase (decrease) in equity
2012		
AFS financial assets	**Increase by 9%**	**₱3,875,710**
AFS financial assets	**Decrease by 9%**	**3,875,710**
2011		
AFS financial assets	Increase by 9%	₱127,074
AFS financial assets	Decrease by 9%	(127,074)

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

Credit risk
Credit risk is the risk that the Group will incur a loss because its counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by doing business only with recognized, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group does not have any collateral held as security and other credit enhancements on its financial assets as of December 31, 2012 and 2011. Therefore, the Group's maximum exposure to credit risk is equal to the carrying amount of its financial assets as of December 31, 2012 and 2011.

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

The following table provides information regarding the credit quality by class of financial assets (amounts gross of allowance for credit losses) based on the Group's credit rating system:

	2012		
	Neither Past Due nor Impaired (Satisfactory)	**Past Due and Impaired**	**Total**
Cash and cash equivalents*	**₱202,425,948**	**₱–**	**₱202,425,948**
Short-term cash investments	**8,210,000**	**–**	**8,210,000**
Receivables:			
Receivable from FEP	**41,050,000**	**–**	**41,050,000**
Interest receivable	**2,033,495**	**–**	**2,033,495**
Other receivables	**2,367,070**	**2,641,082**	**5,008,152**
Long-term cash investment	**6,157,500**	**–**	**6,157,500**
	51,608,065	**2,641,082**	**54,249,147**
AFS financial assets:			
Debt securities - quoted, at fair value	**262,669,089**	**–**	**262,669,089**
Unquoted equity investments	**135,248**	**4,090,435**	**4,225,683**
	262,804,337	**4,090,435**	**266,894,772**
	₱525,048,350	**₱6,731,517**	**₱531,779,867**

****Excluding cash on hand amounting to ₱11,051 as of December 31, 2012.***

	2011		
	Neither Past Due nor Impaired (Satisfactory)	Past Due and Impaired	Total
Cash and cash equivalents*	₱311,734,597	₱–	₱311,734,597
Short-term cash investments	8,768,000	–	8,768,000
Receivables:			
Receivable from FEP	78,799	–	78,799
Interest receivable	976,438	–	976,438
Other receivables	650,475	2,052,707	2,703,182
	1,705,712	2,052,707	3,758,419
AFS financial assets:			
Quoted debt securities	51,248,795	–	51,248,795
Unquoted equity investments	3,323,651	902,032	4,225,683
	54,572,446	902,032	55,474,478
	₱376,780,755	₱2,954,739	₱379,735,494

**Excluding cash on hand amounting to ₱19,408 as of December 31, 2011.*

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

Financial instruments classified as "satisfactory" are those cash and cash equivalents and cash investments transacted with reputable local and multi-national banks and receivables with some history of default on the agreed terms of the contract. AFS financial assets are considered "satisfactory" since these are invested in blue chip shares of stock. "Past due and impaired" are those that are long outstanding and has been fully provided with an allowance for doubtful accounts. There are no past due but not impaired receivables as of December 31, 2012 and 2011, respectively.

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

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

The Group manages its liquidity profile to be able to finance its working capital requirements and capital expenditures and service due and maturing debts. To cover its financing requirements, the Parent Company intends to use internally generated funds. The BOD closely monitors the Parent Company's financial position during its regular meetings.

The table below summarizes the maturity profile of the financial instruments of the Group based on remaining contractual undiscounted cash flows:

	2012			
	Less than 3 months	More than 3 months but less than one year	More than one year	Total
Financial assets				
Loans and receivable:				
Cash and cash equivalents	₱202,436,999	₱–	₱–	₱202,436,999
Short-term cash investments	–	8,210,000	–	8,210,000
Receivables:				
Receivable from FEP	41,050,000	–	–	41,050,000
Accrued interest receivable	2,033,495	–	–	2,033,495
Other receivables	2,367,070	–	–	2,367,070
Long-term cash investment	–	–	6,157,500	6,157,500
	247,887,564	8,210,000	6,157,500	262,255,064
AFS financial assets:				
Quoted debt securities	–	–	262,669,089	262,669,089
Unquoted equity investments	–	–	135,248	135,248
Quoted equity investments	–	–	43,063,447	43,063,447
	–	–	305,856,784	305,856,784
	247,887,564	8,210,000	312,025,284	568,122,848
Financial liabilities				
Other financial liabilities:				
Accounts payable	1,163,608	–	–	1,163,608
Dividends payable	–	888,714	–	888,714
	1,163,608	888,714	–	2,052,322
Net liquidity position	₱246,723,956	₱7,321,286	₱312,025,284	₱566,070,526

	2011			
	Less than 3 months	More than 3 months but less than one year	More than one year	Total
Financial Assets				
Loans and receivable:				
Cash and cash equivalents	₱311,754,005	₱–	₱–	₱311,754,005
Short-term cash investments	–	8,768,000	–	8,768,000
Receivables:			–	
Receivable from FEP	78,799	–	–	78,799
Interest receivable	976,438	–	–	976,438
Other receivables	650,475	–	–	650,475
	313,459,717	8,768,000	–	322,227,717
AFS financial assets:				
Quoted debt securities	–		51,248,795	51,248,795
Unquoted equity investments	–		3,323,651	3,323,651
Quoted equity investments	–		1,411,934	1,411,934
	–	–	55,984,380	55,984,380
	313,459,717	8,768,000	55,984,380	378,212,097
Financial Liabilities				
Other financial liabilities:				
Accounts payable	2,182,176	–	–	2,182,176
Dividends payable	–	888,714	–	888,714
	2,182,176	888,714	–	3,070,890
Net liquidity position	₱311,277,541	₱7,789,286	₱55,984,380	₱375,141,207

Capital Management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares. No changes were made on the objectives, policies or processes during the years ended December 31, 2012 and 2011.

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.

As of December 31, 2012 and 2011, the Group is not subject to any externally imposed capital requirements.

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

	2012	2011
Capital stock	**₱610,623,378**	₱610,623,378
Additional paid-in capital	**32,699,360**	32,699,360
Retained earnings (deficit)	**154,918,277**	(91,624,127)
	₱798,241,015	₱551,698,611