112022010000239

# SECURITIES AND EXCHANGE COMMISSION

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Company Information

| | |
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| SEC Registration No. | AS93000120 |
| Company Name | FORUM PACIFIC INC. |
| Industry Classification | |
| Company Type | Stock Corporation |

**Document Information**

| | |
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# COVER SHEET

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|---|---|---|---|---|---|---|---|---|---|

SEC Registration No.

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

(Company's Full Name)

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

8 7 4 1 P A S E O D E R O X A S S T R E E T

M A K A T I C I T Y

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

**Atty. Arsenio A. Alfiler Jr.**

Contact Person

**(632) 848-0848**

Contact Telephone No.

| 1 | 2 | | 3 | 1 |
|---|---|---|---|---|

Fiscal Year

| | 1 | 7 | | - | Q | | |
|---|---|---|---|---|---|---|---|

FORM TYPE

Month Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

**991**

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

**Quarterly Report: FORUM**

**SECURITIES AND EXCHANGE COMMISSION**
**SEC FORM 17-Q**

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

1. For the Quarterly Period ended **June 30, 2010**

2. SEC Identification Number **AS 093000120** 3. BIR Tax Identification No. **312-002-155-598**

4. **FORUM PACIFIC, INC.**
Exact name of registrant as specified in its charter

5. **Metro Manila, Philippines**
(Province, country or other jurisdiction of incorporation or organization

6. (SEC Use only)
Industry Classification Code

7. **22nd Floor Citibank Tower, 8741 Paseo de Roxas St., Makati City**
Address of principal office

8. **Telephone No. 848-08-48 / 1226**
Registrant's telephone number, including area code

9. **AIR PHILS. INTERNATIONAL CORP. – 8F Rufino Plaza Bldg., Ayala Ave. Makati City**
**Former name**, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 4 and 8 of the RSA :

| Title of Each Class | No. of Shares of Common Stock Outstanding: and Amount of Debt Outstanding |
|---|---|
| Common Shares – P1.00 par value | Issued - P819,855,920<br>Subscribed – 1,055,644,080<br>(Subsription Receivable – P667,882,040) |

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

Yes [ x ] No. [ ]

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes [ x ] No [ ]

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

Yes [ x ] No [ ]

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

14. Not Applicable

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

See Annex A.1 to A.5 and the accompanying notes to financial statements (including Accounts Receivables Aging Schedules)

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

- Income Statements (Amounts in P '000)

| | Jan – June 2010 | Jan – June 2009 |
|---|---|---|
| Revenues | - | - |
| Less: Cost and Expenses | 325 | 618 |
| Loss from Operation | -325 | -618 |
| Add: Other Income | | |
| Loss before Income Tax | -325 | -618 |
| Net Income(Loss) | -325 | -618 |
| | | |
| Earnings (Loss) Per Share | -0.00018 | -0.00034 |

- Balance Sheet (Amounts in P '000)

| | | Jan – June 2010 | Jan – June 2009 |
|---|---|---|---|
| ASSETS | | | |
| Assets | | 759,188 | 726,706 |
| LIABILITIES & STOCKHOLDERS' EQUITY | | | |
| Liabilities | | 304,727 | 293,518 |
| Stockholders' Equity | | 454,461 | 433,188 |
| Total Liabilities & Stockholders' Equity | | 759,188 | 726,706 |

**Interim Quarter ended June 30, 2010 Compared with quarter ended June 30, 2009**

**RESULTS OF OPERATION**

***Revenue and Earnings per share***

- No revenues were recorded for the second qtr of 2010 since the Parent company had no control over Express Bank (See notes to the Financial Statement. The total losses recorded for 2010 was Php 0.325 millions and 0.618 millions of 2009
- The earnings per share comparison from the second quarter of 2010 and 2009 as follows: (0.00018) and (0.00034) respectively.

***Cost and Expenses***

- Cost and expenses consisted professional fees, taxes and licenses, membership dues and subscription and representation expenses.
- Cost and expenses recorded in the second quarter of 2010 compared to 2009 was decreased by almost 47%, since the Parent company had no control over Express Bank (See notes to the Financial Statement. All expenses recorded is came from the parent company books.

**FINANCIAL CONDITION**

***Current Assets***

- Current assets consist mainly of cash and cash equivalent. Part of the current assets account includes the Advances to affiliates, the total amount recorded in the second quarter of 2010 is amounted to Php 50.382 millions compared to Php 601.095 millions in 2009. A decreased by 92% was recorded in this quarter compared to the second quarter of 2009.

***Non Current Assets Held for Sale***

On November 26, 2007, FCCC finalized the sale of COC 132 and several other tangible equipments. Thus, the deferred exploration costs of COC 132 and several tangible assets, which are the subject of the agreement, were reclassified as "Non-current assets held for sale" in the current portion in the January 1, 2008 consolidated statements of financial position at fair value less cost to sell (see Note 14).

On November 17, 2008, full consummation of the sale of COC 132 between FCCC and First Asian occurred with the release of the $3.5 million, previously held in escrow, into FCCC's account. The sale resulted to a gain amounting to P9,721,533 for the year ended December 31, 2008, as shown in the consolidated statement of comprehensive income (see Note 20). The net carrying amount of the COC – related assets was P143,298,855.

***Related Party Transaction Account***

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

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

*Advances to TWGI*

Transactions between the Parent Company and TWGI primarily consist of interest bearing advances granted to finance TWGI's working capital requirements. The Parent Company also subleases it office space from TWGI

In a memorandum of agreement dated January 16, 2009, Westland Pacific Properties Corporation (Mortgagor) at the request of TWGI, agreed to fully secure the obligations of TWGI to the Group with a first mortgage lien on the mortgagor's real estate properties. The aggregate fair value of the mortgaged real estate properties in 2009 based on zonal values amounted to P344,598,250.

Due to delay in collection of the advances to TWGI, management has estimated and recognized an additional provision for impairment loss amounting to P65,694,019 for the year ended December 31, 2008. Total collections of advances to TWGI amounted to P833,604 and P795,105 in 2009 and 2008, respectively.

