4	3	7	9	8					

SEC Registration Number

BALABAC RESOURCES AND HOLDINGS CO., INC. AND SUBSIDIARIES

(Company's Full Name)

7th Floor, Allied Bank Center 6754 Ayala Avenue, Makati City

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

Mr. Nestor C. Mendones

(Contact Person)

736-8466

(Company Telephone Number)

0	4		3	0

Month *Day*
(Fiscal Year)

1	7	-	A	

(Form Type)

Month *Day*
(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF CORPORATION CODE OF THE PHILIPPINES

1. **For the fiscal year ended April 30, 2004**

2. **SEC Identification No. – 43798**

3. **BIR Tax Identification No.: 320-000-438-132**

4. **BALABAC RESOURCES AND HOLDINGS CO., INC**
   (Exact name of registrant as specified in its charter)

5 **Makati City**
(Province, Country or other jurisdiction of incorporation of principal office)

6. **______________ (SEC Use Only)**
Industry Classification Code

7. **7th Floor Allied Bank Centre, 6754 Ayala Avenue, Makati City**
   Makati City **1200**
   (Address of principal office) **Postal Code**

8. **(632) 736-8466**
   (Registrant's telephone number, including area code)

9. **Not Applicable**
   (Former name, former address & former fiscal year, if changed since last report)

10. **Title of each Class Number of Shares of Common Stock Outstanding**

    Common Stock 1,305,348,701 shares
    (Securities registered pursuant to Sections 4 and 8 of the RSA)

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

    YES

12. **Checked whether the registrant:**

    a. **Has filed reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11 (a)-1 there under 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

    b. **Has been subject to such filing requirements for the past 90 days.**

       YES

13. **The aggregate market value of the voting stock held by non-affiliates of the registrant is P913,744,090 as of April 30, 2004.**

PART I - BUSINESS AND GENERAL INFORMATION

ITEM 1 - BUSINESS OF THE REGISTRANT AND ITS SUBSIDIARIES

1. Business Development

Balabac Resources and Holdings Co., Inc. (the Company or the Registrant) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on April 2, 1971 under the name "Balabac Oil Exploration & Drilling Co., Inc." to engage in oil exploration and mineral development projects in the Philippines. On May 12, 1988, the Company's shares of stock were approved for registration and licensing by the SEC.

In 1981, the Company was in the consortium that produces oil in Cadlao. It also joined various exploration activities in 1980's. In 1994, the Company diversified into non-oil projects, by joining Unioil in forming B.U. Properties Corporation (B. U. Properties), a 30%-owned associated company engaged in real estate development.

At the Special Stockholders' Meetings on August 13, 1996, the Company's Articles of Incorporation was amended. The amendments, which were approved by the SEC on August 13, 1997, included the following:

a) The change in the Company's name to Balabac Resources & Holdings Co., Inc.;
b) The change in the Company's primary purpose from oil exploration and mineral development to that of engaging in the business of a holding company and the inclusion of real estate development and oil exploration among its secondary purposes;
c) The declassification of the Company's Class of A and Class B shares; and
d) The change in the par value of all shares of stocks from ₱0.01 to ₱1.00 per share.

On October 31, 1996, the Company transferred all of its oil exploration related assets and service contracts to Phoenix Energy Corporation, a 38.44%-owned subsidiary company engaged in oil and mineral exploration activities.

As of April 30, 2004, the Company holds investments in the following subsidiaries and associated company:

		Percentage of Ownership	
	Nature of Activity	**Direct**	**Indirect**
Subsidiaries			
Phoenix Energy	**Oil and mineral exploration**	**38.44**	**–**
Phoenix Gas	**Oil and mineral exploration**	**10.00**	**34.58**
Associated Company			
B. U. Properties	**Lease of real property**	**30.00**	**–**

Both Phoenix Energy and Phoenix Gas have not yet started their commercial operations.

The Company and its subsidiaries (the Group) have no bankruptcy, receivership or similar proceeding, nor any material reclassification, merger or, consolidation or purchase, or sale of significant amount of assets not in the ordinary course of business.

<u>Profile of Subsidiaries</u>

Name of Subsidiary: <u>PHOENIX ENERGY CORPORATION</u>

Phoenix Energy Corporation (Phoenix Energy) was incorporated and registered with the SEC on February 7, 1995. Its primary purpose is to prospect for, explore, mine, extract, dig and drill for, exploit, produce, purchase, or otherwise obtain from the earth, and any all kinds of petroleum and petroleum products, rock of carbon oils, natural gas and other volatile materials, chemical substances and salts, precious and base metals, diatomaceous earth as well as other minerals of whatever nature whether similar or dissimilar to those listed herein, and to store, hold, use, experiment with, treat, reduce, distill, manufacture, smelt refine, prepare for market, buy, sell, distribute, exchange, import, export, and transport and otherwise deal in petroleum and other minerals of whatever nature, whether similar or dissimilar, thereto, their products, compounds and derivatives and other mineral and chemical substances, in crude or refined condition, and to engage generally, as may be permitted by law, in the business of, and/or investing in, mining, manufacturing, contracting and servicing, in addition to oil exploration within the Philippines and in other countries.

On February 28, 1997, Phoenix Energy increased its authorized capital stock to Five Hundred Million Pesos (₱500,000,000) divided into Fifty Billion Shares (50,000,000) at a par value of ₱0.01 per share.

Name of Subsidiary: <u>PHOENIX GAS AND OIL EXPLORATION CO.,INC.</u>

Phoenix Gas and Oil Exploration Co., Inc. (Phoenix Gas) was incorporated and registered with the SEC on February 7, 1995 under the name "East Asia Gas and Oil Exploration Co., Inc." Its primary purpose is to prospect for, explore, mine, extract, dig and drill for, exploit, produce purchase or otherwise obtain from the earth, any all kinds of petroleum and petroleum products, rock and carbon oils, natural gas and other volatile materials, chemical substances and sales, precious and base materials, diatomaceous earth as well as other minerals of whatever nature whether similar or dissimilar to those listed herein, and to store, hold, use, experiment with, treat, reduce distill, manufacture, smelt refine, prepare for market, buy, sell, distribute, exchange, import, export, and transport and otherwise deal in petroleum and other minerals of whatever nature, whether similar or dissimilar thereto, their products, compounds and derivatives and other mineral and chemical substances, in crude or refined condition, and to engage generally, as may be permitted by law, in the business of, and/or investing in, mining, manufacturing, contracting and servicing, in addition to oil exploration within the Philippines and in other countries. The change in its corporate name was approved by the SEC on July 30, 1998,

On October 13, 1977, Phoenix Gas increased its authorized capital stock to Five Hundred Million Pesos (₱500,000,000) divided into Fifty Billion Shares (50,000,000) at a par value of ₱0.01 per share.

2. Business of Issuer

The Company's principal activity is that of an investment holding company. Prior to the entry of a new stockholder (see separate discussion in Item 6), the Company derives majority of its revenue from its equity in net earnings of B. U. Properties, a 30%-owned associated company engaged in real estate development. With the entry of the new stockholder, the Company's revenue consists mainly of interest income on short-term cash investments and marketable securities and foreign exchange gains. It has no significant operations during the past three years and is currently searching for business ventures.

The Company's subsidiaries (Phoenix Energy and Phoenix Gas) have not yet started their commercial operations. Its associated company, B. U. Properties, has stopped developing real

properties in view of the downtrend in real estate industry. B. U. Properties is presently engaged in the lease of condominium units.

The Company had no significant operations during the past three years. Balabac is still currently searching for business ventures. Funds are currently invested in short-term marketable equity securities and government bonds.

i) Principal products or services and their markets indicating their relative contributions to sales or revenues of each product or service.

Balabac Resources and Holdings Co., Inc. had no significant operations during the three years ended April 30, 2004. Revenues consisted mainly of interest income and foreign exchange gains from bond investments.

ii) Percentage of sales or revenues and net income contributed by foreign sales for each of the last three years.

Not Applicable
(iii) Distribution methods of the product or services;

Not Applicable

(iv) Status of any publicly-announced new product or service;

Not Applicable

(v) Competitve business conditions and the registrant's competitive positions in the industry and methods of competition;

Not Applicable

(vi) Sources and availability of raw materials and the names of principal suppliers;

Not Applicable

(vii) Dependence on one or a few major customers and identify any such major customers;

Not Applicable

(viii) Tansactions with and/or a few major customers and identify any such major customers;

Not Applicable

(ix) Patents, trademarks, licenses, franchises, concessions, royalty, agreements or labor contracts, including duration;

Not Applicable

(x) Need of any government approval of principal products or services

Not Applicable

(xi) Effects of existing or probable government regulations on the business;

The Company strictly complies with and adheres to existing and probable government regulations.

(xii) Estimate of the amount spent during each of the last three fiscal years on research and development activities, and if applicable the extent to which the cost of such activities are borne directly by customers;

Not Applicable

(xiii) Cost and effects of compliance with environment laws; and

Not Applicable

(xiv) Total number of employees and number of full time employees.

The Company has no regular employee. The Company does not have any plan of hiring employees within the ensuing twelve months.

(xv) Discuss the major risk/s involved in each of the businesses of the Company and subsidiaries. Include a disclosure of the procedures being undertaken to identify, assess and manage such risks.

As a holding company, Balabac Resources has investments in bonds. Since bonds have higher yield, it has also higher risks. In order to manage such risks, top management closely monitors movements with its fund managers. It's subsidiaries, Phoenix Gas and Phoenix Energy has not yet started commercial operations.

Both Phoenix Energy and Phoenix Gas have various existing Service contracts (SCs), Geophysical Survey and Exploration Contract (GSEC) and GSEC application with the Philippine Department of Energy (DOE) in the exploration and development of petroleum concession. The contracts provide for certain minimum work and expenditure obligations and are covered by operating agreements, which set forth the participating interests, rights and obligations of the contractors.

The following sections summarize the status of each of Phoenix Energy's and Phoenix Gas' oil exploration activities, together with management's outlook and plans:

Phoenix Energy

Offshore West Batangas - GSEC No. 62

The GSEC No. 62 covers 316,000 hectares of both offshore and onshore acreages in the West Batangas. The offshore Batangas area was also actively promoted internationally and locally to oil companies.

On January 19, 1999, Phoenix Energy decided not to participate in the Offshore Batangas - Tablas Strait area's new GSEC application.

Ragay Gulf - GSEC No. 76

The DOE granted the consortium a moratorium and/or suspension of work obligation until October 1999 to make a decision to drill its prospect. Another nine-month extension was granted by the DOE until July 20, 2000 for a US$230,000 2D of seismic, gravity and magnetic, geological and geophysical acquisition program which was recently completed to firm up a final drilling prospect.

On April 14, 2000, Phoenix Energy officially withdrew from the area because of technical reasons and questions on exploration direction that cannot be addressed by the operator.

Octon - SC No. 6 Block A

In April 1998, Phoenix Energy agreed to relinquish, assign, transfer and convey, in favor of Philodrill Corporation (Philodrill), its 9% participating interest in SC No. 6A and all its rights, title and interests in and under SC No. 6A, the operating agreement and other documents and contracts related to SC No. 6A.

Phoenix Energy now has a remaining 1% participating interest and share in the revenue and production costs.

Extensive Northwest Palawan three-dimensional (3D) seismic survey commenced on February 28, 1997 over the areas covered by SC Nos. 6A and 6B and portions of GSEC Nos. 77 and 83. The seismic data which was acquired from March to July 1997 covered an area of about 1,317 sq. km. over the SC No. 6A block and adjacent areas.

The consortium has a budget of US$5.5M for the survey.

Robertson Research UK (Robertson) was selected to undertake the interpretation and evaluation of the 3D data. A budget of US$515,000 was approved for the 3D data interpretation. GECO-Prakla, a seismic contractor, has completed processing the SC No. 6A seismic data to be interpreted by Robertson. Interpretation was completed 1st quarter of 2000. Interpretation report on CD form is being distributed to partners by the operator.

The consortium was able to defer work obligations as approved by the DOE for one and one-half years starting September 1998.

Bonita - SC No. 6 Block

Phoenix Energy has an 18% participating interest and share in the revenue and production costs and share in the pre-drilling expenses in a project of consortium composed of Phoenix Energy, Alcorn, Oriental, Trans-Asia Oil and Mineral Development Corporation (Trans-Asia) and Philodrill, with Alcorn as the operator.

A non-exclusive 3D seismic data survey for SC No. 6B was acquired and processed in June 1998 by GECO-Prakla. Nido Petroleum Philippines Pty. Limited (previously, SOCDET Production Pty. Limited) acquired and interpreted the new 3D data for farming in the SC No. 6B consortium in exchange of 10% participating interest.

West Linapacan – SC No. 14C

As contractor for the consortium, GECO-Prakla ran a 2,000 plus sq. km. of 3D seismic survey in the whole block in 1998 that costed US$6 Million. Phoenix Energy shall be carried free in this activity as provided in the Farm-in Agreement with SOCDET.

Phoenix Energy holds 1.95% participating interest in this block.

Tara Area (Carved Out) - SC No. 14

With 23% participating interest, Phoenix Energy shares in the exploration and drilling expenses of the project, which is operated by Trans-Asia.

Northwest Palawan/Busuanga - SC No. 42

On April 1, 1998, the operatorship of GSEC 77 was transferred to SOCDET.

A new Service Contract (SC No. 42) was signed for the former GSEC 77 area on October 29, 1998 as SOCDET of Australia as operator. Geological and geophysical work including 3D seismic data acquisition and two-dimensional (2D) seismic interpretation has been done.

