COVER SHEET

A S 0 9 2 - 0 6 4 4 1

SEC Registration Number

S O U T H C H I N A R E S O U R C E S , I N C .

(Company's Full Name)

3 / F L o w R i s e P a c i f i c S t a r B l d g . ,
S e n . G i l P u y a t c o r . M a k a t i A v e n u e
, M a k a t i C i t y

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

Ms. Imelda D. Olalia
(Contact Person)

812-2383
(Company Telephone Number)

1 2 | 3 1
Month *Day*
(Calendar Year)

1 7 A R
(Form Type)

Month *Day*
(Annual Meeting)

Not Applicable
(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Not Applicable
Amended Articles Number/Section

Total Amount of Borrowings

535
Total No. of Stockholders

N/A
Domestic

N/A
Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

APR 3 0 2007

BUREAU OF INTERNAL REVENUE
REC
RR No. 8 - RDO 49
DATE

Remarks: Please use BLACK ink for scanning purposes.

SGV & Co

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

Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
South China Resources, Inc.
3/F Low Rise Pacific Star Bldg.
Sen. Gil Puyat cor. Makati Avenue
Makati City

We have audited the accompanying financial statements of South China Resources, Inc., which comprise the balance sheets as of December 31, 2006 and 2005, and the statements of income, statements of changes in stockholders' equity and statements of cash flows for each of the three years in the period ended December 31, 2006, and a summary of significant accounting policies and other explanatory notes. We did not audit the financial statements of Premiere Development Bank (PDB) and Bell Telecommunications Philippines, Inc. (BellTel), the investments in which are reflected in the accompanying financial statements using the equity method of accounting. The investments in PDB and BellTel represent about 16.85% and 23.77% of total assets as of December 31, 2006 and 2005, respectively, and the equity in their net losses represents about 107.77%, 92.70% and 85.77% of the net loss in 2006, 2005 and 2004, respectively. The financial statements of PDB and BellTel were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for PDB and BellTel, is based solely on the reports of the other auditors.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained and the reports of the other auditors are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the reports of other auditors, the financial statements present fairly, in all material respects, the financial position of South China Resources, Inc., as of December 31, 2006 and 2005, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2006 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Ladislao Z. Avila, Jr.
Partner
CPA Certificate No. 69099
SEC Accreditation No. 0111-AR-1
Tax Identification No. 109-247-891
PTR No. 0266523, January 2, 2007, Makati City

April 30, 2007

SGV & Co

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

Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

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

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
South China Resources, Inc.
3/F Low Rise Pacific Star Bldg.
Sen. Gil Puyat cor. Makati Avenue
Makati City

We have audited in accordance with Philippines Standards on Auditing, the financial statements of South China Resources, Inc. included in this Form 17-A and have issued our report thereon dated April 30, 2007. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respect the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ladislao Z. Avila Jr.
Partner
CPA Certificate No. 69099
SEC Accreditation No. 0111-AR-1
Tax Identification No. 109-247-891
PTR No. 0266523, January 2, 2007, Makati City

April 30, 2007

SOUTH CHINA RESOURCES, INC.
BALANCE SHEETS

	December 31	
	2006	2005 (Restated)
ASSETS		
Current Assets		
Cash	**₱5,090,607**	₱1,149,200
Available-for-sale (AFS) investments - current (Note 6)	**42,000**	–
Accounts receivable - net (Note 4)	**66,664**	62,060
Prepayments and other current assets (Note 5)	**423,656**	325,149
Total Current Assets	**5,622,927**	1,536,409
Noncurrent Assets		
AFS investments - noncurrent (Note 6)	**5,746,328**	8,745,155
Investment property (Note 7)	**486,980,479**	486,980,479
Investments in associates - net (Note 8)	**124,795,088**	182,297,848
Deposit for future investment (Note 8)	**34,843,800**	–
Deferred exploration costs - net of allowance for impairment losses of ₱12,618,353 (Note 1)	**82,331,858**	87,208,046
Property and equipment - net (Note 9)	**189,875**	126,551
Refundable deposits and others	**141,554**	141,554
Total Noncurrent Assets	**735,028,982**	765,499,633
TOTAL ASSETS	**₱740,651,909**	₱767,036,042
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 10)	**₱19,089,294**	₱17,577,444
Noncurrent Liabilities		
Subscriptions payable (Note 8)	**171,720,000**	171,720,000
Stockholders' Equity		
Capital stock - ₱1 par value		
Authorized - 1,000,000,000 shares		
Issued - 587,739,569 shares in 2006 and 586,639,569 shares in 2005	**587,739,569**	586,639,569
Subscribed - 318,820,000 shares in 2006 and 319,920,000 shares in 2005 (net of subscriptions receivable of ₱239,115,000 in 2006 and ₱239,940,000 in 2005)	**79,705,000**	79,980,000
Additional paid-in capital	**72,272,140**	72,272,140

(Forward)

APR 30 2007

	December 31	
	2006	2005 (Restated)
Unrealized gains on AFS investments - net (Note 6)	**₱735,515**	₱2,888,340
Share in unrealized gains on AFS investments of an associate (Note 8)	–	238,220
Deficit	**(190,609,609)**	(164,279,671)
Total Stockholders' Equity	**549,842,615**	577,738,598
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**₱740,651,909**	₱767,036,042

See accompanying Notes to Financial Statements.

SOUTH CHINA RESOURCES, INC.
STATEMENTS OF INCOME

	Years Ended December 31		
	2006	2005 (Restated)	2004
REVENUES			
Gain on sale of an associate (Note 8)	**₱5,955,504**	₱–	₱–
Gain on sale of AFS investment - net	**62,090**	–	–
Dividend income	**50,227**	700	48,247
Interest income	**20,440**	7,372	6,755
	6,088,261	8,072	55,002
EXPENSES			
Salaries and wages	**(2,159,065)**	(1,236,559)	(1,557,114)
Travel and transportation	**(1,026,113)**	(395,113)	(2,181,267)
Professional fees	**(821,071)**	(120,000)	(536,803)
Rent and utilities (Note 14)	**(606,564)**	(345,445)	(774,146)
Taxes and licenses	**(225,794)**	(222,015)	(120,262)
Communication	**(219,730)**	(104,034)	(358,175)
Depreciation (Note 9)	**(131,250)**	(77,769)	(174,938)
Entertainment, amusement and recreation	**(126,989)**	(137,599)	(219,520)
Office supplies	**(119,774)**	(74,089)	(95,756)
Repairs and maintenance	**(36,778)**	(16,930)	(59,336)
Training and seminars	**(18,072)**	(13,000)	(3,000)
Miscellaneous	**(388,975)**	(90,881)	(910,106)
	(5,880,175)	(2,833,434)	(6,990,423)
EQUITY IN NET LOSSES OF ASSOCIATES (Note 8)	**(28,376,245)**	(33,524,845)	(41,807,558)
UNREALIZED FOREIGN EXCHANGE GAINS - net	**1,791,273**	183,474	–
LOSS BEFORE INCOME TAX	**26,376,886**	36,166,733	48,742,979
PROVISION FOR INCOME TAX - deferred (Note 11)	**(46,948)**	–	–
NET LOSS	**₱26,329,938**	₱36,166,733	₱48,742,979
Basic/Diluted Loss Per Share (Note 13)	**₱0.0290**	₱0.0399	₱0.0538

See accompanying Notes to Financial Statements.

