CIRCULAR

T h e P h i l i p p i n e S t o c k E x c h a n g e , I n c .

X	Disclosures		Stockholders' Meeting	Others:	**Trading Halt**
	Dividend Notice		SEC / Gov't Issuance		
	Stock Rights Notice		Transfer Agent's Notice		

To : **THE INVESTING PUBLIC AND TRADING PARTICIPANTS**

Company : **PHOENIX PETROLEUM PHILIPPINES, INC.**
Trading Halt

Date : **July 19, 2012**

Further to Circular No. 5182-2012 dated July 9, 2012, Phoenix Petroleum Philippines, Inc. ("PNX" or the "Company") submitted to the Exchange the attached comprehensive corporate disclosure dated July 18, 2012 with regard to the approval by the Company's Board of Directors of the following matters:

1. Acquisition of 100% shares of stock of Chelsea Shipping Corporation via a share-for-share swap; and

2. Issuance of Convertible Notes worth Php500 million with issuance of Php180 million warrants with BDO Universal Bank ("BDO").

As previously announced, the Company's share-for-share swap transaction is subject to the following provisions of the Rule on Additional Listing of Securities:

> **SECTION 1. Rule on Additional Listing of Shares** – The Rule shall apply to transactions resulting into issuance by a listed company ("Issuer") of new voting shares to any party or to any persons acting in concert ("Subscriber/s") amounting to at least ten percent (10%) but not more than thirty-five percent (35%) of the total issued and outstanding capital stock of the Issuer through a single or creeping transactions within a period of twelve (12) months from the initial disclosure. Such transactions may include private placements, share swaps, property-for-share swaps, or conversion of securities into equity.
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> . . . .
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> **SECTION 3. Trading Halt** – The trading of the shares of the Issuer shall be halted for one (1) hour upon announcement or disclosure of any information leading to the transaction(s). Another one (1) hour trading halt shall be implemented upon dissemination of the Comprehensive Corporate Disclosure required herewith.
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> . . . .

FID/CSD	Market Regulation Division	Issuer Regulation Division	Information Technology Division	Capital Markets Dev't Division	Office of the General Counsel
Tel. No. 688-7561/688-7508	Tel. No. 688-7541	Tel. No. 688-7510	Tel. No. 688-7480	Tel. No. 688-7534	Tel. No. 688-7411

(Underscoring supplied.)

Given the foregoing, the Exchange will implement a one (1) hour trading halt on PNX shares today, July 19, 2012, which will commence at 10:20 a.m. and will be lifted at 11:20 a.m.

For the information and guidance of the investing public.

(Original Signed)
JANET A. ENCARNACION
Head, Disclosure Department

Noted by:

(Original Signed)
MARSHA M. RESURRECCION
Head, Issuer Regulation Division

18 July 2012

Ms. Janet A. Encarnacion
Head, Disclosure Department
Philippine Stock Exchange
3/F PSE Plaza
Ayala Triangle Plaza
Ayala Ave., Makati City

Dear *Ms. Encarnacion:*

In compliance with your letter dated 11 July 2012 requiring the submission of a comprehensive disclosure on the acquisition of Chelsea Shipping Corp. ("Chelsea") as disclosed last 06 July 2012, please find below pertinent information on the transaction:

a) **Copies of all agreements duly executed relevant to the transaction:**

Although the Board of Directors of Phoenix Petroleum Philippines, Inc. (the "Company") already approved the acquisition of Chelsea as well as the terms and conditions of the transaction, under the law, the transaction still requires the stockholders approval in a meeting duly called for that purpose as well as the approval from the appropriate government authorities. As approved also by the Board of the Company, the transaction shall be taken up during a Special Stockholders' Meeting on 06 September 2012.

However, in order to document the negotiation between the parties, on 12 July 2012, a Memorandum of Agreement ("MOA") was executed between Phoenix Petroleum Philippines, Inc. (the "Company") and Chelsea containing the terms and conditions of the acquisition and the conditions precedents on the transaction, which includes securing the approval of the stockholders and appropriate government bodies and the execution of the definitive contracts/agreements to implement and conclude the transaction.

b) **Description of the transaction including the timetable for implementation and related regulatory requirement:**

The transaction pertains to the acquisition of 100% outstanding capital stock in Chelsea which are owned by the following stockholders:

Name of Stockholder (referred as Sellers)	Nationality	No. of Shares Subscribed	Amount Subscribed (Php)	Amount Paid Up (Php)
Udenna Management & Resources Corp. (UMRC)	Filipino	6,312,495	631,249,500.00	631,249,500.00
Dennis A. Uy	Filipino	1	100.00	100.00
Cherylyn C. Uy	Filipino	1	100.00	100.00
Jose Manuel R. Quimson	Filipino	1	100.00	100.00
Ignacia S. Braga IV	Filipino	1	100.00	100.00
Socorro Ermac Cabreros	Filipino	1	100.00	100.00
TOTAL		6,312,500	631,250,000	631,250,000

(Udenna Management & Resources Corp. Dennis Uy, Cherylyn C. Uy, Jose Manuel R.. Quimson, Socorro Ermac Cabreros and Ignacia Braga IV are hereinafter collectively referred to as the "Sellers")

The acquisition shall be made via Share-for Share Swap wherein the Company shall issue in favor of the Sellers thirty (30) new common shares of the Company for every one (1) share of Chelsea.

Accordingly, One Hundred Seventy One Million Two Hundred Fifty Thousand Seven Hundred Ninety Nine (171,250,799) new common shares from the unissued authorized capital stock of the Company shall be issued in favor of the Sellers in proportion to the latter's respective shareholdings in CHELSEA, as follows:

Name of the SELLER	No. of Shares to be Issued by PURCHASER
Udenna Management & Resources Corporation	171,250,649
Dennis A. Uy	30
Cherylyn C. Uy	30

Jose Manuel R. Quimson	30
Socorro Ermac-Cabreros	30
Ignacia S. Braga IV	30
TOTAL	**171,250,799**

Such new common shares of the Company are to be valued at Eight and 2931/1000 Pesos (Php8.2931) per share, computed on the basis of the 30-day Volume Weight Average Price (VWAP) from 24 May 2012 to 05 July 2012.

As the law requires approval of the stockholders on the acquisition of 100% absolute and unencumbered ownership of the Sellers in Chelsea, a Special Stockholders' Meeting shall be held by the Company on 06 September 2012 in Davao City to seek and obtain the approval of the Company's stockholders. In addition to such stockholder approval, considering that the transaction is a related party- transaction, the approval of a majority of outstanding shares held by the minority stockholders present or represented at the Special Stockholders' Meeting must likewise be secured in order to waive the requirement of the Company conducting a rights offering.

Thereafter when the approvals are obtained, the concerned parties shall execute the definitive agreements to implement the transaction and file the necessary application with the Securities and Exchange Commission (the "Commission") on the issuance new common shares.

Once the Commission approves the same, the Company shall endeavor to list the shares issued by the Company in favor of the Sellers with the Philippine Stock Exchange (the "Exchange") as part of the agreement.

c) **Rationale for the transaction, including the benefits which are expected to be accrued to the Company as a result of the transaction.**

As a petroleum company, ownership by the Company of a marine petroleum transport company is strategic. The acquisition of Chelsea will ensure the control of product supply by a fleet of vessels ready to transport its products to minimize and eliminate the potential risk of supply disruptions due to scarcity of tanker vessels. Scheduling of importation of products and distribution in the Philippines will be easily facilitated. The acquisition will likewise protect itself from freight rate fluctuations with the volatile bunker market. Any reduction in fuel market price will improve the logistics cost. It should be noted that the Company imports about 90% of its petroleum products from nearby region such as but not limited to Taiwan, China and Singapore.

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Moreover, the acquisition of Chelsea will allow the Company to consolidate the balance sheet, revenues and income of the former. The additional issuance of common shares by PPPI (as partial payment of the purchase price of Chelsea) will result in an increase in market capitalization of the Company. Additional savings are also expected from improvements in operational efficiencies from synergies and shared services.

d) **The aggregate value of the consideration, explaining how this is to be satisfied, including the terms of any arrangement for payment on a deferred basis.**

The agreed purchase price for the whole transaction is Php1.578 billion or a price of Php 249.92 per share to acquire 100% capital shares of Chelsea. 90% of the quoted purchase price will be paid via shares of the Company's authorized but unissued common shares and the balance of 10% in cash.

Accordingly, One Hundred Seventy One Million Two Hundred Fifty Thousand Seven Hundred Ninety Nine (171,250,799) new common shares from the unissued authorized capital stock of the Company shall be issued in favor of the Sellers in proportion to the latter's respective shareholdings in CHELSEA, as follows:

Name of the SELLER	No. of Shares to be Issued by PURCHASER
Udenna Management & Resources Corporation	171,250,649
Dennis A. Uy	30
Cherylyn C. Uy	30
Jose Manuel R. Quimson	30
Socorro Ermac-Cabreros	30
Ignacia S. Braga IV	30
TOTAL	**171,250,799**

Such new common shares of the Company are to be valued at Eight and 2931/1000 Pesos (Php8.2931) per share, computed on the basis of the 30-day Volume Weight Average Price (VWAP) from 24 May 2012 to 05 July 2012.

The Company's new common shares will be valued at Eight and 2931/1000 Pesos (Php8.2931) per share, using the 30-day VWAP (volume weighted average price from May 24, 2012 to July 5, 2012)..

The cash portion shall be paid upon execution of the definitive agreement after the necessary consents and approvals from the stockholders are obtained while the new common shares of the Company shall be issued to the Sellers upon approval by the Commission on the Company's application.

e) **The basis upon which the consideration or the issue value is determined.**

The purchase price was negotiated between the Company and Chelsea using as basis an independent 3rd party value assessment of Chelsea by Penta Capital Investment Corporation (Penta). The price is based on the midpoint valuation, as recommended.

Penta Capital used the Adjusted Book Value method and tested the viability of the planned acquisition transaction using the Future Earnings Method (or DCF/Discounted Cash Flow method). The midpoint price is the adjusted book value plus net advances from affiliated companies. This is basically a 'recovery' of all investments made into Chelsea by the majority shareholder in whatever form.

A purchase price at Php249.92/share represents a PE multiple of 7.67x (considering an average EPS of Php 32.60 over the next 15 years), which makes it a reasonable buy, considering that it is lower than the Company's PE multiple of about 9x (based on analysts projected 2012 results).

f) **Detailed work program of the application of proceeds, the corresponding timetable of disbursements and status of each project included in the work program.**

Application of proceeds and timetable for disbursements are not applicable in this transaction.

g) **Identity of the beneficial owner/s of the shares subscribed**

The acquisition is a related party transaction. Hence, the Sellers of Chelsea are likewise existing shareholders of the Company namely:

Name of the SELLER	No. of Shares to be Issued by Phoenix
Udenna Management & Resources Corporation	171,250,649
Dennis A. Uy	30
Cherylyn C. Uy	30
Jose Manuel R. Quimson	30
Socorro Ermac-Cabreros	30
Ignacia S. Braga IV	30
TOTAL	**171,250,799**

Except for the share swap, there are no other capital infusion undertaken in the transaction.

h) **For subscribers with no track record or with no operating history: the subscriber must present a statement of active business pursuits and objectives which details the steps undertaken and proposed to be undertaken by the Issuer in order to advance its business**

The subscribers of the Company's shares are existing shareholders and members of the Board of Directors of the Company. Hence, there are no new subscribers in this transactions.

i) **Identities of controlling and substantial stockholders of the parties to the transaction, accompanied by a structural chart depicting the structure of the subscriber and the Issuer and the interest of such stockholders, both before and after the implementation of the proposed transaction**.