On March 17, 1999, the SOCDET proposed for the work programs and budget for the 4th service contract year which includes geological and geophysical studies. The aims of the work program are as follows:

a. Further define the Coron North prospect, with the intention of improving the consortium's confidence in and commitment to drilling the prospect.

b. Define Pagasa turbidite potential over the block, with the aim of identifying drillable prospects.

c. Farmout the acreage promoting Coron North Prospect for drilling.

Phoenix Energy holds a 6% and 1.1% participating interest and share in the revenue and production costs in the Nido and Coron blocks, respectively.

On December 13, 2002, Phoenix Energy withdrew its interest in the service contract.

<u>Southwest Palawan - GSEC No. 91</u>

The consortium approved a budget of US$150,400 for the year 1998-1999 program which includes completion of the minimum work in obtaining a moratorium/suspension for one year as granted by the DOE from June 14, 1999 to June 13, 2000. An additional US$50,000 budget was requested by Shell for the specialized seismic interpretation program.

<u>Offshore West Palawan - GSEC No. 94</u>

GSEC No. 94 was granted on February 25, 1998 to an all Filipino group composed of Trans Asia (55%), Phoenix Energy (15%), Basic (10%), Oriental (5%) and Petrofields (5%). Several prospective leads have been identified from the current data in both the Nesozoic and Neogene sequences that are equivalent to the hydrocarbon discovery zones in Offshore Palawan.

On October 2, 2000, Phoenix Energy withdrew from the area by indicating the operator, Shell, that Phoenix Energy shall not join the reapplication of the former GSEC No. 91 consortium to the DOE.

A one-year moratorium/suspension was granted by the DOE from July 25, 1999 to July 20, 2000.

On October 17, 2000, Phoenix Energy reduced its participating interest from 15% to 5% by assigning the 10% balance to Trans-Asia.

On February 25, 2002, Phoenix Energy withdrew its interest in the service contract.

<u>Sandakan/Dockan/Sulu Sea - SC No. 41</u>

The consortium applied for and was granted by the DOE a one-year moratorium/ suspension of contractual work obligations from June 1999 to June 2000 to firm up the location of the 4th contract year commitment well.

Phoenix Energy withdrew from the block last July 11, 2000 and assigned the interest to the SC No. 41 operator.

Karang Besar (Indonesia)

On January 17, 1998, Phoenix Energy withdrew its 2% participating interest pursuant to Karang Besar Joint Operating Agreement dated February 22, 1998. Through the Deed of Assignment entered into by Phoenix Energy and Maersk Oil Indonesia Karang Besar AS (Maersk Oil) on May 4, 1998, Phoenix Energy assigned, transferred and conveyed to Maersk Oil the 2% participating interest in and under the Kerang Besar PSC, the Education Assistance Letter and the Joint Operating Agreement which shall be effective on and from January 17, 1998.

The assignment and transfer is subject to the receipt of the following written unconditional approval(s) and consent(s) before May 31, 1999:

a. **Pertamina's unconditional approval of and consent to the assignment and transfer of the assigned interest to Maersk Oil; and**

b. **All other necessary consents and approvals from any present parties to the Karang Besar PSC (other than Phoenix Energy) and governmental entity concerned.**

Phoenix Gas

Following is Phoenix Gas' participation in various SC/GSEC areas:

	Participating Interest
North Matinloc - SC No. 14 Block B-1	6.927%
West Linapacan – SC No. 14 Block C	0.532%
Cadlao Production Area – SC No. 6	28.277%
Bonita – SC No. 6B	10.125%

Effective February 1, 2004, Phoenix Gas, Basic Petroleum and Minerals Corp., Oriental Petroleum and Minerals Corp., Linapacan Oil and Gas Power Corp., Philodrill, Nido Petroleum Philippines Pty. Ltd., Alcorn Gold Resources Corp., Trans-Asia Oil and Energy Development Corp. and Petroenergy Resources Corp. ("the Buyer") purchased for US$100 and other valuable considerations from VAALCO Energy, Inc., Alcorn Philippines, Inc., Alcorn Production Philippines, Inc. and Altisma Energy, Inc. ("the Seller"), the Seller's participating interest in SC No. 6 and SC No. 14, subject to the certain terms and conditions, all the Seller's rights, titles and interests in these service contracts and related operating agreements, including: (a) the platforms, wells, production facilities and related assets; (b) contracts, data, information and related materials; (c) all office and support equipment; (d) accounts payable, asserted claims, contingent liabilities and non-intercompany receivables; (e) crude oil held or saved in the production facilities or associated barge or tanker storage produced on or after the effective time; and (f) all jointly contributed Operating Expense Fund and Contingency Funds, among others.

ITEM 2 - PROPERTIES

The Group's property and equipment consists of:

At appraised values:	
Appraised values:	
Office condominium and improvements	**₱11,695,999**
Residential unit	**7,620,000**
	19,315,999
Less: accumulated depreciation	**6,131,690**
Net book value	**₱13,184,309**

At cost:

Cost of Furniture and fixtures	**₱1,564,520**
Less: accumulated depreciation	**1,528,188**
Net book value	**₱36,332**

The office condominium and residential units are located at:

	Location
Office condominium unit	**6th Floor, Sagittarius Condominium, H. V. dela Costa Street, Salcedo Village, Makati City**
Residential unit	**Ocean Villa, Ternate, Cavite**

The above properties are owned by the Company. These properties are in good condition and are not covered by any existing mortgage, liens or encumbrances.

The Group has no intentions of acquiring other properties in the next twelve months.

ITEM 3 – LEGAL PROCEEDINGS

The Company, or any of its directors, officers and affiliates, or any owner of record of more than 5% of the securities of the Company, or any associate of any such director, officer or affiliate, or security holder, is not part of any material legal proceedings to which the Company or any of its subsidiaries or affiliates is a party or of which any of their property is the subject.

ITEM 4 – SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There are no matters submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

ITEM 5 – MARKET PRICE FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCHOLDER MATTERS

1. Market Information

The principal market for the Company's common equity is the Philippine Stock Exchange. Below is a summary of the high and low sales prices of the common equity from 2002 to 2004:

2002

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	Date	Price	Date	Price	Date	Price	Date	Price
High	Jan/02	₱0.27	May/02	₱0.180	Sep/02	₱0.175	Dec/02	₱0.205
Low	Feb/02	0.140	May/02	0.105	Jul/02	0.110	Nov/02	0.120

2003

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	Date	Price	Date	Price	Date	Price	Date	Price
High	Mar/03	₱0.190	Jun/03	₱0.170	Jul/03	₱0.150	Oct/03	₱0.135
Low	Jan/03	0.120	Apr/03	0.130	Jul/03	0.100	Oct/03	0.100

2004

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	Date	Price	Date	Price	Date	Price	Date	Price
High	Mar/04	₱0.225						
Low	Mar/04	0.150						

The closing price as of April 30, 2004 is ₱0.70 per share.

As of August 18, 2004, the latest practicable trading date, the Company's common equity is trading at ₱0.90 per share.

2. Holders

The registrant has approximately 1,572 stockholders as of April 30. 2004.

Below are the top 20 stockholders as of June 30, 2004:

	Name of Stockholder	No. of Shares	Percent to Total
1.	Saturn Holdings, Inc.	300,000,000	80.2571939157
2.	PCD Nominee Corp. (Filipino)	31,240,114	8.3574796241
3.	Feliciano, Raymundo O.	3,367,050	0.9007666159
4.	ROF Management & Development Corp.	3,049,694	0.8158662758
5.	PCD Nominee Corp. (Non-Filipino)	2,319,952	0.6206427917
6.	Co, Noel R.	2,178,352	0.5827613962
7.	Dela Cruz, Teresita A.	1,448,646	0.3875475430
8.	G.D Tan & Co. Inc.	1,298,307	0.3473282554
9.	Feliciano, Jr., Raymundo F.	1,037,920	0.2776684890
10.	Projects Proponent & Development Corp.	958,889	0.2565258013
11.	Solar Resources, Inc.	925,376	0.2475602702
12.	Cualoping Securities Corporation	862,738	0.2308031032
13.	Panlilo, Bong	718,130	0.1921169955
14.	G & L Securities Co., Inc.	626,944	0.1677225539
15.	Chua, Christopher C.	621,920	0.1663785134
16.	King, Emmanuel	548,036	0.1466127717
17.	Sevilla, Antonio Q.	544,587	0.1456900815

18.	**Gilt-Edged Properties**	**477,233**	**0.1276712714**
19.	**ZFF Ventures & Development Corp.**	**449,421**	**0.1202308944**
20.	**Recto, Ramon A.**	**267,140**	**0.0714663559**

3. Dividends

There were no dividends declared for past three years because of continuing net losses incurred by the Company.

In connection with Company's quasi-reorganization (see separate discussion in Item 6), the SEC approved the request to apply the revaluation increment in property and equipment amounting to ₱13,479,324 and premium on capital stock amounting to ₱28,854,409 to eliminate a portion of its deficit of ₱391,629,964 as of October 31, 2002, subject to the condition that, for purposes of dividend declaration, the retained earnings of the Company shall be restricted to the extent of the deficit wiped out (and not covered by accumulated depreciation on revaluation increment) by the appraisal surplus.

4. Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction

In line with the entry of the new stockholder (see separate discussion in Item 6), the SEC confirmed that the Company's issuance of One Billion Two Hundred Thirty One Million Five Hundred Fifty Thousand Four Hundred Thirty Four (1,231,550,434) common shares with the par value of One Peso (₱1.00) each representing the increase in its authorized capital stock from Seventy Three Million Seven Hundred Ninety Eight Thousand Two Hundred Sixty Seven Pesos (₱73,798,267) to Five Billion Pesos (₱5,000,000,000), is exempt from the registration requirements of the Securities Regulation Code.

In view of the fact that the subject securities were offered for sale to fewer than twenty (20) new subscribers and came from the increase in authorized capital stock, said issuance is an exempt transaction under Section 10.1 (k) and (i) of the Securities Regulation Code, respectively.

ITEM 6 – MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

1. Plan of Operation

In the light of its quasi-reorganization and the entry of the new stockholder (see discussion below), the Company made a prudent stance of deferring any major investment projects during the year. Funds are currently invested in fixed income instruments and marketable securities. The Company will search for more profitable business ventures in the next twelve months. In the absence of full-scale operations, the Company's cash position is adequate to meet its requirements. There are no plans to raise additional funds in the next twelve months. There are no expected purchases or sales of property and no expected significant change in the number of employees for the next twelve months.

2. Management's Discussion and Analysis

New Stockholder
In March 2003, the Company and Saturn Holdings Corporation (Saturn) executed an agreement whereby Saturn agreed to subscribe, subject to certain conditions, to the increase in the Company's authorized capital stock for an aggregate par value of ₱1,231,550,433. The change in the investor from Round Peak Realty and Development Corporation (Round Peak) to Saturn was approved by the Company's board of directors in February 2003.

On April 10, 2003, pursuant to the terms of the agreement, the Company received from Saturn the initial payment of 25% amounting to ₱307,892,762, following SEC's exemption of the Company's issuance of shares to Saturn from the mandatory tender off rule under the Securities Regulation Code. The balance shall be payable in cash or in kind upon call by the Company's board of directors.

Saturn's obligation to subscribe is subject to the following conditions, which, except for the wipe out of the Company's deficit as of October 31, 2002, have been complied with as of April 30, 2004:

a. **Cancellation of the Company's subscriptions receivable in the amount of ₱55,463,716.**

b. **Wipe-out of the Company's deficit as of October 31, 2002 amounting to₱391,629,964, of which, ₱20,558,214 has not been wiped out (see section on Quasi-Reorganization).**

c. **SEC's confirmation that the issuance of the subscribed shares to Saturn is exempt from the registration requirements under the Securities Regulation Code.**

d. **Increase in the Company's authorized capital stock from ₱73,798,267 to ₱5 billion.**

In October 2003, Saturn subscribed for the aggregate par value of ₱1,231,550,434 representing 25% of the increase in the Company's authorized capital stock from ₱73,798,267 to ₱5 billion. Accordingly, the deposit received from Saturn in April 2003 amounting to₱307,892,762 was applied to the subscription. Also, the Company issued 349,630,297 new shares at par consisting of 300,000,000 shares issued to Saturn and 49,630,297 shares (after cancellation of 55,463,716 subscribed shares) issued to subscribers existing prior to the entry of Saturn.

Quasi-reorganization

On January 14, 2003, the stockholders approved the quasi-reorganization of the Company to enable the new investor to be on equal footing with all existing stockholders. The quasi-reorganization consists of:

a. **Recall and non-implementation of an approval in 1996 by the Company's board of directors to increase the Company's authorized capital stock from ₱1 billion to ₱2.5 billion, both with a par value of ₱1 per share;**

b. **Reduction in the Company's authorized capital stock from ₱1 billion to ₱73,798,267, net of fractional shares, with a par value of ₱1 per share, to remove the deficit as of October 31, 2002 amounting to ₱391,629,964;**

c. **Simultaneous increase in the Company's authorized capital stock from ₱73,798,267 to ₱5 billion with a par value of ₱1 per share; and,**

d. **Rights to stockholders as of a record date to subscribe at par to two shares for every one share held after the reduction in the Company's capital stock to be granted, after SEC's approval of the increase in the Company's authorized capital stock to ₱5 billion.**

On August 26, 2003, the Company requested the SEC's approval to apply the Company's (a) reduction surplus amounting to ₱332,738,018 expected to result from the decrease of authorized capital stock from ₱1 billion to ₱73,798,267; (b) revaluation increment in property and equipment amounting to ₱13,479,324; and (c) premium on capital stock amounting to ₱24,854,409, to eliminate a portion of its deficit of ₱391,629,964 as of October 31, 2002.