SOUTH CHINA RESOURCES, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

	Capital Stock		Additional Paid-in Capital	Unrealized Losses on Marketable Equity Securities/AFS Investments - net (Note 6)	Share in Unrealized Gains on Marketable Equity Securities/AFS Investments of an Associate (Note 8)	Deficit	Total
	Issued	Subscribed - net					
Balances at January 1, 2004, as previously stated	₱586,639,569	₱79,980,000	₱72,272,140	(₱1,331,262)	(₱1,916,810)	(₱74,185,229)	₱661,458,408
Share in prior period adjustments of associates (Note 8)	–	–	–	–	1,916,810	(5,184,730)	(3,267,920)
Balances at January 1, 2004, as restated	586,639,569	79,980,000	72,272,140	(1,331,262)	–	(79,369,959)	658,190,488
Recovery of unrealized losses on marketable equity securities	–	–	–	1,136,025	–	–	1,136,025
Net loss for the year	–	–	–	–	–	(48,742,979)	(48,742,979)
Total recognized income (expense) for the year	–	–	–	1,136,025	–	(48,742,979)	(47,606,954)
Balances at December 31, 2004, as restated	₱586,639,569	₱79,980,000	₱72,272,140	(₱195,237)	₱–	(₱128,112,938)	₱610,583,534
Balances at January 1, 2005, as previously stated	₱586,639,569	₱79,980,000	₱72,272,140	(₱195,237)	(₱1,916,810)	(₱122,928,208)	₱613,851,454
Share in prior period adjustments of associates	–	–	–	–	1,916,810	(5,184,730)	(3,267,920)
Balances at January 1, 2005, as restated	586,639,569	79,980,000	72,272,140	(195,237)	–	(128,112,938)	610,583,534

(Forward)

APR 30 2007

	Capital Stock		Additional Paid-in Capital	Unrealized Gains (Losses) on AFS Investments - net (Note 6)	Share in Unrealized Gains on AFS Investments of an Associate (Note 8)	Deficit	Total
	Issued	Subscribed - net					
Balances at January 1, 2005, as restated	₱586,639,569	₱79,980,000	₱72,272,140	(₱195,237)	₱–	(₱128,112,938)	₱610,583,534
Recovery of unrealized losses on AFS investments	–	–	–	3,083,577	–	–	3,083,577
Share in recovery of unrealized losses on AFS investments of an associate	–	–	–	–	238,220	–	238,220
Total income recognized directly in stockholders' equity	–	–	–	3,083,577	238,220	–	3,321,797
Net loss for the year	–	–	–	–	–	(36,166,733)	(36,166,733)
Total recognized income (expense) for the year	–	–	–	3,083,577	238,220	(36,166,733)	(34,844,936)
Balances at December 31, 2005, as restated	₱586,639,569	₱79,980,000	₱72,272,140	₱2,888,340	₱238,220	(₱164,279,671)	₱577,738,598
Balances at January 1, 2006, as previously stated	₱586,639,569	₱79,980,000	₱72,272,140	₱2,888,340	(₱1,678,590)	(₱158,978,181)	₱581,123,278
Share in prior period adjustments of associates (Note 8)	–	–	–	–	1,916,810	(5,301,490)	(3,384,680)
Balances at January 1, 2006, as restated	586,639,569	79,980,000	72,272,140	2,888,340	238,220	(164,279,671)	577,738,598

(Forward)

APR 3 0 2007
BUREAU OF INT

	Capital Stock		Additional	Unrealized Gains (Losses) on AFS Investments	Share in Unrealized Gains on AFS Investments of an Associate		
	Issued	Subscribed - net	Paid-in Capital	- net (Note 6)	(Note 8)	Deficit	Total
Balances at January 1, 2006, as restated	₱586,639,569	₱79,980,000	₱72,272,140	₱2,888,340	₱238,220	(₱164,279,671)	₱577,738,598
Unrealized valuation losses on AFS investments	–	–	–	(2,090,735)	–	–	(2,090,735)
Valuation gains taken to the statements of income on sale of AFS investments	–	–	–	(62,090)	–	–	(62,090)
Share in recovery of unrealized losses on AFS investments of an associates	–	–	–	–	162,498	–	162,498
Derecognition of share in unrealized gains on AFS investments of a disposed associate	–	–	–	–	(400,718)	–	(400,718)
Total income (loss) recognized directly in stockholders' equity	–	–	–	(2,152,825)	(238,220)	–	(2,391,045)
Net loss for the year	–	–	–	–	–	(26,329,938)	(26,329,938)
Total recognized income (expense) for the year	–	–	–	(2,152,825)	(238,220)	(26,329,938)	(28,720,983)
Collection of subscriptions receivable		825,000	–	–	–	–	825,000
Shares of stock issued from subscribed	1,100,000	(1,100,000)	–	–	–	–	–
Balances at December 31, 2006	₱587,739,569	₱79,705,000	₱72,272,140	₱735,515	₱–	(₱190,609,609)	₱549,842,615

See accompanying Notes to Financial Statements.

APR 30 2007

SOUTH CHINA RESOURCES, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2006	2005 (Restated)	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	**(₱26,376,886)**	(₱36,166,733)	(₱48,742,979)
Adjustments for:			
Equity in net losses of associates (Note 8)	**28,376,245**	33,524,845	41,807,558
Depreciation (Note 9)	**131,250**	77,769	174,938
Gain on sale of an associate (Note 8)	**(5,955,504)**	–	–
Net unrealized foreign exchange loss (gains)	**(1,791,273)**	(183,474)	26,222
Gain on sale of AFS investment	**(62,090)**	–	–
Dividend income	**(50,227)**	(700)	(48,247)
Interest income	**(20,440)**	(7,372)	(6,755)
Loss on derecognition of property and equipment	–	76,768	–
Operating loss before working capital changes	**(5,748,925)**	(2,678,897)	(6,789,263)
Decrease (increase) in:			
Accounts receivable	**(4,604)**	27,392	(69,543)
Prepayments and other current assets	**(98,507)**	(43,150)	(34,596)
Increase in accounts payable and accrued expenses	**3,525,176**	7,109,806	9,358,128
Net cash flows from (used in) operating activities	**(2,326,860)**	4,415,151	2,464,726
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in deferred exploration costs	**4,876,188**	(4,217,574)	(3,123,839)
Proceeds from sale of AFS investments	**1,313,040**	–	–
Dividend received	**50,227**	700	48,247
Interest received	**20,440**	7,372	6,755
Additions in:			
AFS investments	**(400,000)**	–	–
Property and equipment (Note 9)	**(194,574)**	(5,114)	(27,807)
Decrease in refundable deposits and others	–	339,058	1,164,723
Net cash flows from (used in) investing activities	**5,665,321**	(3,875,558)	(1,931,921)
CASH FLOWS FROM FINANCING ACTIVITIES			
Collection of subscriptions receivable	**825,000**	–	–
NET INCREASE IN CASH	**4,163,461**	539,593	532,805
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**(222,054)**	(62,527)	(26,222)
CASH AT BEGINNING OF YEAR	**1,149,200**	672,134	165,551
CASH AT END OF YEAR	**₱5,090,607**	₱1,149,200	₱672,134

See accompanying Notes to Financial Statements.

SOUTH CHINA RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information and Status of Operations

Corporate Information

South China Resources, Inc. (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on September 25, 1992 primarily to undertake oil and gas exploration, development and production. In light of the effects of the Asian economic crisis in 1997, the Company opted to refocus its core business objectives, diversifying into investments in banking and telecommunication. However, it will still continue its exploration in certain areas it considers the most promising in the country, mainly concentrating in the Sulu Sea. The registered office address of the Company is at 3/F Low Rise Pacific Star Bldg., Sen. Gil Puyat cor. Makati Avenue, Makati City.

The financial statements of the Company as of December 31, 2006 and 2005 and for each of the three years in the period ended December 31, 2006 were approved and authorized for issue by the Board of Directors (BOD) on April 30, 2007.

The Company has six employees as of December 31, 2006 and 2005.

