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**SECURITIES AND EXCHANGE COMMISSION**

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Company Information

**SEC Registration No.** AS93000120

**Company Name** FORUM PACIFIC INC.

**Industry Classification**

**Company Type** Stock Corporation

**Document Information**

**Document ID** 108112011001399

**Document Type** 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)

**Document Code** 17-Q

**Period Covered** June 30, 2011

**No. of Days Late** 0

**Department** CFD

**Remarks**

# COVER SHEET

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SEC Registration No.

F O R U M P A C I F I C , I N C .

(Company's Full Name)

2 2 N D F L O O R C I T I B A N K T O W E R ,

8 7 4 1 P A S E O D E R O X A S S T R E E T  
M A K A T I C I T Y

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

Atty. Arsenio A. Alfiler Jr.

Contact Person

(632) 706-7888

Contact Telephone No.

1 2 3 1

Fiscal Year

1 7 - Q

FORM TYPE

Month Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

978

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

2nd Quarter Report: FORUM

SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 11  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the Quarterly Period ended June 30, 2011
2. SEC Identification Number AS 093000120 3. BIR Tax Identification No. 312-002-155-598
4. **FORUM PACIFIC, INC.**  
Exact name of registrant as specified in its charter
5. **Metro Manila, Philippines**  
(Province, country or other jurisdiction of incorporation or organization)
6. (SEC Use only)  
Industry Classification Code
7. **22nd Floor Citibank Tower, 8741 Paseo de Roxas St., Makati City**  
Address of principal office
8. **Telephone No. 706-7888**  
Registrant's telephone number, including area code
9. **AIR PHILS. INTERNATIONAL CORP. – 8F Rufino Plaza Bldg., Ayala Ave. Makati City**  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 4 and 8 of the RSA :

Title of Each Class

No. of Shares of Common Stock Outstanding:  
and Amount of Debt Outstanding

Common Shares – P1.00 par value

Issued - P 1,838,943,246  
(Subscription Receivable – P 1,148,264,079)

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

Yes ☒ [ x ]

No. ☐ [ ]

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(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 that 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 ☐ [ ]

13. The aggregate market value of the voting stock held by non-affiliates

**Not Applicable**



## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

See Annex A.1 to A.4 and the accompanying notes to financial statements.

### Item 2. Managements Discussion and Analysis of Financial Condition and Results of Operations

#### ☐ Income Statements (Amounts in P '000)

	Jan – June 2011	Jan – June 2010
Revenues	-	-
Less: Cost and Expenses	-4,459	-325
Loss from Operation	-4,459	-325
Add: Other Income	-	-
Loss before Income Tax	-4,459	-325
Net Income(Loss)	-4,459	-325
Earnings (Loss) Per Share	-0.002425	-0.00018

#### ☐ Balance Sheet (Amounts in P '000)

	Jan – June 2011	Jan – June 2010
ASSETS		
Assets	679,807	759,188
LIABILITIES & STOCKHOLDERS' EQUITY		
Liabilities	286,219	304,727
Stockholders' Equity	393,588	454,461
Total Liabilities & Stockholders' Equity	679,807	759,188

### Interim Quarter ended June 30, 2011 Compared with quarter ended June 30, 2010

#### RESULTS OF OPERATION

##### *Revenue and Earnings per share*

- No revenues were recorded for both 2<sup>nd</sup> Qtr of 2011 and 2<sup>nd</sup> Qtr of 2010 .
- The earnings per share comparison from the 2<sup>nd</sup> Qtr of 2011 and 2010 as follows: (0.002425) and (0.00018) respectively.

### **Cost and Expenses**

- Cost and expenses consisted primarily of professional fees, taxes and licenses, membership dues and subscription, and payment of penalty with SEC.
- Cost and expenses recorded in the 2<sup>nd</sup> Qtr of 2011 was P1,276,459 and P11,045 for the 2<sup>nd</sup> Qtr of Y 2010.

### **FINANCIAL CONDITION**

#### **Current Assets**

- Current assets consist mainly of cash and cash equivalent. Part of the current assets account includes the Advances to affiliates. The total amount recorded in the 2<sup>nd</sup> Qtr of 2011 is P 44.78 million compared to 2<sup>nd</sup> Qtr of 2010 which is P50 million.

#### **Available-For-Sale Financial Assets**

##### *FEI*

In 2003, 66.67% ownership, or 125 million shares of the Parent Company in FEI, was sold to Tracer Petroleum Corporation (TPC), now Forum Energy, Inc. Subsequent to sale, the Parent Company did not have any material transaction with FEI, which manifests that it has ceased to have significant influence on the financial and operating policy decisions of FEI. Thus, it is now classified as available-for-sale financial assets in compliance with PAS 39. Investment cost and post-acquisition charges are used to determine the carrying amount of this investment as of reclassification date. The fair value of available-for-sale financial assets approximates its carrying value.

The investment in FEI is stated at cost since there is no quoted price in an active market.

##### *ESBI*

ESBI was 56% owned by the Parent Company as of December 31, 2007. During 2007, the Parent Company did not avail of its pre-emptive right to subscribe for additional shares in ESBI's increase in capitalization. This diluted the Parent Company's interest in ESBI. In 2008, the Parent Company eventually ceased to have control in ESBI.

On June 3, 2009, the Parent Company executed a deed of absolute sale for its 127,415 shares in ESBI for P179.63 per share or equivalent to P22,887,556. The carrying amount of 289,806 shares in ESBI as of December 31, 2008 amounted to P122,592,758 or P423.02 per share. The difference between selling price and cost per share multiply by the number of ESBI shares as of December 31, 2008 was recognized as impairment loss in 2008.

The investment had been recorded for P22,887,556, in the 2008 audited financial statements but the said amount represent only 127,415 shares out of 289,806 shares or 44%. An impairment loss of P99,705,202 was recorded which resulted to understatement of available-for-sale financial assets and overstatement of impairment loss in 2008 amounting to P29,170,296.

The fair value of ESBI investment as of December 31, 2009 was based on the actual partial sale that occurred on July 13, 2010 in which 46,602 shares were sold for P4,660,200 at P100/share.

On August 12, 2010, the Parent Company executed a deed of absolute sale for its 115,789 shares in ESBI at P100 per share or equivalent to P11,578,900 which is equal to the carrying value as of December 31, 2009 of P11,578,900. The Parent Company reclassified the corresponding unrealized fair value loss amounting to P9,220,278 from unrealized fair value loss on available-for-sale financial assets in equity to the statement of comprehensive income.



