

Subject: ODiSy - Disclosure Status
From: no-reply@pse.com.ph (no-reply@pse.com.ph)
To: disclosure@pse.com.ph;
Date: Tuesday, November 15, 2011 3:49 AM

Dear Sir/Madam:

We would like to inform you that as of NOV 14, 2011 11:49:52 AM today,

Reference Number: WLIST__2011000017399
Company Name: Basic Energy Corporation
Disclosure Subject: Quarterly Report for period ended September 30, 2011
Status: APPROVED

Should you need further assistance, please e-mail us at

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



October 6, 2011

THE DISCLOSURE DEPARTMENT
2/F The Philippine Stock Exchange, Inc.
PSE Centre, Ayala Avenue
Makati City

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

Gentlemen:

We are furnishing you a copy of the Top 100 Stockholders for the 3rd Quarter ending September 30, 2011 as submitted to the Securities & Exchange Commission.

Very truly yours,



ANGEL P. GAHOL
Compliance Officer



111112011000560



SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

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Company Information

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Company Type Stock Corporation

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COVER SHEET

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SEC Registration Number

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(Company's Full Name)

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

Marietta V. Villafuerte

(Contact Person)

(632) 817-8596 to 98

(Company Telephone Number)

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Not Applicable

(Secondary License Type, If Applicable)

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Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

Total Amount of Borrowings

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Total No. of Stockholders

--

Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

- 1. For the quarterly period ended September 30, 2011
- 2. Commission identification number 168063
- 3.. BIR Tax Identification No. 000-438-702-000
- 4. Exact name of registrant as specified in its charter
BASIC ENERGY CORPORATION
- 5. Province, country or other jurisdiction of incorporation or organization Philippines
- 6. Industry classification code
- 7. Address of registrant's principal office 7th Flr., Basic Petroleum Bldg., C. Palanca St., Legaspi Village, Makati City, Philippines Postal Code 1229
- 8. Registrant's telephone number, including area code (632) 817-8596 to 98
- 9. Former name, former address and former fiscal year, if changed since last report

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

<u>Title of Each Class</u>	<u>Number of shares of common stock outstanding or amount of debt outstanding</u>
<u>Common Shares</u>	<u>2,442,493,512</u>
<u>Listed with PSE</u>	<u>2,442,045,455</u>

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

Yes [x] No []

12. Indicate by check mark whether the registrant:

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

Yes [x] No []

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

Yes [x] No []

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

“Attachment A”

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

“Attachment A”


PART II—OTHER INFORMATION


“Attachment A”

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

SIGNATURES

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

Registrant : 
CORAZON M. BEJASA
Signature and Title : VP & Corporate Secretary
Date : November 11, 2011

Principal Financial/
Accounting Officer/Controller: 
MARIETTA V. VILLAFUERTE
Signature and Title : VP & Treasurer
Date : November 11, 2011

ATTACHMENT "A"
FINANCIAL INFORMATION
For the Quarter Ended September 30, 2011

1. The following unaudited financial statements are contained in this report:
 - 1.1 Statements of Income and Retained Earnings for the Period Ended September 2011 and September 2010;
 - 1.2 Balance Sheets as of September 30, 2011 and December 31, 2010;
 - 1.3 Statements of Cash Flows for the Period Ended September 30, 2011 and September 30, 2010;
 - 1.4 Statements of Changes in Stockholders' Equity for the Period Ended September 30, 2011 and September 30, 2010.
2. Discussion on Financial Condition for the Period December 31, 2011 and September 30, 2010.

A. Key Performance Indicators

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

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

KEY PERFORMANCE INDICATORS	3rd Qtr. 2011	3rd Qtr. 2010	3rd Qtr. 2009
Return on Investments (ROI) (Net Income/Ave. Stockholders' Equity)	5.794%	-6.600%	0.202%
Profit Margin (Net Income/Net Revenue)	66.94%	-932.18%	39.49%
Investment in Projects (Non-Petroleum) as a % of Total Assets	28.45%	42.77%	39.35%
Investment in Wells & Other Facilities as a % of Total Assets	6.21%	8.72%	6.78%
Current Ratio (Current Assets/Current Liabilities)	63.70:1	51.03:1	9.29:1
Asset Turnover (Net Revenue/Ave. Total Assets)	8.380%	0.680%	0.477%

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

ROI for the third quarter of 2011 was 5.794% compared to the ROI of -6.600% for the same quarter in 2010 because net income was generated for the 3rd quarter of 2011 compared to the net loss for the 3rd quarter of 2010.