Ownership structure of the Company before and after the transaction*

Name	Before Transaction		After Transaction	
	No. of Shares	% of Ownership*	No. of Shares	% of Ownership
UMRC	24,843,000	3.38%	196,093,649	21.64%
Dennis A. Uy	3,070,594	0.42%	3,070,625	0.34%
Cherylyn C. Uy	844,662	0.11%	844,692	0.10%
Jose Manuel R. Quimson	273,001	0.34%	273,031	0.30%
Ignacia S. Braga IV	54,600	0.01%	54,630	0.01%
Socorro Ermac Cabreros	79,444	0.01%	79,474	0.01%

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Ownership structure of Chelsea before and after the transaction

Name	Before Transaction		After Transaction	
	No. of Shares	% of Ownership	No. of Shares	% of Ownership
UMRC	6,312,495	100%	-	-
Dennis A. Uy	1	0.00%	-	-
Cherylyn C. Uy	1	0.00%	-	-
Jose Manuel R. Quimson	1	0.00%	-	-
Ignacia S. Braga IV	1	0.00%	-	-
Socorro Ermac Cabreros	1	0.00%	-	-
Phoenix Petroleum Phils, Inc.	-	-	6,312,500	100%
TOTAL	**6,312,500**	**100%**	**6,312,500**	**100%**

*denominator is based on the subscribed and paid up shares of the Company which is 734,808,617 shares

j) **The interest which directors of the parties to the transaction have in the proposed transaction**.

Dennis A. Uy, Jose Manuel R. Quimson and Socorro Ermac Cabreros , who are nominal directors of Chelsea, are also existing directors and stockholders of the Company. Please see ownership structure in the preceding item.

k) **Statement as to the steps to be taken, if any, to safeguard the interests of any independent shareholders.**

The subject transaction, being an investment by the Company to another Company, is subject to vote and approval by the stockholders of the Company under the Corporation Code. Hence, the Company, as approved by the Board of Directors, will conduct a Special Stockholders' Meeting on 06 September 2012 to vote on the transaction. Nonetheless, under the same law, any stockholders may have the option to exercise their appraisal right.

Further, pursuant to the Revised Listing Rules of the Exchange, if a majority of outstanding shares held by the minority stockholders present or represented at the Special Stockholders' Meeting on September 6, 2012 approves the this transaction, this will result in a waiver of the requirement of the Company conducting a rights offering.

Additional Information on the transaction:

a) **Effects on the following:**

a.1) **Ownership structure of the Company before and after the transaction*:**

Name	Before Transaction		After Transaction	
	No. of Shares	% of Ownership*	No. of Shares	% of Ownership
UMRC	24,843,000	3.38%	196,093,649	21.64%
Dennis A. Uy	3,070,594	0.42%	3,070,625	0.34%
Cherylyn C. Uy	844,662	0.11%	844,692	0.10%
Jose Manuel R. Quimson	273,001	0.34%	273,031	0.30%
Ignacia S. Braga IV	54,600	0.01%	54,630	0.01%
Socorro Ermac Cabreros	79,444	0.01%	79,474	0.01%

*denominator is based on the subscribed and paid up shares of the Company which is 734,808,617 shares

a.2) **Capital structure of the Company before and after the transaction:**

	Before	After
Authorized Capital Stock	2,550,000,000	2,550,000,000
Outstanding Capital Stock	927,808,617	1,099,059,416
Issued Capital Stock	734,808,617	906,059,416
Listed Shares	734,808,617	906,059,416
Par Value	1.00	1.00

a.3) Company's Public Float

On the basis of the following ownership structure:

Number of Outstanding Shares	=	**1,099,059,416**
Number of Issued Shares	=	**906,059,416**
Number of Treasury Shares	=	**-**
Number of Listed Shares	=	**734,808,617**
Number of Foreign Shares	=	**15,782,167**
Number of Foreign Ownership Level (%)	=	**1.74%**

the Company shall have a public float of 22.63% after acquisition.

a.4) Foreign Ownership Level

As of 30 June 2012, foreign ownership of the Company is at 2.15% based on the Company's issued and listed shares. After the transaction, the foreign ownership will be at 1.74% based on the new issued shares.

b) **Condition precedent(s) to closing of the transaction, if any.**

The significant conditions preceding the closing of the transactions are as follows:

1. Conduct of a Special Shareholders' Meeting on 06 September 2012 at 2PM in Davao City to secure the consent and approval of the stockholders of the Company. In addition to such stockholder approval, considering that the transaction is a related party- transaction, the approval of a majority of outstanding shares held by the minority stockholders present or represented at the Special Stockholders' Meeting must likewise be secured in order to waive the requirement of the Company conducting a rights offering.

2. Delivery of pertinent documents for implementation such as Board Resolutions of both parties approving the transaction

3. Execution and delivery of the definitive instruments and documents implementing the transactions such as but not limited to Share Swap Agreement, and Subscription Agreement

4. When the approvals are obtained, the concerned parties shall execute the definitive agreements to implement the transaction and file the necessary application with the Commission on the issuance new common shares.

5. Once the Commission approves the same, the Company shall file the necessary application for the listing of the new shares issued by the Company in favor of the Sellers with the Exchange.

c) Corporate background of Chelsea

c.1) **Nature of business, subsidiaries and affiliates**

Chelsea is engage in maritime trade in the conveyance or carriage of petroleum products, goods, wares, and merchandise of every kind and description, including but not limited to general cargo handling, loading, transporting, discharging, and storing, over oceans, seas, lakes, rivers, canals, bays, harbors, and other waterways in the Philippines;

The following are the subsidiaries of Chelsea:

i) Bunkers Manila Incorporated

ii) Chelsea Ship Management & Marine Services Corp.

iii) Michael, Inc.

iv) PNX- Chelsea Shipping Corp.

c.2) **Composition of Board of Directors and principal officers.**

The following are the board of directors and principal officers of Chelsea:

i.) Dennis A. Uy	Chairman & President
ii) Cherylyn C. Uy	Director & Treasurer
iii) Jose Manuel R. Quimson	Director & Chief Operating Officer
iv) Ignacia S. Braga IV	Director
v) Socorro Ermac Cabreros	Director
vi) Dina San Juan	Corporate Secretary

c.3) **List of principal shareholders**

Chelsea is a wholly-owned subsidiary of Udenna Management &Resources Management (UMRC) owning about 6,312,495 shares.

c.4) **Capital structure.**

Authorized Capital Stock	10,000,000
Outstanding Capital Stock	6,312,500
Issued Capital Stock	6,312,500
Subscribed Capital Stock	6,312,500
Paid Up Capital Stock	6,312,500
Par Value	100.00

c.5) **Latest audited financial statement.**

Please see attached audited financial statement.

d) **Any other information necessary to enable an investor to make an informed investment decision.**

The new common shares issued by the Company to owners and stockholders of Chelsea by reason of the transaction shall be subject to lock-up for six months where the same cannot be sold, transferred, conveyed or other disposed of from approval of the listing application of the subject shares with the Exchange.

Issuance of Php500-million convertible notes

a) **Timetable for implementation, conversion period, and related regulatory approvals, if any.**

The subject transaction of the issuance of convertible notes shall observes the following timeline:

1. The Company (the Issuer) shall issue to BDO Unibank, Inc. (the Noteholder) a peso-denominated convertible note facility in the aggregate amount of Php500-million in full on a one-time basis within the availability period of thirty (30) days from the execution of the Agreement.

2. The convertible note shall be valid and shall mature three (3) years from issue date.

3. The Noteholder is granted the option to convert all or any portion of the unpaid principal amount of the Notes held by it into the Conversion Shares exercisable at anytime upon written notice by the Noteholder to the Issuer specifying the time and date of the conversion which shall not be less than thirty (30) banking days from Issuer's receipt of the conversion notice.

4. Optional conversion shall take effect only upon receipt by the Noteholder of the approval of the Bangko Sentral Ng Pilipinas (BSP) if necessary and applicable. Nonetheless, the Conversion Shares shall be issued under an exempt transaction upon application before the Commission. As part of the agreement, the Conversion Shares shall be listed upon filing of the proper application at an appropriate time with the Exchange.

b) **Number of shares to be issued upon conversion, with percentage and ratio to total outstanding shares.**

There is no specific agreed number of shares to be issued by the Issuer upon conversion by the Noteholder nor any percentage or ratio to the total outstanding shares. Instead, the conversion shares to be acquired by the Noteholder pursuant to the exercise of the Optional Conversion, as described in the preceding paragraph, shall be the number of such share to be determined by dividing the amount of the principal due and outstanding under the Notes by the Conversion Price per share.

c) **Conversion Price**

Conversion Price is agreed to be the amount payable in respect to the Conversion Shares calculated at the price per Conversion Share equivalent to the Conversion Price Base plus a premium of fifteen percent (15%).

On the other hand, the Conversion Price Base means the amount equivalent to the 30-day volume weighted average price (VWAP) of the Shares on the Banking Day prior to the Issue Date.

d) **Basis upon which the conversion price was determined.**

The formula used to determine the conversion price is the basis for which the Noteholder as well as the Issuer deemed to be reasonable based on the potential stock appreciation of the Issuer relative to the fixed interest rate on the notes.

e) **Any provision on events and/or consequences of default.**

Events of default were duly enumerated in the Facility Agreement as follows: Non-payment of the obligation of the Issuer, non-compliance of the terms and conditions of the agreement, misrepresentations on the part of the Issuer, bankrupty proceedings against the Issuer and any other conditions affecting the Issuer's ability to pay and comply with the terms and conditions as well as financial obligations.

As a consequence of any event of default, the Noteholder shall have the option to declare the Commitment terminated and the whole unpaid obligation as due and demandable. Accordingly, any deposits or monies belonging to the Issuer and held by the Noteholder may be set-off and applied in partial or full liquidation of any unpaid obligation of the Issuer owing the Noteholder.

f) **Any provision in the adjustment(s) of the conversion price.**

As previously described in item (c) hereof, conversion price in respect of the Conversion Shares shall be determined and calculated at the price per Conversion Share equivalent to the Conversion Price Based plus a premium of fifteen percent (15%)

Conversion Price Base shall be the amount equivalent to the 30-day VWAP of the shares on the Banking Day prior to the Issue Date; provided if there is any subsequent issuance of Shares at a price lower than the Conversion Price Base or there is a change in the number of outstanding stock of the Issuer by reason of a stock split, reverse stock split, stock dividend, recapitalization, combination or reclassification, then the Conversion

Price Base shall be adjusted to reflect any increase or decrease in the number of issued Shares.

g) **Other salient terms of the Convertible Notes**

The Noteholder shall have the option to elect one (1) nominee to the Issuer's Board of Directors which option may be exercised anytime after signing date and on or before conversion date.

h) **Effects of the conversion**

Since the conversion of the notes remains an option given to the Noteholder alone based on any unpaid principal amount at the end of the conversion period of three (3) years from date of issue, no effects on the capital and ownership structure can be projected after the conversion.

Issuance of Php180 million warrants

a) **Number of warrants to be issued, including the timetable for issuance and the related regulatory approvals, if any.**

The number of warrants has yet to be determined considering that the Noteholder has the ultimate discretion or option to exercise the same upon the third year from the issuance of the notes. Moreover, being a derivative, the warrant issuance is still subject to the approval of the stockholders during the Special Stockholders' Meeting on 06 September 2012.

b) **Entitlement ratio and the corresponding number of underlying securities.**

Like the number of shares, the entitlement ratio and the corresponding number of underlying securities have yet to be determined.

c) **Exercise period.**

The exercise period consists of the two-year period commencing on the third anniversary date of the Convertible Notes Issue Date and expiring on the Expiry Date

d) **Exercise price and basis for which the exercise price is determined.**

Exercise price is the amount payable in respect of the Underlying Shares calculated at the price per Underlying Shares equivalent to the Exercise Price Base, plus a premium of fifteen percent (15%)

The basis for the exercise price is similar to the Exercise Price Base which is the 30-day VWAP of the shares on the Banking Day prior to the Convertible Notes Issue Date.

e) **Expiry Date**

Expiry date means five (5) years from the Convertible Notes Issue Date.

f) **The arrangement for the transfer of the warrants.**

The parties have agreed that the warrants shall not be transferred to any Person other than to Subsidiary or an Affiliate of BDO, provided that there shall be no transfer or assignment of the Notes if such transfer or assignment will result in the warrant being held by more than nineteen (19) warrantholders at any one time.