## *PHES*

This pertains to the Parent Company's investment in 50,196,553 common shares which are registered and traded in the PSE and constitutes 3% ownership.

The fair value of PHES investment as of December 31, 2009 has been determined directly by reference to published prices in the active market. Consequently, an unrealized fair value loss was recognized amounting to P2,153,842 and charged to "other comprehensive loss" account in the 2009 statement of comprehensive income and shown separately as "Unrealized fair value loss on available-for-sale financial assets" in equity.

### ***Related Party Transaction Account***

In the previous years, the Group extended/obtained advances to/from related parties to finance the exploration activities of the related parties and to fund the overhead expenses of the Group. These advances are, in general, do not have fixed repayment terms and do not carry interest.

The net advances to FEPCo arose from expenses directly incurred by FEPCo on behalf of the Group.

#### *Advances to TWGI*

Transactions between the Group and TWGI primarily consist of interest bearing advances granted to finance TWGI's working capital requirements.

In a special meeting on July 4, 2006, the Board of Directors resolved and approved the amendment of certain terms of the agreement between the Group and TWGI, effective January 1, 2005. The significant amendment is the waiving of the 2.5% interest on the outstanding principal advances of P250 million.

On December 31, 2008, the terms of the agreement with TWGI were further amended and the non-interest bearing loan will be paid equally on a quarterly basis within five years starting March 31, 2010.

Due to default in quarterly payments, management has estimated and recognized impairment loss amounting to P32,944,556 in 2010 for its advances to TWGI. Total collections of advances to TWGI amounted to P1,207,854 and P833,604 in 2010 and 2009, respectively.

As of the 2<sup>nd</sup> Qtr of 2011, total collections of Advances to TWGI amounted to P 5,211,477.

#### *Advances to FEI*

The advances to FEI pertain to the carrying value of exploration net assets transferred by the Parent Company.

#### *Advances to and from FEPlc*

In 2008, the Group recognized a net receivable from FEPlc as a result of a strategic plan to share the Group's financial resources to its related parties to minimize financing cost.

In 2009, prior to the sale of FCCHI's shareholdings on FCCC to CR Nichrome, Inc., FCCHI assumed the outstanding obligations of FCCC from FEPlc amounting to P67.124 million, after offsetting the receivables and payables. A loss amounting to P16,259,591 was recognized as a result of the assumption of liabilities from FEPlc.

#### *Advances to and from FEPCo*

The net advances to FEPCo arose from general and administrative expenses directly incurred by FEPCo on behalf of the Group. These general and administrative expenses include salaries and wages, rent, taxes, office expenses and transportation and travel.

#### *Advances from Forum (FEI), Ltd.*

This account refers to the obligation of FCCHI from Forum (FEI), Ltd., which has the following major terms:

- i. the loan may be paid in minimum of tranches of US\$250,000 or multiples of such amount, at six- monthly intervals in December and June each year;
- ii. the Borrower shall pay interest in arrears on the loan, in respect of each interest period occurring three years from the anniversary of the effective date on the relevant interest payment date at the floating rate;
- iii. the floating rate means London Interbank Offered Rates (LIBOR) plus three percent;
- iv. the aggregate outstanding amount of the loan shall be repaid in full by the borrower, together with any interest due, on or before the final payment date;
- v. the lender may, at the request of the borrower, remit advances to any subsidiary of the Borrower and may accept payments from any subsidiary or holding company of the Borrower in satisfaction of amounts due to the lender; and
- vi. at the Lender's option, amounts due from the borrower may be offset against the agreed value of services provided by the borrower to the lender or at the lender's request to the lender's subsidiaries or holding companies (other than borrower).

#### ***Current liabilities***

- This is primarily consists of Trade and Other Payable. The outstanding amount as of the 2<sup>nd</sup> Qtr 2011 is P6,444,936 and P2,250,469 for the 2<sup>nd</sup> Qtr of Y2010. The account includes accrual of retainer's fee of Corporate Counsel and BDO, our stock transfer agent.

#### ***Non - Current liabilities***

- This is primarily consists of Advances from Related Parties and Deferred Credits for the total amount of P286 million as recorded for the 2<sup>nd</sup> Qtr of 2011 compared to P302 million for the 2<sup>nd</sup> Qtr of 2010.

#### **The Top five (5) Key Performance Indicators are:**

1. Advances to Related Parties – currently, TWGI is funding all operational expenses of the Company.
2. Current Ratios – Current Assets against the Current Liabilities of the Company. It measures the company's ability to pay short-term obligations.

Current Ratio for the 2<sup>nd</sup> Qtr of Y2011 is 7.03 and 22.39 for 2<sup>nd</sup> Qtr of Y2010



3. Cash Ratio – the most conservative liquidity ratio. It excludes all current assets except the most liquid: cash and cash equivalents against current liabilities. It measures the amount of cash and cash equivalents there are in the current assets to cover current liabilities.

The cash ratio of the company for the 2<sup>nd</sup> Qtr of Y2011 is 0.08 and 0.17 for 2<sup>nd</sup> Qtr of Y2010.

4. Debt ratio - It is one of the financial leverage ratios which measure the extent to which the company is using long term debt. Formula is total debt divided by total assets.

Debt ratio for the 2<sup>nd</sup> Qtr of Y2011 is 0.42 and 0.40 for 2<sup>nd</sup> Qtr of Y2010.

5. Debt-to-equity ratio - The formula is total debt divided by total equity. It indicates what proportion of equity and debt that the company is using to finance its assets.

The debt to equity ratio for the 2<sup>nd</sup> Qtr of Y2011 is 0.73 and 0.67 for the 2<sup>nd</sup> Qtr of Y2010.

#### **(i) Summary of Material Trends, Events and Uncertainties**

##### **Forum Pacific, Incorporated**

The shares of FPI are listed and traded in Philippine Stock Exchange (PSE). Formerly known as Air Philippines International Corporation, FPI was registered to engage in investing, purchasing and acquiring assets of any kind and description with the secondary purpose of engaging in the exploration, development and production of petroleum and related products, as well as other mineral and chemical substances. The company is a holding company, owning shares of stocks of an exploration company. FPI and its subsidiaries are collectively referred to as "the Group".