Profit Margin for the third quarter of 2011 was 66.94% compared to the Profit Margin of -932.18% for the same quarter in 2010 also because of the net income generated for the 3rd quarter of 2011 compared to the net loss for the same quarter in 2010.

Investment in Non-Petroleum Projects as a % of Total Assets as of the third quarter of 2011 was 28.45% compared to 42.77% as of the same quarter in 2010 because of decreased investments in non-petroleum projects and a higher total assets base in 2011 compared to 2010.

Investments in Wells and other Facilities as a % of Total Assets as of the third quarter of 2011 was 6.21% compared to 8.72% for the same quarter in 2010 also because of decreased investments and a higher total assets based in 2011 compared to 2010.

Current Ratio as of the third quarter of 2011 was 63.70:1 compared to 51.03:1 for the same quarter of 2010 mainly because of the increase in current assets for 2011 compared to 2010.

Asset Turnover for the third quarter of 2011 was 8.38% compared to 0.68% for the same quarter of 2010 because of the increase in revenues in 2011 compared to 2010.

B. Discussion and Analysis of Financial Condition as of September 30, 2011

Total Assets as of September 30, 2011 stood at PhP 586.3 million, up by PhP 124.3 million compared to the balance as of December 31, 2010 of PhP 461.9 million. The increase was mainly due to the increase in cash and cash equivalents amounting to PhP 140.4 million from cost recoveries and gross proceeds from SC 14 C resulting from a previous sale of a subsidiary. Other increases in asset accounts were in deferred charges which increased by PhP 5.1 million from PhP 31.3 million as of December 31, 2010 to PhP 36.4 million as of September 30, 2011 due to additional charges booked for the geothermal project. These increases in certain assets, however, were partly offset by decreases in certain current and non-current assets due to either collections, sale, and/or depreciation.

Total Liabilities as of September 30, 2011 amounted to PhP 17.9 million up by PhP 2.5 million compared to the balance as of December 31, 2010 of PhP 15.4 million. This was due to increases in accounts payable and accrued expenses.

Stockholders' Equity stood at PhP 568.3 million as of September 30, 2011 up by PhP 121.8 million compared to the balance of PhP 446.5 million as of December 31, 2010. The increase was due to the Net Income for the three (3) quarters of 2011 amounting to PhP 121.8 million.

As of the quarter ending September 30, 2011, Net Income on a consolidated basis was PhP 121.8 million from Total Revenues of PhP 159.3 million and Total Cost and Expenses of PhP 37.4 million.

Revenues as of September 30, 2011 were mainly from cost recoveries and gross proceeds from SC 14 C resulting from a previous sale of a subsidiary amounting to PhP 143.7 million. Other sources of revenues were from income from the sale of shares of PhP 8.2 million, interests from cash and placements of PhP 5.6 million and sales of cassava granules amounting to PhP 1.7 million.

Cost and Expenses as of September 30, 2011 were mostly in general and administrative expenses amounting to PhP 26.1 million or an increase of PhP 6.0 million compared to PhP 20.1 million recorded for the same quarter of 2010. This was due to additional operating expenses booked for the three quarters of the year. Other cost and expenses as of September 30, 2011 were cost of sales of cassava granules amounting to PhP 7.2 million, other costs and expenses in relation to the termination of the joint venture agreement entered into by a subsidiary for the cassava project in the Zamboanga peninsula amounting to PhP 3.4 million and foreign exchange loss of PhP 642 thousand.

The interim financial report is in compliance with generally accepted accounting principles. The same accounting policies and methods of computation were followed in the interim financial statements, as compared with the most recent audited financial statements, which are as of December 31, 2010.

The interim operations are not characterized by any seasonality or cyclicity. The nature and amount of items affecting assets, liabilities, equity, net income and cash flows are explained in Attachment "A" on Financial Information for the Quarter ending September 30, 2011.

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

There are no other issuances, repurchases and repayments of debt and equity securities other than the additional listing of 31,818,182 common shares of Basic Energy Corporation which was approved by the PSE on October 6, 2010.

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

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

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

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

Since December 31, 2010, there are no other changes in contingent liabilities or assets and no new material contingencies, events or transactions that have occurred during the current interim period. There are no trends, demands, commitments, events or uncertainties, known to management that will have a material impact on the company's liquidity.