Advances to FEI

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

*Advances to and from FEPlc*

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

In 2009, prior to the sale of FCCHI's shareholdings on FCCC to CR Nichrome, Inc., FCCHI assumed the outstanding obligations of FCCC from FEPlc amounting to P67.124 million, after offsetting the receivables and payables. A loss amounting to P16,259,591 was recognized as a result of the assumption of liabilities from FEPlc (see Note 20).

*Advances to and from FEPCo*

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

*Advances from Forum (FEI), Ltd.*

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

i. the loan may be paid in minimum of tranches of US$250,000 or multiples of such amount, at six-monthly intervals in December and June each year;

ii. the Borrower shall pay interest in arrears on the loan, in respect of each interest period occurring three years from the anniversary of the effective date on the relevant interest payment date at the floating rate;

iii. the floating rate means London Interbank Offered Rates (LIBOR) plus three percent;

iv. the aggregate outstanding amount of the loan shall be repaid in full by the borrower, together with any interest due, on or before the final payment date;

v. the lender may, at the request of the borrower, remit advances to any subsidiary of the Borrower and may accept payments from any subsidiary or holding company of the Borrower in satisfaction of amounts due to the lender; and

vi. at the Lender's option, amounts due from the borrower may be offset against the agreed value of services provided by the borrower to the lender or at the lender's request to the lender's subsidiaries or holding companies (other than borrower).

***Current liabilities***

- This is primarily consists of Accrued Expenses and Other Liabilities and Deposit Liabilities. A decreased by 48% was recorded since the Parent company has no control to the ESBI. Accrued expenses settled in 2008 amounted to P31,000,000.

***Non - Current liabilites***

- This is primarily consists of Deferred Credits and Advances from Related Parties the total amounted to 302 millions recorded for the second quarter of 2010 compared to 289 millions for 2009 second quarter.

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

a. Loans – The banks total loans portfolio remained at the level of P66.3 million since the bank is concentrating on the collection of non-performing loans. No substantial loan releases was made during the quarter. This loan portfolio was recorded from the previous year 2008.

b. Current Ratio – It is between the current assets over current liabilities. As per computation for the second quarter of 2010; 22.39%

c. Income/Loss – Since the parent company has no control over the ESBI, the company suffered losses due to non operation of the company..

d. Liquidity Reserve Position – Our liquidity and reserve positions as required by the BSP was complied. (from previous year)

e. Capital – the bank's capital position is below the minimum requirement of Bangko Sentral ng Pilipinas, however, the bank has submitted a capital build-up program in order to attain the required capital.

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

**Forum Pacific, Incorporated**

The parent company or FPI. The shares of FPI are listed and traded in Philippine Stock Exchange (PSE). The company was registered to engage in investing, purchasing and acquiring assets of any kind and description with the secondary purpose of engaging in the exploration, development and production of petroleum and related products, as well as other mineral and chemical substances. It is presently a holding company and owning shares of stocks of an exploration company.

On March 05, 2008 the company (FPI) filed a petition to pay the monetary fine in lieu of revocation of registration. However, the Securities and Exchange Commission were denied the request and resolved further to collect the penalties due from the company and proceed with the revocation of the registration of its securities.

On May 5, 2008, the Parent Company filed a petition to lift SEC's order of revocation of the registration of its securities and the permit to sell securities citing its compliance with SEC's directives to pay the assessed penalties in addition to said revocation and the fact that it has no pending case for violation of the provisions of the Securities Regulations Code and its Implementing Rules and Regulations. On July 31, 2008, the SEC resolved to lift and set aside the revocation of the registration of the Parent Company's securities and the permit to sell its securities.

August 11, 2008, the Securities and Exchange Commission lifted the revocation of the company's registration of securities and Permit to sell Securities thus a copy of the Order was transmitted to the Philippine Stock Exchange and posted in the Commission's official website for the information and guidance of the public.

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

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

***Business Plans***

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

**Express Savings Bank, Inc. (ESBI)**

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

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

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

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

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

**(iv) Commitment For Capital Expenditures**

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

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

None

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

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

**(vii) Material Changes on Line Items in Financial Statements**

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

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

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

**Financial Risk Disclosure**

A: Financial condition and results of the operation of the corporation is remarkable during the second quarter of 2010, thus, major adjustment will be computed through the audited financial statement.

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

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

Other Financial Aspects in regards with the condition of the company. See the Notes to the Second Quarter Financial Statement.

## PART II - OTHER INFORMATION

**(1) Market Information**

a ) The principal market of Wellex Industries Inc. common equity is the Philippine Stock Exchange, Inc. (PSE) where it was listed in 1958.Here are list of the high and low sales price by quarter as follows

***" CLASS A "***

| | | High | Low |
|---|---|---|---|
| 2010 | First Quarter | - | - |
| | Second Quarter | - | - |
| 2009 | | High | Low |
| | First Quarter | - | - |
| | Second Quarter | - | - |
| | Third Quarter | - | - |
| | Fourth Quarter | - | - |
| 2008 | | High | Low |
| | First Quarter | - | - |
| | Second Quarter | - | - |
| | Third Quarter | - | - |
| | Fourth Quarter | - | - |