On September 23, 2009, FCCHI, with Forum (FEI) Ltd., entered into a Sale and Purchase Agreement (SPA) with CR Nichrome, Inc. for the sale of FCCC. FCCHI then decided through its Board of Directors to liquidate its business through shortening of its corporate term until November 30, 2009. Currently, FCCHI is in the process of completing all requirements for SEC approval and securing clearance from the Bureau of Internal Revenue (BIR). As of September 30, 2009, FCCHI ceased to have control over FCCC.

In 2008, the Parent Company ceased to have control over ESBI when it did not avail of its pre-emptive rights to subscribe for additional shares in ESBI's increase in capitalization which happened in 2007.

On January 24, 2008, SEC resolved to deny the Parent Company's request that it be allowed to pay a monetary fine in lieu of revocation of the registration of its securities. On March 27, 2008, SEC revoked the Parent Company's registration of securities and permit to sell due to late filing of its annual financial report and other reportorial requirements. On May 5, 2008, the Parent Company filed a petition to lift SEC's order of revocation of the registration of its securities and the permit to sell securities citing its compliance with SEC's directives to pay the assessed penalties in addition to said revocation and the fact that it has no pending case for violation of the provisions of the Securities Regulations Code and its Implementing Rules and Regulations.

On July 31, 2008, the SEC resolved to lift and set aside the revocation of the registration of the Parent Company's securities and the permit to sell its securities.

In 2009, the Parent Company again received an order of revocation of the registration and the permit to sell the Parent Company's securities due to late filing of the Parent Company's 2008 audited financial statements.

On August 31, 2010, the Parent Company received an order of revocation of the registration and the permit to sell the Parent Company's securities due to late filing of the Parent Company's 2009 annual reports. On



September 8, 2010, the Parent Company requested for an extension of time until September 30, 2010 for the filing of the Parent Company's 2009 audited financial statements which was granted by SEC in a letter dated September 13, 2010. On October 5, 2010, the Parent Company again requested the SEC an additional thirty (30) working days within which to comply with the letter from the SEC dated August 31, 2010. However, on October 7, 2010, the Parent Company's request was denied and the SEC provided a non-extendible period of three (3) days from receipt of the letter within which to submit the 2009 annual reports.

Subsequently on February 14, 2011, the Parent Company paid fines and penalties in the amount of P2.77 million in lieu of the Parent Company's revocation of Registration with Securities and Exchange Commission and Permit to sell securities.

After compliance with SEC and PSE, the trading suspension on the shares of Forum Pacific Inc. has been lifted last May 17, 2011.

### **Business Plans**

The management scheduled the Annual Stockholder's Meeting on July 8, 2011 to address the foregoing matters that may raise doubt on the Group's ability to continue as a going concern. This is to encourage stockholders to renew their commitment to provide full financial support to the Group to sustain its operations, meet the working capital requirements and obligations as they fall due. The Group's management has been on discussion with prospective strategic partners to form a joint venture to engage in all aspects of oil related business, both downstream and upstream. The Group's management believes that such financial support and management plan are sufficient to provide the Group the ability to continue as a going concern. Accordingly, the consolidated financial statements have been prepared on a going concern basis

#### **ii) Events that will Trigger Direct of Contingent Financial Obligation**

Since the Forum Pacific Inc. are still looking a strategic partner to enhance the development of the company specially in exploration business. There is no event that will trigger a direct contingent financial obligation that is material to Forum Pacific Inc. including any default or acceleration of an obligation.

#### **(ii) Material Off-Balance Sheet Transactions, Arrangements, Obligations**

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

#### **(iii) Commitment For Capital Expenditures**

The material commitments for capital expenditures of the company are primarily includes; salaries and wages, taxes, depreciation and utilities and other related overheads. Since the parent company, still focus on looking for a strategic partner, there are no major expenses of the business for the year.

#### **(iv) Any Known Trends, Events of Uncertainties (Material Impact on Net Sales / Net Income)**

None

#### **(v) Significant Element of Income or Loss That Did Not Arise From Continuing Operation**

The adoption of PFRS 5 stated that "Noncurrent Assets Held for Sale and Discontinued Operatoins." FPI will have no impact on the consolidation financial statements.

#### **(vi) Material Changes on Line Items in Financial Statements**

Material changes on line items in financial statements are presented under the captions 'Changes in Financial Condition' and 'Changes in Operating Results' above, see attached Notes to Financial Statements.

#### **(vii) Effect of Seasonal Changes in the Financial Condition or Results of Operations**

The financial condition or results of operations is not affected by any seasonal change.

## Financial Risk Disclosure

A-1 There is no major changes and/or impact on the financial condition of the company.

A-2 There is no Foreign Securities considering there are no foreign investments

Other Financial Aspects in regards with the condition of the company see the Notes to the 2<sup>nd</sup> Quarter Financial Statement.

## PART II - OTHER INFORMATION

### (1) Market Information

a ) The principal market of Forum Pacific Inc. common equity is the Philippine Stock Exchange, Inc. (PSE) where it was listed. Here are list of the high and low sales price by quarter as follows

#### " CLASS A "

		<u>High</u>	<u>Low</u>
2011	First Quarter	-	-
	Second Quarter	0.98	0.14
2010		<u>High</u>	<u>Low</u>
	First Quarter	-	-
	Second Quarter	-	-
	Third Quarter	-	-
	Fourth Quarter	-	-
2009		<u>High</u>	<u>Low</u>
	First Quarter	-	-
	Second Quarter	-	-
	Third Quarter	-	-
	Fourth Quarter	-	-



**Forum Pacific Inc.**  
**List of Top 20 Stockholders - Filipino**  
**As of June 30, 2011**

	NAME	CLASS A – NO. OF SHARES HELD	% to TOTAL
1	International Polymer Corp	496,887,494	26.501
2	PCD Nominee Corp.	396,027,824	21.121
3	The Wellex Group, Inc.	376,950,000	20.104
4	E.F. Durkee & Associates, Inc.	77,838,563	4.151
5	Intra-Invest Sec., Inc.	48,159,000	2.568
6	Forum Pacific, Inc.	36,056,750	1.923
7	Metropolitan Management Corporation	30,000,000	1.600
8	Juanito C. Uy	22,625,001	1.207
9	Pacrim Energy N.L.	21,000,000	1.120
10	Sapphire Securities, Inc.	19,433,500	1.036
11	Benito Ong and/or Zita Y. Ong	18,000,000	0.960
12	Renato Chua	16,740,000	0.893
13	Nestor S. Mangio	12,500,000	0.667
14	A & A Securities, Inc.	11,911,320	0.635
15	Mark Securities Corporation	10,772,800	0.575
16	Globalinks SEC & Stocks, Inc.	9,400,000	0.501
17	Belson Securities, Inc	9,200,000	0.491
18	Wealth Securities, Inc.	8,240,000	0.439
19	Ruben M. Gan	7,610,000	0.406
20	David Go Securities Corporation	6,880,000	0.367



## SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Pasig City on August 8, 2011.

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the city of Pasig.