The SEC approved the request to apply the revaluation increment in property and equipment and the premium on capital stock on October 7, 2003 subject to the following conditions:

a. That for purposes of dividend declaration, the retained earnings of the Company shall be restricted to the extent of the deficit wiped out (and not covered by accumulated depreciation on appraisal increment) by the appraisal surplus; and,

b. That after the quasi-reorganization and equity restructuring has been effected, the Company shall disclose in all its subsequent financial statements for a minimum period of three years the mechanics, purpose and effect of such quasi-reorganization and equity restructuring on the financial condition of the Company.

On October 8, 2003, the SEC approved the reduction in the Company's authorized capital stock from ₱1 billion to ₱73,798,267 and the simultaneous increase in its authorized capital stock from ₱73,798,267 to ₱5 billion. The reduction in authorized capital stock resulted in the reduction amounting to ₱332,728,017 in the balance of paid-up capital, which amount was used to wipe out a portion of the deficit as of October 31, 2002.

As of April 30, 2004, the planned rights offering is under evaluation by the Company.

2004

Results of Operations

Results from the Company's consolidated operations showed a net loss of ₱612,601 compared to last year's net loss of ₱12,760,862. The significant increase in revenues consisted mainly of interest income on short-term cash and marketable securities amounting to ₱18,429,628 and foreign exchange gains from the revaluation of foreign currency-denominated monetary assets amounting to ₱15,224,891. The exchange rate of the Philippine Peso to the United States Dollar depreciated from ₱52.612 as of April 30, 2003 to ₱56.034 as of April 30, 2004.

The significant increase in taxes and licenses and professional fees can be attributed to the Company's quasi-reorganization. Equity in net losses of associated company amounted to ₱377,129 in 2004 as against the equity in net earnings of ₱185,904 in 2003. B. U. Properties, with present revenue consisting of rental income, was unable to sustain its operations because of the downtrend in real estate industry.

The provision for income tax of ₱615,111 represents the minimum corporate income tax (MCIT) due for 2004. There were no revenues subject to the MCIT in 2003.

Financial Condition

Total assets increased from ₱578,873,733 as of April 30, 2003 to ₱579,041,202 as of April 30, 2004. The significant decrease in cash and cash equivalents is relative to the increase in marketable securities. As of April 30, 2004, the Company has a US$4,094,339 investment in Philippine government bonds maturing on March 17, 2015. Interest accrued on this investment amounted to ₱2,508,906 as of April 30, 2004.

After comparing the cost and market value of the marketable securities as of April 30, 2004, the Company provided an allowance for decline in value of its investment in United States dollar-denominated Philippine government bonds amounting to ₱5,661,123 and recognized a recovery in value of its investment in current marketable equity securities amounting to ₱450,301

The input tax of ₱185,037 is related to the legal fees paid in connection with the Company's quasi-reorganization. The decrease in property and equipment is mainly due to depreciation

expense. The increase in accounts payable and accrued liabilities from ₱50,173 in 2003 to ₱ 225,324 in 2004 is due to the accrual of 2004 audit fees.

The significant changes in stockholders' equity represent the effects of the SEC's approval of the Company's quasi-reorganization (see separate discussion above).

Due to the Company's limited operations, no forecast is being prepared in a regular basis. There are only (3) performance indicators currently being used to evaluate company performance and these are as follows:

1. **<u>Net Income(Loss)</u>**

   Consolidated net loss for the fiscal year ended April 30, 2004 amounted to (P 642,662) while last years' net loss was (P 12,760,862.) Variance in net loss is due to higher interest income and foreign exchange gains with corresponding higher expenses for the period.

2. **<u>Current Ratio</u>**

   Current ratio for April 2004 is 14.68 while last year was 14.78. The slight decrease is due to higher accounts payable and income tax payable.

3. **<u>(Loss) per share</u>**

   (Loss) per share as of April 2004 is (P0.001) while last years' loss per share was (P0.028). The quasi –reorganization resulted to a change in the weighted average number of common shares outstanding during the year from 462,000,000 shares last year to 855,946,183 shares this year.

At present, the Company is not aware of any trend or event that is expected to affect considerably its cash flows or liquidity for the next twelve months. There are no events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation. There are no known material off-balance sheet transactions, arrangements, obligations(including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period. There are no commitments for capital expenditures, nor any expected purchase and sale of plant and significant equipment. There are no known trends or uncertainties that could have a material impact on the Company's revenues or operating income. There are no significant elements of income or loss that did not arise from the Company's continuing operations. There are no seasonal aspects that had a material effect on the financial condition or results of operations of the Company during the last three years.

The causes for any material change from period to period which shall include vertical and horizontal analyses of material item;

Results of our vertical analyses showed the following material changes:

1. **Interest Income - 52.32%**
2. **Foreign exchange gains – 44.53%**
3. **Dividends – 34.74%**
4. **Equity in net earnings – (62.30%)**
5. **Taxes and licenses – 287.04%**
6. **Depreciation – 1100.94%**
7. **Professional fees – 80.16%**
8. **Decline in value of marketable securities – 74.73%**

9. Compensation and employee benefits – (2132.45%)
10. Foreign exchange loss – (106.41)
11. Others – (518.23%)

Results of our Horizontal analyses showed the following material changes:

1. **Cash and cash equivalents – (56.53%)**
2. **Marketable securities –net -107.28%**
3. **Property and equipment – (18.87)**
4. **Accounts payable and accrued expenses – 349.09%**
5. **Premium on capital stock – (100%)**
6. **Deposit for future stock subscription (100%)**
7. **Revaluation increment in property and equipment – (100%)**
8. **Deficit – (81.89%)**

All the material changes stated above are already explained in the above Management Discussion and Analysis.

2003

Results from the Company's consolidated operations showed a net loss of ₱12,760,862, as against last year's net loss (as restated) amounting to ₱361,465,942. Equity in net earnings of B. U. Properties decreased this year, compared to 2002 and 2001. The operations of its two subsidiaries – Phoenix Energy and Phoenix Gas– are still dormant.

Total assets increased to ₱578,873,733 this year, from a total of ₱260,920,630 (as restated) in 2002. There was a significant increase in short-term investments and an acquisition of a Japanese government bond with a face value of US$ 2,000,000, which is callable on June 30, 2008.

The deferred oil exploration and development costs have been provided with a 100% allowance for probable losses. These costs represent the deferred oil exploration and development costs incurred in the various service contract areas. The full recovery of these deferred costs is dependent upon the discovery of oil and gas in commercial quantities from the respective petroleum concessions and success of future development thereof.

Beginning balance of retained earnings (deficit) amounting to ₱664,925,436 has been restated from the amount previously reported in 2002 to reflect prior period adjustments amounting to ₱270,127,599. These adjustments pertain mainly to the additional provisions for losses on deferred oil and exploration costs and for permanent decline in value of the investment in Unioil.

Stockholders' equity showed positive results as of April 30, 2003, amounting to ₱72,728,274, resulting to the quasi-organization of the Parent Company.

2002

Based on restated figures, the Company's operations resulted to a net loss of ₱566,505,805 for the year ended April 30, 2002 , primarily due to the additional provisions for losses on deferred oil and exploration costs (₱458,278,483), and actual write offs of a portion of the deferred oil and development costs relating to permanently abandoned service contracts and deferred charges (₱90,841,851).

While total revenue of ₱404,913 increased this year from last year's restated figure of ₱358,295, there was a significant increase in operating expenses, from ₱6,556,578 in 2001 to ₱315,252,448 in 2002. The primary factors are related to the deferred oil and exploration costs, as explained in the foregoing paragraph.

Corollary to this, Retained earnings (deficit) amounting to ₱442,079,364 significantly declined from 2001 restated figure of ₱80,553,422.

Total assets have also remarkably declined from the previously reported ₱314,733,229 to ₱266,920,630, after retroactive adjustments.

Total Stockholders' equity (Capital deficiency) amounted to(₱10,637,759), as compared to the previously reported Stockholders' equity amounting to ₱350,824,850.

ITEM 7 – FINANCIAL STATEMENTS

See attached financial statements.

ITEM 8 – CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There are no changes in and disagreements with accountants on accounting and financial disclosure.

PART III – CONTROL AND COMPENSATION INFORMATION

ITEM 9 – DIRECTORS AND EXECUTIVE OFFICERS

1. Directors, Including Independent Directors, and Executive Officers

Name	Age	Citizenship	Position	Business Experience/Other Directorships for the Last 5 Years
Raymundo O. Feliciano	78	Filipino	Chairman and President and Principal Executive Officer	Chairman of Phoenix Energy, Phoenix Gas, B. U. Properties, and Bates Licensing &Entertainment, Inc.; President of ROF Management & Development Corp.; Director of Trans-Asia Oil & Development Corporation, Unioil Resources & Holdings Co., Inc.
Antonio Q. Sevilla	67	Filipino	Vice-Chairman and Executive Vice-President	Chairman of Unioil Resources & Holdings Co., Inc.; President of Phoenix Energy, Phoenix Gas and B. U. Properties
Raymundo F. Feliciano, Jr.	44	Filipino	Director and Vice-President for Corporate Services	Director and Treasurer of Phoenix Energy, Phoenix Gas, B. U. Properties and Bates Licensing & Entertainment, Inc.,; Director of Erundina Farm Management Corp. and Giraffe Philippines, Inc.
Anthony M. Te	33	Filipino	Director	Chairman and CFO of AT Global Advertising, Inc. and Mactelecom Corporation; Director and Senior Vice-President of Asian Appraisal Co., Inc.; Director and Treasurer of Baguio Gold Holdings, Inc.; Director of M. T. Holdings, Inc., PGA Cars, Inc., MRC Allied

				Industries, Inc. and Oriental Petroleum & Minerals Corp.
Ma. Cecilia L. Pesayco	**50**	**Filipino**	**Corporate Secretary and Corporate Information Officer**	**Corp. Secretary – Allied Banking Corp., Tanduay Holdings, Inc., Baguio Gold Holdings Corp. East Silverlane Realty & Dev. Corp., Asst. Corp. Sec- PR Holdings, Inc.**
Victor Yu	**43**	**Filipino**	**Director**	**President of Round Peak Realty & Development Corp.;**
Name	**Age**	**Citizenship**	**Position**	**Business Experience/Other Directorships for the Last 5 Years**
Jaime J. Bautista	**45**	**Filipino**	**Director**	**President of Basic Capital Investment Corp. and PNB Forex, Inc.; Director of Air Phils. Inc., Baguio Gold Holdings Corp. and MacroAsia Corp.; Member of the Board of Trustees of University of the East and UERM Medical Center Foundation; CFO of Lucio Tan Group of Companies; Finance Director of Pacific East Asia Cargo Airlines; Member of the Board of Advisors of Philippine Airlines, Inc.**
Wilson T. Young	**48**	**Filipino**	**Director**	**Vice-Chairman of UERM Medical Center Foundation; Director of Tanduay Holdings, Inc., Baguio Gold Holdings Corp., Tanduay Brands International, Inc., Domecq Asia Brands and Flor De Cana Shipping, Inc.; CFO of Tanduay Distillers and Asian Alcohol Corportion; COO of Total Bulk Corporation; Member of the Board of Trustees of University of the East**
Dewey Lim Yu	**54**	**Filipino**	**Director**	**President of Jewel Holdings, Inc., Dunmore Development Corp., Lapu-lapu Packaging Corporation, Proton Realty & Development Corp. Treasurer-Network Holdings & Equities, Inc. and Director of Optima Holdings, Inc.**
Santos C. Tan	**54**	**Filipino**	**Director**	**President of Metrolux Trading Corporation; Treasurer of Anvil Development Corporation, Argao Sales, Inc., Local Trade & Development Corporation and Orangeville Development Corp.; Director of Allmark Holdings Corporation, Caravan Holdings Corporation, Landcom Realty Corporation and Precision Holdings & Equities Corp.; Corporate Secretary of Merit Holdings & Equities Corp.**
Peter Y. Ong	**56**	**Filipino**	**Director**	**President of Network Holdings & Equities Corp.; Treasurer of Cosmic Holdings Corporation and Merit Holdings & Equities Corp; Director of Basic Capital Investment Corp., and Iris Holdings & Development Corp.**
Pompeyo S. Tiu	**79**	**Filipino**	**Independent Director since Oct. 21, 2003**	**Corporate Secretary of Allied Banking Corporation. Retired in 2001. Independent Director of Baguio Gold Holdings Corp.**
Regnar C. Rivera	**75**	**Filipino**	**Independent Director since Oct. 21, 2003**	**Director of Rivera Farms, Inc. and Lloreen's International, Independent Director of Baguio Gold Holdings Corp.**

Nestor C. Mendones	**48**	**Filipino**	**Chief Finance Officer**	**Vice President and CFO of Tanduay Holdings, Inc. and Tanduay Distillers, Inc.**

Directors elected in the Annual Meeting of the Stockholders have a term of office of one (1) year and serve as such until their successors are elected and qualified in the next annual meeting of stockholders.

2. Significant Employees

There are no significant employees who are expected by the registrant to make a significant contribution to the business.

3. Family Relationship

Mr. Raymundo F. Feliciano, Jr. is the son of Mr. Raymundo O. Feliciano.

4. Involvement in Certain Legal Proceedings

None of the Company's directors or executive officers are involved in any bankruptcy petition by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time ; any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses ; being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities ; and being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

ITEM 10 – EXECUTIVE COMPENSATION

For the fiscal years 2002-2004 the directors and executive officers did not receive compensation.