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

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

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

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

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

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

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

BASIC ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of September 30, 2011 & December 31, 2010

	UNAUDITED		AUDITED	
	September 30, 2011		December 31, 2010	
ASSETS				
Current Assets				
Cash and cash equivalents	P	331,620,339	P	191,210,566
Receivables-net		4,224,606		10,191,303
Agricultural Produce		-		125,839
Biological Assets		-		7,108,252
Other current assets		1,207,947		683,785
Total Current Assets		337,052,892		209,319,745
Non Current Assets				
Investments and Advances - net		124,416,101		124,486,972
Property and Equipment		29,013,638		30,431,654
Project Development costs		46,731,677		46,731,677
Deferred Charges		36,406,723		31,267,687
Deferred income tax asset		8,924,766		8,924,766
Other Non-Current Assets		3,761,102		10,797,561
Total Non Current Assets		249,254,007		252,640,317
Total Assets	P	586,306,900	P	461,960,062
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued expenses	P	5,291,664	P	3,857,907
Income tax payable				0
Total Current Liabilities	P	5,291,664	P	3,857,907
Non Current Liabilities				
Deferred income tax liabilities		10,636,498		10,636,498
Accrued retirement benefit		2,030,600		905,600
Total Noncurrent liabilities		12,667,098		11,542,098
Total liabilities	P	17,958,762	P	15,400,005
Minority Interest		24,397		38,686
Stockholders' Equity				
Attribute to equity holders of the Company:				
Capital stock held by 6,965 & 7,122 equity holders as of 2011 & 2010 respectively		610,623,378		610,623,378
Additional Paid-In Capital		32,699,360		32,699,360
Revaluation increment in office condominium		11,596,669		11,596,669
Fair value adjustments on financial assets		666,556		744,031
Deficit		(87,262,222)		(209,142,067)
Total Equity		568,323,740		446,521,371
Total Liabilities and Stockholders' Equity	P	586,306,900	P	461,960,062

BASIC ENERGY CORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
For the period ended September 30, 2011 and September 30, 2010

-2-

	As of 30-Sep-11	For the quarter July-Sept 2011	As of 30-Sep-10	For the quarter July-Sept 2010
REVENUES				
Income from previous sale of BPMI	143,705,799	33,087,140		
Interest, Dividends and Others	5,631,745	2,408,138	3,389,413	1,348,740
Sales	1,731,720	179,200	4,990,775	1,629,790
Realized Gain on sale of AFS		-	22,336,609	-
Other Income	8,248,009	8,248,009	66,464	66,464
	159,317,273	43,922,487	30,783,261	3,044,994
COSTS AND EXPENSES				
General and administrative expenses	26,134,248	11,515,422	20,069,279	6,397,946
Costs of Sales	7,201,046	540,619	20,917,145	10,626,513
Fair Value Adjustments		-	93,729	-
Provision for Impairment Losses		-	2,133,385	2,133,385
Foreign Exchange Loss	642,022	414,528	1,449,476	21,600,008
Others	3,474,404	2,052,578	10,699,512	10,699,512
	37,451,720	14,523,147	55,362,525	51,457,364
INCOME (LOSS) BEFORE INCOME TAX	121,865,553	29,399,340	(24,579,265)	(48,412,370)
PROVISION FOR INCOME TAX				
Current		0	447,490	0
Deferred		0	0	0
	0	0	447,490	0
NET INCOME (LOSS)	121,865,553	29,399,340	(25,026,755)	(48,412,370)
MINORITY INTEREST	14,394	2,806	599,782	587,460
	121,879,947	29,402,146	(24,426,973)	(47,824,910)
RETAINED EARNINGS AT BEGINNING OF YEAR / QUARTER	(209,142,168)	(133,177,808)	(225,655,609)	(221,697,672)
EQUITY RESTRUCTURING OF PARENT COMPANY	-	-		
DEPRECIATION TRANSFER OF OFFICE CONDO	-	-	0	0
	-	-	0	0
RETAINED EARNINGS (DEFICIT) AT END OF YEAR/ QUARTER	(87,262,222)	(103,775,662)	(250,082,582)	(269,522,582)
Earnings (Loss) Per Share	0.0499	0.012037758	(0.0101)	(0.019838802)

Formula: Earnings (Loss, Per Share

= Net Loss / No. of shares for the quarter ended September 30, 2011
2,442,493,512