In the event of transfer as agreed by the parties, the warrants shall be transferable by completing the endorsement at the back of the warrant certificate and surrendering the same to the Registrar which the Issuer shall maintain for purposes of keeping records of all transfer.

g) **The arrangement(s) or adjustment(s) resulting from changes in the subscription, purchase or exercise price or the number of securities to take account alterations to the share capital of the Company.**

Consistent with the issuance convertible notes, if there is any subsequent issuance of Share at a price lower than the Exercise Price Base or there is a change in the number of outstanding stock of the Issuer by reason of a stock split, reverse stock split, stock dividend, recapitalization, combination or reclassification, then Exercise Price Base shall be adjusted to reflect any increase or decrease in the number of issued Shares.

We trust that you find everything in order.

Thank you and warm regards.

Very truly yours,

Atty. Socorro Ermac Cabreros
Corporate Secretary

REPUBLIC OF THE PHILIPPINES
SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills
City Of Mandaluyong, Metro Manila

COMPANY REG. NO. CS200628661

CERTIFICATE OF APPROVAL OF INCREASE OF CAPITAL STOCK

KNOW ALL PERSONS BY THESE PRESENTS:

This is to certify that the increase of capital stock of the

CHELSEA SHIPPING CORP.

from P500,000,000.00 divided into 5,000,000 shares with the par value of P100.00 each, to P1,000,000,000.00 divided into 10,000,000 shares with the par value of P100.00 each, approved by majority of the Board of Directors and by the vote of the stockholders owning or representing at least two-thirds of the outstanding capital stock at a meeting held on January 02, 2012 certified to by the Chairman and the Secretary of the stockholders' meeting and a majority of the Board of Directors of the corporation, was approved by the Commission on the date indicated hereunder in accordance with the provision of Section 38 of the Corporation Code of the Philippines (Batas Pambansa Blg. 68), approved on May 1, 1980. A copy of the Certificate of Increase of Capital Stock filed with the Commission is attached hereto.

IN WITNESS WHEREOF, I have set my hand and caused the seal of this Commission to be affixed to this Certificate at Mandaluyong City, Metro Manila, Philippines, this 28th day of May, Twenty Twelve.

BENITO A. CATARAN
Director
Company Registration and Monitoring Department

BIR RENTAS INTERNAS
DS/2011
01916480
05-29-12

REPUBLIC OF THE PHILIPPINES
SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills,
City of Mandaluyong, Metro Manila

COMPANY REG. NO. CS200628661

CERTIFICATE OF FILING OF AMENDED ARTICLES OF INCORPORATION

KNOW ALL PERSONS BY THESE PRESENTS:

This is to certify that the amended articles of incorporation of the

CHELSEA SHIPPING CORP.
(Amending Article VII thereof)

copy annexed, adopted on January 02, 2012 by a majority vote of the Board of Directors and by the vote of the stockholders owning or representing at least two-thirds of the outstanding capital stock and certified under oath by the Secretary and a majority of the Board of Directors of the corporation was approved by the Commission on this date pursuant to the provision of Section 16 of the Corporation Code of the Philippines, Batas Pambansa Blg. 68, approved on May 1, 1980 and copies thereof are filed with the Commission.

Unless this corporation obtains or already has obtained the appropriate Secondary License from this Commission, this Certificate does not authorize it to undertake business activities requiring a Secondary License from this Commission such as, but not limited to acting as: broker or dealer in securities, government securities eligible dealer (GSED), investment adviser of an investment company, close-end or open-end investment company, investment house, transfer agent, commodity/financial futures exchange/broker/merchant, financing company, pre-need plan issuer, general agent in pre-need plans and time shares/club shares/ membership certificates issuers or selling agents thereof. Neither does Certificate constitute as permit to undertake activities for which other government agencies require a license or permit.

IN WITNESS WHEREOF, I have set my hand and caused the seal of this Commission to be affixed to this Certificate at Mandaluyong City, Metro Manila, Philippines, this 28th day of May, Twenty Twelve.

BENITO A. CATARAN
Director
Company Registration and Monitoring Department

01916470
5-29-12

Punongbayan & Araullo

Member firm within Grant Thornton International Ltd

Financial Statements and Independent Auditors' Report

Chelsea Shipping Corp.

December 31, 2011 and 2010

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Chelsea Shipping Corp.** (the Company), is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2011 and 2010, in accordance with Philippine Financial Reporting Standards (PFRS), including the following additional supplemental information filed separately from the basic financial statements:

a. Schedule of PFRS Effective as of December 31, 2011

Management responsibility on the financial statements includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements, and the additional supplementary information, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the financial statements of the Company in accordance with Philippine Standards on Auditing and, and in its report to the Board of Directors, and stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signature: ______________________
Dennis A. Uy
President

Signature: ______________________
Jose Manuel R. Quimson
Chief Operating Officer

Signature: ______________________
Aurora V. Limon
Vice President - Controller

Signed this _____ day of __________

Punongbayan & Araullo

Member firm within Grant Thornton International Ltd

Supplementary Financial Statements and Independent Auditors' Report

Chelsea Shipping Corp.

December 31, 2011 and 2010

Punongbayan & Araullo

Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements

20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

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www.punongbayan-araullo.com

The Board of Directors
Chelsea Shipping Corp.
(A Wholly Owned Subsidiary of
Udenna Management & Resources Corp.)
Stella Hizon Reyes Road
Barrio Pampanga, Davao City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Chelsea Shipping Corp. for the year ended December 31, 2011, on which we have rendered our report dated February 27, 2012. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Philippine Financial Reporting Standards effective as of December 31, 2011 is presented for purposes of additional analysis in compliance with the requirements under the Securities Regulation Code Rule 68, and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: **Romualdo V. Murcia III**
Partner

CPA Reg. No. 0095626
TIN 906 174 059
PTR No. 3174908, January 2, 2012, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-1 (until Aug. 25, 2013)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-22-2011 (until Feb. 3, 2014)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2012)

February 27, 2012

CHELSEA SHIPPING CORP.

Schedule of Philippine Financial Reporting Standards
Effective as of December 31, 2011

Standards and Interpretations		Adoption	Remarks

Philippine Financial Reporting Standards (PFRS)

PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	Adopted	
PFRS 2	Share-based Payment	Not Applicable	
PFRS 3	Business Combinations	Adopted	
PFRS 4	Insurance Contracts	Not Applicable	
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	Not Applicable	
PFRS 6	Exploration for and Evaluation of Mineral Resources	Not Applicable	
PFRS 7	Financial Instruments: Disclosures	Adopted	
PFRS 8	Operating Segments	Not Applicable	

Philippine Accounting Standards (PAS)

PAS 1	Presentation of Financial Statements	Adopted	
PAS 2	Inventories	Adopted	
PAS 7	Statement of Cash Flows	Adopted	
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	Adopted	
PAS 10	Events after the Reporting Period	Adopted	
PAS 11	Construction Contracts	Not Applicable	
PAS 12	Income Taxes	Adopted	
PAS 16	Property, Plant and Equipment	Adopted	
PAS 17	Leases	Adopted	
PAS 18	Revenue	Adopted	
PAS 19	Employee Benefits	Adopted	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	Not Applicable	
PAS 21	The Effects of Changes in Foreign Exchange Rates	Adopted	
PAS 23	Borrowing Costs	Adopted	
PAS 24	Related Party Disclosures	Adopted	
PAS 26	Accounting and Reporting by Retirement Benefit Plans	Not Applicable	
PAS 27	Consolidated and Separate Financial Statements	Adopted	
PAS 28	Investments in Associates	Not Applicable	
PAS 29	Financial Reporting in Hyperinflationary Economies	Not Applicable	
PAS 31	Interests in Joint Ventures	Not Applicable	
PAS 32	Financial Instruments: Presentation	Adopted	
PAS 33	Earnings per Share	Not Applicable	
PAS 34	Interim Financial Reporting	Not Applicable	
PAS 36	Impairment of Assets	Adopted	
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	Adopted	
PAS 38	Intangible Assets	Adopted	
PAS 39	Financial Instruments: Recognition and Measurement	Adopted	
PAS 40	Investment Property	Adopted	
PAS 41	Agriculture	Not Applicable	

CHELSEA SHIPPING CORP.

Schedule of Philippine Financial Reporting Standards
Effective as of December 31, 2011

Standards and Interpretations		Adoption	Remarks

Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	Not Applicable	
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments	Not Applicable	
IFRIC 4	Determining Whether an Arrangement Contains a Lease	Adopted	
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	Not Applicable	
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	Not Applicable	
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies	Not Applicable	
IFRIC 9	Reassessment of Embedded Derivatives	Not Applicable	
IFRIC 10	Interim Financial Reporting and Impairment	Not Applicable	
IFRIC 12	Service Concession Arrangements	Not Applicable	
IFRIC 13	Customer Loyalty Programmes	Not Applicable	
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Adopted	
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	Not Applicable	
IFRIC 17	Distributions of Non-cash Assets to Owners	Not Applicable	
IFRIC 18	Transfers of Assets from Customers	Not Applicable	
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Adopted	

Philippine Interpretations - Standing Interpretations Committee (SIC)

SIC-7	Introduction of the Euro	Not Applicable	
SIC-10	Government Assistance - No Specific Relation to Operating Activities	Not Applicable	
SIC-12	Consolidation - Special Purpose Entities	Not Applicable	
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	Not Applicable	
SIC-15	Operating Leases - Incentives	Not Applicable	
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets	Not Applicable	
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	Not Applicable	
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	Not Applicable	
SIC-29	Service Concession Arrangements: Disclosures	Not Applicable	
SIC-31	Revenue - Barter Transactions Involving Advertising Services	Not Applicable	
SIC-32	Intangible Assets - Web Site Costs	Not Applicable	

CERTIFICATION

Securities and Exchange Commission (SEC)
3rd Floor, AMYA Building
Quimpo Boulevard., Ecoland,
Davao City

Gentlemen:

In compliance with Memorandum Circular No. 06 dated March 12, 2006, issued by the Securities and Exchange Commission (SEC), requiring the submission by registered corporations of SEC reportorial requirements, we submit herewith the Audited Financial Statements (AFS) compact disc of ***Chelsea Shipping Corp.*** for the years ended December 31, 2011 and 2010 consisting of the following:

Table 1.	Statements of Financial Position
Table 2.	Statements of Comprehensive Income
Table 3.	Statements of Cash Flows
Table 4.	Statements of Changes in Equity
Table 5.	Details of Income and Expenses, by source

I certify that the AFS compact disc of the Company contains the basic and material data in the hard copies of the financial statements of the Company for the years ended December 31, 2011 and 2010.