The directors do not receive any compensation pursuant to the Company's By-Laws but they are entitled to reasonable per diem for attendance of any regular or special meeting.

Standard Arrangements

The last recorded compensation of directors and executive officers was that of former officers for the period November 2001 to April 2003 amounting to ₱7,902,100 which remained unpaid to date. Estimated liabilities for separation and retirement benefits amounted to ₱18,532,583 as of April 30, 2004.

Other Arrangements

With the entry of new directors, compensation has not yet been agreed upon.

There are no employment contracts and termination of employment and change-in-control arrangements.

ITEM 11 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

1. Security Ownership of Certain Record and Beneficial Owners

Title of Class	Name and Address		Citizenship	AmountNature of record/beneficial ownership	%
Common	Saturn Holdings, Inc. SMI Compound, C. Raymundo Ave., Maybunga, Pasig City		Filipino	300,000,000	80.26
Common	PCD Nominee Corp. * G/F Makati Stock Exchange, Ayala Avenue, Makati City		Filipino	30,661,404	8.20

*** There is no beneficial owner owning more than 5% as of April 30, 2004, who exercises voting power over the shareholdings of each participant under PCD.**

2. Security Ownership of Management

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	%
Common	Raymundo O. Feliciano	1,668/r	Filipino	0.0005
Common	Antonio Q. Sevilla	544,587/r	Filipino	.1457
Common	Roymundo F. Feliciano, Jr.	1,037,920/r	Filipino	.2777
Common	Anthony M. Te	18/r	Filipino	0.0000
Common	Victor Yu	18/r	Filipino	0.0000
Common	Ma. Cecilia L. Pesayco	18/r	Filipino	0.0000
Common	Wilson T. Young	18/r	Filipino	0.0000
Common	Jaime J. Bautista	18/r	Filipino	0.0000
Common	Dewey Lim Yu	1,815/r	Filipino	0.0005
Common	Santos C. Tan	1,815/r	Filipino	0.0005
Common	Peter Y. Ong	1,815/r	Filipino	0.0005
Common	Pompeyo S. Tiu	10,000/r	Filipino	.0027
Common	Regnar C. Rivera	10,000/r	Filipino	.0027

Security ownership of all directors and officers as a group as of April 30, 2004 is 1,609,710 shares representing 0.4308% of the Company's total outstanding capital stock.

2. Voting Trust Holders of 5% or More

There were no persons holding more than 5% of a class under a voting trust or similar agreement.

3. Change in Control

There are no arrangements, which may result in change in control of the registrant.

ITEM 12 – CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There had been no transactions during the year with or involving the Company or any of its subsidiaries in which a director, executive officer, or stockholder owns five percent (5%) or more of total outstanding shares and members of their immediate family had or is to have direct or indirect material interest.

PART IV- EXHIBITS AND SCHEDULES

ITEM 13. Exhibits and Reports on SEC Form 17-C

LIST OF ITEMS REPORTED UNDER SEC FORM 17-C (DURING THE LAST 6 MONTHS)

MARCH 12, 2004 - Adoption of Section 4.2 of the Revised Disclosure Rules entitled " Selective Disclosure of Material Information" under Section 5.6 of the Company's Corporate Governance Manual.

PART V

ITEM 14. The evaluation system established by the Company to measure or determine the level of compliance of the Board of Directors and top-level management with its Manual of Corporate Governance.

The Compliance officer is currently in charge of evaluating the level of compliance of the Board of Directors and top-level management of the Corporation.

ITEM 15. Measures being undertaken by the Company to fully comply with the adopted leading practices on good corporate governance.

Due to the Company's limited operations, measures are slowly being undertaken by the Company to fully comply with the adopted leading practices on good corporate governance and one of them is the election of independent directors.

ITEM 16. Any deviation from the Company's Manual of Corporate Governance. It shall include a disclosure of the name and position of the person(s) involved, and the sanctions imposed on said individual.

Though limited in operations, the Company is slowly taking steps towards full compliance of its Corporate Governance Manual.

ITEM 17. Any plan to improve corporate governance of the Company.

The Company has plans to improve corporate governance once it starts commercial operations.

SIGNATURES

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, the ___________________ on ________________.

BALABAC RESOURCES & HOLDINGS CO., INC.
Issuer

By:

RAYMUNDO O. FELICIANO **President and Principal Executive Officer**	**Not Applicable** **Comptroller**
Not Applicable **Principal Operating Officer**	**SUSAN T. LEE** **Principal Accounting Officer**
NESTOR C. MENDONES **Principal Financial Officer**	**ATTY. MA.CECILIA L. PESAYCO** **Corporate Secretary**

SUBSCRIBED AND SWORN to before me this _________________day of _________________, 2004 affiant(s) exhibiting to me his/their Community Tax Certificates, as follows:

Names	CTC Number	Date and Place of Issue
Raymundo O. Feliciano	15167349	08 Jan. 2004/Makati City
Nestor C. Mendones	12384043	28 Jan. 2004/Manila
Ma. Cecilia L. Pesayco	15291707	05 Apr. 2004/ Makati City
Susan T. Lee	14767949	20 Feb. 2004/Manila

NOTARY PUBLIC

Doc No. ________
Page No. _______
Book No. _______
Series of 2004

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Balabac Resources and Holdings Co., Inc. is responsible for all information and representations contained in the consolidated financial statements as of April 30, 2004 and 2003 and for each of the three years in the period ended April 30, 2004. These financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's audit committee and to its external auditors: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data;(ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the consolidated financial statements before such statements are approved and submitted to the stockholders of the Company.

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, have examined the consolidated financial statements of the Company in accordance with generally accepted auditing standards in the Philippines and have expressed their opinion on the fairness of presentation upon completion of such examination, in their report to the stockholders and Board of Directors.

Signed under oath by the following:

Raymundo O. Feliciano
Chairman of the Board and President

Nestor C. Mendones
Chief Financial Offic

COVER SHEET

4	3	7	9	8					

SEC Registration Number

BALABAC RESOURCES AND HOLDINGS
CO., INC. AND SUBSIDIARIES

(Company's Full Name)

7th Floor, Allied Bank Center
6754 Ayala Avenue, Makati City

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

Mr. Nestor C. Mendones
(Contact Person)

736-8466
(Company Telephone Number)

0 4	3 0
Month	*Day*

(Fiscal Year)

A A F S
(Form Type)

Month	*Day*

(Annual Meeting)

Not Applicable
(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SGVMC304451

BALABAC RESOURCES AND HOLDINGS CO., INC. AND SUBSIDIARIES

Consolidated Financial Statements
April 30, 2004 and 2003
and Years Ended April 30, 2004 and 2003
(With Comparative Figures for 2002)

and

Report of Independent Auditors

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-F

Report of Independent Auditors

The Stockholders and the Board of Directors
Balabac Resources and Holdings Co., Inc.
7th Floor, Allied Bank Center
6754 Ayala Avenue
Makati City

We have audited the accompanying consolidated balance sheets of Balabac Resources and Holdings Co., Inc. and subsidiaries as of April 30, 2004 and 2003, and the related consolidated statements of income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the April 30, 2004 and 2003 financial statements of the Company's subsidiaries, namely, Phoenix Energy Corporation (Phoenix Energy) and Phoenix Gas and Oil Exploration Co., Inc. (Phoenix Gas), and the December 31, 2003 and 2002 financial statements of its associated company, B.U. Properties Corporation (B.U.). The 2004 and 2003 financial statements of Phoenix Energy and Phoenix Gas reflect total assets constituting 39.3% in both years, and net loss of 28.6% and 1.7% in 2004 and 2003, respectively, of the related consolidated totals. The carrying value of the Company's investment in B.U. and its equity in net loss or earnings of B.U. constitute 3.2% and 3.3% as of April 30, 2004 and 2003, and 61.6% and 1.4% for the years ended April 30, 2004 and 2003, respectively, of the related consolidated totals. The financial statements of the subsidiaries and the associated company were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included in 2004 and 2003 for these subsidiaries and associated company, is based solely on the reports of the other auditors. The consolidated financial statements of Balabac Resources and Holdings Co., Inc. and subsidiaries as of and for the year ended April 30, 2002 were audited by other auditors whose report thereon dated August 23, 2002 expressed an unqualified opinion on those statements. The opinion of the other auditors, however, do not cover the restatement of those statements as mentioned in Note 18 to the consolidated financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Balabac Resources and Holdings Co., Inc. and subsidiaries as of April 30, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the Philippines.

J. H. ESTOMO
Partner
CPA Certificate No. 46349
SEC Accreditation No. 0078-A
Tax Identification No. 102-086-208
PTR No. 7012983
January 5, 2004
Makati City

August 10, 2004

BALABAC RESOURCES AND HOLDINGS CO., INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	April 30	
	2004	2003
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 14)	**₱87,266,174**	₱200,759,143
Marketable securities - net (Notes 5 and 14)	**226,509,786**	112,010,008
Accrued interest receivable (Note 5)	**2,508,906**	–
Input tax	**185,037**	–
Total Current Assets	**316,469,903**	312,769,151
Noncurrent Assets		
Investments in:		
Associated company (Note 6)	**18,498,398**	18,875,527
Shares of stock (Note 7)	**2,283,089**	2,283,089
Real estate	**4,413,100**	4,413,100
Others	**1,250,000**	1,250,000
Property and equipment (Note 8):		
At appraised values - net	**13,184,309**	16,250,154
At cost - net	**36,332**	126,640
Other noncurrent assets - net (Notes 9, 10, 11 and 15)	**222,906,072**	222,906,072
Total Noncurrent Assets	**262,571,300**	266,104,582
TOTAL ASSETS	**₱579,041,203**	₱578,873,733
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	**₱225,324**	₱50,173
Income tax payable (Note 15)	**615,111**	–
Dividends payable	**447,366**	447,366
Subscriptions payable (Note 7)	**20,660,187**	20,660,187
Total Current Liabilities	**21,947,988**	21,157,726
Noncurrent Liabilities		
Notes payable (Note 11)	**222,906,072**	222,906,072
Advances from related parties (Note 13)	**6,166,198**	6,176,493
Estimated liabilities for retirement benefits and accrued salaries (Note 13)	**26,434,683**	26,434,683
Other noncurrent liability (Note 12)	**1,775,711**	1,775,711
Total Noncurrent Liabilities	**257,282,664**	257,292,959
Total Liabilities	**279,230,652**	278,450,685
Minority Interests	**45,039**	44,935
Equity		
Capital stock (Notes 2 and 16)	**381,691,029**	406,536,284
Premium on capital stock (Note 2)	**–**	24,854,409
Deposit for future stock subscription (Note 2)	**–**	307,892,762
Revaluation increment in property and equipment (Notes 2 and 8)	**–**	13,479,324
Deficit (Note 2)	**(81,917,562)**	(452,376,711)
Treasury stock - 10,000 shares, at cost	**(7,955)**	(7,955)
Total Equity	**299,765,512**	300,378,113
TOTAL LIABILITIES AND EQUITY	**₱579,041,203**	₱578,873,733

See accompanying Notes to Consolidated Financial Statements.

BALABAC RESOURCES AND HOLDINGS CO., INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED APRIL 30, 2004 AND 2003
(With Comparative Figures for 2002)

	2004	2003	2002 (Restated - Note 18)
REVENUE			
Interest (Notes 4 and 5)	**₱18,429,628**	₱4,720	₱14,742
Foreign exchange gains	**15,224,891**	–	–
Recovery in value of current marketable equity securities - net (Note 5)	**–**	–	678,471
Dividends	**117,294**	104,684	915
Gain on sale of marketable equity securities	**–**	–	82,630
Equity in net earnings of associated company (Note 6)	**–**	185,904	306,626
	33,771,813	295,308	1,083,384
EXPENSES			
Taxes and licenses	**22,285,549**	1,050,996	–
Provisions for:			
Decline in value of marketable securities - net (Note 5)	**5,210,822**	219,916	–
Probable losses on deferred oil exploration and development costs (Note 9)	**60,453**	–	288,847,204
Doubtful accounts	**–**	–	3,396,722
Depreciation (Note 8)	**3,156,153**	3,312,658	682,057
Professional fees	**1,819,578**	239,200	–
Equity in net losses of associated company (Note 6)	**377,129**	–	–
Loss on sale of marketable securities	**113,910**	–	–
Write-off of deferred oil exploration and development costs and other deferred charges	–	–	83,845,229
Compensation and employee benefits (Note 13)	**–**	6,363,073	20,553,110
Foreign exchange losses	**–**	317,530	–
Others	**745,605**	1,552,862	1,734,355
	33,769,199	13,056,235	399,058,677
INCOME (LOSS) BEFORE INCOME TAX	**2,614**	(12,760,927)	(397,975,293)
PROVISION FOR INCOME TAX - Current (Note 15)	**615,111**	–	–
NET LOSS BEFORE NONCONTROLLING AND MINORITY INTERESTS	**(612,497)**	(12,760,927)	(397,975,293)
Noncontrolling and minority interests	**(104)**	65	36,509,351
NET LOSS	**(₱612,601)**	(₱12,760,862)	(₱361,465,942)
LOSS PER SHARE (Note 17)	**(₱0.001)**	(₱0.028)	(₱0.782)

See accompanying Notes to Consolidated Financial Statements.