Registrant: PETER S. SALUD

Title : President/CEO

Signature: 

Registrant: ATTY. ARSEÑIO A. ALFILER, JR.

Title : Corporate Secretary

Signature: 

Registrant: KENNETH T. GATCHALIAN

Title : Treasurer

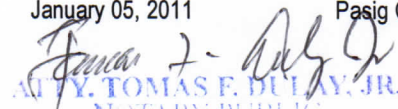
Signature: 




Dated August 8, 2011

AUG 11 2011

SUBSCRIBED AND SWORN to before me this \_\_\_\_ day of August 2011 affiant(s) exhibiting to me his/their respective Community Tax Certificates as follows:

AFFIANTS	CTC NO.	DATE OF ISSUE	PLACE OF ISSUE
1. Peter S. Salud	00142499	January 28, 2011	City of Manila
2. Kenneth T. Gatchalian	06608998	January 11, 2011	Valenzuela City
3. Arsenio A. Alfiler Jr.	12130290	January 05, 2011	Pasig City

  
ATTY. TOMAS F. DULAY, JR.  
NOTARY PUBLIC  
NOTARY PUBLIC  
Roll No. 16383 / March 13, 1961  
IBP No. 801359 / 01-03-11-Q.C.  
PTR No. 4559221 / 01-03-11-Q.C.  
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Book No. :   
Series of 2011

FORUM PACIFIC, INC.  
COMPARATIVE CONSOLIDATED BALANCE SHEET  
AS OF JUNE 30, 2011

Annex A.1

ACCOUNT TITLES	Note	Unaudited June 30, 2011	Unaudited June 30, 2010	Audited Dec. 31, 2010
<b>Current Assets</b>				
Cash and cash equivalent	2	526,328	382,174	102,082
Advances to affiliates	4	44,788,523	50,000,000	50,000,000
<b>Total Current Assets</b>		<b>45,314,851</b>	<b>50,382,174</b>	<b>50,102,082</b>
<b>Non-current Assets</b>				
Advances to Related Parties	4	552,658,666	613,980,196	552,658,666
Available for sale Investments -net	3	81,686,711	94,826,311	81,686,711
Other assets		147,299	-	33,444
<b>Total Non-current assets</b>		<b>634,492,676</b>	<b>708,806,507</b>	<b>634,378,821</b>
<b>TOTAL ASSETS</b>		<b>679,807,527</b>	<b>759,188,682</b>	<b>684,480,903</b>
<b>Current Liabilities</b>				
Trade and Other Payables	5	6,444,936	2,250,469	6,658,843
<b>Total Current Liabilities</b>		<b>6,444,936</b>	<b>2,250,469</b>	<b>6,658,843</b>
<b>Non-current Liabilities</b>				
Deferred Tax Liability		30,432	-	30,432
Advances From Related Parties	4	279,744,073	302,476,942	279,744,073
<b>Total Noncurrent Liabilities</b>		<b>279,774,505</b>	<b>302,476,942</b>	<b>279,774,505</b>
<b>Total Liabilities</b>		<b>286,219,441</b>	<b>304,727,411</b>	<b>286,433,348</b>
<b>EQUITY</b>				
Capital Stock				
Common stock, P1 par value Authorized 3,5000,000,000 shares				
Issued - 819,355,920 shares		819,355,920	819,355,920	819,355,920
Subscribed - 1,055,644,080 shares ( on which subscription receivables amounts to P667,882,040 )		387,262,040	387,262,040	387,262,040
<b>Total Equity</b>		<b>1,206,617,960</b>	<b>1,206,617,960</b>	<b>1,206,617,960</b>
Treasury Shares, 34,605,596 shares, at cost		(34,605,596)	(34,605,596)	(34,605,596)
Unrealized fair value loss on Available for sale		(7,425,459)	(15,085,037)	(7,425,459)
Translation adjustments		346,330		346,330
Deficits		(768,657,031)	(697,180,819)	(764,197,562)
Equity Attributable Equity Holders of the Parent		396,276,204	459,746,508	400,735,673
Minority Interest		(2,688,118)	(5,285,237)	(2,688,118)
<b>Total Equity</b>		<b>393,588,086</b>	<b>454,461,271</b>	<b>398,047,555</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>679,807,527</b>	<b>759,188,682</b>	<b>684,480,903</b>

(The accompanying notes are an integral part of these financial statements)

FORUM PACIFIC, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE QUARTER ENDED, JUNE 30, 2011

Annex A.2

ACCOUNT TITLES	April - June 2011	April - June 2010	Jan - June 2011	Jan - June 2010
Revenue	-	-	-	-
Costs and Expenses Note 6	1,276,452	11,045	4,459,469	325,190
Gross Income	(1,276,452)	(11,045)	(4,459,469)	(325,190)
Other Income (Expenses)	-	18	-	34
Income ( Loss for the Qtr )	(1,276,452)	(11,027)	(4,459,469)	(325,156)
Other Comprehensive Income (Loss)				
Unrealized loss on available-for-sale financial assets				
Translation adjustment				
Total Comprehensive Income (Loss) for the Quarter	<u>(1,276,452)</u>	<u>(11,027)</u>	<u>(4,459,469)</u>	<u>(325,156)</u>
Loss per Share Note 7	(0.00069)	(0.00001)	(0.00243)	(0.00018)