= Net Loss / No. of shares for the quarter ended September 30, 2010
2,410,675,330

BASIC ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Period Ended September 30, 2011 and September 30, 2010

-3-

	As of September 30, 2011	For the quarter July - Sept 2011	As of September 30, 2010	For the quarter July - Sept 2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income (Loss)	P 121,865,553	P 29,399,340	P (25,026,755)	P (28,972,370)
Adjustment to reconcile net income to net cash provided				
<i>by operating activities</i>				
Interest income	(5,631,745)	(2,408,138)	(3,389,413)	(1,348,740)
Depreciation, depletion and amortization	3,550,621	1,168,427	6,063,995	2,455,842
Loss (gain) on sale of property and equipments and investments	-	-	0	0
Fair Value Adjustment on financial assets at FVPL and Impairment losses on AFS	-	-	0	0
Unrealized Foreign Exchange Gain	642,022	414,528	(1,449,476)	(738,944)
Dividend Income	-	-	0	0
Operating income (loss) before working capital changes	120,426,452	28,574,158	(23,801,649)	(28,604,212)
Changes in assets and liabilities				
<i>Decrease (Increase) in assets/</i>				
Financial assets at fair value through profit or loss	-	-	2,105,027	0
Receivables	5,966,697	(219,628)	304,303	1,337,675
Prepayments and other current assets	13,746,388	9,269,451	14,377,040	13,740,639
<i>Increase (Decrease) in liabilities</i>				
Accounts payable & accrued expenses	1,433,757	2,586,811	(2,217,963)	(3,945,065)
Accrued Retirement Fund	1,125,000	375,000	0	0
Other Liabilities	-	-	(5,147,504)	0
Cash generated from (used in) operations	142,698,294	40,585,792	(14,380,746)	(17,470,963)
Interest received	5,631,745	2,408,138	3,389,413	1,348,740
Taxes paid	-	-	-	-
Net cash flows from (used) in operating activities	P 148,330,039	P 42,993,930	P (10,991,333)	P (16,122,223)
CASH FLOWS FROM INVESTING ACTIVITIES				
AFS Investment	-	-	0	0
Sale of AFS & FVPL Investments	-	-	40,131,424	(22,374)
Additions (Deductions) to:				
AFS Investment	70,871	8,393	0	0
Project Development Costs	-	-	5,544,192	8,094,192
Unrealized Gain of Fair Value Adjustments	(77,475)	(472)	(12,194,989)	26,751
Deferred Charges Costs	(5,139,036)	(3,143)	-	1,818,795
Property and Equipment	(2,132,603)	(235,383)	5,884,931	8,764,518
Dividends received	-	-	0	0
Net cash provided in investing activities	P (7,278,243)	P (230,605)	P 39,365,558	P 18,681,882
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of capital stock	-	-	(10,800,000)	(10,800,000)
Deposit for future Subscription	-	-	(10,800,000)	(10,800,000)
Net cash provided by financing activities	-	-	(21,600,000)	(21,600,000)
Effect of Foreign Exchange rate in Cash & Cash Equivalent	(642,022)	(414,528)	1,449,476	738,944
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT	140,409,773	P 42,348,794	P 19,023,701	P (7,501,397)
CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR/QUARTER	191,210,566	289,271,544	100,185,897	126,710,994
CASH AND CASH EQUIVALENT AT END	P 331,620,339	P 331,620,339	P 119,209,598	P 119,209,598

BASIC ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Period Ended September 30, 2011 and September 30, 2010

	Jan to September	Jan to September	Quarters Ended September 30	
	2011	2010	2011	2010
CAPITAL STOCK - P 0.25 par value				
Authorized - 10,000,000,000 shares				
Issued and Subscribed	2,442,493,512	2,410,675,330	2,442,493,512	2,410,675,330
Held by a Subsidiary				
Paid-up Capital Stock at beginning of year	610,623,378	602,668,833	610,623,378	602,668,833
Issuance of capital stock				
Paid-up Capital Stock at end of period/quarter	610,623,378	602,668,833	610,623,378	602,668,833
ADDITIONAL PAID-IN CAPITAL				
Balance at beginning of year	32,699,360	27,067,569	32,699,360	27,067,569
Equity restructuring				
Issuance of Capital Stock				
Balance at end of period	32,699,360	27,067,569	32,699,360	27,067,569
Deposits for Future Stock Subscription	-	13,586,336	-	13,586,336
Revaluation increment in office condominium	11,596,667	12,756,334	11,596,667	12,756,334
Fair value adjustments on financial assets	666,556	343,820	666,556	343,820
RETAINED EARNINGS (Deficit)				
Balance at beginning of the year	(209,142,168)	(225,655,609)	(116,664,368)	(131,755,982)
Net loss for the period	121,879,947	121,879,950	29,402,146	27,980,323
Equity Restructuring				
Balance at end of period	(87,262,221)	(103,775,659)	(87,262,223)	(103,775,658)
TOTAL STOCKHOLDERS' EQUITY	568,323,740	552,647,233	568,323,737	552,647,233