Plan to Spin-off Oil and Gas Exploration Operations

On September 11, 2003, the BOD approved the plan to spin-off the Company's oil and gas exploration operations to a wholly owned subsidiary, which can then be listed in a foreign stock exchange. The Company's stockholders ratified the plan during the special stockholders' meeting on October 22, 2003. As of December 31, 2006, the transfer of the Company's oil and gas exploration assets to the new entity has not yet commenced pending the determination of the proper valuation of such assets.

Amendment of the Company's Articles of Incorporation

In October 2003, the SEC approved the amendment of the Company's Articles of Incorporation, particularly its primary purpose of business. The Company is now registered primarily to invest in, purchase, or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property of every kind and description, in particular shares of stocks, voting trust certificates, bonds, debentures, notes, evidences of indebtedness of associations and corporations, domestic or foreign, without being a stockbroker or dealer, and to issue in exchange therefore shares of the capital stock, bonds, notes, or other obligations and/or assets of the Company and while the owner thereof, to exercise all the rights, powers, and privileges of ownership, including the right to vote any shares of stock or voting trust certificates so owned, and to do every act and thing that may generally be performed by entities known as "holding companies". The then primary purpose of oil and gas exploration was reclassified as among the secondary purposes of the Company.

APR 30 2007

Status of Oil and Gas Exploration Operations

The Company is a participant in Service Contracts (SCs) entered into with the Philippine Government, through the Department of Energy (DOE), to conduct exploration, exploitation and development activities in the following contract areas:

Contract Areas	Percentage of Working Interest	
	2006	2005
Northeast Palawan (SC-60, former Geophysical Survey and Exploration Contract (GSEC) 99)	**15.00**	50.00
South Sulu Sea Block B (SC-41)	**1.09**	4.97

The above SCs provide for certain minimum work expenditure obligations and drilling of specified number of wells and are covered by Joint Operating Agreements (JOA), which set forth the participating interests, rights and obligations of the contractors. The minimum work expenditure obligations on these contracts is estimated to be about US$20,000 as of December 31, 2006.

SC-60 (former Geophysical Survey and Exploration Contract *(GSEC) 99 - Offshore NE Palawan)*
On January 27, 2006, the Company and Shell Philippines Exploration B.V. (SPEX) signed the Kuwait Foreign Petroleum Exploration Company ksc (KUFPEC) into the consortium. The companies subsequently signed with the DOE SC-60 converting GSEC-99 into an SC. SC-60 covers an area of one million eight thousand hectares in Northeast Palawan. It is one of the promising sites identified by a study performed by the Norwegian Agency for Development Cooperation and the DOE.

During the seven-year exploration period, the consortium is expected to spend a minimum of US$24 million or about ₱1.2 billion for the exploration of the contract area. The consortium shall conduct seismic and exploration work to find petroleum within the first seven years. The seven-year exploration period is divided into several sub-phases wherein the consortium must exercise its option to move into the succeeding sub-phase or terminate the contract. SC-60 also includes a 25-year production term in the event of a commercial discovery.

SPEX is now the operator of the project. To accommodate the entry of KUFPEC, the Company reduced its participating interest in the block to 15%. The consortium completed a 1,000 kilometer 2D seismic survey in the block using the seismic vessel Veritas Voyager. The survey commenced on August 6, 2006 and was finished on August 25, 2006. The survey is in partial compliance of its obligations to the DOE. The 2D seismic survey is a precursor to an upcoming 3D seismic survey expected to cover a minimum of 450 sq kms. The 3D survey is expected to commence by first to second quarter of 2007 once a seismic vessel is available. The Company was carried in the acquisition and processing of the 2D seismic and will be carried in the 3D seismic and evaluation of the contract area (first sub-phase). Once a drilling decision has been made, the Company will also be carried in the drilling of one deepwater exploration well (second sub-phase).

The area presents good potential in the northeastern side of Palawan, particularly in terms of size of mapped structures. It is considered one of the few remaining areas in the country with the possibility of large hydrocarbon accumulations.

APR 30 2007

SC-41- Offshore Sulu Sea Sandakan Basin
TAP Oil Ltd (Tap Oil), an Australian exploration and production company completed documentation of its farm-in into the SC-41 consortium on September 25, 2006. Tap Oil acquired majority interest and assumes operatorship of the block. Tap Oil will undertake a 3D seismic program with the option to drill one well, all at its own expense. The Filipino companies of the SC-41 consortium reduced their participating interest to allow the entry of Tap Oil. South China retains 1.09% interest in the block and is fully carried until completion of the option well. On January 22, 2007, the DOE approved the assignment and operatorship of Tap Oil subsidiary, Tap (Philippines) Pty. Ltd.

SC-41 was awarded on September 1, 1998. Several wells have been drilled in the area with mixed results, two wells having significant oil and gas shows. The consortium has fully complied with the work program for the first seven-year exploration stage of the contract. Prior to entering contract year eight (8), the Filipino contingent of the consortium proceeded forward and negotiated with the DOE for a new program for contract year 8, reducing the SC Year 8 commitment well to a geological and geophysical program. In the last quarter of 2006, Tap Oil, as the new operator, sought an extension on contract years 9 and 10 with the DOE, by expanding its 300 sq km 3D seismic commitment to 600 sq kms. On January 23, 2007, the DOE approved the extension of SC-41's contract year 9 to May 10, 2008 and contract year 10 to May 10, 2009.

The Company is also interested in acquiring exploration acreages in the following Nonexclusive Geophysical Permit and GSEC areas:

Offshore Cuyo Platform (former GSEC-96), NW Palawan Block (former GSEC-83)
After a moratorium on applications for new exploration contract areas, DOE launched Philippine Energy Contracting Round No. 3 (PECR-3) on December 22, 2006. The bid round covers nine blocks scattered within the Philippine territory and will end on May 30, 2007. The Company is currently reviewing the bid round and evaluating the areas for possible participation in the bid. In light of this development, the Company continues to actively seek strategic partners for the joint exploration of Offshore Cuyo.

Despite of a contract application pending over the NW Palawan area by the Swan Block consortium (of which the Company is a co-venturer), the DOE awarded the area to the Philippine National Oil Company-Exploration Corporation (PNOC-EC). Philodrill, deemed operator of the Swan Block, has informed the Company that it is currently negotiating with PNOC-EC to jointly explore the Swan Block in conjunction with SC-57 and 58 Blocks.

The Company has not permanently abandoned the abovementioned GSEC 96 and GSEC 83, nor has it withdrawn from the consortiums relating to the contracted areas for these GSECs. Definite plans for further exploration and development are currently being undertaken.

2. Summary of Significant Accounting Policies

Basis of Preparation
The financial statements have been prepared on a historical cost basis, except for AFS investments that have been measured at fair value. The financial statements are presented in Philippine peso, which is the Company's functional and presentation currency.

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

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Company has adopted the following new and amendments to PFRS and Philippine International Financial Reporting Interpretations Committee (IFRIC) Interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the Company except for the additional disclosures on the financial statements.

- PFRS 6, *Exploration for and Evaluation of Mineral Resources*
- Philippine Accounting Standards (PAS) 19, *Amendment - Employee Benefits*
- PAS 21, *Amendment - The Effects of Changes in Foreign Exchange Rates*
- PAS 39, *Amendments - Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 4, *Determining whether an Arrangement Contains a Lease*

The Company has also early adopted the following interpretations. Adoption of these interpretations did not have any effect on the financial position of the Company. These, however, require additional disclosures on the financial statements.

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*

The principal effects of these changes, if any, are as follows:

PFRS 6, *Exploration for and Evaluation of Mineral Resources*
The standard requires the exploration and evaluation assets to be classified as tangible (as property and equipment) or intangible assets according to their nature and treated as a separate class within the prescribed classification. However, companies are allowed to follow their existing accounting policy for exploration and evaluation assets. PFRS 6 also provides for assessment for impairment of exploration and evaluation assets in accordance with PAS 36, *Impairment of Assets*, when facts and circumstances suggest that the carrying values exceed the recoverable amounts. Exploration costs were classified as 'Deferred exploration costs' in the balance sheet. This standard has no significant impact to the financial statements.