BALABAC RESOURCES AND HOLDINGS CO., INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED APRIL 30, 2004 AND 2003
(With Comparative Figures for 2002)

	2004	2003	2002 (Restated - Note 18)
CAPITAL STOCK - ₱1 par value (Notes 2 and 16)			
Beginning of year	**₱406,536,284**	₱406,535,151	₱406,531,818
Reduction in capital stock applied against deficit	**(332,738,017)**	–	–
Application of deposit on subscriptions receivable	**307,892,762**	–	–
Collection of subscriptions receivable	**–**	1,133	3,333
End of year	**381,691,029**	406,536,284	406,535,151
PREMIUM ON CAPITAL STOCK			
Beginning of year	**24,854,409**	24,854,409	24,854,409
Applied against deficit (Note 2)	**(24,854,409)**	–	–
End of year	**–**	24,854,409	24,854,409
DEPOSIT FOR FUTURE STOCK SUBSCRIPTION (Note 2)			
Beginning of year	**307,892,762**	–	–
Application to stock subscription	**(307,892,762)**	–	–
Deposit during the year	**–**	307,892,762	–
End of year	**–**	307,892,762	–
REVALUATION INCREMENT IN PROPERTY AND EQUIPMENT			
Beginning of year	**13,479,324**	–	–
Applied against deficit (Note 2)	**(13,479,324)**	–	–
Appraisal increase	**–**	15,882,839	–
Transfer of current year's depreciation on appraisal increase charged to operations (Notes 3 and 8)	**–**	(2,403,515)	–
End of year	**–**	13,479,324	–
DEFICIT			
Beginning of year as restated (Note 18)	**(452,376,711)**	(442,019,364)	(80,553,422)
Portion of deficit wiped out (Note 2)	**371,071,750**	–	–
Net loss for the year	**(612,601)**	(12,760,862)	(361,465,942)
Transfer of current year's depreciation on appraisal increase charged to operations (Notes 3 and 8)	**–**	2,403,515	–
End of year	**(81,917,562)**	(452,376,711)	(442,019,364)
TREASURY STOCK - 10,000 shares, at cost	**(7,955)**	(7,955)	(7,955)
TOTAL EQUITY (CAPITAL DEFICIENCY)	**₱299,765,512**	₱300,378,113	(₱10,637,759)

See accompanying Notes to Consolidated Financial Statements.

BALABAC RESOURCES AND HOLDINGS CO., INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED APRIL 30, 2004 AND 2003
(With Comparative Figures for 2002)

	2004	2003	2002 (Restated - Note 18)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	**(₱612,601)**	(₱12,760,862)	(₱361,465,942)
Adjustments for:			
Depreciation (Note 8)	**3,156,153**	3,312,658	682,057
Loss (gain) on sale of marketable securities	**113,910**	–	(82,630)
Equity in net loss (earnings) of associated company (Note 6)	**377,129**	(185,904)	(306,626)
Interest income	**(18,429,628)**	(4,720)	(14,742)
Unrealized foreign exchange loss (gain) - net	**(1,417,191)**	317,530	–
Dividend income	**(117,294)**	(104,684)	(915)
Provisions for:			
Decline in value of marketable securities - net (Note 5)	**5,210,822**	219,916	–
Probable losses on deferred oil exploration and development costs (Note 9)	**60,453**	–	288,847,204
Doubtful accounts	–	–	3,396,722
Provision for income tax (Note 15)	**615,111**	–	–
Noncontrolling and minority interests in net earnings (losses) of consolidated subsidiaries	**104**	(65)	(36,509,351)
Recovery in value of current marketable equity securities - net	–	–	(678,471)
Write-off of:			
Deferred oil exploration and development costs and other deferred charges (Note 9)	–	–	83,845,229
Other noncurrent assets	–	80,514	45,000
Operating loss before working capital changes	**(11,043,032)**	(9,125,617)	(22,242,465)
Decrease (increase) in other current assets	**(185,037)**	1,050,996	1,031,572
Increase (decrease) in:			
Accounts payable and accrued liabilities	**175,151**	(302,270)	(11,241)
Estimated liabilities for retirement benefits and accrued salaries (Note 13)	–	6,363,073	16,057,416
Cash used in operations	**(11,052,918)**	(2,013,818)	(5,164,718)
Interest received	**15,920,722**	4,720	14,742
Dividends received	**117,294**	104,684	915
Net cash from (used in) operating activities	**4,985,098**	(1,904,414)	(5,149,061)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in marketable securities (Note 5)	**(424,938,867)**	(109,723,753)	–
Proceeds from sale of marketable securities	**304,165,045**	–	708,630
Payments for deferred oil exploration and development costs	**(60,453)**	–	
Net cash from (used in) investing activities	**(120,834,275)**	(109,723,753)	708,630
CASH FLOWS FROM FINANCING ACTIVITIES			
Advances received from (paid to) related parties - net	**(10,295)**	876,493	4,241,865
Deposit for future stock subscription (Note 2)	–	307,892,762	–
Collection of subscriptions receivable	–	1,133	3,333
Net cash from (used) in financing activities	**(10,295)**	308,770,388	4,245,198
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**2,366,503**	(317,530)	–
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(113,492,969)**	196,824,691	(195,233)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**200,759,143**	3,934,452	4,129,685
CASH AND CASH EQUIVALENTS AT END OF YEAR (Notes 4 and 14)	**₱87,266,174**	₱200,759,143	₱3,934,452

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information and Business Operations

Corporate Information

Balabac Resources and Holdings Co., Inc. (the Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on April 2, 1971 under the name "Balabac Oil Exploration & Drilling Co., Inc." to engage in oil exploration and mineral development projects in the Philippines. On May 12, 1988, the Parent Company's shares of stock were approved for registration and licensing by the SEC. On August 19, 1996, the Parent Company's Articles of Incorporation was amended: (a) to change the Parent Company's primary purpose from oil exploration and mineral development to that of engaging in the business of a holding company; and (b) to include real estate development and oil exploration as among its secondary purposes.

The registered business address of the Parent Company is 7th Floor, Allied Bank Center, 6754 Ayala Avenue, Makati City. The Parent Company and its subsidiaries (see Note 3) (the Group) have no regular employee. Management, accounting, statutory reporting and compliance, and administrative services are provided by an affiliate at no cost to the Group.

Business Operations

The Parent Company's principal activity is that of an investment holding company. Prior to the entry of a new stockholder (see Note 2), the Parent Company derives majority of its revenue from B.U. Properties Corporation (B.U.), a 30%-owned associated company, engaged in real estate development. With the entry of the new stockholder, the Parent Company's revenue consists mainly of interest income on short-term cash investments and marketable securities and foreign exchange gains. The Parent Company's subsidiaries have not started their commercial operations. Income from other sources are insignificant to the Group.

The accompanying consolidated financial statements were authorized for issue by the Board of Directors on August 10, 2004.

2. New Stockholder and Quasi-Reorganization

New Stockholder

In March 2003, the Parent Company and Saturn Holdings Corporation (Saturn) executed an agreement whereby Saturn agreed to subscribe, subject to certain conditions, to the increase in the Parent Company's authorized capital stock for an aggregate par value of ₱1,231,550,433. The change in the investor from Round Peak Realty and Development Corporation (Round Peak) to Saturn was approved by the Parent Company's board of directors in February 2003.

On April 10, 2003, pursuant to the terms of the agreement, the Parent Company received from Saturn the initial payment of 25% amounting to ₱307,892,762 following SEC's exemption of the Parent Company's issuance of shares to Saturn from the mandatory tender offer rule under the Securities Regulation Code. The balance shall be payable in cash or in kind upon call by the Parent Company's board of directors.

Saturn's obligation to subscribe is subject to the following conditions, which, except for the wipe-out of the Parent Company's deficit as of October 31, 2002, have been complied with as of April 30, 2004:

a. Cancellation of the Parent Company's subscriptions receivable in the amount of ₱55,463,716;

b. Wipe-out of the Parent Company's deficit as of October 31, 2002 amounting to ₱391,629,964, of which ₱20,558,214 has not been wiped out (see section on Quasi-Reorganization);

c. SEC's confirmation that the issuance of the subscribed shares to Saturn is exempt from the registration requirements under the Securities Regulation Code; and,

d. Increase in the Parent Company's authorized capital stock from ₱73,798,267 to ₱5 billion.

In October 2003, Saturn subscribed to the aggregate par value of ₱1,231,550,434 representing 25% of the increase in the Parent Company's authorized capital stock from ₱73,798,267 to ₱5 billion. Accordingly, the deposit received from Saturn in April 2003 amounting to ₱307,892,762 was applied to the subscription. Also, the Parent Company issued 349,630,297 new shares at par consisting of 300,000,000 shares issued to Saturn and 49,630,297 shares (after cancellation of 55,463,716 subscribed shares) issued to subscribers existing prior to the entry of Saturn.

Quasi-Reorganization

On January 14, 2003, the stockholders approved the quasi-reorganization of the Parent Company to enable the new investor to be on equal footing with all existing stockholders. The quasi-reorganization consists of:

a. Recall and non-implementation of an approval in 1996 by the Parent Company's board of directors to increase the Parent Company's authorized capital stock from ₱1 billion to ₱2.5 billion, both with a par value of ₱1 per share;

b. Reduction in the Parent Company's authorized capital stock from ₱1 billion to ₱73,798,267, net of fractional shares, with a par value of ₱1 per share, to remove the deficit as of October 31, 2002 amounting to ₱391,629,964;

c. Simultaneous increase in the Parent Company's authorized capital stock from ₱73,798,267 to ₱5 billion, with a par value of ₱1 per share; and,

d. Rights of stockholders as of a record date to subscribe at par to two shares for every one share held after the reduction in the Parent Company's capital stock to be granted, after SEC's approval of the increase in the Parent Company's authorized capital stock to ₱5 billion.

On August 26, 2003, the Parent Company requested the SEC's approval to apply the Parent Company's (a) reduction surplus amounting to ₱332,738,018 expected to result from the decrease of authorized capital stock from ₱1 billion to ₱73,798,267; (b) revaluation increment in property and equipment amounting to ₱13,479,324; and (c) premium on capital stock amounting to ₱24,854,409, to eliminate a portion of its deficit of ₱391,629,964 as of October 31, 2002.

The SEC approved the request to apply the revaluation increment in property and equipment and the premium on capital stock on October 7, 2003 subject to the following conditions:

a. For purposes of dividend declaration, the retained earnings of the Parent Company shall be restricted to the extent of the deficit wiped out (and not covered by accumulated depreciation on revaluation increment, see Note 8) by the appraisal surplus; and,

b. After the quasi-reorganization and equity restructuring has been effected, the Parent Company shall disclose in all its subsequent financial statements for a minimum period of three years the mechanics, purpose and effect of such quasi-reorganization and equity restructuring on the financial condition of the Parent Company.

On October 8, 2003, the SEC also approved the reduction in the Parent Company's authorized capital stock from ₱1 billion to ₱73,798,267 and the simultaneous increase in its authorized capital stock from ₱73,798,267 to ₱5 billion. The reduction in authorized capital stock resulted in the reduction amounting to ₱332,738,017 in the balance of paid-up capital, which amount was used to wipe out a portion of the deficit as of October 31, 2002.

The effects of the foregoing components of the quasi-reorganization have been appropriately recognized in the 2004 consolidated financial statements.

As of August 10, 2004, the planned rights offering is under evaluation by the Parent Company.

3. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements have been prepared using the historical cost basis, except for office condominium and improvements and residential unit classified as part of "Property and equipment" which are stated at appraised values, and in conformity with accounting principles generally accepted in the Philippines.

Adoption of New Accounting Standards

On May 1, 2003, the Group adopted the following Statements of Financial Accounting Standards (SFAS)/International Accounting Standards (IAS) which became effective in fiscal year 2004:

- SFAS 10/IAS 10, *Events After the Balance Sheet Date,* prescribes the accounting and disclosures related to adjusting and non-adjusting subsequent events.

- SFAS 37/IAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* provides the criteria for the recognition and bases for measurement of provisions, contingent liabilities and contingent assets. It also specifies the disclosures that should be included with respect to these items.

The adoption of these new accounting standards did not result in restatement of prior years' consolidated financial statements. Additional disclosures required by the new standards, however, were included in the consolidated financial statements, where applicable.

Basis of Consolidation

The consolidated financial statements comprise the financial statements as of April 30 of each year of the Parent Company and its subsidiaries, namely, Phoenix Energy Corporation (Phoenix Energy) and Phoenix Gas and Oil Exploration Co., Inc. (Phoenix Gas), in which the Parent Company exercises control and directly and/or indirectly owns common stock as follows:

		Percentage of Ownership	
	Nature of Activity	Direct	Indirect
Phoenix Energy *	Oil and mineral exploration	38.44	–
Phoenix Gas **	Oil and mineral exploration	10.00	34.58

* Incorporated in the Philippines on February 7, 1995 and has not started commercial operations.

** 90%-owned by Phoenix Energy; also incorporated in the Philippines on February 7, 1995 and has not started commercial operations.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses, are eliminated.

Noncontrolling and Minority Interests

Noncontrolling and minority interests represent the interests in subsidiaries, which are not owned, directly or indirectly, by the Parent Company. The losses applicable to the noncontrolling and minority stockholders in a consolidated subsidiary may exceed the noncontrolling and minority interests' equity in the subsidiary. The excess, and any further losses applicable to the noncontrolling and minority shareholders, are charged against the controlling interest except to the extent that the noncontrolling and minority shareholders have binding obligations to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the noncontrolling and minority shareholders' share of losses previously absorbed by the majority have been recovered.

Cash and Cash Equivalents

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

Marketable Securities

Marketable securities consist of investments in marketable equity securities and other short-term cash investments such as investments in bonds, commercial papers, government obligations and certificates of deposit. These are held for the purpose of investing in liquid funds and are not generally intended to be retained on a long-term basis.