BASIC ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE OF ACCOUNTS RECEIVABLES
As of September 30, 2011

Forum Energy PLC	P	2,202,107
Receivable from Stockholders		1,718,887
Advances to Officers & Employees		197,108
Others		2,251,076
Less: Allowance for uncollectible accounts		(2,144,572)
	P	<u>4,224,606</u>

Basic Energy Corporation & Subsidiaries Aging of Accounts Receivable As of September 30, 2011	Total	1 Month	2-3 Mos.	4-6 Mos.	7 Mos. To 1 Year	1-2 Years	3-5 Years	5 Years - above	Pay due accounts & items in litigation
a) Trade Receivables									
1)	-	-	-	-	-	-	-	-	
2)	-	-	-	-	-	-	-	-	
3)	-	-	-	-	-	-	-	-	
Subtotal	-	-	-	-	-	-	-	-	
Less: Allow. For Doubtful Acct.	-	-	-	-	-	-	-	-	
Net Trade receivable	-	-	-	-	-	-	-	-	
b) Non-Trade Receivables									
1) Forum PLC	2,202,107						2,202,107		
2) Advances to officers/employees	197,108	24,145	19,155	153,808					
3) Receivables from stockholders	1,718,887							1,718,887	
3) Others	2,251,076	1,122,973		145,898	30,321	451,505	285,689	214,690	
Subtotal	6,369,178	1,147,117	19,155	299,707	30,321	451,505	2,487,797	1,933,577	
Less: Allow. For Doubtful Acct.	(2,144,572)						(216,655)	(1,927,917)	
Net Non-trade receivable	4,224,606	1,147,117	19,155	299,707	30,321	451,505	2,271,142	5,660	
Net Receivables (a + b)	4,224,606	1,147,117	19,155	299,707	30,321	451,505	2,271,142	5,660	

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

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

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

BASIC ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE OF ACCOUNTS PAYABLE AND ACCRUED EXPENSES
As of September 30, 2011

Accrued Expense Payables	P	1,515,383
SSS/Philhealth/HDMF/BIR Payables		586,990
Others		3,189,291
Total	P	<u>5,291,664</u>

ADDITIONAL DISCLOSURES

Part I – Financial Information

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

Classification of Financial Instruments

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

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

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

As of September 30, 2011, the Company has not reclassified any of its existing financial assets into and from the above mentioned categories. The financial assets are maintained on their initial classification.

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

(1) Plan of Operations for 2011

Oil and Gas Operations

For 2011, the Company will continue with its business in oil and gas exploration, being a party, together with other oil exploration companies, to service contracts for the exploration, development and exploitation of certain contract areas situated in offshore Mindoro (Service Contract 53) and onshore Mindoro (Service Contract 47).

In Service Contract 47, the processing and interpretation works on the newly acquired seismic data have resulted in the identification of some leads and prospects, and more detailed studies will be undertaken by the consortium in 2011. In Service Contract 53, further studies and evaluation will be undertaken in 2011 on the 2D seismic data acquired in 2010, which was designed to delineate and assess the hydrocarbon potential of the Progresso-IX in San Jose, Mindoro Occidental and the Sablayan, Mindoro Occidental. The company is carried free in the 2D seismic program.

The Company's cash requirements for the operations of its oil and gas business for the whole year of 2011 is budgeted at about Php 0.5 Million, which will be adequately funded by its cash and short-term investments. There is no need for the Company to raise additional funds for its existing oil and gas projects, and there is no plan to increase its present manpower staff nor acquire any significant equipment for these projects.