PAS 19, *Employee Benefits*
Additional disclosures on the financial statements are made to provide information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change has no recognition nor has any measurement impact, as the Company has only six employees and has no pension plan.

PAS 21, *The Effects of Changes in Foreign Exchange Rates*
All exchange differences arising from a monetary item that forms part of a company's net investment in a foreign operation are recognized in a separate component of equity in the financial statements regardless of the currency in which the monetary item is denominated. This change has no significant impact on the financial statements.

PAS 39, *Financial Instruments: Recognition and Measurement*
Amendment for financial guarantee contracts (issued August 2005) - amended the scope of PAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognized initially at fair value and to be remeasured at the higher of the amount determined in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with PAS 18, *Revenue*. This amendment did not have an effect on the financial statements.

Amendment for cash flow hedges of forecast intra-group transactions (issued April 2005) - amended PAS 39 to permit the foreign currency risk of a highly probable intra-group forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the statement of income. As the Company currently has no such transactions, the amendment did not have an effect on the financial statements.

Amendment for the fair value option (issued June 2005) - amendments to PAS 39 prescribe the conditions under which the fair value option on classification of financial instruments at fair value through profit or loss (FVPL) may be used. Since the Company has no financial instruments at FVPL, the amendment did not have an effect on the financial statements.

Philippine Interpretation IFRIC 4, *Determining whether an Arrangement Contains a Lease*
This interpretation provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This change in accounting policy has no significant impact on the financial statements.

Philippine Interpretation IFRIC 8, *Scope of PFRS 2*
This interpretation requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. This interpretation has no impact on the financial position of the Company.

Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
This interpretation was issued in March 2006 and becomes effective for financial years beginning on or after June 1, 2006. This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The Company assessed that adoption of this interpretation has no impact on the financial statements.

Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*
The Company early adopted Philippine Interpretation IFRIC 10 as of January 1, 2006 which provides that the frequency of financial reporting does affect the amount of impairment charge to be recognized in the annual financial reporting with respect to goodwill and AFS equity investments. It prohibits the reversal of impairment losses on goodwill and AFS equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date. This interpretation has no significant impact to the financial statements of the Company.

Future Changes in Accounting Policies
The Company has not adopted the following standards, amendments or interpretations that have been approved but are not yet effective:

PFRS 7, *Financial Instruments: Disclosures*
PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaces PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation.* It is applicable to all entities that report under PFRS. PFRS 7 is applicable on January 1, 2007.

Complementary amendment to PAS 1, *Presentation of Financial Statements*
The amendment to PAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. This is effective on January 1, 2007.

The Company is currently assessing the impact of PFRS 7 and the amendment to PAS 1 and expects that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by PFRS 7 and the amendment to PAS 1.

PFRS 8, *Operating Segments*
PFRS 8 is effective January 1, 2009. PFRS 8 will replace PAS 14, *Segment Reporting*, and adopts a management approach to reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the balance sheet and statement of income and companies will need to provide explanations and reconciliations of the differences. This standard is not applicable to the Company.

Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions*
This interpretation will be effective in annual periods beginning on or after March 1, 2007. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The Company currently does not have any stock option plan and therefore, does not expect this interpretation to have significant impact to its financial statements.

Philippine Interpretation IFRIC 12, *Service Concession Arrangements*
This interpretation will become effective on January 1, 2008. This interpretation which covers contractual arrangements arising from entities providing public services, is not relevant to the Company's current operations.

The Company will apply PFRS 7 and the amendments to PAS 1 in 2007, Philippine Interpretations IFRIC 11 and 12 in 2008 and PFRS 8 in 2009. Except for PFRS 7 and the amendments to PAS 1, the Company does not expect any significant changes in its accounting policies when it adopts the above standards, amendments and interpretations.

Cash
Cash consists of cash on hand and in banks, which are carried at face value.

Property and Equipment
Property and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Depreciation is calculated on a straight-line basis over the useful life of the assets of five (5) years, or the terms of the lease in case of leasehold improvements, whichever is shorter.

When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the property and equipment is derecognized.

The property and equipment's residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each financial year-end.

Investment Property
Investment property is initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Investment property, which consists of land (with an unfinished building), is carried at cost less any accumulated impairment in value.

Deferred Exploration Costs
Deferred exploration costs are accounted for using the full cost method determined on the basis of each SC area. Under this method, all exploration costs relating to each SC are deferred pending determination of whether the contract area contains oil and gas reserves in commercial quantities. When the SC is permanently abandoned or the Company has withdrawn from the consortium, the related deferred exploration costs are provided with valuation allowance or written off. SC is considered permanently abandoned if the SC has expired and/or there are no definite plans for further exploration and/or development.

Impairment of Nonfinancial Assets

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investments in Associates

The Company's investments in associates are as follows:

		Percentage of Ownership	
Investees	Business	**2006**	2005
Bell Telecommunication Philippines, Inc. (BellTel)	Telecommunication	**32.40**	32.40
Premiere Development Bank (PDB)	Banking	–	9.73

Associates are entities in which the Company has significant influence and which are neither subsidiaries nor joint ventures of the Company.

The Company's investments in associates are accounted for under the equity method of accounting and are carried in the balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associates, less any impairment in value. On acquisition of the investment, any difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for as follows:

- goodwill relating to an associate is included in the carrying amount of the investment. However, amortisation of that goodwill is not permitted and is therefore not included in the determination of the investor's share of the associate's profits or losses.

- any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired.

Appropriate adjustments to the investor's share of the associate's profits or losses after acquisition are also made to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the investor's share of the associate's profits or losses after acquisition are made for impairment losses recognised by the associate, such as for goodwill or property, plant and equipment.

The Company's financial statements was prepared using uniform accounting policies for like transactions and events in similar circumstances. If an associate uses accounting policies other than those of the investor for like transactions and events in similar circumstances, adjustments are made to conform the associate's accounting policies to those of the Company in applying the equity method.

If the Company's share of losses of an associate equals or exceeds its interest in the associate, the Company discontinues recognizing its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the associate. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate. Such items may include preferred shares and long-term receivables or loans but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. Losses recognized under the equity method in excess of the investor's investment in ordinary shares are applied to the other components of the investor's interest in an associate in the reverse order of their seniority (i.e., priority in liquidation).

After the Company's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Company resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

Impairment of Investment in Associates

After application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the Company's net investment in the associate. The Company also determines whether an additional impairment loss needs to be recognized with respect to the Company's interest in the associate that does not constitute part of the net investment.

APR 30 2001

The carrying amount of the investment is tested for impairment by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever there are indicators that the investment may be impaired. In determining the value in use of the investment, the Company estimates:

- its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or

- the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal; or

- the recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the Company.

Financial Assets

Financial assets within the scope PAS 39 are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at FVPL, directly attributed transaction costs. The Company considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as FVPL.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term or is designated by management as FVPL. Derivative financial instruments are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognized in the statement of income.

When a contract contains one or more embedded derivatives, the entire hybrid contract maybe designated as a financial asset at FVPL, except when the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at FVPL if 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 asset contains an embedded derivative that would need to be separately recorded. As of December 31, 2006 and 2005, no financial assets have been designated as at FVPL.

HTM investments
HTM investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Company has the positive intention and ability to hold to maturity. After the initial measurement, HTM investments are measured at amortized cost. This cost is computed as the amount initially recognized less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between the parties to the contract that are integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the statement of income when the investments are derecognized or impaired, as well as through the amortization process. As of December 31, 2006 and 2005, the Company had no HTM investments.