Marketable equity securities are stated at the lower of aggregate cost or market value, determined at the balance sheet date. The amount by which aggregate cost exceeds market value is accounted for as a valuation allowance and changes in the valuation allowance are included in the consolidated statements of income. Realized gains and losses from the sale of marketable equity securities are included in the consolidated statements of income. The cost of marketable equity securities used for determining the gain or loss on the sale of such securities is computed using the average method.

Investments in government bond are carried at cost and adjusted for any loss on a price decline of the investments. Such loss is recorded, as a charge to operations, when the market price of the securities is less than the cost and it is evident that the decline is not due to a temporary condition. The cost of the security is reduced by the amount of the loss and the resulting amount is considered as the new cost basis of the investment.

Investments

Investment in shares of stock of the associated company wherein the Parent Company has significant influence mainly through representation in the associated company's board of directors and participation in policy-making processes, and which is neither a subsidiary nor joint venture, is accounted for under the equity method. Under this method, the cost of the investment is increased or decreased by the post-acquisition changes in the Parent Company's share in the net assets of the associated company and reduced by dividends received and any impairment in value.

The consolidated statements of income reflect the Parent Company's share in the results of operations of the associated company. Unrealized gains arising from transactions with the associated company are eliminated to the extent of the Parent Company's interest in the associated company against the investment in the associated company. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

Investments in noncurrent marketable equity securities are stated at the lower of aggregate cost or market value, determined at the balance sheet date. The amount by which aggregate cost exceeds market value is accounted for as a valuation allowance. Accumulated changes in the valuation allowance are included in a separate account under equity. When the market value of an individual noncurrent marketable equity security falls below cost and the decline is judged to be permanent, the difference between the cost and market value is treated as a realized loss and charged to operations.

Realized gains or losses from the sale of noncurrent marketable equity securities are recognized in current operations. The cost of noncurrent marketable equity securities used for determining the gain or loss on the sale of such securities is computed using the average method.

Investments in real estate, which consist of parcels of land, are carried at cost less any impairment in value.

Other investments in shares of stock are carried at cost less any significant decline in value of the individual investment. When there is a significant and apparently permanent decline in value of the individual investment, the carrying amount of the individual investment is written down to its net realizable value.

Property and Equipment

Furniture and fixtures are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Office condominium and improvements and residential units are stated at revalued amounts based on a valuation performed by an independent firm of appraisers as of August 16, 2002. The increase in the asset's carrying amount as a result of the revaluation is credited to the "Revaluation increment in property and equipment" account in the equity section of the consolidated balance sheets. Any revaluation decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same amount. Upon the disposal of revalued property and equipment, the relevant portion of the revaluation increment realized in respect of previous valuation is released from the revaluation increment directly to retained earnings (deficit).

In 2003, the amount of the revaluation increment absorbed through depreciation was charged to operations and an equivalent amount was transferred to deficit. In 2004, as discussed in Note 2, the Parent Company applied the balance of its revaluation increment in property and equipment to eliminate a portion of its deficit. Accordingly, there was no transfer in 2004 of revaluation increment that was absorbed through depreciation to deficit.

Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

Office condominium and improvements and residential unit	5 to 20 years
Furniture and fixtures	3 to 5 years

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

When assets are sold or retired, the cost or appraised value and related accumulated depreciation and any impairment in value are removed from the accounts, and any resulting gain or loss is included in the consolidated statements of income.

Impairment of Long-Lived Assets
The carrying values of property and equipment and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property and equipment and other long-lived assets is the higher of net selling price and value in use. 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 largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses, if any, are recognized in the consolidated statements of income.

Deferred Oil Exploration and Development Costs
Oil exploration and development costs incurred in connection with the subsidiaries' participation in the exploration of petroleum concessions are accounted for under the full cost method that is determined on the basis of each Service Contract (SC), Geophysical Survey and Exploration Contract (GSEC) and GSEC application. Under this method, all oil exploration and development costs relating to each service contract area are tentatively deferred pending determination as to whether the area contains oil or gas reserves in commercial quantity, subject to a limitation that the deferred costs will not exceed the value of those reserves. The balances of oil exploration and development costs relating to a service contract area where oil or gas in commercial quantity is discovered are subsequently capitalized as part of wells, platforms and other facilities under the "Property and equipment" account. Proceeds from the sale of crude oil lifted from an area under production testing during the exploration stage are first applied against deferred exploration and development costs. At the time of commercial production, revenue from crude oil is recognized.

Deferred oil exploration costs relating to an abandoned service contract area are written-off in the year when the area is permanently abandoned. A service contract area is considered permanently abandoned if the contract has expired and/or there are no definite plans for further exploration and/or development.

Revenue
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.

Interest income is recognized as the interest accrues.

Income Taxes
Deferred tax assets and liabilities are recognized for the future tax consequences attributable to: (a) temporary differences between the financial reporting bases of assets and liabilities and their related tax bases; and (b) net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rate expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled and NOLCO is expected to be applied. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized in the future. Any change in the valuation allowance is included in the computation of the provision for income tax for the year.

Foreign Currency Transactions
Transactions denominated in foreign currencies are recorded using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the rate of exchange at balance sheet date. Foreign exchange gains or losses are credited or charged against current operations.

Earnings (Loss) Per Share
Earnings (loss) per share is computed by dividing net income or loss by the weighted average number of common shares outstanding during the year.

New Accounting Standards Effective Subsequent to Fiscal Year 2004
The Accounting Standards Council has approved the following accounting standards which will be effective subsequent to fiscal year 2004:

- SFAS 12/IAS 12, *Income Taxes,* prescribes the accounting treatment for current and deferred income taxes. The standard requires the use of a balance sheet liability method in accounting for deferred income taxes. It requires the recognition of a deferred tax liability and, subject to certain conditions, deferred tax asset for all temporary differences with certain exceptions. The standard provides for the recognition of a deferred tax asset when it is probable that taxable income will be available against which the deferred tax asset can be used. It also provides for the recognition of a deferred tax liability with respect to asset revaluations. The Group will adopt SFAS 12/IAS 12 in fiscal year 2005. Upon its adoption, the Parent Company will recognize a deferred tax liability of ₱3,544,259 on revaluation increment in property and equipment as of May 1, 2004, thereby, increasing deficit and reducing total equity by such amount.

- SFAS 17/IAS 17, *Leases,* which prescribes the accounting policies and disclosures to apply to finance and operating leases. Finance leases are those that transfer substantially all risks and rewards of ownership to the lessee. A lessee is required to capitalize finance leases as assets and recognize the related liabilities at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The lessee should also depreciate the leased assets. Lease payments under an operating lease should be recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit. The Group will adopt SFAS 17/IAS 17 in fiscal year 2005 and, based on current circumstances, believes that the effect of the adoption of this new accounting standard will not be material.

4. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2004	2003
Cash in banks	**₱3,371,413**	₱519,384
Cash equivalents (Note 14)	**83,894,761**	200,239,759
	₱87,266,174	₱200,759,143

Cash in banks and cash equivalents earn interest at the respective bank deposit rates.

5. Marketable Securities

Marketable securities consist of investments in:

	2004	2003
Government bonds (Note 14)	**₱229,434,353**	₱109,723,753
Less allowance for decline in value	**5,661,123**	–
	223,773,230	109,723,753
Marketable equity securities	**5,213,041**	5,213,041
Less allowance for decline in value	**2,476,485**	2,926,786
	2,736,556	2,286,255
	₱226,509,786	₱112,010,008

As of April 30, 2004 and 2003, the government bonds represent investments in United States dollar-denominated bonds maturing on March 17, 2015 and June 30, 2008, respectively. Interest accrued on this investment amounted to ₱2,508,906 as of April 30, 2004.

Marketable equity securities are listed and traded at the Philippine Stock Exchange. As of August 10, 2004, the net unrealized gain arising after balance sheet date amounted to ₱62,788.

Net unrealized losses from marketable securities consist of:

	2004	2003
Gross unrealized losses from marketable securities	**(₱8,146,100)**	(₱2,926,786)
Gross unrealized gain from marketable securities	**8,492**	–
Net unrealized losses from marketable securities included in net loss	**(₱8,137,608)**	(₱2,926,786)

6. Investment in Associated Company

Investment in associated company consists of:

	2004	2003
Acquisition cost of B.U.	**₱14,998,500**	₱14,998,500
Accumulated equity in net earnings:		
Beginning of year	**3,877,027**	3,691,123
Equity in net earnings (losses) for the year	**(377,129)**	185,904
End of year	**3,499,898**	3,877,027
	₱18,498,398	₱18,875,527

Following is the summarized financial information on B.U. as of and for the calendar years ended December 31:

	2003	2002
Current assets	**₱13,090,941**	₱14,926,378
Noncurrent assets	**61,126,965**	60,793,809
Current liabilities	**1,231,874**	1,279,153
Noncurrent liabilities	**11,319,706**	11,517,610
Equity	**61,666,326**	62,923,424
Revenue	**2,457,638**	3,802,086
Net income (loss)	**(1,257,098)**	619,681

7. Investments in Shares of Stock

Investments in shares of stock consist of:

Unioil Resources and Holdings Co., Inc. (Unioil)	₱1,743,089
Club shares	540,000
	₱2,283,089

As of April 30, 2000, the cost of the Parent Company's investment in Unioil had exceeded its market value by ₱94,673,448, which decline in value was judged as permanent. Accordingly, the original cost basis of this investment amounting to ₱96,416,537 had been reduced by the amount of the realized loss to reflect the new cost basis of ₱1,743,089.

Subscriptions payable to Unioil amounting to ₱20,660,187 as of April 30, 2004 and 2003 are presented as part of current liabilities in the consolidated balance sheets.

8. Property and Equipment

Property and equipment consist of:

	2003	Additions	Reclassification	Revaluation	**2004**
At Appraised Values:					
Appraised value					
Office condominium and improvements	₱11,695,999	₱–	₱–	₱–	**₱11,695,999**
Residential unit	7,620,000	–	–	–	**7,620,000**
	19,315,999	–	–	–	**19,315,999**
Accumulated depreciation					
Office condominium and improvements	(2,263,740)	(2,263,740)	–	–	**(4,527,480)**
Residential unit	(802,105)	(802,105)	–	–	**(1,604,210)**
	(3,065,845)	(3,065,845)	–	–	**(6,131,690)**
Net Book Value	₱16,250,154	(₱3,065,845)	₱–	₱–	**₱13,184,309**
At Cost - Furniture and fixtures:					
Cost	₱1,564,520	₱–	₱–	₱–	**₱1,564,520**
Accumulated depreciation	(1,437,880)	(90,308)	–	–	**(1,528,188)**
Net Book Value	₱126,640	(₱90,308)	₱–	₱–	**₱36,332**

As of April 30, 2004 and 2003, the amounts of revaluation increment absorbed through depreciation amounted to ₱4,807,030 and ₱2,403,515, respectively.

If office condominium and improvements and residential unit were carried at cost less accumulated depreciation, the amounts as of April 30, 2004 would be as follows:

	Cost	Accumulated Depreciation	Net Book Value
Office condominium and improvements	₱4,462,467	(₱4,193,285)	₱269,182
Residential unit	4,696,134	(2,856,816)	1,839,318
	₱9,158,601	(₱7,050,101)	₱2,108,500

9. **Other Noncurrent Assets**

Other noncurrent assets consist of:

	2004	2003
Deferred oil exploration and development costs (Note 11)	**₱507,570,319**	₱507,509,866
Other receivables	**3,396,722**	3,396,722
	510,967,041	510,906,588
Less allowances for:		
Probable losses on deferred oil exploration and development costs	**284,664,247**	284,603,794
Doubtful accounts	**3,396,722**	3,396,722
	288,060,969	288,000,516
	₱222,906,072	₱222,906,072

The deferred oil exploration and development costs represent: (a) the costs previously incurred and deferred by the Parent Company and Unioil on account of their petroleum SCs, GSECs and GSEC applications with the Philippine government through the Department of Energy (DOE), which deferred costs were assigned in 1996 by the Parent Company and Unioil to Phoenix Energy (see Note 11); and (b) costs incurred solely by Phoenix Energy on account of the SCs, GSECs and GSEC applications assigned by the Parent Company and Unioil. These SCs, GSECs and GSEC applications provide for certain minimum work and expenditure obligations and are covered by operating agreements, which set forth the participating interests, rights and obligations of the contractors.

The details of the deferred oil exploration and development costs are as follows:

	2004	2003
Sector A:		
Offshore Batangas:		
West Batangas - GSEC No. 62	**₱10,464,868**	₱10,464,868
Ragay Gulf - GSEC No. 76	**1,443,951**	1,443,951
Sector B:		
Salvacion - SC No. 6A	**20,116,802**	20,116,802
Octon - SC No. 6A	**68,567,514**	68,507,061
Bonita - SC No. 6B	**21,018,449**	21,018,449
West Linapacan - SC No. 14C	**200,340,782**	200,340,782
North Matinloc - SC No. 14	**11,330,931**	11,330,931
Tara Area (Carved Out) - SC No. 14	**23,473,105**	23,473,105
Northwest Palawan/Busuanga - SC No. 42	**101,710,424**	101,710,424
Sector C:		
Southwest Palawan - GSEC No. 91	**4,883,679**	4,883,679
Offshore West Palawan - GSEC No. 94	**2,236,839**	2,236,839
Sector D - Offshore Balabac/Southwest Palawan - GSEC Application	**919,272**	919,272
Sector E - Sandakan/Dockan/Sulu Sea - SC No. 41	**29,685,673**	29,685,673
Others:		
Victoria - SC No. 36	**3,840,511**	3,840,511
Cadlao - SC No. 6	**7,537,519**	7,537,519
	₱507,570,319	₱507,509,866

In 2003, a portion amounting to ₱4,243,410 of the deferred oil exploration and development costs that were assigned by the Parent Company as well as those incurred by Phoenix Energy relating to permanently abandoned SCs/GSECs and/or relating to SCs/GSECs from which Phoenix Energy had withdrawn its participating interest, were written off by Phoenix Energy. In addition, an allowance for probable losses amounting to ₱284,664,247 and ₱284,603,794 as of April 30, 2004 and 2003, respectively, was provided for the portion of these deferred costs in view of the suspension of exploration activities in the contract areas for lack of available funding.