CHERYLYN C. UY
Treasurer

SUBSCRIBED AND SWORN to before me on this APR 1 9 2012 day of ______ 2012; affiant exhibiting to me his Community Tax Certificate No. [illegible] issued at [illegible] on [illegible] 2012.
[illegible]

Doc. No. 566 ;
Page No. 166 ;
Book No. 39 ;
Series No. 2012 ;

KENNETH L. DABI
NOTARY PUBLIC
Roll No. 47866
Davao City, Philippines

ATTY. KENNETH L. DABI
Notary Public for Davao City
Expires on December 31, 2012
Serial No. 181-2011
PTR No. 1132232; 12-20-11; D.C.
IBP No. 870467; 12-20-11; D.C.
Roll of Attorneys No. 47866

COVER SHEET

C	S	2	0	0	6	2	8	6	6	1

S.E.C. Registration Number

CHELSEA SHIPPING CORP

(Company's Full Name)

STELLA HIZON REYES ROAD

BO. PAMPANGA, DAVAO CITY

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

IGNACIA S. BRAGA IV

Contact Person

0822214562

Company Telephone Number

1	2		3	1
Month			Day	

Fiscal Year

AFS

FORM TYPE

Last Monday of March

Month Day

Annual Meeting

APR 19 2012

N/A

Secondary License Type, If Applicable

SEC

Dept. Requiring this Doc.

N/A

Amended Articles Number/Section

6

Total No. of Stockholders

Total Amount of Borrowings

N/A	N/A
Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

Punongbayan & Araullo

R.M. MARINAY

APR 16 2012

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Report of Independent Auditors

'12 APR 19

The Board of Directors
Chelsea Shipping Corp.
(A Wholly Owned Subsidiary of
Udenna Management & Resources Corp.)
Stella Hizon Reyes Road
Barrio Pampanga, Davao City

Report on the Financial Statements

We have audited the accompanying financial statements of Chelsea Shipping Corp., which comprise the statements of financial position as at December 31, 2011, 2010 and 2009, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Chelsea Shipping Corp. as at December 31, 2011, 2010 and 2009, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with Philippine Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2011 required by the Bureau of Internal Revenue as disclosed in Note 23 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 3174908, January 2, 2012, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-1 (until Aug. 25, 2013)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-22-2011 (until Feb. 3, 2014)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2012)

February 27, 2012

Punongbayan & Araullo

Supplemental Statement of Independent Auditors

20th Floor, Tower 1
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The Board of Directors
Chelsea Shipping Corp.
(A Wholly Owned Subsidiary of
Udenna Management &Resources Corp.)
Stella Hizon Reyes Road
Barrio Pampanga, Davao City

We have audited the financial statements of Chelsea Shipping Corp. for the year ended December 31, 2011, on which we have rendered the attached report dated February 27, 2012.

In accordance with SRC Rule 68, we are stating that the Company has only one stockholder owning 100 or more shares of the Company's capital stock as of December 31, 2011, as disclosed in Note 17 to the financial statements.

PUNONGBAYAN & ARAULLO

By: **Romualdo V. Murcia III**
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 3174908, January 2, 2012, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-1 (until Aug. 25, 2013)
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Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2012)

February 27, 2012

CHELSEA SHIPPING CORP.

(A Wholly Owned Subsidiary of Udenna Management & Resources Corp.)

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2011, 2010 AND 2009

(Amounts in Philippine Pesos)

	Notes	2011	2010 (As Restated - see Note 17)	2009 (As Restated - see Note 17)
ASSETS				
CURRENT ASSETS				
Cash	3	P 14,190,496	P 8,689,358	P 48,456,057
Trade and other receivables - net	4	60,696,517	63,670,650	76,140,660
Advances to related parties	16	21,040,261	33,517,363	60,210,968
Other current assets	5	33,458,469	29,145,003	81,133,989
Total Current Assets		129,385,743	135,022,374	265,941,674
NON-CURRENT ASSETS				
Property and equipment - net	6	P 2,124,867,751	1,322,309,357	1,366,653,383
Investments in subsidiaries	7	207,000,000	107,000,000	159,569,300
Deferred tax assets - net	15	3,013,298	6,112,996	-
Other non-current assets - net	8	33,018,534	32,123,721	33,370,588
Total Non-current Assets		2,367,899,583	1,467,546,074	1,559,593,271
TOTAL ASSETS		P 2,497,285,326	P 1,602,568,448	P 1,825,534,945
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Interest-bearing loans	10	P 259,005,011	P 254,184,087	P 301,559,923
Trade and other payables	9	543,437,510	338,254,579	224,750,767
Advances from related parties	16	168,762,258	97,009,923	46,574,409
Advances from customers	16	117,961,853	2,049,957	49,419,699
Total Current Liabilities		1,089,166,632	691,498,546	622,304,798
NON-CURRENT LIABILITIES				
Interest-bearing loans	10	545,130,311	352,987,400	528,404,716
Advances from related parties	16	86,179,979	91,167,021	-
Retirement benefit obligation	13	2,335,683	1,278,804	851,900
Deferred tax liabilities - net	15	-		9,307,946
Total Non current Liabilities		633,645,973	445,433,225	538,564,562
Total Liabilities		1,722,812,605	1,136,931,771	1,160,869,360
EQUITY	17			
Capital stock		400,000,000	400,000,000	348,590,400
Equity advances		231,250,000	-	-
Deposit for future stock subscriptions		-	-	280,222,600
Retained earnings		143,222,721	65,636,677	35,852,585
Total Equity		774,472,721	465,636,677	664,665,585
TOTAL LIABILITIES AND EQUITY		P 2,497,285,326	P 1,602,568,448	P 1,825,534,945

See Notes to Financial Statements.

CHELSEA SHIPPING CORP.

(A Wholly Owned Subsidiary of Udenna Management & Resources Corp.)

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(Amounts in Philippine Pesos)

	Notes	2011	2010 (As Restated - see Note 17)
REVENUES			
Charter fees	16	P 479,108,391	P 543,833,417
Standby charges	16	16,131,125	21,140,355
Bunkering		816,317	4,244,147
Others		1,268,201	5,634,305
		497,324,034	574,852,224
COSTS OF SALES AND SERVICES	11	355,303,766	378,782,012
GROSS PROFIT		142,020,268	196,070,212
OTHER OPERATING EXPENSES	12	88,954,473	98,053,011
OPERATING PROFIT		53,065,795	98,017,201
OTHER INCOME (CHARGES)			
Gain on sale of vessel	6, 8	44,124,606	
Finance costs - net	14	(18,187,856)	(80,837,716)
Rental income	16	4,973,697	
		30,910,447	(80,837,716)
PROFIT BEFORE TAX		83,976,242	17,179,485
TAX EXPENSE (INCOME)	15	6,390,198	(12,604,607)
NET PROFIT		77,586,044	29,784,092
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME		P 77,586,044	P 29,784,092

See Notes to Financial Statements.

CHELSEA SHIPPING CORP.

(A Wholly Owned Subsidiary of Udenna Management & Resources Corp.)

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(Amounts in Philippine Pesos)

	Note	2011	2010 (As Restated - see Note 17)
CAPITAL STOCK	17		
Balance at beginning of year		P 400,000,000	P 348,590,400
Additions		-	51,409,600
Balance at end of year		400,000,000	400,000,000
EQUITY ADVANCES	17	231,250,000	-
DEPOSIT FOR FUTURE STOCK SUBSCRIPTIONS	17		
Balance at beginning of year		-	280,222,600
Application of deposit for future stock subscriptions		-	(51,409,600)
Cancellation of deposit for future stock subscriptions		-	(228,813,000)
Balance at end of year		-	-
RETAINED EARNINGS			
Balance at beginning of year			
As previously reported		37,280,435	31,402,961
Prior period adjustments	17	28,356,242	4,449,624
As restated		65,636,677	35,852,585
Net profit		77,586,044	29,784,092
Balance at end of year		143,222,721	65,636,677
TOTAL EQUITY		P 774,472,721	P 465,636,677

See Notes to Financial Statements.

CHELSEA SHIPPING CORP.

(A Wholly Owned Subsidiary of Udenna Management & Resources Corp.)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(Amounts in Philippine Pesos)

	Notes	2011	2010 (As Restated - see Note 17)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 83,976,242	P 17,179,485
Adjustments for:			
Depreciation and amortization	12	59,301,597	67,966,660
Interest expense	14	51,322,328	73,500,247
Gain on sale of property and equipment	6, 8	(44,124,606)	-
Day one gain - net	14	(34,562,611)	-
Unrealized foreign currency losses (gains) - net		1,055,207	(44,532)
Interest income	14	(586,481)	(474,748)
Operating profit before working capital changes		116,381,676	158,127,112
Decrease in trade and other receivables		2,974,133	12,470,010
Decrease in advances to related parties		12,477,102	79,262,905
Decrease (increase) in other current assets		(7,486,670)	49,267,507
Decrease in other non-current assets		793,614	1,500,567
Increase (decrease) in trade and other payables		(76,085,419)	9,604,714
Increase in advances from customers		115,911,896	43,797,279
Increase in retirement benefit obligation		1,056,879	426,904
Cash generated from operations		166,023,211	354,456,998
Cash paid for income taxes		(117,296)	(94,856)
Net Cash From Operating Activities		165,905,915	354,362,142
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment	6	(641,578,051)	(12,774,041)
Proceeds from sale of property and equipment	6	121,875,000	-
Investment in a subsidiary	7	(100,000,000)	-
Additions to drydocking costs	8	(21,217,241)	(11,102,293)
Interest received	14	586,481	474,748
Net Cash Used in Investing Activities		(640,333,811)	(23,401,586)
Balance forwarded		(P 474,427,896)	P 330,960,556

	Note	2011	2010 (As Restated - see Note 17)
Balance brought forward		(P 474,427,896)	P 330,960,556
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from interest-bearing loans		442,399,840	41,000,000
Repayments of interest-bearing loans		(246,488,645)	(263,793,152)
Equity advances received from parent company	17	231,250,000	-
Additions (repayments) from related parties - net		101,327,904	(78,377,486)
Interest paid		(48,557,498)	(69,601,149)
Net Cash From (Used in) Financing Activities		479,931,601	(370,771,787)
Effect of Changes in Foreign Exchange Rate on Cash		(2,567)	44,532
NET INCREASE (DECREASE) IN CASH		5,501,138	(39,766,699)
CASH AT BEGINNING OF YEAR		8,689,358	48,456,057
CASH AT END OF YEAR		P 14,190,496	P 8,689,358

Supplemental Information on Noncash Investing and Financing Activities:

1. In 2011, the Company entered into a Memorandum of Agreement (MOA) with a foreign corporation for the importation and construction of one unit of oil tank vessel (MT Chelsea Thelma) in China in the amount of US$19.8 million (see Notes 6 and 10). The related unpaid balance of the agreed price amounting to $6.34 million (P278.5 million) is included as part of Trade payables under Trade and Other Payables account in the 2011 statement of financial position (see Note 9).

2. In 2011, the Company received non interest bearing advances from PNX - Chealsea Shipping Corp. and certain stockholder which are subject of the subordination agreement of the Company with certain bank (see Note 10.2). Day one gain recognized in 2011 relating to such non current advances, net of current year amortization, amounted to P34.6 million (see Note 16.4).

3. In 2010, the Company's Board of Directors changed the intention relative to advances to Bunkers Manila Inc. and Michael Inc., previously intended as additional investment, and accordingly, the Company reclassified such amount to Advances to Related Parties account (see Notes 7 and 16.4).

4. In 2009, the Company, through its BOD, planned to increase its stock capitalization from P500.0 million to P800.0 million. As such, Udenna Management and Resources Corp. (UMRC) made additional deposits for future stock subscriptions amounting to P128.8 million. An additional P100.0 million was also received from a prospective investor. In 2010, however, the Company's BOD retracted such intention and accordingly, the Company reclassified the amounts received from UMRC and prospective investor to Advances from Related Parties and Other Payables accounts for P128.8 million and P100.0 million, respectively (see Notes 9, 16.4 and 17).

Other Supplemental Information:

The Other Non current Assets account include restricted cash deposits amounting to P10.0 million, P10.8 million, and P10.5 million as of December 31, 2011, 2010 and 2009, respectively (see Note 8).

See Notes to Financial Statements.