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 method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables include accounts receivable.

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 preceding categories. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized directly in stockholders' equity in the 'Unrealized gains on AFS investments'. AFS financial assets are generally classified as noncurrent. However, when management expects that the investments are to be realized within twelve months after the balance sheet date, these are classified as current. When the investment is disposed of, the cumulative gains or loss previously recorded in stockholders' equity is recognized in the statement of income. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate.

As of December 31, 2006 and 2005, the Company's AFS investments include listed and unlisted shares of stocks.

APR 30 2007

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

Impairment of Financial Assets
The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost
If there is objective evidence that an impairment loss on loans and receivables 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 either directly or through the use of an allowance account. The amount of the loss shall be recognized in the statement of income.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or 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 a group of financial assets with similar credit risk 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 continues to be recognized are not included in a collective assessment of impairment.

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 statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

AFS financial assets
If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in statement of income, is transferred from stockholders' equity to the statement of income. Reversals in respect of equity instruments classified as AFS are not

recognized in statement of income. Reversals of impairment losses on debt instruments are reversed through the statement of income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of income.

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 where:

- 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 a third party under a 'pass-through' arrangement; or
- the Company 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 Company 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 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or 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 statement of income.

APR 30 2011

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the 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 balance sheet.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duties. The following specific recognition criteria must also be met before revenue is recognized:

Interest income
Interest income is recognized as it accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Dividend income
Dividend income is recognized when the shareholders' right to receive the payment is established.
Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised and extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) There is a substantial change to the asset.

When a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances give rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

For arrangements entered into prior to January 1, 2005, the date of inception is deemed to be January 1, 2005 in accordance with the transitional requirements of IFRIC Interpretation 4.

Company as a Lessee
Leases where the lessor retains 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 statement of income on a straight-line basis over the lease term.

APR 30 2007

Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

Contingent assets are not recognized but are disclosed in the notes to financial statements when an inflow of economic benefits is possible.

Income Taxes

Current income tax

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

Deferred income tax

Deferred income tax is provided using the balance sheet liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax and net operating loss carryover (NOLCO) to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and NOLCO can be utilized, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

3. Significant Accounting Judgments and Estimates

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

Determining functional currency
Based on the economic substance of underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of primary economic environment in which the Company operates. It is the currency that mainly influences the sale of service and the costs of providing services.

Operating lease commitments - Company as lessee
The Company has entered into a commercial lease on its administrative office location. The Company has determined that it does not acquire all the significant risk and rewards of ownership of these properties which are leased on operating leases.

Impairment of receivables
The Company maintains allowance for impairment at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Company on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Company's relationship with debtors, their payment behavior and known market factors. The Company reviews the age and status of the receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Company made different judgment or utilized different estimates. An increase in the Company's allowance for doubtful accounts would increase the Company's recorded expenses and decrease current assets. As of December 31, 2006 and 2005, the Company has an allowance for doubtful accounts amounting to ₱766,908. Accounts receivable amounted to ₱833,572 and ₱828,968 as of December 31, 2006 and 2005, respectively (see Note 4).

Impairment of property and equipment
Internal and external sources of information are reviewed at each balance sheet date to identify indications that the property and equipment may be impaired or an impairment loss previously recognized no longer exists or may be decreased.

If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.
The Company assesses the impairment of assets whenever events or changes in circumstances indicate that the carrying amount of an asset 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; and
- significant negative industry or economic trends.

As of December 31, 2006 and 2005, the Company has no accumulated impairment losses on its property and equipment.

Impairment of AFS investments
The Company follows the guidance of PAS 39 in determining whether an investment is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health and near-term business outlook of the investments. As of December 31, 2006 and 2005, the Company recognized allowance for decline in market value of AFS investments amounting to ₱2,699,185 (see Note 6).

Impairment of investments carried at equity method
Investments carried at equity method are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In determining the present value of estimated future cash flows expected to be generated from the investments, the Company is required to make estimates and assumptions. As of December 31, 2006 and 2005, no impairment of investments in associates was recognized in the financial statements.

Impairment of deferred exploration costs
The full recovery of the deferred exploration costs incurred in connection with the Company's participation in the acquisition, exploration and development of petroleum concessions is dependent upon the discovery of oil and gas in commercial quantities and the success of future development thereof. When the SC/GSEC is permanently abandoned or the entity has withdrawn from the consortium, the related deferred oil and gas exploration and development costs are written-off. SCs and GSECs are considered permanently abandoned if the SCs and GSECs have expired and/or there are no definite plans for further exploration and development.
The Company has provided full valuation allowance on deferred exploration costs incurred for certain GSECs on which management believes the benefits are no longer realizable. As of December 31, 2006 and 2005, the Company recognized allowance for impairment losses on deferred exploration costs amounting to ₱12,618,353.

Recognition of deferred income tax assets
Deferred income tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant anagement judgment is required to determine the amount of deferred assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Conversely, the Company recognizes deferred income tax liabilities from taxable temporary differences. As of December 31, 2006 and 2005, the Company recognized deferred income tax assets to the extent of the deferred income tax liability amounting to ₱46,948. No deferred income tax assets have been recognized on temporary differences amounting to ₱26,592,154 and ₱28,450,367 as of December 31, 2006 and 2005, respectively (see Note 11).

Estimates
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year are discussed below.

Estimated useful lives of property and equipment items
The estimated useful lives used as basis for depreciating the Company's property and equipment items were determined on the basis of management's assessment of the period within which the benefits of these asset items are expected to be realized taking into account actual historical information on the use of such assets as well as industry standards and averages applicable to the Company's assets. As of December 31, 2006 and 2005, the carrying amount of property and equipment amounted to ₱189,875 and ₱126,551, respectively. In 2006, 2005 and 2004 depreciation expense recognized amounted to ₱131,250 and ₱77,769, and ₱174,938 respectively (see Note 9).

4. Accounts Receivable - net

	2006	2005
Officers and employees	**₱5,561**	₱2,032
Others	**828,011**	826,936
	833,572	828,968
Less allowance for doubtful accounts	**766,908**	766,908
	₱66,664	₱62,060

5. Prepayments and Other Current Assets

	2006	2005
Input value added tax	**₱296,458**	₱142,787
Supplies	**96,740**	167,042
Prepayments	**30,458**	15,320
	₱423,656	₱325,149

6. AFS Investments

AFS investments consist of the following:

	2006	2005
Current		
Shares - listed	**₱42,000**	₱–
Noncurrent		
Shares - listed	**4,412,013**	7,410,840
Shares - unlisted (net of allowance for decline in market value of ₱2,699,185)	**1,334,315**	1,334,315
	5,746,328	8,745,155
	₱5,788,328	₱8,745,155

AFS investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

Listed shares consist of equity securities that are traded on the Philippine Stock Exchange. The fair values of these listed shares are based on their closing market price as of December 31, 2006. Unlisted shares without available market values are carried at cost, less any impairment in value.

The Company recognized unrealized gains on increase in market value of its AFS investments amounting to ₱0.7 million and ₱2.9 million as of December 31, 2006 and 2005, respectively. Net realized gains on sale of AFS investments recognized in the statement of income amounted to ₱62,090 in 2006.

7. Investment Property

Investment property represents a parcel of land (with an unfinished building) which was acquired in 1996. The Company owns fifty percent (50%) of the property. In 2002, the Company, together with its co-owners, commissioned a study to determine a development scheme for the best use of the property. A financial plan will then be established on the basis of the conclusion of the study. Initial reports indicate that the property can be a major commercial and residential development as it is situated near a Metro Rail Transit station.