**Forum Pacific Inc.**
**List of Top 20 Stockholders - Filipino**
**As of June 30, 2010**

| NAME | Class A<br>Amount Subscribed | % to Total Outstanding |
|---|---|---|
| 1. International Polymer Corp | 496,887,494 | 26.501 |
| 2. PCD Nominee Corp. | 394,657,824 | 21.048 |
| 3. The Wellex Group Inc. | 376,950.000 | 20.104 |
| 4. E.F. Durkee & Associates | 77,838,563 | 4.151 |
| 5. Intra-invest Securities, Inc. | 48,159,000 | 2.568 |
| 6. Forum Pacific, Inc. | 36,056,750 | 1.923 |
| 7. Metropolitan Management Corp. | 30,000,000 | 1.600 |
| 8. Juanito C. Uy | 22,625,001 | 1.207 |
| 9. Pacrim Energy N.L. (Others) | 21,000,000 | 1.120 |
| 10. Sapphire Securities, Inc. | 19,433,500 | 1.036 |
| 11. Benito Ong and/or Zita Y.Ong | 18,000,000 | 0.960 |
| 12. Renato Chua | 16,740,000 | 0.893 |
| 13. Nestor S. Mangio | 12,500,000 | 0.667 |
| 14. A & A Securities Inc. | 11,911,320 | 0.635 |
| 15. Mark Securities Inc. | 10,772,800 | 0.575 |
| 16. Globalink Securities & Stocks, Inc. | 9,400,000 | 0.501 |
| 17. Belson Securities, Inc. | 9,200,000 | 0.491 |
| 18. Wealth Securities, Inc. | 8,240,000 | 0.439 |
| 19. Ruben M. Gan | 7,610,000 | 0.406 |
| 20. David Go Securities Corporation | 6,880,000 | 0.367 |

## SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief. I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on December 01, 2010.

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

Registrant **PETER S. SALUD**
Title President

Signature ____________________

Registrant **ARSENIO A. ALFILER JR.**
Title Corporate Secretary

Signature ____________________

Registrant **DENNIS D. HERRERA**
Title Chief Finance Officer

Signature ____________________

Date: December 01, 2010

SUBSCRIBED AND SWORN to before me this ____ day of DEC 0 1 2010 2010 affiants exhibiting to me their respective Residence Certificates as follows:

| Names | Res. Cert. No. License No. | Date of Issue | Place of Issue |
|---|---|---|---|
| 1. Peter S. Salud | 19023248 | 01/16/10 | City of Manila |
| 2. Arsenio A. Alfiler Jr. | 15596581 | 01/08/10 | Pasig City |
| 3. Dennis D. Herrera | 25453267 | 01/26/10 | Valenzuela City |

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Series of 2010

ATTY. CESAR G. VIOLA
NOTARY PUBLIC
UNTIL DECEMBER 31, 2010
IBP NO. 812927 01-152010 MLA.
PTR NO. 8283835 01-122010 MLA.

FORUM PACIFIC, INC.

COMPARATIVE CONSOLIDATED BALANCE SHEET

AS OF JUNE 30, 2010

Annex A.1

| ACCOUNT TITLES | Note | Unaudited June 30, 2010 | Unaudited June 30, 2009 | Audited Dec. 31, 2009 |
|---|---|---|---|---|
| **Current Assets** | | | | |
| Cash and cash equivalent | 2 | 382,174 | 25,343,450 | 203,751 |
| Advances to affiliates | 3 | 50,000,000 | 575,662,877 | 50,000,000 |
| **Total Current Assets** | | **50,382,174** | **601,006,328** | **50,203,751** |
| **Non-current Assets** | | | | |
| Advances to Related Parties | 3 | 613,980,196 | | 614,515,312 |
| Available for sale Investments -net | 4 | 94,826,311 | 103,628,609 | 94,826,311 |
| Bank premises, furnitures, fixtures and equipment - net | 5 | - | 633,649 | - |
| Deferred exploration cost | 6 | - | 21,313,928 | - |
| Other assets | 7 | - | 123,783 | - |
| **Total Non-current assets** | | **708,806,507** | **125,699,969** | **709,341,623** |
| **TOTAL ASSETS** | | **759,188,682** | **726,706,296** | **759,545,374** |
| **Current Liabilities** | | | | |
| Accrued Expenses & Other Liabilities | 8 | 2,250,469 | 4,444,779 | 2,282,005 |
| **Total Current Liabilities** | | **2,250,469** | **4,444,779** | **2,282,005** |
| **Non-current Liabilities** | | | | |
| Deferred Credits | | - | 1,321,041 | - |
| Advances From Related Parties | 3 | 302,476,942 | 283,379,905 | 302,476,942 |
| Accured retirement benefits | 9 | - | 4,372,818 | - |
| **Total Noncurrent Liabilities** | | **302,476,942** | **289,073,764** | **302,476,942** |
| **Total Liabilites** | | **304,727,411** | **293,518,543** | **304,758,947** |
| **EQUITY** | | | | |
| Capital Stock | | | | |
| Common stock, P1 par value Authorized 3,5000,000,000 shares | | | | |
| Issued - 819,355,920 shares | | 819,355,920 | 819,355,920 | 819,355,920 |
| Subscribed - 1,055,644,080 shares ( on which subscription | | | | |
| receivables amounts to P667,882,040 ) | | 387,262,040 | 387,262,040 | 387,262,040 |
| Total Equity | | 1,206,617,960 | 1,206,617,960 | 1,206,617,960 |
| Treasury Shares, 34,605,596 shares, at cost | | (34,605,596) | (34,605,596) | (34,605,596) |
| Unrealized fair value loss on Available for sale | | (15,085,037) | | (15,085,037) |
| Deficits | | (697,180,819) | (735,106,701) | (696,855,663) |
| Equity Attributable Equity Holders of the Parent | | 459,746,508 | 436,905,663 | 460,071,664 |
| Minority Interest | | (5,285,237) | (3,717,910) | (5,285,237) |
| ***Total Equity*** | | **454,461,271** | **433,187,753** | **454,786,427** |
| **TOTAL LIABILITIES AND EQUITY** | | **759,188,682** | **726,706,296** | **759,545,374** |

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

| FORUM PACIFIC, INC. | | | | Annex A.2 |
|---|---|---|---|---|
| CONSOLIDATED STATEMENTS OF INCOME | | | | |
| FOR THE PERIOD ENDED JUNE 30, 2010 AND 2009 | | | | |
| | **April - June** | April - June | **Jan - June** | Jan - June |
| **ACCOUNT TITLES** | **2010** | 2009 | **2010** | 2009 |
| **Revenue** | - | - | | - |
| **Costs and Expenses Note 10** | 11,045 | 117,841 | 325,190 | 618,642 |
| **Gross Income** | (11,045) | (117,841) | (325,190) | (618,642) |
| **Other Income** | 18 | | 34 | |
| **Income ( Loss for the Qtr )** | (11,027) | (117,841) | (325,156) | (618,642) |
| | 1,840,394,404 | 1,840,394,404 | 1,840,394,404 | 1,840,394,404 |
| **Loss per Share Note 11** | (0.00001) | (0.00006) | (0.00018) | (0.00034) |