Geothermal Energy Operations

The Company will continue discussions with other companies interested in the exploration and development of geothermal resources for the formation of a consortium to jointly undertake exploration and development activities at the Mabini, Batangas Geothermal area. In the meantime, the necessary exploratory works are being evaluated as a commitment under the service contract approved by the Department of Energy. Once successful exploration and the steam resource is determined, the Company, together with possible investors, will consider setting up a geothermal

power plant in the Mabini, Batangas area. Initial assessment of the steam resource in the area is about 20 megawatts. Power from the plant would be sold to the local cooperatives and the Wholesale Electricity Stock Market (WESM).

The Company has allocated a budget of PhP 10 million for 2011, for feasibility studies 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 risk assessments. The budget will be funded from and cash and short-term investments of the Company. Subject to positive results of the pre-feasibility study, the Company plans to raise funds within the next twelve (12) months from strategic or financial investors, or otherwise, pursue its search for farm-in partners in the project. It is expected that at most two (2) additional technical staff will be required if this project proceeds to its next phase of development as committed to the Department of Energy. There is no plan to acquire any significant equipment this year for this project.

Cassava Operations

In August 2011, the Board of Directors of Basic Ecomarket Farms, Inc. (BEF) decided to suspend the cassava operations after the yields of the new pilot 34-hectare farm were determined. While the yields improved through the use of better agronomic practices, the improvement was not sufficient to justify a full blown expansion of operations.

BEF completed its deliveries to San Miguel Foods, Inc. (SMFI) also in August 2011. The revenues from the sale of cassava granules to SMFI were used to fund the winding down activities of BEF.

Employees

The Company has twenty (20) officers and employees, of which eight (8) are executive officers, eight (8) are assigned as accounting, administrative and support staff and four (4) are assigned for utility and service staff. The Company expects to hire additional personnel in 2011 as technical staff for its various projects. When the Company will pursue additional alternative fuels and renewable energy projects, with the entry of strategic and financial funders or investors, project managers, and engineering, technical and other support personnel may be required for the project.

Item 3. Financial Risk Disclosure

a. Risk Management

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

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

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

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

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

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

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

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

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

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

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

Since the Ethanol Plant is still pending on the success of the Cassava Project Operations, the Company is faced with the following risks, in order of importance:

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

The Company manages this risk by limiting the investment requirement for the extended testing period. The new pilot farm was scaled down to 34 hectares to better focus the efforts on pinning down the agronomic factors and operating processes that would be most suitable for a target yield, efficiency and budget.

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

To manage this risk, the Company through its subsidiary, BEF has been diligently documenting environmental and topographical, social and security-related patterns, happenings and incidents. The Company has likewise implemented policies, measures and processes to address these factors so that their unfavorable effects will be diminished.

- (c) The Company has no direct experience in ethanol production, which may result in mis-judgments and operating errors, materially affecting projected profitability.
- (f) The Company may fail to finalize critical agreements such as off-take agreements or supply contracts or the final contracts may be unfavorable compared to what the Company envisions these to be. Supply contracts with prospective customers are material basis for projecting revenues and the definitive versions of such agreements may contain terms or conditions that may be significantly different from what were assumed in the project's financial model.

For the risks mentioned in items (c) to (d) above, the Company set as policy to seek out a strategic and financial partner that has a proven track record worldwide in the construction and operation of the ethanol plant. The prospective strategic partner shall co-invest with the Company in the ethanol project, to minimize the Company's risk exposure. The applications

for the necessary government permits and clearances have been put on hold but will resume as soon as the feedstock development phase is successfully hurdled. Agreements in preparation for the off-take arrangements with the major oil companies have already been signed and executed, specifically for the undertaking of the necessary studies for the terms of the definitive off-take arrangements. Seeing through the completion of these studies in time for the operation of the ethanol plant will be undertaken in due time.

b. Financial Instruments

Date of Recognition

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

Initial Recognition of Financial Instrument

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

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

Financial Assets or Liabilities at FVPL

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

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

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

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

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

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are

subsequently carried at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the 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 twelve months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

As of September 30, 2011, included under loans and receivables are the Company's receivables consisting of cash in banks and cash equivalents, receivables from Forum Energy Plc (FEP), interest receivable and other receivables.

AFS Financial Assets

AFS financial assets are those non-derivative financial assets that are designated as AFS or are not classified in any of the three other categories. The Company designates financial instruments as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized directly in other comprehensive income, net of the related deferred income. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in 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 September 30, 2011, included under AFS financial assets are the Company's investments in shares of stocks.