The investment property's fair value, which has been determined based on valuations performed by Asian Appraisal Company, Inc., an independent company specializing in valuing this type of investment property, represents the amount at which the asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's-length transaction at the date of valuation, in accordance with International Valuation Standards. Based on the latest valuation, 50% share in the fair value of the investment property amounting to ₱602.3 million exceeded its carrying value as of December 31, 2006. Accordingly, no impairment in value is recognized.

8. **Investments in Associates**

	2006	2005 (Restated)
Acquisition costs:		
Balance at beginning of year	**₱358,843,800**	₱358,843,800
Disposal during the year	**(34,843,800)**	–
Balance at end of year	**324,000,000**	358,843,800
Accumulated equity in net losses:		
Balance at beginning of year	**(176,784,172)**	(143,259,327)
Equity in net losses for the year	**(28,376,245)**	(33,524,845)
Disposal during the year	**5,955,505**	–
Balance at end of year	**(199,204,912)**	(176,784,172)
Share in unrealized gains on AFS investments of an associate:		
Balance at beginning of year	**238,220**	–
Share in fair value gains on AFS investments of of an associate	**162,498**	238,220
Disposal during the year	**(400,718)**	–
Balance at end of year	–	238,220
	₱124,795,088	₱182,297,848

The summarized financial information of BellTel and PDB as of and for the year ended December 31 follows:

	2006	2005
BellTel:		
Current assets	**₱79,038,056**	₱72,533,111
Noncurrent assets	**770,381,927**	568,360,455
Current liabilities	**526,686,977**	515,114,218
Noncurrent liabilities	**82,598,273**	11,863,450
Net revenues	**98,892,969**	90,237,413
Loss from operations	**(90,721,872)**	(86,188,500)
Net loss	**(85,714,920)**	(100,045,720)
PDB:		
Financial assets	**₱2,027,439,088**	₱1,351,490,133
Nonfinancial assets	**423,174,679**	443,706,233
Deposit liabilities	**1,516,155,290**	1,284,821,581
Other liabilities	**127,798,617**	115,230,011
Net interest income	**46,672,565**	44,762,887
Income (loss) from operations	**(13,926,509)**	(20,849,706)
Net loss	**(23,319,185)**	(14,809,046)

Investment in Shares of Stock of BellTel

BellTel was incorporated in August 1993 and was granted in 1994 by the Congress of the Philippines a franchise to install, operate and maintain telecommunications systems throughout the Philippines and for other purposes.

On October 28, 1997, the National Telecommunications Commission (NTC) granted a Provisional Authority (PA) to BellTel to install, operate and maintain the following:

- International Gateway Facility;
- Inter-Exchange Facility;
- Very Small Aperture Terminal (VSAT) System nationwide;
- Telephone systems in certain areas in Luzon;
- Wireless local loop telephone systems in the cities of Muntinlupa, Las Piñas, Pasig, Mandaluyong, Makati, Pasay, and the Municipalities of Parañaque, Pateros, Taguig, Marikina, San Juan; and
- Local exchange carrier (LEC) in all economic zones to be identified under Republic Act 7916.

The PA, which was accepted by BellTel on November 4, 1997, is valid for a period of 18 months up to April 27, 1999 subject to BellTel's compliance with various terms and conditions.

As provided for in the terms and conditions of the PA, BellTel has to commence the work contemplated for its LEC service and operate LEC service within six months up to May 3, 1998 and twelve months up to October 30, 1998, respectively, after date of filing of acceptance of the PA.

On July 22, 2002, the NTC granted BellTel's motion for extension of its PA for another three years up to December 22, 2006, subject to BellTel's compliance with various terms and conditions.

In compliance with the terms of the PA in 1997, BellTel executed the required escrow agreement with a local bank and posted a performance bond. The escrow agreement covered the aggregate amount of ₱350 million, equivalent to 20% of the required investment for the first two years of BellTel's LEC network project. The performance bond, on the other hand, covered the amount of ₱175 million, equivalent to 10% of the required investment for the first two years of the implementation of the network project. In 1998, BellTel had to withdraw the amount from the aforesaid escrow and placed it in trust with the stockholders for the purpose of defraying the cost of the telecommunications equipment purchases.

BellTel, which targets the business and high-end residential markets, provides high-speed internet access, voice and data services to leading educational institutions, corporate clients and government institutions, through its multiple access technologies, namely, fixed wireless, cable, digital subscriber line (DSL), and satellite.

APR 0 8 2007

In mid-2001, BellTel performed test marketing of its flagship broadband product called *iDirect*. This product utilizes fixed wireless technology in providing high-speed internet and telephone service to corporate clients. This product uses various platforms of fixed wireless point-to-multipoint radio systems to provide last mile access to a large number of customers belonging primarily to the corporate, high-end residential, educational and financial sectors. *iDirect* presently covers the Greater Manila Area including the provinces of Laguna, Cavite and Batangas where special economic zones and industrial parks are situated and are home to several locators engaged in the manufacturing, electronics and pharmaceutical industries.

In late November 2001, BellTel also introduced, on a test market basis, *MetroDirect*, a service that targeted households or businesses in provinces surrounding the Metro Manila area that frequently call and/or frequently get calls from Metro Manila. In the same period, BellTel announced its alliance with Destiny Cable, Inc. Through the alliance, BellTel will be able to deliver its *iCable* service that combines cable TV and high-speed Internet. This service, launched in August 2003, targets primarily towards residential customers as well as to the small office home office and small and medium enterprise markets.

BellTel also offers telecommunication connectivity for multinational and domestic corporations, financial institutions and government agencies called *Private Networks*. This products provides customized leased line services using wireless, fiber optic, Hybrid Fiber Coax (HFC) and VSAT technologies to address their intranet data, voice, internet, fax and video conferencing service requirements. It allows timely transmission and exchange of information between the head office and several branches or remote offices.

BellTel started commercial operations of its VSAT and data leased line services in October 2001. Except as otherwise indicated above, commercial operations of BellTel's other service offerings started in January 2002. BellTel successfully rolled out in the greater Metro Manila area where the two major central business districts (Makati and Ortigas) are loacated as well as the provinces of Cavite and Laguna which host some of the country's most matured special economic zones and industrial parks. The special economic zones receive majority of direct foreign investments into the Philippines and generate 80% of the country's total exports. BellTel instituted a Quality Management System which distinguishes it from other service providers as it remains the only local telecommunication BellTel to obtain a company wide ISO 9001-2000 Certification.

On various dates in 2001, BellTel obtained loans from a local bank totaling ₱278.8 million. The proceeds from these loans were used to partially finance the acquisition of machinery and equipment for its start-up operations. Security for the loan includes first chattel mortgage on the machinery and equipment acquired out of the proceeds of the loan and various real estate properties and continuing suretyship of certain stockholders of BellTel. The loan is payable in seven (7) years, inclusive of the two (2) years grace period, in twenty (20) equal quarterly installments commencing on the 3rd year from the initial draw down date up to June 10, 2007.

APR 30 2007

In 2003, BellTel entered into negotiations with the bank for the repayment of the loans through dacion of properties of its stockholders. In March 2005, BellTel has submitted to the bank a proposed Deed of Settlement with the following provisions:

The value of the property to be subject to dacion shall equal to 90% of the appraised value of the property as agreed by BellTel and the bank.

- The value of the property to be subject to dacion shall equal to 90% of the appraised value of the property as agreed by BellTel and the bank.
- Any remaining balance of the outstanding loans not covered through dacion shall be settled by BellTel's stockholders.
- Interest accruing to the outstanding loan shall be up to October 31, 2003 only, which corresponds to the period BellTel had initiated negotiations with the bank.

However, during the latter part of 2005, management and the bank explored other possible options for BellTel that will benefit both parties. Consequently, management has negotiated for the conversion of the said loan by issuance pf common shares of stocks of BellTel to the bank. Further, an omnibus agreement shall be executed between BellTel and the bank to cover the obligation to buyback the shares upon the bank's exercise of put option to sell at a certain strike price within one (1) year under certain parameters and mortgage by BellTel of its real estate and/or chattels to fully secure the buyback obligation.