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

**FORUM PACIFIC, INC. AND SUBSIDIARIES**

Annex A3

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended June 30, 2010

| | Unaudited 2nd Qtr Jan to June 2010 | Unaudited 2nd Qtr Jan to June 2009 | Audited FS Dec. 31, 2009 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Net loss before tax | (P325,156) | (P618,642) | **(P21,994,242)** |
| Adjustments for: | | | |
| Loss on assignment of lailities | | | **16,259,591** |
| Unrealized foreign exchange loss (gain) | | | **6,755,652** |
| Interest income | (18) | - | **(90)** |
| Operating loss before working capital changes | (325,174) | (618,642) | **1,020,911** |
| Decrease (increase): | | | |
| Loans and receivables | | (66,119,312) | - |
| Other assets | 123,783 | 574,419 | **38,832** |
| Increase (decrease): | | | |
| Deposit liabilities | - | (47,067,684) | - |
| Increase in accrued retirement benefits | | | |
| Accounts payable and accrued expenses | (2,194,310) | (11,366,553) | **(2,122,857)** |
| Cash used in operations | (2,395,701) | (124,597,772) | **(1,063,114)** |
| Interest paid | 18 | - | **90** |
| Net cash used in operating activities | (2,395,683) | (124,597,772) | **(1,063,024)** |
| **Cash Flows from Investing Activities** | | | |
| Collection (grant) of advances to related parties, net | (38,317,319) | 49,219,924 | **(24,708,040)** |
| Increase in deferred exploration cost | (21,313,928) | (92,801,796) | - |
| Decrease (increase) in assets held for sale - net | | 15,248,040 | - |
| Proceeds from sale of assets held for sale | 62,205,353 | 153,020,388 | - |
| Net cash provided by investing activities | 2,574,106 | 124,686,556 | **(24,708,040)** |
| **Cash Flows from Financing Activities** | | | |
| Increase in advances from related parties | | | **720,149** |
| Net cash provided by financing activities | - | - | **720,149** |
| **Net Decrease in Cash and Cash Equivalents** | 178,423 | 88,784 | **(25,050,915)** |
| **Cash and Cash Equivalents,** Beg | 203,751 | 25,254,666 | **25,254,666** |
| **Cash and Cash Equivalents,** End | **P382,174** | **P25,343,450** | **P203,751** |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | | | |
| Cash and cash equivalents | P382,174 | P25,343,450 | **P203,751** |
| | P382,174 | P25,343,450 | **P203,751** |

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

| FORUM PACIFIC, INC. | | Annex A.4 |
|---|---|---|
| **COMPARATIVE CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)** | | |
| **FOR THE PERIOD ENDED JUNE 30, 2010 AND 2009** | | |
| | **2nd Qtr** | 2nd Qtr |
| | **Jan to June** | Jan to June |
| **ACCOUNT TITLES** | **2010** | 2009 |
| **Capital Stock** | 1,206,617,960 | 1,206,617,960 |
| **Treasury Shares** | (34,605,596) | (34,605,596) |
| **Minority Interest** | (5,285,237) | (3,717,910) |
| **Unrealized Fair Value Loss on Available for Sale** | (15,085,037) | |
| **Retained Earnings Beginning** | (697,169,792) | (734,988,860) |
| Prior Period Adjustments | | |
| Net Loss | (11,027) | (117,841) |
| **Retained Earnings Ending** | (697,180,819) | (735,106,701) |
| **Total** | 454,461,271 | 433,187,753 |

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

| *FORUM PACIFIC, INC.*<br>***Aging Of Receivables***<br>***As of June 30, 2010*** | | | | | | |
|---|---|---|---|---|---|---|
| | ***Balance*** | ***1 - 30 Days*** | ***31 - 60 Days*** | ***61 - 90 Days*** | ***91 - 120 Days*** | ***121 - Over Days*** |
| *Current* | | | | | | |
| Sales Contracrt Receivables | - | | | | | - |
| Accounts Receivables - O & E | - | | | | | - |
| Accrued Interest Receivables | - | | | | | - |
| **Sub Total** | - | - | - | - | - | - |
| *Receivables from Affiliates* | | | | | | |
| Forum Exploration, Inc. | | | | | | |
| Air Philippines Corp. | | | | | | |
| TheWellex Group | | | | | | |
| Rexlon Realty Group, Inc. | | | | | | |
| Water Front | - | | | | | |
| **Sub Total** | - | - | - | - | - | - |
| ***Total*** | - | | | | | |
| Less: Alloance for Doubtful Accounts | - | | | | | |
| ***Grand Total Accounts Receivable*** | ***00.00*** | | | | | |

**FORUM PACIFIC, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**
June 30, 2010

## Note 1 – Organizational Information

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

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

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

The Parent Company has direct and indirect interests in the following subsidiaries:

| | | Effective Percentage of Controlling Interest | | |
|---|---|---|---|---|
| Name of Subsidiaries | Principal Activities | 2009 | 2008 | 2007 |
| Forum Coal Cebu Holdings, Inc. (FCCHI) | Investment Holding | 60% | 60% | 60% |
| Forum Cebu Coal Corporation (FCCC) | Coal Exploration | - | 36% | 36% |
| Express Savings Bank, Inc. (ESBI) | Banking | - | - | 56% |

The Group has principal business interest in coal exploration. The Group conducts business in the Philippines with primary operations in Batangas and Cebu.