*(The accompanying notes are an integral part of these financial statements)*



**FORUM PACIFIC, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the period ended June 30, 2011

Annex A3

	Unaudited 2nd Qtr Jan to June 2011	Unaudited 2nd Qtr Jan to June 2010	Audited FS Dec. 31, 2010
<b>Cash Flows from Operating Activities</b>			
Net loss before tax	(P4,459,469)	(P325,156)	(P64,945,235)
Adjustments for:			
Impairment losses			50,165,615
Reclassification adjustment on unrealized fair value loss on available for sale financial assets			9,220,278
Unrealized foreign exchange loss (gain)			(101,440)
Interest income		(18)	
Operating loss before working capital changes	(4,459,469)	(325,174)	(5,660,782)
Decrease (increase) in other current assets	-	123,783	-
Increase (decrease) in trade and other payables	(213,907)	(2,194,310)	4,435,244
Cash used in operations	(4,673,376)	(2,395,701)	(1,225,538)
Income taxes paid	-	-	(50,541)
Interest paid	-	18	-
Net cash used in operating activities	(4,673,376)	(2,395,683)	(1,276,079)
<b>Cash Flows from Investing Activities</b>			
Collection (grant) of advances to related parties, net		(38,317,319)	1,207,854
(Increase)/decrease in non-current assets	(113,855)	62,205,353	(33,444)
Increase in deferred exploration cost	-	(21,313,928)	-
Decrease in available-for-sale investments	-		-
Net cash provided by investing activities	(113,855)	2,574,106	1,174,410
<b>Cash Flows from Financing Activities</b>			
Decrease in advances to related parties	5,211,477		-
Net cash provided by financing activities	5,211,477	-	-
<b>Net Decrease in Cash and Cash Equivalents</b>	424,246	178,423	(101,669)
<b>Cash and Cash Equivalents, Beg</b>	102,082	203,751	203,751
<b>Cash and Cash Equivalents, End</b>	P526,328	P382,174	P102,082
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>			
Cash and cash equivalents	P526,328	P382,174	P102,082
	P526,328	P382,174	P102,082

*(The accompanying notes are an integral part of these financial statements)*



**FORUM PACIFIC, INC.**  
**COMPARATIVE CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)**  
**FOR THE PERIOD ENDED JUNE 30, 2011 AND 2010**

Annex A.4

ACCOUNT TITLES	2nd Qtr Jan to June 2011	2nd Qtr Jan to June 2010	Audited FS 2010
Capital Stock	1,206,617,960	1,206,617,960	1,206,617,960
Treasury Shares	(34,605,596)	(34,605,596)	(34,605,596)
Minority Interest	(2,688,118)	(5,285,237)	(2,688,118)
Unrealized Fair Value Loss on Available for Sale	(7,425,459)	(15,085,037)	(7,425,459)
Translation Adjustment	346,330	-	346,330
Deficit, Beginning	(764,197,562)	(697,169,792)	(699,221,896)
Prior Period Adjustments	-	-	-
Net Loss	(4,459,469)	(11,027)	(64,975,666)
Deficit, Ending	(768,657,031)	(697,180,819)	(764,197,562)
Total	<u>393,588,086</u>	<u>454,461,271</u>	<u>398,047,555</u>

*(The accompanying notes are an integral part of these financial statements)*

**FORUM PACIFIC, INC. AND ITS SUBSIDIARY**  
**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
June 30, 2011

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**Note 1 – Organizational Information**

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Forum Pacific, Inc., (the "Parent Company"), formerly known as Air Philippines International Corporation, is a domestic corporation registered with the Philippine Securities and Exchange Commission (SEC) on January 8, 1993 mainly to engage in investing, purchasing and acquiring assets of any kind and description with the secondary purpose of engaging in the exploration, development and production of petroleum and related products as well as other mineral and chemical substances.

The financial position and results of operations of the Parent Company and its Subsidiary, (herein referred to as the "Group") are consolidated in these financial statements.

The Parent Company's shares are listed and traded in the Philippine Stock Exchange (PSE). Its principal office is located at the 22nd Floor, Citibank Tower, Paseo de Roxas, Makati City.

The Parent Company has 60% ownership interest in Forum Coal Cebu Holdings, Inc. (FCCHI).

On September 23, 2009, FCCHI decided through its Board of Directors to liquidate its business through shortening of its corporate term until November 30, 2009. Currently, FCCHI is in the process of completing all requirements for SEC approval and securing clearance from the Bureau of Internal Revenue (BIR).

**MANAGEMENT ASSESSMENT OF THE GOING CONCERN ASSUMPTION AND BUSINESS PLANS**

*Management's Assessment of the Going Concern Assumption*

Management believes that the going concern assumption is appropriate despite the existence of material uncertainty caused by recurring substantial losses of the Group. The Group had incurred losses amounting to P64,975,666 and P20,723,742 in 2010 and 2009, respectively. The Group has sustained a deficit of P764,197,562 and P699,221,896 in 2010 and 2009, respectively.

On January 24, 2008, SEC resolved to deny the Parent Company's request that it be allowed to pay a monetary fine in lieu of revocation of the registration of its securities. On March 27, 2008, SEC revoked the Parent Company's registration of securities and permit to sell due to late filing of its annual financial report and other reportorial requirements. On May 5, 2008, the Parent Company filed a petition to lift SEC's order of revocation of the registration of its securities and the permit to sell securities citing its compliance with SEC's directives to pay the assessed penalties in addition to said revocation and the fact that it has no pending case for violation of the provisions of the Securities Regulations Code and its Implementing Rules and Regulations.

On July 31, 2008, the SEC resolved to lift and set aside the revocation of the registration of the Parent Company's securities and the permit to sell its securities.

In 2009, the Parent Company again received an order of revocation of the registration and the permit to sell the Parent Company's securities due to late filing of the Parent Company's 2008 audited financial statements (see Note 13).

On August 31, 2010, the Parent Company received an order of revocation of the registration and the permit to sell the Parent Company's securities due to late filing of the Parent Company's 2009 annual reports. On



September 8, 2010, the Parent Company requested for an extension of time until September 30, 2010 for the filing of the Parent Company's 2009 audited financial statements which was granted by SEC in a letter dated September 13, 2010. On October 5, 2010, the Parent Company again requested the SEC an additional thirty (30) working days within which to comply with the letter from the SEC dated August 31, 2010. However, on October 7, 2010, the Parent Company's request was denied and the SEC provided a non-extendible period of three (3) days from receipt of the letter within which to submit the 2009 annual reports.

Subsequently on February 14, 2011, the Parent Company paid fines and penalties in the amount of P2.77 million in lieu of the Parent Company's revocation of Registration of securities and Permit to sell securities.

After compliance with SEC and PSE, the trading suspension on the shares of Forum Pacific Inc. has been lifted last May 17, 2011.