On March 28, 2007, BellTel and the lender agreed on the following proposed terms of settlement involving outstanding loans:

a. The cut-off date for the determination of obligations subject of proposed settlement/ resolution plan shall be May 31, 2006.
b. Unpaid and past due interest as of May 31, 2006 shall be recomputed at a mutually acceptable variable interest rate, that is lower than the 13.43% per annum fixed interest rate indicated in the outstanding promissory notes of BellTel. Based on the bank confirmation, total outstanding interest as of December 31, 2006 amounted to ₱102,702,390. This amount is lower than the interest accrued in the financial statements as of December 31, 2006. The excess however will not be reversed until final settlement is made.
c. Waiver of default/ penalty charges as of May 31, 2006. Total penalty charges accrued by the lender amounts to ₱278,894,450 and ₱127,088,530 as of December 31, 2006 and 2005, respectively.

d. After considering items a, b, and c above, the estimated net obligation and basic structure of the proposed settlement/ resolution plan shall be:

	In millions
Estimated net obligation to be settled	**₱387.504**
Settlement via dacion en pago	**274.356**
Debt-to-equity conversion	**113.148**
	₱387.504

- BellTel shall deliver to the lender by way of dacion en pago certain real estate properties of a major stockholder to partially settle ₱ 274.4 million out of the ₱387.5 million estimated net loan obligations to be settled.

- The balance of ₱113.1 million out of the ₱387.5 million estimated net loan obligations to be settled shall be converted by the lender into common shares of BellTel, subject to the following conditions:

  - Conversion price is subject to further negotiation and is initially estimated at ₱33.29 net asset value per share based on unaudited financial statements as of December 31, 2006.
  - Buy-back by BellTel of the shares that shall be issued to the lender by way of debt-to-equity conversion, within a period not exceeding three (3) years from date of issuance of the shares.
  - The obligation of BellTel to buy-back the shares shall be secured by a mortgage on certain real properties owned by a major stockholder.
  - If BellTel fails to buy-back the shares on or before the buy-back date, the lender shall, at its sole option:

    i. Foreclose the mortgage and apply the proceeds of the sale to the purchase by BellTel of its own shares from the lender; or
    ii. Sell the shares to third parties. Should the amount realized from the sale of the foreclosed assets or the shares be insufficient to cover the lender's claim, it shall have the right of action to recover the deficiency from BellTel.

Management believes that the debt restructuring as mentioned above is highly probable.

As of December 31, 2006 and 2005, long-term loans of BellTel amounted to ₱278.8 million with an accrued interest of ₱113.2 million.

BellTel is currently in discussions with several potential strategic and equity investors for sale of 10% to 30% of its authorized capital stock of 20 million shares with par value of P100 per share. With the additional equity infusion, BellTel will be able to expand its network by increasing the equipped capacilities of its existing base stations where huge customer demands remain unmet and establishing nationwide coverage. For this planned expansion, BellTel will be using the latest broadband wireless access systems which are compliant with WIMAX standards in order to attain optimum reliability and spectral efficiency, improved capabilities and increased capacities. BellTel will likewise embark on a very aggressive and large scale advertising and marketing program to further enchance BellTel's corporate image and build brand awareness of its products.

BellTel's product offering and careful selection of its target markets contributed to the successful capture of close to 1,000 corporate accounts which include some of the largest domestic and multinational corporations, educational, financial and government institutions, as well as 25% of all industrial locators in the special economic zones of Cavite and Laguna. It recently launched residential and SOHO services, delivering bundled broadband internet, voice and video, which will be major contributors in building up the subscriber base.

BellTel has recorded certain prior period adjustments arising from settlement of additional interconnection and leased circuit charges from prior years amounting to ₱5.2 million.

The Company has subscriptions payable to BellTel amounting to ₱171.7 million which the Company is allowed to settle within a period of one year from the date of call. As of December 31, 2006 and 2005, the Company has not yet received a call on such subscriptions and, accordingly, the obligation is presented under noncurrent liabilities in the balance sheet.

The recoverable amounts of the investment had been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the top management covering five-year period. As of December 31, 2006, BellTel has projected profitable operations in the medium term, indicating the realizability of the Company's investment in the associate.

Investment in Shares of Stock of PDB

PDB is a private development bank incorporated in the Philippines in 1960. PDB is engaged in transactions and undertakings, including but not limited to, trust functions, operation of demand deposit accounts, foreign currency transactions, quasi-banking functions, domestic letters of credit, dealership of bonds and other debt instruments, subject to applicable regulations, financial allied and non-allied undertakings, performance of all kinds of services for commercial banks or operation under an expanded banking authority and other transactions that may be allowed to be engaged in by private development banks.

PDB operates within the Philippines and maintains 38 branches in Metro Manila and in the Provinces of Bulacan, Rizal, Laguna, Cavite and Batangas.

On December 18, 2001, the BOD of PDB cancelled the subscriptions to its common stock upon ascertaining from its subscribers that they will not be able to settle their subscriptions to PDB. Such cancellation was recommended by the Bangko Sentral ng Pilipinas (BSP) and was unanimously approved by PDB's stockholders in the annual stockholders' meeting held on February 28, 2002. Accordingly, the Company cancelled its unpaid subscription to the shares of stock of PDB in 2001, which in effect, decreased the Company's investment by ₱90.2 million and ownership interest from 24.51% to 9.73%. Consequently, the Company reversed the proportionate accumulated equity in net earnings and unrealized losses on the decline in market value of noncurrent marketable equity securities of PDB totalling ₱10.2 million and ₱3.0 million, respectively. However, the Company continues to account for its investment in shares of stock of PDB under the equity method since the Company continue to exercise significant influence over the operating and financial policies of PDB through their common BOD and Officers.

PDB reclassified preferred shares from capital funds to liability which resulted in the reduction of 'Surplus free' by ₱7.4 million and ₱6.3 million as of December 31, 2005 and 2004, respectively, to reflect the cumulative interest/dividends on the preferred share as of those dates which are now presented as part of 'Preferred shares payable' in the statement of condition. The balances of surplus free have been rested from the amounts previously reported to charge to capital funds the prolonged decline in market value of AFS securities of ₱19.7 million. The adjustment resulted in the decrease in fair value losses in AFS securities as of December 31, 2006 and 2005 by the same amount to PBB.

On December 29, 2006, the Company sold its investment in PDB for a total consideration of ₱34.8 million, resulting in a gain of ₱6.0 million. The sale of the investment was to give way to the new foreign investor of PDB pending its application with the SEC for the increase in its capital stock. On the same date, the Company's BOD approved the resolution to deposit the same amount with PDB as future investment to its shares.

9. Property and Equipment

December 31, 2006

	Office Furniture and Equipment	Leasehold Improvements	Transportation Equipment	Total
Cost:				
Balances at beginning of year	₱1,239,522	₱432,098	₱760,000	**₱2,431,620**
Additions	194,574	–	–	**194,574**
Balances at end of year	1,434,096	432,098	760,000	**2,626,194**
Accumulated depreciation:				
Balances at beginning of year	1,184,615	360,454	760,000	**2,305,069**
Depreciation for the year	59,606	71,644	–	**131,250**
Balances at end of year	1,244,221	432,098	760,000	**2,436,319**
Net book value	₱189,875	₱–	₱–	**₱189,875**

December 31, 2005

	Office Furniture and Equipment	Leasehold Improvements	Transportation Equipment	Total
Cost:				
Balances at beginning of year	₱1,234,408	₱432,098	₱1,266,988	₱2,933,494
Additions	5,114	–	–	5,114
Derecognition	–	–	(506,988)	(506,988)
Balances at end of year	1,239,522	432,098	760,000	2,431,620
Accumulated depreciation:				
Balances at beginning of year	1,149,775	317,525	1,190,220	2,657,520
Depreciation for the year	34,840	42,929	–	77,769
Derecognition	–	–	(430,220)	(430,220)
Balances at end of year	1,184,615	360,454	760,000	2,305,069
Net book value	₱54,907	₱71,644	₱–	₱126,551

APR 30 2007

10. Accounts Payable and Accrued Expenses

	2006	2005
Advances from officers (see Note 12)	**₱18,483,640**	₱17,335,258
Accrued expenses	**582,574**	201,410
Nontrade payables	**23,080**	40,776
	₱19,089,294	₱17,577,444

Advances from officers represent advances for oil and gas exploration expenditures. These advances are denominated in U.S. dollars and are payable in the same currency.