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

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

## BASIS OF PREPARATION OF INTERIM FINANCIAL STATEMENT

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

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

The financial statements have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS), which are accounting principles generally accepted in the Philippines. These are

the Company's first PFRS financial statements where PRFS 1, "First Time Adoption of the Philippine Financial Reporting Standards", has been applied.
The preparation of the financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

## Note 2 – Summary of Significant Accounting Policies

### Basis of Preparation

*Basis of Measurement*

The Group's consolidated financial statements have been prepared based on historical cost, except for the investment in financial assets classified as available-for-sale and financial assets at fair value through profit or loss which are carried at fair value.

*Statement of Compliance*

The consolidated financial statements of the Group have been prepared in compliance with the Philippine Financial Reporting Standards (PFRSs) issued by the Financial Reporting Standards Council (FRSC) and interpretations developed by the Philippine Interpretations Committee (PIC).

### *Basis of Consolidation*

The consolidated financial statements incorporate the financial statements of the Group and entities controlled by the Group, its subsidiaries, up to December 31 each year. Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Subsidiaries are consolidated from the date when control is transferred to the Group and cease to be consolidated from the date when control is transferred out of the Group.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired, i.e. discount on acquisition, is credited to profit or loss in the period of acquisition.

The consolidated financial statements were prepared using uniform accounting policies for like transactions and other events in similar circumstances. Inter-company balances and transactions, including inter-company profits and unrealized profits and losses, are eliminated. When necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

### *Minority Interest*

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

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

Brief summary of the subsidiaries' nature of business and operations

FCCHI

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

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

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

FCCC

FCCC is a domestic corporation registered with the Philippine SEC on March 23, 2006 primarily to engage in the business of exploration, development and utilization of mineral and other natural resources. Its registered address is located at 14th Floor, Pearlbank Centre, 146 Valero Street, Salcedo Village, Makati City.

Prior to 2008, FCCC is the legal and beneficial holder of 100% interest in two coal operating contracts (COC) in the Philippines, COC 131 and 132. The contracts are entered into with the Philippine Government, through the Department of Energy (DOE). The two COCs cover the area of Dalaguete and Balamban, Naga, province of Cebu. The blocks applied for COC have been known to contain coal deposits and have a history of mining activities due to excellent quality steaming coal, which are bituminous in rank.

*COC 132*

COC 132 operations cover the municipalities of Naga and Balamban, province of Cebu. The COC blocks have been known to contain coal deposits and have a history of mining activities.

In October 2007, FCCC accepted the offer of First Asian Resources and Mining Corporation (First Asian) to buy its interest in COC 132 for US$3.5 million. A SPA was signed on November 23, 2007 which would pave the way for the sale and transfer of COC 132 to First Asian. The SPA signed by FCCC and First Asian was submitted to the DOE for approval.

On August 28, 2008, DOE approved the conversion of COC 132 from Exploration contract into a Development and Production contract. This covers the Naga Block, where initial development works have been initiated.

In November 2008, the SPA was approved by DOE and accordingly transferred all the rights from FCCC to First Asian.

*COC 131*

COC 131 operations cover the municipalities of Dalaguete, Cebu.

In February 2006, the operations on COC 131 were suspended due to the 'watershed' issue raised by the Protected Area Management Board (PAMB) of the Department of Environment and Natural Resources (DENR), and local government units. In April 2007, FCCC presented and explained to PAMB that only certain parts of the block are within the Argao River Watershed Reserve and that future activities of FCCC will be outside the reservation area. As a result, PAMB endorsed to DENR the coal project of FCCC. On October 17, 2007, DOE lifted the suspension order and extended the Exploration Phase of COC 131 until February 22, 2009. FCCC has already devised a drilling plan on COC 131 in Southern Cebu to block out coal reserves that will be subject to a mining plan relative to the conversion of COC 131 from an Exploration COC to a Development and Production COC within 2009. The program involves drilling and coring of 12 holes for a total of 2,000 meters using three (3) drilling rigs. In addition, trenching, test pitting and detailed geological mapping are being undertaken. Management believes that FCCC will be granted an extension for COC 131 and eventually convert its license into a Development and Production COC with a life of ten (10) years.

On September 30, 2009, FCCHI, with Forum (FEI), Ltd. entered into an agreement with CR Nichrome, Inc. for the transfer of the entire shareholdings of FCCC. FCCHI then decided through its Board of Directors to liquidate its business through shortening of its corporate term until November 30, 2009. Currently, FCCHI is in the process of completing all requirements for SEC approval and securing clearance from the Bureau of Internal Revenue (BIR). FCCHI has applied for the Certificate Authorizing Registration (CAR) to BIR to authorize the transfer of shares to CR Nichrome, Inc. The BIR issued a tax clearance certificate allowing the transfer of shares to be registered in the name of the transferee on January 26, 2010.

*ESBI*

Express Savings Bank, Inc. (ESBI), which is 56% owned by the Parent Company as of December 31, 2007 was registered with the Philippine SEC on May 1, 1980. It is also registered with the Bangko Sentral ng Pilipinas (BSP) as a Savings and Loan Association under Republic Act (RA) No. 3779 with the purpose of engaging in the business to grant loans and to receive deposits from the general public and to pay interest on deposits at such rates as may be prescribed under regulations by Monetary Board from time to time. ESBI has three branches and its principal business address is located at J.P. Rizal Avenue, Cabuyao, Laguna.

The Parent Company did not avail of its pre-emptive right to subscribe for additional shares in ESBI's increase in capitalization in 2007 which has diluted its interest in ESBI. In 2008, the Parent Company eventually ceased to have control in ESBI.

***Financial Assets***

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

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

Derecognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

The Group's financial assets include cash and cash equivalents, loans and receivables and advances to related parties and quoted and unquoted equity securities.

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

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

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

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

*(b) Loans and receivables*

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

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

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

*Cash and cash equivalents*

It includes cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. For purposes of the statements of cash flows, the Group considers all highly liquid debt instruments purchased with a maturity of three months or less from date of acquisition to be cash equivalents.

*(c) Held-to-maturity investments*

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

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

The Group did not have any held-to-maturity investments during the years ended December 31, 2009, 2008 and January 1, 2008.