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 September 30, 2011, included in other financial liabilities are the Company's accounts payable and accrued expenses.

Offsetting Financial Instruments

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

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

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

Financial Liabilities

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

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

Impairment of Financial Assets

The Company assesses at each 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 Amortized Cost

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

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

Loans and receivables, together with the related allowance, are written off when there is no realistic prospect of future recovery. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of operations, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets Carried at Cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that

is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Financial Assets

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

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

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

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

Biological Assets - Standing Crops

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

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

Agricultural Produce

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

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

2. Investments in Foreign Securities

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

As of September 30, 2011, investments in FEC Resources Inc. and Forum Energy Plc shares of stocks amounted to PhP 679,070 and PhP 335,474, respectively.

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

Determination of the Company's Functional Currency

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

Classification of financial instruments

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

Financial assets are classified as financial assets at FVPL, 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 Company determines the classification at initial recognition and reevaluates the classification at every reporting date.

Impairment of property and equipment

The Company 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 Company 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.

Impairment and write-off of deferred charges

The Company assesses impairment on deferred charges when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. Until the Company 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 Company 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 Company has participating interest is permanently abandoned. Future events could cause the Company to conclude that these assets are impaired.

Valuation of biological assets

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

The Company assesses whether its assets are impaired when there are impairment indicators. The Company's impairment test for biological assets is based on value-in-use calculations using the discounted cash flow model. The projected cash flows were based on the estimated cassava granules that can be produced at the current plantation capacity of the Company and other assumptions that management believes are reasonable, like estimated price increases and cost inflation. These do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset base.

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.

Estimates

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

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

Impairment of AFS financial assets

The Company 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 Company treats "significant" generally as 30% of cost or more of the cost and "prolonged" as greater than 12 months for quoted equity securities.

Estimation of allowance for impairment of loans and receivables

The Company 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 Company's relationship with the customer, customer's payment behavior and other known market factors.

Estimation of useful lives of property and equipment

The Company estimates the useful lives of their property and equipment based on the period over which the assets are expected to be available for use. The Company annually reviews the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of property and equipment would increase depreciation expense and decrease noncurrent assets.

Estimation of fair value of unquoted equity securities classified as AFS financial assets

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

Estimation of retirement benefits

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

While it is believed that the Company's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's retirement obligations.

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 Company determines the amount within a

range of reasonable fair value estimates. In making its judgment, the Company considers information from variety of sources including:

- a) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- b) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- c) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

4. Financial Risks

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

The Company's activities expose it to a variety of financial risks: foreign exchange risk, equity price risk, interest rate risk and credit risk. The Company's overall risk management program focuses on minimizing the potential adverse effects on the Company's financial performance due to unpredictability of financial markets.

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

Foreign Exchange Risk

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

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 Company is exposed to equity securities price risk because of investments held by the Company, which are classified on the balance sheets as FVPL and AFS financial assets.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Company's exposure to market risk for changes in interest rates is related primarily to the Company's AFS financial assets. Management closely monitors the behavior of interest rates to ensure that interest rate risk is kept within management's tolerable level.

Credit Risk

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

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

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

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

Concentrations of credit risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. There are no significant concentrations of credit risk within the Company 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 Company could not be able to settle or meet its obligations on time or at a reasonable price. Management is responsible for liquidity, funding as well as settlement management. Management also ensures that the Company will maximize its gain on trading of marketable securities to finance future capital intensive projects. The Company manages its liquidity risk on a consolidated basis based on business needs, tax, capital or regulatory considerations, if applicable, through numerous sources of finance in order to maintain flexibility.

Risk Related to Agricultural Activities

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

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

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

Operational risks are minimized through the following:

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

Capital Management

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may issue new shares.