11. Income Taxes

For the years ended December 31, 2006, 2005 and 2004, the Company has no provision for income tax because of its gross loss and net taxable loss positions for both years.

A reconciliation of income tax expense applicable to loss before income tax at the statutory income tax rate to provision for income tax follows:

	2006	2005 (Restated)	2004
Pretax loss at statutory tax rates	**(₱9,231,910)**	(₱11,754,188)	(₱15,597,753)
Additions to (reductions in) income taxes resulting from:			
Equity in net losses of associates	**9,931,686**	10,895,575	13,378,418
Expired NOLCO	**1,925,880**	2,398,660	2,463,348
Recognition of deferred income income tax assets	**46,948**	–	–
Nondeductible expenses	**44,446**	–	–
Gain on sale of an associate not subject to income tax	**(2,084,426)**	–	–
Nonrecognition of deferred income tax assets	**(633,107)**	(1,537,424)	(226,412)
Gain on sale of AFS investments not subject to income tax	**(21,732)**	–	–
Dividend income exempt from tax	**(17,579)**	(228)	(15,439)
Interest income subjected to final tax	**(7,154)**	(2,395)	(2,162)
	(₱46,948)	₱–	₱–

In 2006, the Company recognized deferred income tax asset up to the extent of deferred income tax liability as follows:

	2006	2005
Deferred income tax assets recognized directly in the statements of income:		
Allowance for probable losses on deferred exploration costs	**₱673,896**	₱59,629
Deferred income tax liability		
Recognized directly in the statements of income:		
Unrealized foreign exchange gain	**(626,948)**	–
Recognized directly in equity:		
Unrealized valuation gains on AFS investments	**(46,948)**	(59,629)
	₱–	₱–

No deferred income tax assets have been recognized on the following temporary differences as it is probable that no sufficient taxable income will be available to allow the benefit of the deferred income tax assets to be utilized.

	2006	2005
NOLCO	**₱15,315,777**	₱15,180,040
Allowance for probable losses on deferred exploration costs	**10,509,469**	12,434,879
Allowance for doubtful accounts	**766,908**	766,908
Accrued rent	–	68,540
	₱26,592,154	₱28,450,367

As of December 31, 2006, the Company has NOLCO that can be claimed as deduction from future taxable income as follows:

Year Incurred	Expiry Date	Amount
2006	2009	₱5,638,252
2005	2008	2,859,656
2004	2007	6,817,869
		₱15,315,777

Movement of the Company's NOLCO follows:

	2006	2005
Balance at beginning of year	**₱15,180,040**	₱19,700,877
Additions	**5,638,252**	2,859,656
Expirations	**(5,502,515)**	(7,380,493)
Balance at end of year	**₱15,315,777**	₱15,180,040

APR 30 2007

Republic Act (RA) No. 9337

On May 24, 2005, the new Expanded Value-Added Tax (E-VAT) law was signed as RA No. 9337 or the E-VAT Act (T he Act) of 2005. The E-VAT law took effect on November 1, 2005 following the approval on October 19, 2005 of Revenue Regulations 16-2005 which provided for the implementation of the rules and regulations of the new E-VAT law. The Act, among others, introduced the following changes:

a. Regular corporate income tax rate for domestic corporations, and resident and non-resident foreign corporations is increased from 32% to 35% for the next three years effective on November 1, 2005, and will be reduced to 30% starting January 1, 2009 and thereafter;

b. Grant of authority to the Philippine President to increase the VAT rate from 10% to 12% effective January 1, 2006, subject to compliance with certain economic conditions;

c. Input VAT on capital goods should be spread evenly over the useful life or sixty months, whichever is shorter, if the acquisition cost, excluding the VAT component thereof, exceeds one million pesos; and

d. Input VAT credit in every quarter shall not exceed 70% of the output VAT excluding input VAT as of October 31, 2005. In November 2006, this provision was repealed.

On January 31, 2006, Revenue Memorandum Circular No. 7-2006 was issued increasing the VAT rate from 10% to 12% effective February 1, 2006.

12. Related Party Disclosures

The Company, in the regular course of business, obtains non-interest bearing advances from its officers to defray its working capital requirements and settle obligations for oil and gas exploration expenditures. These advances have no definite repayment terms. Advances from officers amounted to $376,563 and $316,563 as of December 31, 2006 and 2005, respectively. The peso amounts of these advances are ₱18.48 million and ₱17.33 million as of December 31, 2006 and 2005, respectively (see Note 10).

Short-term employee benefits of key management personnel amounted to ₱1.2 million and ₱1.4 million in 2006 and 2005, respectively.

13. Basic/Diluted Loss Per Share

	2006	2005 (Restated)	2004
Net loss	**₱26,329,938**	₱36,166,733	₱48,742,979
Weighted average number of shares	**906,559,569**	906,559,569	906,559,569
Loss per share	**₱0.0290**	₱0.0399	₱0.0538

There are no dilutive potential common shares as of December 31, 2006, 2005 and 2004.

14. Operating Lease Commitment

The Company leases its office premises under an operating lease agreement. Lease expense under this operating lease amounted to ₱0.49 million, ₱0.34 million and ₱0.56 million in 2006, 2005 and 2004, respectively.

15. Financial Risk Management Objectives and Policies

The principal financial instrument of the Company consists of cash and AFS investments. The main purpose of this financial instrument is to anticipate future funding requirements of the Company. The Company has various other financial assets and liabilities such as accounts receivable and accounts payable and accrued expenses which arise directly from its operations.

The main risks arising from the financial instruments of the Company are counterparty credit risk, foreign currency risk, interest rate risk and liquidity risk. The Company's management reviews and approves policies for managing each of these risks. The Company also monitors the market price risk arising from its financial instruments. The magnitudes of these risks are discussed below.

Counterparty Credit Risk
The objective is to reduce the risk of loss through default by counterparties. The risk is managed by spreading financial transactions, including bank deposits, across an approved list of high quality banks. The Company trades only with recognized creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and credit positions are monitored on a regular basis. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debt is not significant.

Foreign Currency Risk
The Company has transactional foreign currency exposure on its deferred exploration costs and accounts payable and accrued expenses. Transactions in currencies other than the Company's functional currency arise from advances from officers and obligations for exploration expenditures. The Company does not engage in foreign currency forward contracts.

Interest Rate Risk
The Company is exposed to interest rate risk on its cash in bank only. The Company's exposure to this risk is minimal.

Liquidity Risk
The Company invests its funds primarily in oil and gas exploration projects. The Company's major stockholders provide sufficient funding for working capital and oil and gas exploration requirements while no revenue is generated yet from the Company's operations.

Fair Value of Financial Instruments
The Company has determined that the carrying amounts of cash, accounts receivable, accounts payable and accrued expenses and subscriptions payable, based on their notional amounts, reasonably approximate their fair values because these instruments have short-term maturities.

AFS investments are carried at fair values based primarily on quoted market prices of the equity securities.