### *Business Plans*

To address the foregoing matters that may raise doubt on the Group's ability to continue as a going concern, management and stockholders of the Group have committed in principle to provide full financial support to the Group to sustain its operations, meet the working capital requirements and obligations as they fall due. The Group's management has been on discussion with prospective strategic partners to form a joint venture to engage in all aspects of oil related business, both downstream and upstream. The Group's management believes that such financial support and management plan are sufficient to provide the Group the ability to continue as a going concern. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

### BASIS OF PREPARATION OF INTERIM FINANCIAL STATEMENT

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain investments, in accordance with applicable Philippine Accounting Standards and in accordance with reporting practices applicable to the subsidiary bank.

The financial statements are presented in Philippine pesos, which is the Company's functional currency.

The financial statements have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS), which are accounting principles generally accepted in the Philippines. These are the Company's first PFRS financial statements where PRFS 1, "First Time Adoption of the Philippine Financial Reporting Standards", has been applied.

The preparation of the financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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### **Note 2 – Summary of Significant Accounting Policies**

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The significant accounting policies that have been used in the preparation of these consolidated financial statements are set forth to facilitate the understanding of data presented in the consolidated statements of financial position. The policies have been consistently applied to all years presented, unless otherwise stated.



## **Basis of Preparation and Presentation of Consolidated Financial Statements**

### ***(a) Statement of Compliance with Philippine Financial Reporting Standards***

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of assets, liabilities, income and expense. The measurement bases are more fully described in the accounting policies that follow.

### ***(b) Presentation of Consolidated Financial Statements***

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1 (Revised 2007), *Presentation of Financial Statements*. The Group presents all items of income and expenses in a single statement of comprehensive income. Two comparative periods are presented for the statement of financial position when the Group applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or reclassifies items in the financial statements.

### ***(c) Functional and Presentation Currency***

These consolidated financial statements are presented in Philippine pesos, the Group's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated. Functional currency is the currency of the primary economic environment in which the Group operates.

Items included in the consolidated financial statements of the Group are measured using its functional currency, the currency of the primary economic environment in which the entity operates.

## **Minority Interest**

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Parent Company, whether directly or indirectly through subsidiaries and in respect of which the Group has not agreed on any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meet the definition of a financial liability. Minority interests are presented in the consolidated statements of financial position within equity, separately from equity attributable to the equity shareholders of the Parent Company. Minority interests in the results of the Group are presented on the face of the consolidated statements of comprehensive income (loss) as an allocation of the net income (loss) for the year between minority interests and the equity shareholders of the Parent Company.

When losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess and any further losses applicable to the minority are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the Group's interest until the minority's share of losses previously absorbed by the Group has been recovered in full.

### ***Brief summary of the subsidiary's nature of business and operations***

#### ***FCCHI***

The Parent Company owns 60% of the stockholdings of FCCHI, a domestic corporation registered with the Philippine SEC on February 3, 2006. Its primary purpose is to acquire, hold and dispose of bonds, debentures, promissory notes, shares of capital and the likes, without engaging as a dealer or broker of securities. Its registered office is located at 14<sup>th</sup> Floor, Pearlbank Centre, 146 Valero Street, Salcedo Village, Makati City.



FCCHI has 60% ownership of Forum Cebu Coal Corporation (FCCC), a domestic corporation which holds 100% interest in one (1) Coal Operating Contract in Cebu-COC 131.

As discussed in Note 1, FCCHI sold all of its shareholdings of FCCC on September 23, 2009 and decided to liquidate its business through shortening of its corporate term until November 30, 2009. Accordingly, FCCHI changed its basis of accounting in the preparation of its financial statements from the going-concern basis to the liquidation basis of accounting. Financial information of FCCHI for 2009 reflects the remaining assets at their liquidating values as of September 30, 2009. The Group used the September 30, 2009 audited financial statements of FCCHI as basis in the preparation of the consolidated financial statements inasmuch as management believes that transactions occurred subsequently until December 31, 2009 are minimal and that all significant account balances do not differ materially from the amount reported in the September 30, 2009 audited financial statements.

### **Revenue and Cost Recognition**

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

- Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable.
- Dividend income is recognized when the stockholders' right to receive the payment is established.

Cost and expenses are recognized upon utilization of the service or at the date they are incurred.

### **Financial Assets**

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at each statement of financial position date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified at fair value through profit or loss are initially recognized at fair value, plus transaction costs. Financial assets carried at fair value through profit or loss is initially recognized at fair value and transaction costs are expensed in the consolidated statements of comprehensive income.

The foregoing categories of financial assets are more fully described below:

#### ***a) Financial assets at fair value through profit or loss***

This category includes financial assets that are either classified as held for trading or are designated by the entity to be carried at fair value through profit or loss upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term or if so designated by management. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognized in consolidated statement of comprehensive income as part of other income (expense). Financial assets (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term.



The Group has no financial assets at fair value through profit or loss during the years ended December 31, 2010 and 2009.

*b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor, with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date which are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment losses. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through amortization process. Interest earned or incurred is recorded as "interest income" in the consolidated statement of comprehensive income.

The Group's cash and advances to related parties are included in this category.

*c) Held-to-maturity financial assets*

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to-maturity if the Group has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity financial assets are included in non-current assets under Financial Assets account in the statements of financial position, except those maturing within 12 months of the statement of financial position date.

Held-to-maturity financial assets are measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes in the carrying amount of the investment are recognized in the consolidated statement of comprehensive income.

The Group has no held-to-maturity financial assets during the years ended December 31, 2010 and 2009.

*d) Available-for-sale financial assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets under the Financial Assets account in the consolidated statements of financial position unless management intends to dispose of the investment within 12 months from the statement of financial position date.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in the consolidated statement of financial position as part of other comprehensive income, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in the consolidated statement of comprehensive income when they are sold or when the investment is impaired.

Dividends earned on holding available-for sale financial assets are recognized as "other income" when the right of the payment has been established. These are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the consolidated statement of financial position date.

**Offsetting Financial Instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position 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, when the related assets and liabilities are presented gross in the consolidated statements of financial position.

### **Impairment of Financial Assets**

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably measured. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, a breach of contract such as a default or delinquency in interest or principal payments, the probability that the debtor will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortized cost*

If there is objective evidence that an impairment loss on assets carried at amortize 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. The carrying amount of the asset is reduced through the use of an allowance and the amount of loss is recognized in the statement of comprehensive income. Impaired financial asset together with the associated allowance are written-off when they are assessed as uncollectible.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance. Any subsequent reversal of an impairment loss is recognized to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date and recognized as income. If a write-off is subsequently recovered, the recovery is recognized as income.