CHELSEA SHIPPING CORP.
(A Wholly Owned Subsidiary of Udenna Management & Resources Corp.)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Incorporation and Operations

Chelsea Shipping Corp. (the Company) was incorporated in the Philippines on July 17, 2006 and started commercial operations on January 1, 2007. The Company is engaged in maritime trade through conveying, carrying, loading, transporting, discharging and storing of petroleum products, goods and merchandise of every kind, over waterways in the Philippines. The Company holds investments in certain subsidiaries that are all incorporated in the Philippines and are engaged in businesses which are related to the main business of the Company (see Note 7).

The Company is a wholly owned subsidiary of Udenna Management & Resources Corp. (UMRC). The Company's ultimate parent is Udenna Corporation (Udenna). UMRC is engaged in providing management, investment and technical advice for commercial, industrial, manufacturing and other kinds of enterprises. Udenna, on the other hand, was primarily organized to purchase, acquire, take over and manage all or any part of the rights, assets, business and property; undertake and assume the liabilities of any person, firm, association, partnership, syndicate of corporation; and to engage in the distribution, selling, importation, installation of pollution control devices, units and services, and all other pollution control related products and emission test servicing.

The registered office of the Company, UMRC and Udenna, which is also their principal place of business, is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

1.2 Approval of Financial Statements

The financial statements of the Company as of and for the year ended December 31, 2011 (including comparatives as of and for the years ended December 31, 2010 and 2009) were authorized for issue by the Company's President on February 27, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

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

In 2011, the Company presented two comparative period for statements of financial position due to the retrospective change in the classification of certain items previously classified as Drydocking Costs under Other Non-current account to Tanker (Vessel) under Property and Equipment account (see Note 17.2).

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Company are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Company operates.

2.2 *Adoption of New and Amended PFRS*

(a) Effective in 2011 that are Relevant to the Company

In 2011, the Company adopted the following new amendment, interpretations and annual improvements to PFRS that are relevant to the Company and effective for financial statements for the annual period beginning on or after July 1, 2011 or January 1, 2011:

PAS 24 (Amendment)	:	Related Party Disclosures
Philippine Interpretations International Financial Reporting Interpretations Committee (IFRIC) 14 (Amendment)	:	Prepayment of a Minimum Funding Requirement
IFRIC 19	:	Extinguishing Financial Liabilities with Equity Instruments
Various Standards	:	2010 Annual Improvements to PFRS

Discussed below are the relevant information about these new and amended standards.

(i) PAS 24 (Amendment), *Related Party Disclosures* (effective from January 1, 2011). The amendment simplifies and clarifies the definition of a related party by eliminating inconsistencies in determining related party relationships. The amendment also provides partial exemption from the disclosure requirements for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption of this amendment did not result in any significant changes on the Company's disclosures of related parties in its financial statements.

(ii) Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a surplus for defined benefit plans based on PAS 19, *Employee Benefits*, that are subject to a minimum funding requirement. The Company is not subject to minimum funding requirements and it does not make advance contributions to a retirement fund, hence, the adoption of the revised standard has no material effect on its financial statements.

(iii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). This interpretation clarifies the accounting when an entity renegotiates the terms of a financial liability through issuance of equity instruments to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*;
- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;
- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,
- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

The adoption of the interpretation did not have a material effect on the Company's financial statements as it did not extinguish financial liabilities through equity swap during the year.

(iv) 2010 Annual Improvements to PFRS. The FRSC has adopted the *2010 Improvements to PFRS*. Most of these amendments became effective for annual periods beginning on or after July 1, 2010 or January 1, 2011. Among those improvements, only the following amendments were identified to be relevant to the Company's financial statements but which did not have any material impact on its financial statements:

- PAS 1 (Amendment), *Presentation of Financial Statements: Clarification of Statement of Changes in Equity* (effective from July 1, 2010). The amendment clarifies that, for each component of equity, an entity may present an analysis of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The amendment has no impact on the Company's financial statements because the Company has no other comprehensive income.

- PFRS 7 (Amendment), *Financial Instruments: Clarification of Disclosures* (effective from January 1, 2011). The amendment clarifies the disclosure requirements which emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks arising from financial instruments. It also amends the required disclosure of financial assets including the financial effect of collateral held as security. This amendment has no significant effect on the financial statements since the Company already provides adequate information in its financial statements in compliance with the disclosure requirements.

(b) Effective in 2011 that are not Relevant to the Company

The following amendments and interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2011 but are not relevant to the Company's financial statements:

PAS 32 (Amendment)	:	Financial Instruments: Presentation - Classification of Rights Issues
PFRS 1 (Amendment)	:	First-Time Adoption of PFRS – Limited Exemption from PFRS 7 Comparative Disclosures
2010 Annual Improvements		
PAS 21 (Amendment)	:	The Effects of Changes in Foreign Exchange Rates
PAS 28 (Amendment)	:	Investment in Associates
PAS 31 (Amendment)	:	Interests in Joint Ventures
PAS 34 (Amendment)	:	Interim Financial Reporting – Significant Events and Transactions
PFRS 1 (Amendment)	:	First-Time Adoption of PFRS
PFRS 3 (Amendment)	:	Business Combinations
IFRIC 13 (Amendment)	:	Customer Loyalty Programmes - Fair Value Awards Credits

(c) Effective Subsequent to 2011 but not Adopted Early

There are new PFRS, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2011. Management has initially determined the following pronouncements, which the Company will apply in accordance with their transitional provisions, to be relevant to its financial statements:

(i) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets* (effective from July 1, 2011). The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Company does not usually enter into this type of arrangement with regard to the transfer of financial asset, hence, the amendment may not significantly change the Company's disclosures in its financial statements.

(ii) PAS 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in Other Comprehensive Income into those that, in accordance with other PFRSs: (a) will not be reclassified subsequently to profit or loss; and, (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Company's management expects that this will not affect the presentation of items since the management expects no future transactions requiring recognition of other comprehensive income.

(iii) PAS 19 (Amendment), *Employee Benefits* (effective from January 1, 2013). The amendment made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows

- eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all gains and losses arising in the reporting period;

- streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,

- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

Currently, the Company is using the corridor approach and its unrecognized actuarial losses as of December 31, 2011 amounted to P0.1 million which will be retrospectively recognized as losses in other comprehensive income in 2013 (see Note 13.2).

(iv) Consolidation Standards

- PFRS 10, *Consolidated Financial Statements* (effective from January 1, 2013). This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.

- PFRS 12, *Disclosure of Interest in Other Entities* (effective from January 1, 2013). This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

- PAS 27 (Revised), *Separate Financial Statements* (effective from January 1, 2013). This revised standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in the new PFRS 10. No new major changes relating to separate financial statements have been introduced as a result of the revision.

The Company is currently reviewing the impact of the above consolidation standards on its financial statements in time for its adoption in 2013.

(v) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The Company is yet to assess the impact of this new standard.

(vi) PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace PAS 39 in its entirety. This chapter deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangement, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

To date, other chapters of PFRS 9 dealing with impairment methodology and hedge accounting are still being completed.

The Company does not expect to implement and adopt PFRS 9 until its effective date or until all chapters of this new standard have been published. In addition, management is currently assessing the impact of PFRS 9 on the financial statements of the Company and is committed to conduct a comprehensive study of the potential impact of this standard to assess the impact of all changes.

2.3 Separate Financial Statements and Investments in Subsidiaries

These financial statements are prepared as the Company's separate financial statements. As allowed under existing accounting standards, the Company has not presented consolidated financial statements because it is itself a wholly owned subsidiary of Udenna, which presents consolidated financial statements available for public use that comply with PFRS (see Note 1). Moreover, the Company's equity securities are not traded in organized financial market and the Company is not in the process of filing its financial statements with securities commissions or other regulatory organization for the purpose of issuing any class of instruments in an organized financial market.

Subsidiaries are entities over which the Company has the power to govern the financial reporting policies generally accompanying a shareholding of more than half of the voting rights. The Company obtains and exercises control through voting rights. The existence and effect of potential voting rights that are currently exercisable and convertible are considered when assessing whether the Company controls another entity.

The Company's investments in subsidiaries are accounted for in these separate financial statements at cost, less any impairment loss (see Note 2.14).

2.4 Financial Assets

Financial assets are recognized when the Company becomes a party to the contractual terms of the financial instrument. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the difference categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.

The Company's financial assets consist of Cash, Trade and Other Receivables, Advances to Related Parties, Bond Deposits (presented as part of Other Current Assets) and Hold-out Deposits and Security Deposits (both presented as part of Other Non-current Assets). These financial assets are classified as loans and receivables.

Cash includes cash on hand and cash in banks, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash accounts with banks generally earn interest at rates based on daily bank deposit rates ranging from 0.03% to 3.00% per annum.

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

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows, discounted at the effective interest rate.

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance Costs - net in the statement of comprehensive income.

Non compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred.

2.5 Fuel Inventory

Fuel inventory, presented as part of Other Current Assets, is carried at the lower of cost or net realizable value. The net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost to market and distribute. The Company uses the first-in first-out method in costing fuel products.

2.6 Property and Equipment

Property and equipment are carried at acquisition or construction cost less subsequent depreciation, amortization and any impairment losses.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred, except for periodic drydocking costs which are performed every two years on the vessel (see Note 2.7).

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Tanker (Vessel)	30 years
Transportation equipment	5 years
Furniture, fixtures and equipment	3 to 5 years

Leasehold improvements are amortized over the lease period or useful lives of the assets whichever is shorter.

Construction-in-progress (CIP) represents vessels under construction and on-going major repair works and is stated at cost. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.14).

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted, if appropriate, at the end of each reporting period.

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

2.7 Drydocking Costs

Drydocking costs are considered major repairs that preserve the life of the vessel. The costs associated with drydocking are amortized over the expected period of benefit which is 24 months based on industry practice or until the next scheduled drydocking occurs, whichever is earlier. When the next scheduled drydocking occurs, any remaining unamortized balance of the deferred cost from the previous drydocking is charged to profit or loss for that period.

Amortization of drydocking costs starts only when the process has been completed and the related vessel is ready for use.

The carrying amount of drydocking costs, presented as part of the Other Non-current Asset in the statement of financial position, is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount (see Note 2.14).

The carrying amount of drydocking costs is derecognized upon derecognition of the related vessel. The computed gain or loss arising on derecognition of the vessel takes into consideration the carrying amount of drydocking costs and is included in the statement of comprehensive income in the year the related vessel is derecognized (see Note 2.6).

2.8 Financial Liabilities

Financial liabilities, which include interest-bearing loans, trade and other payables [except output value-added tax (VAT) payable] and advances from related parties, are recognized when the Company becomes a party to the contractual agreements of the instrument. Interest charges that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset (see Note 2.16). All other interest related charges are recognized as an expense in the statement of comprehensive income under the caption Finance Costs – net.

Interest-bearing loans are raised for support of the investing activities and working capital requirements of the Company. Finance charges, including direct issue costs, are charged to profit or loss, except for capitalized borrowing costs, on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Trade and other payables and advances from related parties are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of reporting period (or in the normal operating cycle of the business, if longer), or the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Otherwise, these are presented as non-current liabilities.

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

2.9 Advances from Customers

Advances from customers are measured at the amount of cash received from the customers and once the related sales transactions are consummated, these are considered as a reduction from the receivable from customer.

2.10 Provisions and Contingencies

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, probable inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.11 Revenue and Expense Recognition

Revenue comprises revenue from the sale of goods and the rendering of services measured by reference to the fair value of consideration received or receivable by the Company for goods sold and services rendered, excluding VAT and discounts.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue and costs incurred or to be incurred can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

(a) *Charter fee* – Revenue is recognized when the performance of the contractually agreed tasks have been substantially rendered.