*(d) Available-for-sale financial assets*

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

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with unrealized fair value gain or loss is recognized in other comprehensive income until the investment is derecognized, at which time the cumulative gain or loss in other comprehensive income (loss) is recognized in the consolidated statement of income; or determined to be impaired, at which time the cumulative loss recorded in other comprehensive loss is recognized in the consolidated statement of income. Dividends earned on holding available-for sale equity instruments are recognized as “other income” when the right of the payment has been established. These are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

*Offsetting Financial Instruments*

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

*Impairment of Financial Assets*

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

a) Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortize cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance and the amount of loss is recognized in the statement of comprehensive income. Impaired financial asset together with the associated allowance are written-off when they are assessed as uncollectible.

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

b) Available-for-sale financial assets

If an available-for-sale 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 profit or loss , is transferred from "Unrealized gain or loss on changes in fair value" to profit or loss. Reversals in respect to equity instruments classified as available-for-sale are not recognized in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange-quoted market bid prices at the close of the business on the statement of financial position date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

*Non-current Assets Held for Sale*

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This is evident once the asset is available for immediate sale in its present condition subject only to usual and customary terms and its sale is highly probable. High probability of a sale transaction to be consummated involves management's commitment to a plan to sell the asset, an active program to locate a buyer, an active marketing program for a selling price that is reasonable to its current fair value, and the sale should be consummated within one year from the date of classification.

The Group's non-current assets held for sale are measured at the lower of the carrying amount and fair value less costs to sell. The Group recognizes impairment loss for any initial or subsequent write-down of the asset to fair value less costs to sell and the Group recognizes a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized. No depreciation was recognized by the Group for its non-current assets while it is classified as held for sale or while it is part of a disposal group classified as held for sale.

*Investment Property*

Initially, investment property is measured at cost including transaction costs. The cost of investment property comprises its purchase price and any directly attributable expenditure. Subsequent expenditures are recognized as an asset when the expenditures improve the condition of the asset beyond its originally assessed standard of performance. All other subsequent expenditure is recognized as an expense when incurred. Subsequent to initial recognition, investment property is stated at fair value, which reflects the market conditions at the financial reporting date. Any gain or loss resulting from either change in the fair value is immediately recognized in the consolidated statement of comprehensive income in the year in which it arises.

Investment property is derecognized when it has either been disposed or when they are permanently withdrawn from use and no future benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of comprehensive income in the year of retirement or disposal.

*Exploration Property, Bank Premises, Furniture, Fixtures and Equipment*

Exploration property, bank premises, furniture, fixtures and equipment are stated at cost less any subsequent accumulated depreciation and any impairment losses. The initial cost of exploration property, bank premises, furniture, fixtures and equipment consists of its purchase price and costs directly attributable to bringing the assets to its working condition for its intended use.

Subsequent expenditures relating to an item of exploration property, bank premises, furniture, fixtures and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditures such as repairs and maintenance are recognized as expense in the period in which those are incurred.

When these assets are sold or retired, their cost, accumulated depreciation and amortization and accumulated impairment losses are eliminated from the accounts and any resulting gain or loss is included in the consolidated statement of comprehensive income of such period.

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

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

| Category | In years |
|---|---|
| Exploration property | 5 years |
| Transportation equipment | 5 years |
| Furniture, fixtures and equipment | 3 to 7 years |

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of those assets.

*Deferred Exploration Costs*

The Group applies the full cost method of accounting, having regard to the requirement of PFRS 6, Exploration for and Evaluation of Mineral Resources. Under the full cost method, all costs associated with exploration for and evaluation of mining and oil and gas properties are capitalized in geographical pools pending determination of the feasibility of each project. Such cost pools are based on geographic areas and are not larger than segment. The Group considers each COC area as a cost pool.

Costs which are capitalized include costs of license acquisition, technical services and studies, exploration drilling and testing and appropriate technical and administrative expenses but do not include general overheads or costs incurred prior to or having obtained the legal rights to explore an area, which expensed outright as they occur.

When the technical and commercial feasibility of a mining or oil and gas project has been determined, the related expenditure will be transferred to "Mine exploration and development" account. Where a license is relinquished, or a project is abandoned, or is considered to be of no further commercial value to the Group, the related costs will be written-off and charged to operations.

Deferred exploration costs are assessed at each reporting period to determine whether there is any indication of impairment. Any amount by which carrying costs exceed recoverable amounts will be written-off. The recoverability of deferred exploration cost is dependent of the discovery of economically recoverable reserves, the ability of the Group to obtain necessary financing to complete the development of reserves and future profitable production or proceeds from the disposition of recoverable reserves.

*Impairment of Non-financial Assets*

The carrying amount of the Group's non-financial assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment or an impairment loss previously recognized no longer exists or may have decreased. If any such indication exists, the Group makes a formal estimate of the asset's recoverable amount.

The recoverable amount is the higher of an asset or its cash generating unit's (CGU) fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction. 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. For an asset that does not generate cash flows independent of those from other assets, the recoverable amount is determined for the CGU to which the asset belongs.

Whenever the carrying amount of an asset or its CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount and an impairment loss is recognized in the statements of comprehensive income.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in the statement of comprehensive income.

*Financial Liabilities*

Financial liabilities are recognized in the Group's consolidated financial statements when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognized at fair value. Transaction costs are included in the initial measurement of the Group's financial liabilities, which do not include any debt instruments classified as at fair value through profit or loss.

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

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

Financial liabilities include advances from related parties, accrued expenses and other payables and deposit liabilities

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

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

*Equity*

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

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

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

***Revenue and Cost Recognition***

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

- Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable.

- Dividend income is recognized when the stockholders' right to receive the payment is established.

- Rental income from investment property is recognized on a straight-line basis over the term of the lease.

- Service charges and fees are accrued when there is reasonable degree of certainty as to their collectibility.