#### *Financial assets classified as available-for-sale*

For assets classified as available-for-sale, impairment is measured as the difference between the original cost and the fair value. A significant or prolonged decline in the fair value of available-for-sale securities below cost is considered in determining whether the securities are impaired. In the case of impairment, the cumulative loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. If circumstances change, impairment losses on available-for-sale equity instruments are not reversed through profit or loss. On the other hand, if in a subsequent period, the fair value of a debt instrument classified as available-for-sale increase 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.

#### *Financial assets carried at cost*

For assets carried at cost, impairment is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

### **Derecognition of Financial Assets**

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



- The rights to receive cash flows from the asset have expired.
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a 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 the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset 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.

#### **Claims for Input Value Added Tax (VAT)**

Claims for input VAT are stated at face value less provision for impairment, if any. Allowance for unrecoverable input VAT, if any, is maintained by the Group at a level considered adequate to provide for potential uncollectible portion of the claims. The Group, on a continuing basis, makes a review of the status of the claims designed to identify those that may require provision for impairment losses.

#### **Other Non-Current Assets**

Other noncurrent assets are stated at cost and are recognized when paid.

#### **Financial Liabilities**

Financial liabilities are recognized in the Group's consolidated financial statements when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognized at fair value. Transaction costs are included in the initial measurement of the Group's financial liabilities, except debt instruments classified as at fair value through profit or loss.

Since the Group does not have financial liabilities classified as at fair value through profit or loss, all financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, when appropriate, a shorter period.

Financial liabilities include advances from related parties and trade and other payables (see Notes 6 and 10).

Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees. It is necessary to estimate the amount or timing of accruals, however, the uncertainty is generally much less than for provisions.

Financial liabilities are derecognized from the statements of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

#### **Equity**

Capital stock is determined using the nominal value of shares that have been issued. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds, net of tax. Proceeds and/ or fair value of consideration received in excess of par value are recognized as additional-paid-in capital.

Treasury shares are the Group's equity instruments which are reacquired and recognized at cost and presented as reduction in equity. No gain or loss is recognized on the purchase, sale, reissuance or cancellation of treasury stock. Any difference in the carrying amount and consideration upon reissuance or cancellation of shares is recognized as additional-paid-in capital.



Deficit includes all current and prior period results as disclosed in the consolidated statements of comprehensive income.

Unrealized fair value gain/loss on change in fair value on available-for-sale financial assets is recognized when there is a difference between the fair value of available-for-sale financial assets and its carrying value.

### **Retirement Benefits**

The Group has no provision for retirement benefit due to absence of employees. In 2009, the Group derecognized the accrued retirement benefit payable recognized in prior year.

### **Taxation**

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 are enacted or substantively enacted at the statement of financial position date.

Deferred income tax is provided using the balance sheet liability method, on all temporary differences at the financial reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, unused net operating losses carryover (NOLCO) and unused minimum corporate income tax (MCIT), to the extent that it is probable that taxable net profit will be available against which the deductible temporary differences and unexpired NOLCO and MCIT can be utilized.

The carrying amount of deferred income tax assets is reviewed at each financial reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Income tax relating to items recognized in other comprehensive income is recognized in other comprehensive income and not in profit and loss.

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

### **Leases**

The Group determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. The Group does not have such arrangement.

The Group accounts for its leases as follows:

#### ***a) Group as Lessee***

Leases which transfer to the Group substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the consolidated statements of financial position at amounts equal at the inception of the lease to the fair value of the leased property, or if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognized in the statement of comprehensive income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.



Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statements of comprehensive income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

*b) Group as Lessor*

Leases wherein the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating lease. Lease income from operating lease is recognized in the consolidated statements of comprehensive income on a straight-line basis over the lease term.

The Group is a party to an operating lease as a lessee. Payments made under operating leases (net of any incentives given by the lessor) are charged to the consolidated statement of comprehensive income.

**Earnings Per Share (EPS)**

Basic EPS is calculated by dividing the net income or loss for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period, after giving retroactive effect to any stock dividend declared during the year.

**Related Parties and Related Party Transactions**

Parties are considered related if one party has control, joint or significant influence over the other party in making financial and operating decisions. The key management personnel of the Group and post-employment benefit plans for the benefit of Group's employees are also considered to be related parties.

Individuals, associates or companies that directly or indirectly control or are controlled by or under common control are considered related parties.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

**Foreign Currency Transactions**

The accounting records of the Group are maintained in Philippine peso. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of comprehensive income.

**Provisions**

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the statement of financial position date, including the risks and uncertainties

associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, where time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation.

Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements.

### Contingencies

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

### Events After the Reporting Period

The Group identifies subsequent events as events that occurred after the statement of financial position date but before the date when the consolidated financial statements were authorized for issue. Any subsequent events that provide additional information about the Group's consolidated financial position at the statement of financial position date are reflected in the consolidated financial statements. Events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

### Note 3. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account consists of:

	Forum Exploration, Inc. (FEI)	Express Savings Bank, Inc. (ESBI)	Philippine Estates Corporation (PHES)	Total
<b>As of June 30, 2011</b>				
Net carrying amount, December 31, 2009	P 73,211,573	P 16,239,100	P 5,375,638	P 94,826,311
Disposals	-	(11,578,900)	-	(11,578,900)
Unrealized fair value loss	-	-	(1,560,700)	(1,560,700)
<b>Acquisition cost</b>	<b>P 73,211,573</b>	<b>P 28,612,804</b>	<b>P 7,529,480</b>	<b>P109,353,857</b>
Unrealized fair value loss	-	( 3,710,917)	(3,714,542)	( 7,425,459)
Accumulated impairment loss	-	( 20,241,687)	-	( 20,241,687)
<b>Net carrying amount, December 31, 2010</b>	<b>P 73,211,573</b>	<b>P 4,660,200</b>	<b>P3,814,938</b>	<b>P81,686,711</b>
<b>Net carrying amount, as of June 30, 2011</b>	<b>P 73,211,573</b>	<b>P 4,660,200</b>	<b>P3,814,938</b>	<b>P81,686,711</b>

December 31, 2009	FEI	ESBI	PHES	Total
Net carrying amount, December 31, 2008	P 73,211,573	P 52,057,852	P 7,529,480	P132,798,905
Disposals	-	( 22,887,557)	-	( 22,887,557)
Unrealized fair value loss	-	( 12,931,195)	( 2,153,842)	( 15,085,037)