(b) *Standby charges* – Revenue is recognized upon failure of customer to utilize/dispatch the vessel within the allotted lay-time initially agreed upon.

(c) *Sale of bunker fuel* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer has taken undisputed delivery of goods.

(d) *Rentals* – Revenue from rentals arising from the short-term lease of office space is recognized at agreed rate over the lease term (see Note 2.12).

(e) *Interest* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

Costs and expenses are recognized in profit or loss upon receipt of goods or utilization of the service or at the date they are incurred. Finance costs, except for borrowing cost attributable to qualifying assets, are reported on an accrual basis (see Note 2.16).

2.12 Leases

The Company accounts for its leases as follows:

(a) *Company as Lessee*

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

(b) *Company as Lessor*

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from short-term operating lease is recognized at agreed rate over the lease term. Lease income from long-term lease is recognized in profit or loss on straight-line basis over the lease term (see Note 2.11).

The Company determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.13 Foreign Currency Transactions

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

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in statement of comprehensive income as part of Finance Costs - net.

2.14 Impairment of Non-financial Assets

The Company's property and equipment, investments in subsidiaries, drydocking costs and other non-financial assets are subject to impairment testing. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

2.15 Post-employment Benefits

Post-employment benefits are provided to employees through a defined benefit plan.

A defined benefit plan is a post-employment benefit plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Company, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Company's post-employment defined benefit plan covers all regular full-time employees.

The liability recognized in the statement of financial position for post-employment defined benefit plans is the present value of the defined benefit obligation (DBO) at the end of reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Actuarial gains and losses are not recognized as an income or expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past-service costs are recognized immediately in the statement of comprehensive income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

2.16 Borrowing Costs

Borrowing costs are recognized as expense in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

For income tax purposes, interest and other borrowing costs are charged to expense when incurred.

2.17 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is provided, using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or directly in equity.

2.18 Related Party Transactions

Related party transactions are transfers of resources, services or obligations between the Company and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.19 Equity

Capital stock represents the nominal value of shares that have been issued.

Equity advances from parent company (measured at consideration received) represent advances which are intended for conversion to capital stock in the future.

Deposit for future stock subscriptions represent the cash considerations received from stockholders and from a future investor for the future subscriptions of the Company's unissued shares.

Retained earnings include all current and prior period results of operations as reported in the profit or loss section of the statement of comprehensive income.

2.20 Events after the Reporting Period

Any post-year-end event that provides additional information about the Company's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The Company's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Operating and Finance Leases

The Company has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

(b) Capitalization of Borrowing Costs

The Company determines whether the amount of finance costs qualifies for capitalization as part of the cost of the qualifying asset, or expensed outright. The accounting treatment for the finance costs is determined by assessing whether the asset is a qualifying asset taking into consideration the period of time to get the asset ready for its intended use. Failure to make the right judgment will result in misstatement of assets and net profit.

(c) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosures of provisions and contingencies are disclosed in Note 2.10 and relevant disclosures of commitments and contingencies are presented in Note 18.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

(a) Allowance for Impairment of Trade and Other Receivables and Advances to Related Parties

Adequate amount of allowance is made and provided for specific and groups of accounts, where objective evidence of impairment exists. The Company evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Company's relationship with its counterparties, the counterparties' current credit status based on known market forces, average age of accounts, collection experience and historical loss experience.

Impairment loss on Trade and Other Receivables and Advances to Related Parties required to be recognized in 2011, 2010 and 2009 amounts to P2.1 million, P6.3 million and nil, respectively (see Note 4). There are no impairment losses required to be presented for advances to related parties during the years presented based on management's assessment (see Note 16.4).

(b) Useful Lives of Property and Equipment and Drydocking Costs

The Company estimates the useful lives of property and equipment and drydocking costs based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property and equipment and drydocking costs are analyzed in Notes 6 and 8, respectively. Based on management's assessment as at December 31, 2011, 2010 and 2009, there is no change in estimated useful lives of property and equipment and drydocking costs during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(c) Realizable Amount of Deferred Tax Assets

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The carrying value of deferred tax assets as of December 31, 2011, 2010 and 2009 is disclosed in Note 15.1.

(d) Impairment of Non-financial Assets

The Company's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.14. Though management believes that the assumptions used in the estimation of fair values are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Management has assessed that no impairment losses are required to be recognized on the Company's non-financial assets in 2011 and 2010.

(e) *Post-employment Benefit*

The determination of the Company's obligation and cost of post-employment benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 13.2 and include, among others, discount rates salary increase rate and employee turn-over. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation are presented in Note 13.2.

4. TRADE AND OTHER RECEIVABLES

This account is composed of the following as of December 31:

	Notes	2011	2010	2009
Trade:				
Third parties		P 32,780,411	P 38,644,409	P 17,336,277
Related parties	16.2, 16.3	17,780,684	6,247,137	38,439,122
		50,561,095	44,891,546	55,775,399
Advances to officers and employees		5,094,771	3,535,957	2,042,801
Others:				
Third parties		12,373,108	21,558,382	18,322,460
Related parties	16.5	1,090,516	-	-
		13,463,624	21,558,382	18,322,460
Total receivables		69,119,490	69,985,885	76,140,660
Allowance for impairment loss	14	(8,422,973)	(6,315,235)	-
		P 60,696,517	P 63,670,650	P 76,140,660

Other receivables include receivable amounting to P12.3 million, P12.6 million and P13.1 million as of December 31, 2011, 2010 and 2009, respectively, from a certain third party which represent the reimbursable costs incurred by the Company in relation to their time charter agreement.

All of the Company's trade and other receivables have been reviewed for indicators of impairment. In 2011 and 2010, certain other receivables were found to be impaired; hence, adequate amount of allowance for impairment have been recorded. The impairment loss amounting to P2.1 million and P6.3 million in 2011 and 2010 is presented as part of Finance Costs - net under Other Income (Charges) account in the statements of comprehensive income (see Note 14).

A reconciliation of the allowance for impairment at the beginning and end of 2011, 2010 and 2009 is shown below.

	Note	2011	2010	2009
Balance at beginning of year		P 6,315,235	P -	P -
Impairment loss	14	2,107,738	6,315,235	-
Balance at end of year		P 8,422,973	P 6,315,235	P -

Trade and other receivables do not bear any interest. All receivables are subject to credit risk exposure (see Note 20.3).

Certain Trade Receivables of the Parent Company amounting to P17.0 million is used as collateral to a loan (see Note 10.4). There is no similar transaction in 2010 and 2009.

The carrying amounts of these trade and other receivables are a reasonable approximation of their fair values due to their short-term duration.

5. OTHER CURRENT ASSETS

The breakdown of this account as of December 31 follows:

	Notes	2011	2010	2009
Creditable withholding tax		P 16,341,747	P 12,557,103	P 7,074,834
Advances to suppliers - net	14	11,499,666	6,078,787	27,986,329
Prepaid expenses		4,823,847	2,363,278	1,001,813
Others	16.2, 18.1 20.3	793,209	8,145,835	45,071,013
		P 33,458,469	P 29,145,003	P 81,133,989

In 2011, the Company provided allowance for impairment on certain advances to suppliers amounting to P0.2 million as management considers the realizability of such advances to be remote. Related impairment loss is recognized as part of Finance Costs - net under Other Income (Charges) account in the 2011 statement of comprehensive income (see Note 14).

6. PROPERTY AND EQUIPMENT

The gross carrying amounts and the accumulated depreciation and amortization of property and equipment at the beginning and end of 2011, 2010 and 2009 are shown below.

	Tanker (Vessel) (As Restated - see Note 17.2)	Transportation Equipment	Leasehold Improvement	Furniture, Fixtures and Equipment	CIP	Total (As Restated - see Note 17.2)
December 31, 2011						
Cost	P 1,365,256,570	P 17,204,567	P 15,977,590	P 15,044,477	P 902,583,842	P 2,316,067,046
Accumulated depreciation and amortization	(160,172,204)	(12,098,849)	(7,644,248)	(11,283,994)		(191,199,295)
Net carrying amount	P 1,205,084,366	P 5,105,718	P 8,333,342	P 3,760,483	P 902,583,842	P 2,124,867,751
December 31, 2010						
Cost	P 1,419,390,276	P 17,204,567	P 13,258,634	P 14,131,674	P 1,487,939	P 1,465,473,090
Accumulated depreciation and amortization	(120,992,004)	(8,657,936)	(4,511,524)	(9,002,269)	-	(143,163,733)
Net carrying amount	P 1,298,398,272	P 8,546,631	P 8,747,110	P 5,129,405	P 1,487,939	P 1,322,309,357
December 31, 2009						
Cost	P 1,347,324,625	P 19,221,536	P 13,987,889	P 3,979,783	P 39,630,475	P 1,424,144,308
Accumulated depreciation and amortization	(47,874,184)	(7,233,992)	(737,650)	(1,645,099)		(57,490,925)
Net carrying amount	P 1,299,450,441	P 11,987,544	P 13,250,239	P 2,334,684	P 39,630,475	P 1,366,653,383
January 1, 2009						
Cost	P 401,070,768	P 20,419,396	P 2,526,357	P 3,114,731	P 301,042,702	P 728,173,954
Accumulated depreciation and amortization	(41,579,584)	(4,377,016)	(101,773)	(541,364)	-	(46,599,737)
Net carrying amount	P 359,491,184	P 16,042,380	P 2,424,584	P 2,573,367	P 301,042,702	P 681,574,217

A reconciliation of the carrying amounts at the beginning and end of 2011, 2010 and 2009, of property and equipment is shown below.

	Tanker (Vessel) (As Restated - see Note 17.2)	Transportation Equipment	Leasehold Improvement	Furniture, Fixtures and Equipment	CIP	Total (As Restated - see Note 17.2)
Balance at January 1, 2011, net of accumulated depreciation and amortization	P 1,298,398,272	P 8,546,631	P 8,747,110	P 5,129,405	P 1,487,939	P 1,322,309,357
Additions	14,281,075		2,203,262	1,013,392	902,583,842	920,081,571
Reclassification	1,487,939	-	-	-	(1,487,939)	
Disposal	(63,431,624)	-		-		(63,431,624)
Depreciation and amortization charges for the year	(45,651,296)	(3,440,913)	(2,617,030)	(2,382,314)		(54,091,553)
Balance at December 31, 2011, net of accumulated depreciation and amortization	P 1,205,084,366	P 5,105,718	P 8,333,342	P 3,760,483	P 902,583,842	P 2,124,867,751

	Tanker (Vessel) (As Restated - see Note 17.2)	Transportation Equipment	Leasehold Improvement	Furniture, Fixtures and Equipment	CIP	Total (As Restated - see Note 17.2)
Balance at January 1, 2010, net of accumulated depreciation and amortization	P 1,299,450,441	P 11,987,544	P 13,250,239	P 2,334,684	P 39,630,475	P 1,366,653,383
Additions	6,451,070	-	-	4,835,032	1,487,939	12,774,041
Reclassification	39,630,475	-		-	(39,630,475)	
Write off	-		(1,905,854)		-	(1,905,854)
Depreciation and amortization charges for the year	(47,133,714)	(3,440,913)	(2,597,275)	(2,040,311)		(55,212,213)
Balance at December 31, 2010, net of accumulated depreciation and amortization	P 1,298,398,272	P 8,546,631	P 8,747,110	P 5,129,405	P 1,487,939	P 1,322,309,357
Balance at January 1, 2009, net of accumulated depreciation and amortization	P 359,491,184	P 16,042,380	P 2,424,584	P 2,573,367	P 301,042,702	P 681,574,217
Additions	56,291,046	5,394,179	12,638,130	856,481	615,372,570	690,552,406
Reclassification (see Note 8)	910,632,845		-	-	(876,784,797)	33,848,048
Disposal	-	(5,186,344)	(1,102,062)			(6,288,406)
Depreciation and amortization charges for the year	(26,964,634)	(4,262,671)	(710,413)	(1,095,164)		(35,032,882)
Balance at December 31, 2009, net of accumulated depreciation and amortization	P 1,299,450,441	P 11,987,544	P 13,250,239	P 2,334,684	P 39,630,475	P 1,366,653,383

As of December 31, 2011, certain tankers (vessels) were used as collaterals for interest-bearing loans while all of the Company's vessels were used as collaterals as of December 31, 2010 and 2009 for interest bearing loans obtained from various local commercial banks (see Notes 10.1, 10.2, 10.3 and 10.4).