As of April 30, 2004 and 2003, the net carrying value of deferred oil exploration and development costs amounting to ₱222,906,072 pertains to the portion assigned by Unioil to Phoenix Energy that were intended to be recovered by the application of the proceeds from the sale of crude oil lifted from the corresponding service contract area. Such recovered costs would in turn be the basis of the installment payments of Phoenix Energy's notes payable to Unioil (see Note 11). As of August 10, 2004, Phoenix Energy and Unioil have not yet made a determination that it will no longer be economically, legally or physically feasible to recover these deferred costs. Meanwhile, management believes that in view of Phoenix Energy's withdrawals from and/or suspension of exploration activities for lack of funding, the source of repayment to Unioil has been negated or compromised. Further, management believes that the obligation to pay the notes payable to Unioil ceased as the repayment is contingent upon the recovery from the service contracts. Accordingly, any adjustments to the assets and liabilities with respect to this matter will be made in the consolidated financial statements upon the determination that the deferred costs will no longer be recovered.

The full recovery of deferred exploration and development costs is dependent upon the discovery of oil or gas in commercial quantities from the respective petroleum concessions and the success of future development thereof.

The following sections summarize the status of each of Phoenix Energy's and Phoenix Gas' oil exploration activities, together with management's outlook and plans.

a. Offshore West Batangas - GSEC No. 62

GSEC No. 62 covers 316,000 hectares of both offshore and onshore acreages in the West Batangas. The offshore Batangas area was also actively promoted internationally and locally to oil companies.

On January 19, 1999, Phoenix Energy decided not to participate in the Offshore Batangas - Tablas Strait area's new GSEC application.

b. Ragay Gulf - GSEC No. 76

The DOE granted the consortium a moratorium and/or suspension of work obligation until October 1999 to make a decision to drill its prospect. Another nine-month extension was granted by the DOE until July 20, 2000 for a US$230,000 2D seismic, gravity and magnetic, geological and geophysical acquisition program which was recently completed to firm up a final drilling prospect.

On April 14, 2000, Phoenix Energy officially withdrew from the area because of technical reasons and questions on exploration direction that cannot be addressed by the operator.

c. Octon - SC No. 6 Block A

In April 1998, Phoenix Energy agreed to relinquish, assign, transfer and convey, in favor of Philodrill Corporation (Philodrill), its 9% participating interest in SC No. 6A and all its rights, title and interests in and under SC No. 6A, the operating agreement and other documents and contracts related to SC No. 6A.

Phoenix Energy now has a remaining 1% participating interest and share in the revenue and production costs.

Extensive Northwest Palawan three-dimensional (3D) seismic survey commenced on February 28, 1997 over the areas covered by SC Nos. 6A and 6B and portions of GSEC Nos. 77 and 83. The seismic data which was acquired from March to July 1997 covered an area of about 1,317 sq. km. over the SC No. 6A block and adjacent areas.

The consortium has a budget of US$5.5 million for the survey.

Robertson Research UK (Robertson) was selected to undertake the interpretation and evaluation of the 3D data. A budget of US$515,000 was approved for the 3D data interpretation. GECO-Prakla, a seismic contractor, has completed processing the SC No. 6A seismic data to be interpreted by Robertson. Interpretation was completed in the first quarter of 2000. Interpretation report on CD form is being distributed to partners by the Operator.

The consortium was able to defer work obligations as approved by the DOE for one and one-half years starting September 1998.

d. Bonita - SC No. 6 Block B

Phoenix Energy has an 18% participating interest and share in the revenue and production costs and share in the pre-drilling expenses in a project of consortium composed of the Company, Alcorn, Oriental, Trans-Asia Oil and Mineral Development Corporation (Trans-Asia) and Philodrill, with Alcorn as the operator.

A non-exclusive 3D seismic data survey for SC No. 6B was acquired and processed in June 1998 by GECO-Prakla. Nido Petroleum Philippines Pty. Limited (previously, SOCDET Production Pty. Limited) acquired and interpreted the new 3D data for farming in the SC No. 6B consortium in exchange of 10% participating interest.

e. West Linapacan - SC No. 14C

As contractor for the consortium, GECO-Prakla ran a 2,000 plus sq. km. of 3D seismic survey in the whole block in 1998 that costed US$6 million. Phoenix Energy shall be carried free in this activity as provided in the Farm-in Agreement with SOCDET.

Phoenix Energy holds 1.95% participating interest in this block.

f. Tara Area (Carved Out) - SC No. 14

With 23% participating interest, Phoenix Energy shares in the exploration and drilling expenses of the project, which is operated by Trans-Asia.

g. Northwest Palawan/Busuanga - SC No. 42

On April 1, 1998, the operatorship of GSEC No. 77 was transferred to SOCDET.

A new Service Contract (SC No. 42) was signed for the former GSEC No. 77 area on October 29, 1998 as SOCDET of Australia as Operator. Geological and geophysical work including 3D seismic data acquisition and two-dimensional (2D) seismic interpretation has been done.

On March 17, 1999, SOCDET proposed for the work programs and budget for the fourth service contract year which includes geological and geophysical studies. The objectives of the work program are as follows:

a. Further define the Coron North prospect, with the intention of improving the consortium's confidence in and commitment to drilling the prospect.

b. Define Pagasa turbidite potential over the block, with the aim of identifying drillable prospects.

c. Farmout the acreage promoting Coron North Prospect for drilling.

Phoenix Energy holds a 6% and 1.1% participating interest and share in the revenue and production costs in the Nido and Coron blocks, respectively.

On December 13, 2002, Phoenix Energy withdrew its interest in the service contract.

h. Southwest Palawan - GSEC No. 91

The consortium approved a budget of US$150,400 for the year 1998-1999 program which includes completion of the minimum work in obtaining a moratorium/suspension for one year as granted by the DOE from June 14, 1999 to June 13, 2000. An additional US$50,000 budget was requested by Shell for the specialized seismic interpretation program.

On October 2, 2000, Phoenix Energy withdrew from the area by indicating to the operator, Shell, that Phoenix Energy shall not join the reapplication of the former GSEC No. 91 consortium to the DOE.

i. Offshore West Palawan - GSEC No. 94

GSEC No. 94 was granted on February 25, 1998 to an all-Filipino group composed of Trans-Asia (55%), Phoenix Energy (15%), Basic (10%), Oriental (5%) and Petrofields (5%). Several prospective leads have been identified from the current data in both the Nesozoic and Neogene sequences that are equivalent to the hydrocarbon discovery zones in Offshore Palawan.

A one-year moratorium/suspension was granted by the DOE from July 25, 1999 to July 20, 2000.

On October 17, 2000, Phoenix Energy reduced its participating interest from 15% to 5% by assigning the 10% balance to Trans-Asia.

On February 25, 2002, Phoenix Energy withdrew its interest in the service contract.

j. Sandakan/Dockan/Sulu Sea - SC No. 41

The consortium applied for and was granted by the DOE a one-year moratorium/ suspension of contractual work obligations from June 1999 to June 2000 to firm up the location of the 4th contract year commitment well.

Phoenix Energy withdrew from the block on July 11, 2000 and assigned the interest to the SC No. 41 operator.

k. Karang Besar (Indonesia)

On January 17, 1998, Phoenix Energy withdrew its 2% participating interest pursuant to the Karang Besar Joint Operating Agreement dated February 22, 1998. Through the Deed of Assignment entered into by Phoenix Energy and Maersk Oil Indonesia Karang Besar AS (Maersk Oil) on May 4, 1998, Phoenix Energy assigned, transferred and conveyed to Maersk Oil the 2% participating interest in and under the Karang Besar PSC, the Education Assistance Letter and the Joint Operating Agreement which shall be effective on and from January 17, 1998.

The assignment and transfer is subject to the receipt of the following written unconditional approval(s) and consent(s) before May 31, 1999:

a. Pertamina's unconditional approval of and consent to the assignment and transfer of the assigned interest to Maersk Oil; and

b. All other necessary consents and approvals from any present parties to the Karang Besar PSC (other than Phoenix Energy) and governmental entity concerned.

Phoenix Gas
Following is Phoenix Gas' participation in the various SC/GSEC areas:

	Participating Interests
North Matinloc - SC No. 14 Block B - 1	6.927%
West Linapacan - SC No. 14 Block C	0.532%
Cadlao Production Area - SC No. 6	28.277%
Bonita - SC No. 6B	10.125%

10. **Purchase and Sale Agreement with VAALCO Energy, Inc. (VAALCO)**

Effective February 1, 2004, Phoenix Gas, Basic Petroleum and Minerals Corp., Oriental Petroleum and Minerals, Corp., Linapacan Oil and Gas Power Corp., The Philodrill Corporation, Nido Petroleum Philippines Pty. Ltd., Alcorn Gold Resources Corp., Trans-Asia Oil and Energy Development Corp. and Petroenergy Resources Corp. (the Buyer) purchased for US$100 and other valuable considerations from VAALCO, Alcorn Philippines, Inc., Alcorn Production Philippines, Inc., and Altisma Energy, Inc. (the Seller), the Seller's participating interests in SC No. 6 and SC No. 14, subject to certain terms and conditions, as well as all the Seller's rights, titles and interests in these service contracts and related operating agreements, including; (a) the platforms, wells, production facilities and related assets; (b) contracts, data, information and related materials; (c) all office and support equipment; (d) accounts payable, asserted claims, contingent liabilities and non-intercompany receivables; (e) crude oil held or saved in the production facilities or associated barge or tanker storage produced on or after the Effective Time; and (f) all jointly contributed Operating Expense Fund and Contingency Funds, among others.

The significant terms of this Agreement, among others, follows:

1. The Seller's interests will be conveyed on an "as is, where is" basis effective February 1, 2004, without any warranty from Seller other than that the Seller legally acquired its Participating Interest in said contracts.

2. The Buyer acknowledges that operations will be governed by the Service Contracts, the applicable joint operating agreements or other related agreements affecting the interest and agrees to operate in conformity with such agreement and laws, regulations and rules applicable thereto.

3. The Buyer shall have the right to perform due diligence review with respects to Seller's interests and rights therein during the period prior to the Closing Date.

4. The Seller shall endeavor to have joint operations transactions up to Closing Date examined by DOE for cost recovery purposes.

5. The Closing Date shall be on April 30, 2004.

6. Assumption of Obligations and Indemnities of Buyer:

   a. To pay and perform any and all obligations, threatened liabilities and contingent liabilities of Seller in connection with the Interests arising prior to or subsequent to the Effective Time, including, without limitations, all obligations and liabilities arising under all existing and terminated contracts, agreements, permits, licenses, orders, or any other agreements or contracts attributable to the Interests (i) to pay and delivery any monies of whatsoever nature to any entity of the government of the Republic of the Philippines pursuant to the Service Contracts; (ii) related to any Preferential Purchase Right or Required Consent associated with the consummation of the transactions contemplated by this Agreement; (iii) in connection with or arising out of all risk relating to political, reservoir and crude oil prices associated with the ownership and/or operation of the Interests; (iv) to comply with all laws and governmental rules and regulations with respect to Interest; and (v) the claims.

   b. To release, agrees not to sue and shall, to the fullest extent permitted by law, protect, defend, indemnify, and hold Seller and its related parties, harmless from and against any claims, assumption of any obligation and breach by the Buyer in any of the Agreement.

   c. The indemnification, release, agreement not to sue and assumption provisions provided for in this agreement shall be applicable whether or not the losses, costs, expenses, and damages in question arose solely or in part from the gross, active, passive, comparative, or concurrent negligence, strict liability or other fault of any of the Seller Parties.

   d. Acknowledges obligation to the Seller Parties hereunder shall include claims that arise from or relate to common law principles, legal requirements, orders or other similar requirements.

---

11. **Notes Payable**

On October 31, 1996, the Parent Company and Unioil, a 14.8% shareholder of Phoenix Energy, executed separate deeds of assignment with Phoenix Energy whereby the Parent Company and Unioil assigned, transferred and conveyed to Phoenix Energy all of their right, title and interest in and to all of their oil exploration-related assets, more specifically in all the SCs, GSECs and GSEC applications to which the Parent Company and Unioil may be a party or in which they may be a participant. As provided in these deeds of assignment, the sales to Phoenix Energy of all of the Parent Company's and Unioil's interests in their oil exploration -related assets include any and all contingent right otherwise appertaining to the Parent Company and Unioil to recover all of the deferred costs incurred on account of the SCs, GSECs and GSEC applications and all of which deferred costs and the contingent right to recover the same from oil production or proceeds shall hereafter solely pertain to and be for the sole benefit and account of Phoenix Energy. Further, Phoenix Energy assumed any and all risks, liabilities and expenses attributable to any and all of the interest in the SCs, GSECs and GSEC applications assigned by the Parent Company and Unioil.