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

*Retirement Benefits*

The Parent Company has no provision for retirement benefit due to absence of employees. In 2009, the parent company derecognized the accrued retirement benefit payable recognized in prior year (see Note 32).

ESBI adopted Republic Act No. 7641 as its arrangement to provide retirement benefits to all regular employees. In case of retirement, employees shall be entitled to receive such retirement benefits as may have been earned under the existing laws.

A separate fund was not established from which payments would be made in order to meet the ESBI obligation for retirement benefits. Thus, ESBI retains the obligation for the payment of the retirement benefits.

*Taxation*

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

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

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

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

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

*Earnings Per Share (EPS)*

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

***Related Parties and Related Party Transactions***

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

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

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

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

The Group accounts for its leases as follows:

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

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

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

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

***Segment Reporting***
A business segment is a group of assets and operations engaged in providing products and services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments. Segment assets and segment liabilities are those operating assets (liabilities) that are directly attributable or reasonably allocable to a segment.

***Provisions and Contingencies***
Provisions, if any, are recognized when the Group has a present obligation (legal or constructive) as a to settle the obligation and a reliable estimate can be made of the amount of obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Where the discounting is used, the increase in provision due to the passage of time is recognized as finance cost.

Contingent assets and liabilities are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent liabilities are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are disclosed only when an inflow of economic benefits is probable.

***Events After the Reporting Period***

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

**Note 3 – Advances to Affiliates**

Related party transactions consist of advances representing the carrying value of exploration net assets transferred to an affiliate and interest-bearing advances granted to finance the working capital requirements of certain affiliates, the balances of the advances and other significant accounts are as follows:

| | As of June 30, 2010 | | As of June 30, 2009 | |
|---|---|---|---|---|
| | ADVANCES TO | ADVANCES FROM | ADVANCES TO | ADVANCES FROM |
| The Wellex Group, Inc. | 330,654,418 | - | 308,030,682 | - |
| FEI | 172,903,788 | - | 173,949,003 | - |
| Forum (FEI), Ltd. | 15,061 | 154,005,408 | 15,102 | 154,416,024 |
| Forum Energy PLC | 184,866,540 | 65,185,509 | 175,824,000 | 65,364,325 |
| FEPCO | 105,384,659 | 83,286,025 | 47,153,244 | 63,599,555 |
| Less : From FS Year 2009 | 50,000,000 | | | |
| Total | 743,824,466 | 302,476,942 | 704,972,031 | 283,379,905 |
| Less : Current Portion | (535,116) | - | - | |
| Non Current Portion | 743,289,350 | 302,476,942 | 704,972,031 | 283,379,905 |
| Less : Impairment Loss | (129,309,154) | - | (129,309,154) | - |
| Balance | **613,980,196** | **302,476,942** | **575,662,877** | **283,379,905** |

*Due from TWGI*

The Board of Directors of FPI in its special meeting held on July 4, 2006, resolved and approved the amendment of certain terms of the agreement between TWGI, effective January 1, 2005. One significant amendment is the waiver of the 2.5% annual interest rate on the outstanding principal amounting to P250,000,000.

On July 4, 2006, in a special meeting, the BOD resolved and approved the amendment of certain terms of the agreement between the Parent Company and TWGI, effective January 1, 2005. The significant amendment was the change of interest rate from 2.5% per annum to nil on the outstanding principal advances of P250 million

**Note 4 – Available-for-Sale Investment, net**

This account consists of the following:

| | As of June 30, 2010 | As of June 30, 2009 |
|---|---|---|
| Express Savings Bank Inc., (ESBI) | 16,239,100 | 22,887,556 |
| Forum Exploration Inc., (FEI) | 73,211,573 | 73,211,573 |
| Phil. Estate Corporation (PHES) | 5,375,638 | 7,529,480 |
| Balance | **94,826,311** | **103,628,609** |

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

On June 3, 2009, the Parent Company executed a deed of absolute sale for its 127,415 shares in ESBI for P179.63 per share or equivalent to P22,887,557. The carrying amount of 289,806 shares in ESBI as of December 31, 2008 amounted to P122,592,758 or P423.02 per share. The difference between selling price and cost per share multiply by the number of ESBI shares as of December 31, 2008 was recognized as impairment loss in 2008.

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

The fair value of ESBI investment as of December 31, 2009 was based on the actual partial sale that occurred on July 13, 2010 in which 46,602 shares were sold for P4,660,200 or P100/share. Consequently, an unrealized fair value loss was recognized amounting to P12,931,195 and charged to "other comprehensive loss" account in the 2009 statement of comprehensive income and shown separately as "Unrealized fair value loss on available-for-sale financial assets" in equity.

**FEI**
In 2003, 66.67% ownership, or 125 million shares of the Parent Company in FEI, was sold to Tracer Petroleum Corporation (TPC), now Forum Energy, Inc. Subsequent to sale, the Parent Company did not have any material transaction with FEI, which manifests that it has ceased to have significant influence on the financial and operating policy decisions of FEI. Thus, it is now classified as available-for-sale financial assets in compliance with PAS 39. Investment cost and post-acquisition charges are used to determine the carrying amount of this investment as of reclassification date. The fair value of available-for-sale financial assets approximates its carrying value.The investment in FEI is stated at cost since there is no quoted price in an active market.

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

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

## Note 5– Property and Equipment

Breakdown as of account follows:

| | As of June 30, 2010 | As of June 30, 2009 |
|---|---|---|
| Transportation Equipment | - | 1,656,001 |
| Office & Other Equipment | - | 73,995 |
| Total | - | 1,729,996 |
| Less : Accumulated Depreciation | - | 1,096,347 |
| Balance | - | **633,649** |

The reclassification of the Group's exploration property to "Non-current Assets Held for Sale" account was made after FCCC sold COC 132. In November 2008, the SPA was approved by the DOE and accordingly transferred all the rights from FCCC to First Asian.

Management believes that there are no indications of impairment in the Group's exploration property, bank premises, furniture, fixtures and equipment.