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

5. Comparison of Fair Values as of September 30, 2011 & June 30, 2011

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BASIC ENERGY CORPORATION AND SUBSIDIARIES			
CONSOLIDATED BALANCE SHEETS			
As of September 30, 2011 and June 30, 2011			
	UNAUDITED		UNAUDITED
	September 30, 2011		June 30, 2011
ASSETS			
Current Assets			
Cash and cash equivalents	P 331,620,339	P	289,271,544
Receivables-net	4,224,606		4,004,979
Agricultural Produce	-		309,074
Biological Assets	-		1,855,910
Other current assets	1,207,947		1,275,956
Total Current Assets	337,052,892		296,717,462
Non Current Assets			
Investments and Advances - net	124,416,101		124,424,494
Property and Equipment	29,013,638		29,946,680
Project Development costs	46,731,677		46,731,677
Deferred Charges	36,406,723		36,403,580
Deferred income tax asset	8,924,766		8,924,766
Other Non-Current assets	3,761,102		10,797,561
Total Non Current Assets	249,254,007		257,228,759
Total Assets	P 586,306,900	P	553,946,220
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	P 5,291,664	P	2,704,853
Income tax payable	0		
Total Current Liabilities	P 5,291,664	P	2,704,853
Non Current Liabilities			
Deferred income tax liabilities	10,636,498		10,636,498
Accrued retirement benefit	2,030,600		1,655,600
Total Noncurrent liabilities	12,667,098		12,292,098
Total liabilities	P 17,958,762	P	14,996,950
Minority Interest	24,397		27,204
Stockholders' Equity			
Attribute to equity holders of the Company:			
Capital stock[held by 7,122 & 7,164 equity holders as of 2010 & 2009 respectively	610,623,378		610,623,378
Additional Paid-In Capital	32,699,360		32,699,360
Revaluation increment in office condominium	11,596,669		11,596,669
Fair value adjustments on financial assets	666,556		667,028
Deficit	(87,262,222)		(116,664,368)
Total Equity	568,323,741		538,922,067
Total Liabilities and Stockholders' Equity	P 586,306,900	P	553,946,220

BASIC ENERGY CORPORATION, INC. AND SUBSIDIARIES		-2-	
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS			
For the period ended September 30, 2011 to June 30, 2011			
	As of Sept. 30, 2011	As of June 30, 2011	Increase (Decrease)
REVENUES			
	<i>P</i>	<i>P</i>	
Income from previous sale of BPMI	143,705,799	110,618,659	33,087,140
Interest, Dividends and Others	5,631,745	3,223,607	2,408,138
Sales	1,731,720	1,552,520	179,200
Other Income	8,248,009	-	8,248,009
	<u>159,317,273</u>	<u>115,394,785</u>	<u>43,922,487</u>
COSTS AND EXPENSES			
General and administrative expenses	26,134,248	14,618,826	11,515,422
Cost of Sales	7,201,046	6,660,427	540,619
Foreign Exchange Loss	642,022	227,494	414,528
Others	3,474,404	1,421,826	2,052,578
	<u>37,451,721</u>	<u>22,928,573</u>	<u>14,523,148</u>
INCOME (LOSS) BEFORE INCOME TAX	121,865,552	92,466,212	29,399,339
PROVISION FOR INCOME TAX			
Current	-	-	-
Deferred	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
NET INCOME (LOSS)	121,865,552	92,466,212	29,399,340
MINORITY INTEREST	14,394	11,588	2,806
	<u>121,879,946</u>	<u>92,477,800</u>	<u>29,402,145</u>
RETAINED EARNINGS AT BEGINNING OF YEAR / QUARTER	(209,142,168)	(209,142,168)	0
	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>0</u>	<u>-</u>
RETAINED EARNINGS (DEFICIT) AT END OF YEAR/ QUARTER	<i>P</i> (87,262,222) <i>P</i>	(116,664,368)	29,402,146

Formula: Earnings (Loss) Per Share

= Net Loss / No. of shares for the quarter ended September 30, 2011
2,442,493,512

= Net Loss / No. of shares for the quarter ended June 30, 2011
2,442,493,512

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

Determination of Fair Value

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

"Day 1" Profit

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

7. Disclosures per SEC Memorandum Circular No. 3, Series of 2011

In compliance with SEC Memorandum Circular No. 3, Series of 2011: Guidelines on the Implementation of PFRS 9, we disclose that:

- (i) After consideration of the result of its impact evaluation, the company has decided not to early adopt either PFRS 9 (2009) or PFRS 9 (2010) for its 2011 financial reporting;
- (ii) The company shall conduct in early 2012 another impact evaluation using the outstanding balances of financial statements as of December 31, 2011;
- (iii) The company's decision whether to early adopt either PFRS 9 (2009) or PFRS 9 (2010) for its 2012 financial reporting shall be disclosed in its interim financial statements as of 31 March 2012. If the decision of the company will be to early adopt the subject standard for its 2012 financial reporting, its interim report as of 31 March 2012 will already reflect the application of the requirements under the said standard and will contain a qualitative and quantitative discussion of the result of the company's impact evaluation.