The notes payable amounting to ₱222,906,072 represent the balance of the consideration payable by Phoenix Energy to Unioil arising from the foregoing assignment of Unioil's oil exploration-related assets. The notes payable shall be due and payable in installment immediately upon the receipt by Phoenix Energy of any amount representing a cost recovery of the deferred costs incurred on account of these SCs, GSECs and GSEC applications. Each and every payment shall be equivalent to and shall not exceed 50% of each receipt. The installments shall continue to be paid until the full amount is fully paid or until it is determined that it will no longer be economically, legally or physically feasible to recover any remaining deferred costs.

12. Other Noncurrent Liability

Other noncurrent liability represents the balance of the amount due to Alcorn Production Phils., Inc. relating to the balance of the 1% participating interest of Phoenix Energy in West Linapacan that was acquired through a deed of assignment dated May 28, 1992, with the following terms and conditions:

a. Payment of US$600,000 upon signing

b. Payment of US$600,000 fifteen days after signing

c. Balance of US$700,000 shall be payable from 75% of Phoenix Energy's net cash flow from every lifting or sale of crude oil commencing from the first lifting and shall be interest-free for a period of one year from first day of production and any unpaid balance shall be payable with interest equal to 3% plus LIBOR.

13. Related Party Transactions

The significant related party transactions and account balances of the Group are as follows:

Related Party	Nature of Account Balance	**2004**	2003
Allied Banking Corporation	Cash and cash equivalents	**₱84,540,739**	₱197,859,363
B.U.	Liability for cash advances	**(₱6,166,198)**	(₱6,166,198)
Others	Liability for cash advances	**–**	(10,295)
		(₱6,166,198)	(₱6,176,493)
Executive officers	Liability for separation and retirement benefits	**(₱18,532,583)**	(₱18,532,583)
	Liability for unpaid compensation	**(7,902,100)**	(7,902,100)
		(₱26,434,683)	(₱26,434,683)

a. Cash advances from B.U. are noninterest-bearing and have no definite repayment terms.

b. On September 24, 2001, the Parent Company's board of directors approved the liquidation of the Parent Company's retirement fund to enable the payment of retirement benefits to qualified employees covered by the Parent Company's Multi-employer Retirement Plan.

   The Parent Company accrued and recognized the estimated retirement benefits of its officers equivalent to two (2) months final salary for every year of service in accordance with the previous Parent Company's Multi-employer Retirement Plan.

   Unpaid compensation consists of the compensation due to the Parent Company's former officers for the period November 2001 to April 30, 2003.

14. **Foreign Currency-Denominated Monetary Assets**

The Group's foreign currency-denominated monetary assets as of April 30 follow:

	2004		2003	
	United States Dollar	**Philippine Peso**	United States Dollar	Philippine Peso
Cash equivalents	**1,497,212**	**83,894,761**	3,760,537	197,849,363
Marketable securities	**4,094,339**	**229,434,353**	2,082,163	109,723,753
	5,591,551	**313,329,114**	5,842,700	307,573,116

As of April 30, 2004 and 2003, the exchange rates of the Philippine Peso to United States Dollar are ₱56.034 and ₱52.612 to US$1, respectively. As of August 10, 2004, the exchange rate is ₱55.697 to US$1.

15. **Income Taxes**

a. The components of the net noncurrent deferred tax assets (included as part of "Other noncurrent assets") represent the tax effects of the following:

	2004	2003
Allowances for:		
Probable losses on deferred oil exploration and development costs	**₱91,092,559**	₱91,073,214
Decline in value of marketable securities	**1,811,559**	–
Doubtful accounts	**1,086,951**	1,086,951
NOLCO	**10,536,206**	17,986,428
MCIT	**615,111**	–
Estimated liabilities for retirement benefits and salaries	**8,459,098**	8,459,098
Unrealized foreign exchange losses (gains)	**(453,501)**	101,610
	113,147,983	118,707,301
Less valuation allowance	**113,147,983**	118,707,301
	₱–	₱–

b. As of April 30, 2004, NOLCO that is available for deduction from future taxable income is as follows:

Incurred in fiscal year ended April 30	Amount	Expired	Applied	Available until fiscal year ending April 30	Balance as of April 30,2004	Tax Effect
2001	₱23,281,945	₱18,525,041	₱4,756,904	–	₱–	₱–
2002	26,824,107	–	–	2005	26,824,107	8,583,714
2003	6,101,536	–	–	2006	6,101,536	1,952,492
	₱56,207,588	₱18,525,041	₱4,756,904		₱32,925,643	₱10,536,206

c. As of April 30, 2004, the MCIT incurred in 2004 can be credited against future regular corporate income tax until April 30, 2007.

d. A reconciliation of income tax computed at the applicable statutory income tax rate to provision for income tax as shown in the consolidated statements of income is as follows:

	2004	2003	2002
Income tax at statutory tax rate	**₱803**	(₱4,083,476)	(₱131,542,482)
Adjustments for:			
Interest income subjected to final tax at lower rates	**(474,174)**	(1,511)	–
Equity in net losses (earnings) of:			
Subsidiaries	**(56,055)**	88,677	10,064,437
Associated company	**120,681**	(59,489)	(98,120)
Nontaxable recovery in market value of marketable equity securities	**(93,537)**	(987)	(229,591)
Loss on sale of marketable securities	**36,451**	–	–
Increase in valuation allowance on net deferred tax assets, excluding expired NOLCO	**349,351**	4,090,285	121,810,766
Others	**731,591**	(33,499)	(5,010)
	₱615,111	₱–	₱–

16. Capital Stock

The following summarizes the changes in the capital stock account for each of the following fiscal years ended April 30:

	2004		2003		2002	
	Number of Shares	**Amount**	Number of Shares	Amount	Number of Shares	Amount
Authorized - 5 billion shares in 2004 and 1 billion shares in 2003 and 2002						
Issued and Outstanding:						
Beginning of year	**356,905,987**	**₱356,905,987**	356,903,721	₱356,903,721	356,897,055	₱356,897,055
Reduction in capital stock applied against deficit (Note 2)	**(332,738,017)**	**(332,738,017)**	–	–	–	–
Issuance of shares (Note 2)	**349,630,297**	**349,630,297**	2,266	2,266	6,666	6,666
End of year	**373,798,267**	**373,798,267**	356,905,987	356,905,987	356,903,721	356,903,721

(Forward)

	2004		2003		2002	
	Number of Shares	**Amount**	Number of Shares	Amount	Number of Shares	Amount
Subscribed:						
Beginning of year	**105,094,013**	**₱105,094,013**	105,096,279	₱105,096,279	105,102,945	₱105,102,945
Cancellation of unpaid portion of subscriptions in prior years (Note 2)	**(55,463,716)**	**(55,463,716)**	–	–	–	–
Subscription during the year (Note 2)	**1,231,550,434**	**1,231,550,434**	–	–	–	–
Issuance of shares (Note 2)	**(349,630,297)**	**(349,630,297)**	(2,266)	(2,266)	(6,666)	(6,666)
End of year	**931,550,434**	**931,550,434**	105,094,013	105,094,013	105,096,279	105,096,279
Subscriptions Receivable:						
Beginning of year	**(55,463,716)**	**(55,463,716)**	(55,464,849)	(55,464,849)	(55,468,182)	(55,468,182)
Cancellation of unpaid portion of subscriptions from prior years (Note 2)	**55,463,716**	**55,463,716**	–	–	–	–
Subscription during the year (Note 2)	**(1,231,550,434)**	**(1,231,550,434)**	–	–	–	–
Application of deposit on stock subscription (Note 2)	**307,892,762**	**307,892,762**	–	–	–	–
Collection of subscription receivable	**–**	**–**	1,133	1,133	3,333	3,333
End of year	**(923,657,672)**	**(923,657,672)**	(55,463,716)	(55,463,716)	(55,464,849)	(55,464,849)
	381,691,029	**₱381,691,029**	406,536,284	₱406,536,284	406,535,151	₱406,535,151

17. **Loss Per Share**

Loss per share is computed as follows:

	2004	2003	2002 (Restated - Note 18)
Net loss	**(₱612,601)**	(₱12,760,862)	(₱361,465,942)
Divided by weighted average number of common shares outstanding during the year	**855,946,183**	462,000,000	462,000,000
	(₱0.001)	(₱0.028)	(₱0.782)

18. **Restatements**

The balance of deficit as at May 1, 2002 has been restated from the amount previously reported to reflect a net retroactive charge of ₱47,221,527. These adjustments were discussed in the 2003 consolidated financial statements.

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-F

Report of Independent Auditors
On Supplementary Schedules

The Stockholders and the Board of Directors
Balabac Resources and Holdings Co., Inc.
7th Floor, Allied Bank Center
6754 Ayala Avenue
Makati City

We have audited in accordance with auditing standards generally accepted in the Philippines the consolidated financial statements of Balabac Resources and Holdings Co., Inc. and subsidiaries included in this Form 17-A and have issued our report thereon dated August 10, 2004. Our audit was 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 Securities Regulation Code Rule 68 and are not part of the basic financial statements. These schedules have been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

J. H. ESTOMO
Partner
CPA Certificate No. 46349
SEC Accreditation No. 0078-A
Tax Identification No. 102-086-208
PTR No. 7012983
January 5, 2004
Makati City

August 10, 2004

BALABAC RESOURCES AND HOLDINGS CO., INC. AND ITS SUBSIDIARIES

SUPPLEMENTARY SCHEDULES TO FORM 17-A, ITEM 7

A. MARKETABLE SECURITIES
G. INTANGIBLE AND OTHER ASSETS
I. INDEBTEDNESS TO AFFILIATES AND RELATED PARTIES
K. CAPITAL STOCK

BALABAC RESOURCES AND HOLDINGS CO., INC. AND ITS SUBSIDIARIES
SCHEDULE A - MARKETABLE SECURITIES
(Current Marketable Equity Securities and Other short term cash investment)
APRIL 30, 2004

Name of Securities	No. shares		Amount shown in the balance sheet		Value based on market quotation	Income received/ accrued
INTERNATIONAL CONTAINER	268,875	P	1,986,355	P	846,281	
SAN MIGUEL - B.	15,226		1,125,845		1,134,337	
PETRON	18,750		213,670		60,938	
AYALA LAND	50,000		312,407		285,000	
BASIC CONSOLIDATED	4,100,000		1,574,764		410,000	
			5,213,041			117,294
LESS: ALLOWANCE FOR MARKET DECLINE			2,476,485			
TOTAL MARKETABLE EQUITY SECURITIES		P	2,736,556		2,736,556	117,294
PHILIPPINE GOVERNMENT BONDS			229,434,353		223,773,230	2,508,906
LESS: ALLOWANCE FOR DECLINE IN VALUE			5,661,123		-	-
			223,773,230		223,773,230	2,508,906
TOTAL MARKETABLE SECURITIES		P	226,509,786		226,509,786	2,626,200

BALABAC RESOURCES AND HOLDINGS CO., INC. AND ITS SUBSIDIARIES
SCHEDULE K - CAPITAL STOCK
APRIL 30, 2004

Title of i	Number of shares Authorized	Number of shares issued and outstanding	Number of shares reserved for options, warrant conversion & other rigths	Number of shares held by affiliates	Directors, officers and employees	Others
Common	5,000,000,000	1,305,348,701		1,231,550,434	1,607,710	72,190,557

BALABAC RESOURCES AND HOLDINGS CO., INC. AND ITS SUBSIDIARIES
SCHEDULE I - INDEBTEDNESS TO AFFILIATES AND RELATED PARTIES
APRIL 30, 2004

Names of affiliates	Balance Beginning	Additions	Deductions	Balance End
DUE TO AFFILIATES				
BU Properties Corporation	6,166,198			6,166,198
NOTES PAYABLE				
UNIOIL Resources and Holdings Co., Inc.	222,906,072			222,906,072

The notes payable to Unioil Resources and Holdings Co., Inc. represent the cost of oil exploration assets transferred and conveyed to Phoenix Energy Corporation by way of Deed of Assignment payable in installment upon the receipt by Phoenix Energy of any amount representing or cost recovery of these deferred costs.

BALABAC RESOURCES AND HOLDINGS CO., INC AND ITS SUBSIDIARIES
SCHEDULE G - INTANGIBLE AND OTHER ASSETS
APRIL 30, 2004

Classification	Balance Beginning	Additions at cost	Charged to expense	Charged to retained earnings	Allowance for probable losses	Balance ending
Deferred oil exploration cost *	507,509,866	60,453.00			-284,664,247	222,906,072
Other receivables **	3,396,722			-	-3,396,722	-
						-
Total	510,906,588	60,453.00	-	-	-288,060,969	222,906,072

*
Phoenix Energy Corporation and Phoenix Gas and Oil Exploration Co., Inc. have not yet started commercial operations.
All expenses incurred (net of revenue such as interest income, realized and unrealized gain or loss on foreign exchange, gain or loss on sale of marketable securities) are charged to their retained earnings.

Deferred oil exploration cost represeents expenditures incurred in connection with the participation of Phoenix Energy and Phoenix Gas in the exploration and development of petroleum concession areas, the recovery of these deferred costs is dependent upon the discovery of oil in commercial quantity from the respective contract areas, the outcome of which cannot be determined at the present time. The Company provided allowance for probable losses of P 284,664,247 .

**
TheCompany provided an allowance for doubtful account equivalent to 100% of other receivables.

FINANCIAL STAMENTS OF SUBSIDIARIES AND AFFILIATED COMPANY

SUBSIDIARIES

PHOENIX ENERGY COPORATION AS OF APRIL 30, 2004 AND 2003

PHOENIX GAS AND OIL EXPORATION CO., INC. AS OF APRIL 30, 2004 AND 2003.

AFFILIATED COMPANY

B.U. PROPERTIES CORPORATION AS OF DECEMBER 31, 2003 AND 2002