## Note 6 – Deferred Exploration Cost

FCCC has 100% participating interest in COC 131 as a result of the assignment of FEI of all its rights, interests and obligations over COC 131 to FCCC on August 7, 2006.

This COC provides for certain minimum work expenditure obligations and drillings of a specified number of wells which are covered by work program with DOE. The DOE validates these expenditures on a periodic basis, which will be the basis for future reimbursements, as provided in the contract, in the event commercial operations take place as a result of successful discovery of coal or other mineral deposits in commercial quantities.

The recovery of the above deferred exploration costs, as well as the ability of the Group to pay its liabilities to related parties, is dependent upon the success of future exploration and development activities and events, the outcome of which cannot be presently determined.

The movements in the account are as follows:

| | December 31, 2009 | December 31, 2008 | January 1, 2008 |
|---|---|---|---|
| Beginning | P 21,313,928 | P 19,643,773 | P 114,115,724 |
| Additions | - | 1,670,155 | 7,200,000 |
| Disposal/derecognition | ( 21,313,928) | - | - |
| Reclassification - note 10 | - | - | (101,671,951) |
| | P - | P 21,313,928 | P 19,643,773 |

In 2007, the Group reclassified portion of deferred exploration cost pertaining to COC 132 as "Non-current Assets Held for Sale" pending the sale to First Asian.

Deferred exploration costs pertain to FCCC. With the transfer of the entire shareholdings of FCCC to CR Nichrome, Inc. on September 30, 2009, the deferred exploration cost recognized in 2008 was de-recognized in 2009.

## Note 7 – Other Assets

This account consists of the following:

| | As of June 30, 2010 | As of June 30, 2009 |
|---|---|---|
| Miscellaneous Assets | - | 88,955 |
| Others | - | 34,828 |
| Balance | - | **123,783** |

## Note 8 – Accrued Taxes, Interest and Other Liabilities

This consists of the following:

| | As of June 30, 2010 | As of June 30, 2009 |
|---|---|---|
| Accrued Expenses | 1,934,274 | 1,937,538 |
| Accrued Payable | 31,005 | |
| Accrued Other Taxes & License Pay | | 2,418,783 |
| Others | 285,190 | 88,458 |
| Balance | **2,250,469** | **4,444,779** |

## Note 9 – Retirement Benefits Cost

Under PAS 19, "Employee Benefits", the cost of defined retirement benefits, including those mandated under RA 7641, should be determined using projected unit credit method (PUCM). RA 7641 shall apply to all employees of at least five (5) years minimum service in the private sector, regardless of their position, designation or status and irrespective of the method by which their wages is paid. Pursuant to the provision, a covered employee who retires shall be entitled to retirement pay equivalent to at least one-half (1/2) month salary for every year of service, a fraction of at least six (6) months being considered as one whole year.

The Parent Group complies with RA 7641 although it has no actuarially prepared retirement benefit plan. The related accrued retirement expense was shown as non-current liability.

## Note 10 - Cost and Expenses

This account includes:

| | As of June 30, 2010 | As of June 30, 2009 |
|---|---|---|
| Professional Fees | - | 105,000 |
| Postage & Telephone | 6,636 | 9,018 |
| Notarial Fees | 500 | - |
| Office Supplies | 2,020 | - |
| Printing & Reproduction | 945 | 3,623 |
| Transportation & Travel | 440 | 200 |
| Other Administrative Expense | 504 | - |
| Balance | **11,045** | **117,841** |

## Note 11 – Loss Per Share

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

| | | |
|---|---|---|
| Income ( Loss as of June 30 ) | (325,156) | (618,642) |
| Weighted average number of common shares | | |
| outstanding during the year | 1,840,394,404 | 1,840,394,404 |
| Loss per Share | **(0.00018)** | **(0.00034)** |

## Note 12 - Basic Quantitative Indicators

The financial performance indicators of ESBI as required under BSP Circular No. 212 are as follows:

| | 2007 |
|---|---|
| Return on average equity | |
| = Net loss after tax / Average total capital funds | (24.43%) |
| Return on average assets | |
| = Net loss after tax / Average total assets | (7.44%) |
| Net interest margin | |
| = Net interest income / Average interest earning assets | (1.06%) |
| Capital Adequacy Ratio | |
| = Total qualifying capital / Total risk weighted assets | (19.66%) |

* as per ESBI's computation

## Note 13 – Commitments and Contingencies

a. On May 7, 2007, the SEC suspended the trading of the Parent Company's shares for late filing of its 2004 and 2005 annual reports. The Parent Company failed to comply with the suspension order when it paid the penalty after the due date. However, it committed another violation when it failed to timely file its 2006 annual financial reports and 2007 first quarter reports.

   On October 19 and November 6, 2007, the Parent Company requested the SEC to allow and pay a monetary fine in lieu of the revocation of the registration of its securities due to late filing of the required reports. On May 5, 2008, a petition was filed to lift SEC's order of revocation and was lifted by SEC En Banc on July 31, 2008.

   On October 31, 2009, the SEC issued SEC-CFD Order No. 145, series of 2009, revoking the Parent Company's registration of securities and permit to sell securities for failure to file its 2008 annual reports, 2009 first quarter reports and to pay the penalty of P40,000.

   On August 31, 2010, the Parent Company received from SEC an order of revocation of the registration and the permit to sell the Parent Company's securities due to late filing of the Parent Company's 2009 annual reports. On September 8, 2010, the Parent Company requested for an extension of time until September 30, 2010 for the filing of the Parent Company's 2009 audited financial statements which was granted by SEC in its letter on September 13, 2010.

On October 5, 2010, the Parent Company again requested the SEC an additional thirty (30) working days within which to comply with the letter from the SEC dated August 31, 2010. However, on October 7, 2010, the Parent Company's request was denied and the SEC provides a non-extendible period of three (3) days from receipt of the letter within which to submit the 2009 annual reports.

Fines and penalties paid in lieu of the Parent Company's revocation of registration of securities and permit to sell securities amounted to P1,234,000 and P2,058,000 for the years ended December 31, 2008 and 2007, respectively.

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