As of December 31, 2011, 2010 and 2009, certain transportation equipment with carrying amount of P2.6 million, P6.5 million and P11.5 million, respectively, were used as collateral for mortgage loans with a local bank (see Note 10.5).

The Company recognized a gain of P44.1 million in 2011 on disposal of a vessel with carrying value of P63.4 million, including the carrying value of the unamortized dry docking cost (see Note 8).

The amounts of depreciation and amortization are allocated as follows:

	Notes	2011	2010 (As Restated - see Note 17.2)
Costs of sales and services	11	**P 47,083,776**	P 47,133,714
Other operating expenses		**7,007,777**	8,078,499
	12	**P 54,091,553**	P 55,212,213

6.1 Acquisition of Vessels

(a) MT Chelsea Thelma (MT Thelma)

On April 26, 2011, the Company entered into a Memorandum of Agreement (MOA) with a foreign corporation for the importation of one unit of oil tank vessel (MT Thelma) from China for US$19.8 million (see Note 10.2). As of December 31, 2011, the vessel, which is already completed, is still not turned over and delivered to the Company. Since the vessel is not yet ready for Company's use as of December 31, 2011, the contract price of the vessel, other incidental costs of the transaction and costs incurred for the major improvements made to the vessel totaling P874.9 million were recognized as CIP. The unpaid balance of the contact price amounting to $6.34 million (P278.5 million) is included as part of Trade payables under Trade and Other Payables account in the 2011 statement of financial position (see Note 9).

(b) MT Chelsea Cherylyn (MT Cherylyn)

On September 12, 2007, the Company entered into a MOA with a foreign corporation for the construction of one unit oil tank vessel (MT Cherylyn) in China for US$15.0 million. The vessel was completed and launched in July 2009. Total cost incurred during construction of MT Cherylyn amounted to P877.5 million inclusive of capitalized borrowing costs totaling P32.0 million representing interest charges directly attributable to the construction of the vessel (see Note 10.3).

6.2 Double Hull Conversion of Vessels

On December 14, 2010, MARINA issued Circular 2010-01, mandating all owners and operators of oil tankers and tanker barges with 600 deadweight tonnage and above must be double hulled within twelve months from the effectivity of the Circular. However, oil tankers carrying petroleum black products shall continue to be covered under Circular 2007-01 regardless of size.

As of December 31, 2011, MT Chelsea Resolute is undergoing double hulling. The related costs incurred amounting to P20.0 million was recognized as part of CIP.

7. INVESTMENTS IN SUBSIDIARIES

The carrying values of Investments in Subsidiaries as of December 31 are as follows:

	2011	2010	2009
PNX – Chelsea Shipping Corp. (PNX - Chelsea)	**P 100,000,000**	P -	P -
Michael, Inc. (MI)	**75,000,000**	75,000,000	97,569,300
Bunkers Manila, Inc. (BMI)	**32,000,000**	32,000,000	62,000,000
	P 207,000,000	P 107,000,000	P 159,569,300

All of the subsidiaries above are wholly-owned by the Company. These subsidiaries were incorporated in the Philippines, engaged in shipping and hauling services and not listed in the stock exchange; hence, the fair value of the shares cannot be determined reliably. Management believes that the carrying amounts of the investments are fully recoverable as of end of the reporting periods (see Note 7.4).

7.1 Investment in PNX - Chelsea

On February 2, 2011, the Company invested in a newly incorporated entity, PNX – Chelsea which was incorporated to engage in the ownership and operation of vessels for domestic trade for the purpose of conveyance or carriage of petroleum products, goods, wares and merchandise of every kind and description. As of December 31, 2011, PNX - Chelsea has not yet started commercial operations.

7.2 Investment in MI

On August 31, 2008, the Company entered into Share Purchase Agreement (SPA) for the acquisition of 74,307 shares, representing all of the outstanding shares of MI for a total purchase price of P75.0 million.

In accordance with the agreement, 20% of the purchase price or P15.0 million was paid in three staggered payments until September 30, 2008. The Company also assumed the provision for retirement and other benefits of MI's existing employees amounting to P4.1 million. The remaining balance of P55.9 million shall be payable over 12 months in equal monthly installments, at 8% per annum, commencing on October 30, 2008. However, the Company was not able to fully settle the remaining balance in 2008. The outstanding balance of the purchase price as of December 31, 2011, 2010 and 2009 amounted to P2.2 million, P7.5 million and P21.3 million, respectively, and is included as part of Others under Trade and Other Payables account in the statements of financial position (see Note 9). No penalties and other charges were imposed to the Company for the default in payment.

Total interest incurred by the Company on this transaction amounted to P0.3 million and P1.1 million in 2011 and 2010, respectively, and is presented as part of Finance Costs - net under Other Income (Charges) account in the statements of comprehensive income (see Note 14).

As the Company has not yet settled the purchase price in full, the related stock certificates were not yet transferred to the Company as of December 31, 2011. However, with the executed SPA, the Company already assumed control of MI and, accordingly, considered it as a wholly-owned subsidiary. The Company expects to settle the remaining balance in 2012.

In 2009, the Company's BOD approved the reclassification of the Company's P22.6 million advances to MI as additional investment to the latter. In 2010, however, the Company' BOD retracted such intention and accordingly, the Company reclassified such amount to Advances to Related Parties account (see Note 16.4).

7.3 Investment in BMI

On January 31, 2008, the Company executed SPA for the purchase of 200,000 shares of BMI with a par value of P100 per share. The total acquisition price amounted to P32.0 million.

In 2009, the Company's BOD approved the reclassification of the Company's P30.0 million advances to BMI as additional investment to the latter. In 2010, however, the Company' BOD retracted such intention and accordingly, the Company reclassified such amount to Advances to Related Parties account (see Note 16.4).

7.4 *Financial Information of the Subsidiaries*

Summarized financial information of the subsidiaries as of and for the years ended December 31, 2011, 2010 and 2009 is set out below.

	Total Assets	Total Liabilities	Total Revenues	Net Profit (Loss)
2011				
PNX – Chelsea	P 224,204,370	P 150,050,000	P	(P 25,845,630)
MI	57,225,992	40,646,649	58,403,495	2,418,281
BMI	47,989,633	25,443,119	64,538,985	(166,620)
2010				
MI	P 79,298,176	P 65,137,114	P 67,185,267	(P 1,255,648)
BMI	71,200,795	48,487,661	126,541,168	8,272,992
2009				
MI	P 61,411,851	P 23,425,841	P 60,182,178	P 674,256
BMI	56,474,332	12,034,190	41,003,341	637,162

8. OTHER NON-CURRENT ASSETS

This account as of December 31 is composed of the following:

	Notes	2011	2010 (As Restated - see Note 17.2)	2009 (As Restated see Note 17.2)
Drydocking costs - net		**P 20,482,677**	P 18,794,249	P 20,446,403
Hold-out deposits	10.3	**10,000,000**	10,793,615	10,500,000
Security deposits	18.2	**2,535,857**	2,535,857	2,424,185
		P 33,018,534	P 32,123,721	P 33,370,588

Management assessed that the carrying amounts of hold-out and security deposits are reasonable approximation of their respective fair values.

Presented below is a reconciliation of the carrying amount of drydocking costs.

	Notes	2011	2010 (As Restated - see Note 17.2)	2009 (As Restated see Note 17.2)
Balance at beginning of year		**P 18,794,249**	P 20,446,403	P 33,591,883
Additions		**21,217,241**	11,102,293	22,514,395
Disposal		**(14,318,769)**	-	
Reclassification	6	**-**		(33,848,048)
Amortization during the year	11, 12	**(5,210,044)**	(12,754,447)	(1,811,827)
		P 20,482,677	P 18,794,249	P 20,446,403

9. TRADE AND OTHER PAYABLES

The breakdown of this account as of December 31 is as follows:

	Notes	2011	2010	2009
Trade:				
Third	6.1	**P 359,219,763**	P 73,590,587	P 106,710,438
Related parties	16.1 16.2, 16.3	**47,221,422**	125,595,752	56,288,602
		406,441,185	199,186,339	162,999,040
Accrued expenses		**13,726,596**	17,631,788	19,860,073
Others:				
Third	7.2	**23,269,729**	21,436,452	41,891,654
Prospective investor	17.1	**100,000,000**	100,000,000	-
		123,269,729	121,436,452	41,891,654
		P 543,437,510	P 338,254,579	P 224,750,767

The 2011 balance of Trade Payables includes the P278.5 million unpaid balance of the agreed price for the purchase of MT Thelma from a foreign corporation (see Note 6.1).

In 2010, the Company's BOD retracted its plan to file for an increase in the Company's authorized capital stock. Consequently, the P100.0 million received from a prospective investor was reclassified from Deposit for Future Stock Subscriptions to Other Payables (see Note 17.1). The amount remained outstanding as of December 31, 2011 and 2010.

Moreover, Other Payables include the balance of the purchase price for one of the Company's subsidiaries amounting to P2.2 million, P7.5 million and P21.3 million as of December 31, 2011, 2010 and 2009, respectively (see Note 7.2).

Accrued expenses comprise amounts to be paid in relation to charter hire cost, repairs and maintenance and interest expense arising from loans.

The carrying amounts of trade and other payables recognized in the statements of financial position are reasonable approximation of their fair values due to their short-term duration.

10. INTEREST-BEARING LOANS

The short-term and long-term interest-bearing loans as of December 31 are as follows:

	Note	2011	2010	2009
Current:				
Term loans	10.2, 10.3 10.4	**P194,983,159**	P124,526,316	P124,526,316
Bank loans	10.1	**63,871,610**	127,089,685	169,487,237
Mortgage loans	10.5	**150,242**	2,568,086	7,546,370
		259,005,011	254,184,087	301,559,923
Non-current:				
Term loans	10.2, 10.3 10.4	**529,530,311**	311,315,789	435,842,105
Bank loans	10.1	**15,600,000**	41,671,611	92,562,611
		545,130,311	352,987,400	528,404,716
		P804,135,322	P607,171,487	P829,964,639

These loans were obtained by the Company from financial institutions to finance the acquisition of certain vessels and transportation equipment and for its working capital requirements.

Interest incurred on these loans amounted to P51.0 million and P72.4 million in 2011 and 2010, respectively, and are shown as part of Finance Costs - net in the statements of comprehensive income (see Note 14).

10.1 Bank Loans

The bank loans represent secured loans from local commercial banks for working capital purposes. The loans bear annual interest rates ranging from 9.8% to 14.0% in 2011, 2010 and 2009 subject to monthly repricing. These loans are secured by certain vessels owned by the Company with net book value amounting to P97.5 million, P377.4 million and P352.2 million as of December 31, 2011, 2010 and 2009 respectively (see Note 6), and two other vessels owned by its subsidiaries, and by certain stockholders (see Note 16.5).

10.2 Omnibus Loan and Security Agreement (OLSA) with BDO Unibank, Inc. (BDO)

On April 26, 2011, the Company entered into a MOA with China Shipbuilding & Exports Corporation for the importation of one unit oil tank (MT Thelma) in the amount of US$19.8 million [see Note 6.1(a)].