Net carrying amount, December 31, 2009	P 73,211,573	P 16,239,100	P 5,375,638	P 94,826,311
Acquisition cost	P 73,211,573	P 99,705,201	P 7,529,480	P180,446,254
Unrealized fair value loss	-	( 12,931,195)	( 2,153,842)	( 15,085,037)
Accumulated impairment loss	-	( 70,534,906)	-	( 70,534,906)
Net carrying amount, December 31, 2009	P73,211,573	P 16,239,100	P5,375,638	P 94,826,311

#### *FEI*

In 2003, 66.67% ownership, or 125 million shares of the Parent Company in FEI, was sold to Tracer Petroleum Corporation (TPC), now Forum Energy, Inc. Subsequent to sale, the Parent Company did not have any material transaction with FEI, which manifests that it has ceased to have significant influence on the financial and operating policy decisions of FEI. Thus, it is now classified as available-for-sale financial assets in compliance with PAS 39. Investment cost and post-acquisition charges are used to determine the carrying amount of this investment as of reclassification date. The fair value of available-for-sale financial assets approximates its carrying value.

The investment in FEI is stated at cost since there is no quoted price in an active market.

#### *ESBI*

ESBI was 56% owned by the Parent Company as of December 31, 2007. During 2007, the Parent Company did not avail of its pre-emptive right to subscribe for additional shares in ESBI's increase in capitalization. This diluted the Parent Company's interest in ESBI. In 2008, the Parent Company eventually ceased to have control in ESBI.

On June 3, 2009, the Parent Company executed a deed of absolute sale for its 127,415 shares in ESBI for P179.63 per share or equivalent to P22,887,556. The carrying amount of 289,806 shares in ESBI as of December 31, 2008 amounted to P122,592,758 or P423.02 per share. The difference between selling price and cost per share multiply by the number of ESBI shares as of December 31, 2008 was recognized as impairment loss in 2008.

The investment had been recorded for P22,887,556, in the 2008 audited financial statements but the said amount represent only 127,415 shares out of 289,806 shares or 44%. An impairment loss of P99,705,202 was recorded which resulted to understatement of available-for-sale financial assets and overstatement of impairment loss in 2008 amounting to P29,170,296.

The fair value of ESBI investment as of December 31, 2009 was based on the actual partial sale that occurred on July 13, 2010 in which 46,602 shares were sold for P4,660,200 at P100/share.

On August 12, 2010, the Parent Company executed a deed of absolute sale for its 115,789 shares in ESBI at P100 per share or equivalent to P11,578,900 which is equal to the carrying value as of December 31, 2009 of P11,578,900. The Parent Company reclassified the corresponding unrealized fair value loss amounting to P9,220,278 from unrealized fair value loss on available-for-sale financial assets in equity to the statement of comprehensive income.

#### *PHES*

This pertains to the Parent Company's investment in 50,196,553 common shares which are registered and traded in the PSE and constitutes 3% ownership.

The fair value of PHES investment as of December 31, 2009 has been determined directly by reference to published prices in the active market. Consequently, an unrealized fair value loss was recognized

amounting to P2,153,842 and charged to "other comprehensive loss" account in the 2009 statement of comprehensive income and shown separately as "Unrealized fair value loss on available-for-sale financial assets" in equity.

**Note 4 RELATED PARTY TRANSACTIONS AND RELATED PARTY ACCOUNTS**

The details of advances to related parties as of June 30, 2011 as follows:

	Nature of Relationship	2011
The Wellex Group, Inc. (TWGI)	Common directorship	P341,025,464
Forum Exploration, Inc. (FEI)	Common directorship	172,273,002
Forum Energy Plc. (FEPlc)	Common directorship	171,193,672
FEPCo	Common directorship	97,627,350
Forum (FEI) Ltd.	Common directorship	13,947
Total		782,133,435
Less: current portion		50,000,000
Non-current portion		732,133,435
Allowance for impairment loss –		(179,474,769)
		P552,658,666

**Note 5. Trade and other payables**

	As of June 30, 2011	As of June 30, 2010
Trade Payables	2,158,229	
Accrued Expenses	4,285,381	1,934,274
Accrued Payable		31,005
Others	1,326	285,190
Balance	6,444,936	2,250,469

**Note 6 - Cost and Expenses**

This account includes:

	For the 2 <sup>nd</sup> Qtr Ended June 30, 2011	For the 2 <sup>nd</sup> Qtr Ended As of June 30, 2010
Professional fee	217,875	
Printing and Reproduction	162,762	945
Postage and telephone	66,305	6,636
Notarial fees	5,030	500
Fines and Penalties	760,500	
Transportation and Travel		440
Other Administrative Expenses	63,980	2,524
Balance	1,276,452	11,045



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**Note 7 – Loss Per Share**

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The following table presents information necessary to calculate loss per share:

	As of June 30, 2011	As of June 30, 2010
Income ( Loss as of June 30 )	(4,459,469)	(325,156)
Weighted average number of common shares outstanding during the year	1,838,943,246	1,840,394,404
Loss per Share	(0.00243)	(0.00018)

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**Note 8 – Commitments and Contingencies**

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- a. The Parent Company subleases an office space from TWGI. During the year, the parties mutually agreed that the Parent Company would not yet share in the rent expense until it earns income from operations.
- b. On May 7, 2007, the SEC suspended the trading of the Parent Company's shares for late filing of its 2004 and 2005 annual reports. The Parent Company failed to comply with the Suspension Order when it paid the penalty after the due date. However, it committed another violation when it failed to timely file its 2006 annual financial reports and 2007 first quarter reports. On October 19 and November 6, 2007, the Parent Company requested the SEC to allow the Parent Company to pay a monetary fine in lieu of the revocation of the registration of its securities due to late filing of the required reports. On May 5, 2008, a petition was filed to lift SEC's Order of Revocation and was lifted by SEC En Banc on July 31, 2008.

On October 31, 2009, the SEC issued SEC-CFD Order No. 145, series of 2009, revoking the Parent Company's registration of Securities and Permit to Sell Securities for failure to file its 2008 Annual Report, 2009 First Quarter Reports and to pay the penalty of P40,000.

Fines and penalties of P2,771,200 was subsequently paid on February 14, 2011 in lieu of the Parent Company's revocation of Registration of Securities and Permit to Sell securities.

- c. Management believes that there are no commitments and contingent liabilities arising from the normal course of business that will have material impact on the Group's financial statements.