In connection with the MOA, the Company entered into an OLSA amounting to US$14.5 million with BDO, the proceeds of which was used to partly finance the importation of the vessel. The loan is payable into twenty-seven consecutive equal quarterly principal installments starting on August 2012. The loan is subject to interest computed at one-year LIBOR plus applicable margin of 3.5% per annum.

In connection with the OLSA certain advances made by PNX-Chelsea, certain stockholders, and UMRC are subordinated to the loan. Based on said agreement, the obligation of the Company to pay the stockholders' advances and the advances made by PNX-Chelsea shall be fully subordinated, junior and subject in right of payment to the prior indefeasible payment and performance in full of the OLSA. The Company affirms that any and all obligations of the Company relative to the OLSA shall be settled first before any of its financial obligations to such shareholders' advances and PNX-Chelsea are paid. Accordingly, portion of the advances from these related parties are treated as non-current liabilities (see Note 16.4).

The loan is secured by a chattel mortgage on one of the Company's vessel with book value of P100.3 million as of December 31, 2011 (see Note 6) and a refund guaranty issued by the Bank of China for US$8.16 million until MT Thelma is delivered. The loan will be further secured by a chattel mortgage of MT Thelma upon its delivery and registration with the MARINA. The carrying amount of MT Thelma, presented as part of CIP, amounted to P874.9 million as of December 31, 2011.

Related debt issuance costs amounted to P8.2 million of which P0.5 million was amortized during 2011 using effective interest rate of 5.02%. Amortized debt issuance costs was recognized as part of the Finance Costs - net in the 2011 statement of comprehensive income (see Note 14). Unamortized debt issuance costs are included as part of the current and non-current portion of the related loan.

OLSA requires the Company to maintain debt to equity ratio of not more than 1.5 : 1 and debt coverage ratio of at least 1.20 from 2011 to 2014 and 2.5 from 2015 to 2018. The Company filed a waiver with BDO for the debt covenant ratios. No response was received from BDO. However, management believes that its application for the waiver will be approved by BDO. Accordingly, the Company still classified the liability as non-current.

10.3 Term Loan Agreement (TLA) with Development Bank of the Philippines (DBP)

On September 12, 2007, the Company entered into a MOA with China Shipbuilding & Exports Corporation for the construction of one unit oil tank (vessel) in the amount of US$15.0 million [see Note 6.1(b)].

In connection with the MOA, the Company entered into a TLA amounting to US$13.0 million with DBP, the proceeds of which shall be exclusively used to finance the construction of the vessel. In February 2008 and May 2009, DBP granted the loan amounting to US$3.9 million (P159.0 million) and US$9.1 million (P432.5 million), respectively. The loan is payable over five years in equal quarterly principal installments, with one quarter grace period on principal, commencing November 2009 and was subject to 10.5% interest rate per annum. .

In 2010, DBP approved the reduction of interest rate from 10.5% to 9% subject to annual review effective September 14, 2010. The agreement also stipulated for interest - bearing hold-out fund amounting to at least P10.0 million which is shown as Hold-out Deposits under Other Non-current Assets account in the statements of financial position (see Note 8). Hold-out deposit earns interest at rate of 2.5% per annum.

In connection with TLA, the Company, UMRC and certain stockholders of the Company entered into a Subordination Agreement (SA) on November 19, 2007 under which the parties agreed that any principal and interest on the advances made by UMRC and such certain stockholders to the Company is and at all times subordinate in the preference of payment until full settlement of the obligations of the Company with DBP under the TLA in 2014. With this, certain advances from these related parties are treated as non-current liabilities (see Note 16.4).

Other than the subordination agreement, the TLA does not require any loan covenant.

The loan is secured by a chattel mortgage on certain vessel of the Company with net book value amounting to P803.8 million as of December 31, 2011 and of certain vessels with total net book value totaling P921.0 million and P947.3 million as of December 31, 2010 and 2009, respectively (see Note 6). The loan is also guaranteed by certain stockholders of the Company (see Note 16.5).

10.4 Loan Agreement with Robinsons Bank Corporation (RBC)

On November 23, 2011, the Company entered into a loan agreement with RBC amounting to P65.0 million to partly finance the double hulling and drydocking of certain vessel of the Company (see Notes 6). The loan is subject to annual interest of 8.0% and is payable in twenty-four equal monthly installments.

The loan is secured by a chattel mortgage on one of the vessels of the Company with net book value amounting to P84.5 million and receivables of the Company from certain customer (see Note 4). The loan is also guaranteed by certain stockholders of the Company.

The loan agreement requires the Company to maintain debt to equity ratio of not more than 3 : 1 and debt coverage ratio of at least 1.20. The Company filed a waiver with RBC for the debt covenant ratios. No response was received from RBC. However, management believes that its application for the waiver will be approved by RBC. Accordingly, the Company still classified the liability as non-current.

10.5 Mortgage Loans

Mortgage loans pertain to loans from various local banks to finance the acquisition of certain transportation equipment. These loans bear interest rates ranging from 4.0% to 10.9% in 2011, 2010 and 2009. These loans are payable in 36 monthly installments and are secured by a chattel mortgage on the Company's transportation equipment (see Note 6).

11. COSTS OF SALES AND SERVICES

The details of this account for the years ended December 31 2011 and 2010 are shown below (see Note 12).

	Notes	2011	2010 (As Restated - see Note 17.2)
Bunkering	16.1, 16.2	P 98,327,646	P 111,107,649
Charter hire fees	16.1	74,566,268	88,950,803
Depreciation and amortization	6, 8	52,293,820	59,888,161
Port expenses		52,172,920	45,876,265
Salaries and employee benefits		23,216,433	23,334,390
Professional fees		19,219,086	16,099,094
Insurance		16,521,404	21,686,065
Repairs and maintenance		15,800,767	11,839,585
Taxes and licenses	23.1(f)	3,185,422	-
		P 355,303,766	P 378,782,012

12. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are presented below.

	Notes	2011	2010 (As Restated - see Note 17.2)
Bunkering	16.1, 16.2	P 98,327,646	P 111,107,649
Charter hire fees	16.1	74,566,268	88,950,803
Salaries and employee benefits	13	59,745,246	61,527,489
Depreciation and amortization	6, 8	59,301,597	67,966,660
Port expenses		52,172,920	45,876,265
Professional fees		22,245,311	24,594,343
Insurance		16,917,568	23,183,357
Repairs and maintenance	23.1 (c)	16,883,294	12,472,132
Taxes and licenses	23.1 (f)	9,904,691	3,576,549
Handling and processing fee		8,634,724	11,501,178
Rental	16.3, 18.2	7,482,617	4,642,898
Communication, light and water		3,233,036	4,047,969
Transportation and travel		3,090,625	3,548,887
Representation		1,159,944	749,631
Office supplies		863,163	1,408,810
Others		9,729,589	11,680,403
		P 444,258,239	P 476,835,023

These expenses are classified in the statements of comprehensive income as follows:

	Note	2011	2010 (As Restated - see Note 17.2)
Costs of sales and services	11	**P 355,303,766**	P 378,782,012
Other operating expenses		**88,954,473**	98,053,011
		P 444,258,239	P 476,835,023

13. SALARIES AND EMPLOYEE BENEFITS

13.1 Salaries and Employee Benefits Expense

Details of salaries and employee benefits are presented below (see Note 12).

	Note	2011	2010
Short-term employee benefits		**P 58,688,367**	P 61,010,585
Post-employment benefit	13.2	**1,056,879**	516,904
		P 59,745,246	P 61,527,489

13.2 Post-employment Benefit

The Company maintains an unfunded, noncontributory post-employment benefit plan that is being administered by a trustee covering all regular full-time employees.

Actuarial valuations are made at least every two years to update the post-employment benefit expense and the amount of contributions.

The amounts of retirement benefit obligation recognized in the statements of financial position are determined as follows:

	2011	2010	2009
Present value of the obligation	**P 2,480,500**	P 1,278,804	P 851,900
Unrecognized actuarial losses	**(144,817)**	-	-
	P 2,335,683	P 1,278,804	P 851,900

The movements in the present value of the retirement benefit obligation recognized in the books are as follows:

	2011	2010	2009
Balance at beginning of year	P 1,278,804	P 851,900	P 370,000
Current service and interest cost	1,056,879	516,904	481,900
Actuarial loss	144,817	-	-
Benefits paid	-	(90,000)	-
Balance at end of year	P 2,480,500	P 1,278,804	P 851,900

The amounts of post-employment benefits expense recognized in the statements of comprehensive income are as follows (see Note 13.1):

	2011	2010
Current service costs	P 862,900	P 442,995
Interest costs	193,979	73,909
	P 1,056,879	P 516,904

For the determination of the retirement benefit obligation, the following actuarial assumptions were used:

	2011	2010	2009
Discount rates	5.48%	8.68%	9.88%
Expected rate of salary increases	5.00%	5.00%	5.00%

Assumptions regarding future mortality are based on published statistics and mortality tables.

The Company's post-employment benefit is unfunded as of December 31, 2011, 2010 and 2009. The Company has yet to determine how much and when to fund the post-employment benefit plan.

14. FINANCE COSTS - Net

The details of this account follow:

	Notes	2011	2010
Interest expense on:			
Term loans	10.2, 10.3 10.4	P 38,403,536	P 50,501,907
Bank loans	10.1	11,926,086	21,618,481
Other payable	7.2	346,283	1,108,921
Mortgage loan	10.5	177,555	270,938
Debt issue cost	10.2	468,868	-
		51,322,328	73,500,247
Day one gain - net	16.4	(34,562,611)	-
Impairment loss	4, 5	2,349,285	6,315,235
Foreign currency gains (losses)		(334,665)	1,496,982
Interest income		(586,481)	(474,748)
		P 18,187,856	P 80,837,716

15. TAXES

15.1 Current and Deferred Taxes

The components of tax expense (income) as reported in the profit or loss are shown below.

	2011	2010
Current tax expense:		
Minimum corporate income tax (MCIT)	P 3,173,204	P 2,721,479
Final tax at 20%	117,296	94,856
	3,290,500	2,816,335
Deferred tax expense (income) relating to origination and reversal of temporary differences	3,099,698	(15,420,942)
	P 6,390,198	(P 12,604,607)

The reconciliation of tax on pretax profit computed at the applicable statutory rate to tax expense (income) is as follows:

		2011		2010
Tax on pretax profit at 30%	P	25,192,873	P	5,153,846
Adjustment for income subjected to lower tax rate	(	58,649)	(	47,568)
Tax effects of:				
Net profit on Board of Investments (BOI) registered activity	(	10,167,833)	(	10,826,899)
Non-taxable income	(	10,368,783)		-
Other tax adjustment		-	(	7,171,986)
Non-deductible expenses		1,792,590		288,000
Tax expense (income) reported in profit or loss	P	6,390,198	(P	12,604,607)

The net deferred tax assets (liabilities) as of December 31, 2011, 2010 and 2009 pertains to the following:

	Statements of Financial Position			Statements of Comprehensive Income	
	2011	2010	2009	2011	2010
Deferred tax assets:					
MCIT	P 5,894,683	P 2,721,479	P -	(P 3,173,204)	(P 2,721,479)
Net operating loss carry over (NOLCO)	4,628,797	10,309,876	-	5,681,079	(10,309,876)
Impairment loss	2,599,357	1,894,571	-	(704,786)	(1,894,571)
Retirement benefit obligation	700,705	383,641	188,380	(317,064)	(195,261)
Unrealized foreign currency losses – net	316,562			(329,922)	
Unamortized pre-operating expenses – tax purposes	-		7,229	-	7,229
	14,140,104	15,309,567	195,609	1,156,103	(15,113,958)
Deferred tax liabilities:					
Capitalized borrowing cost	(8,862,866)	(9,183,211)	(9,503,555)	(320,345)	(320,344)
Unamortized debt issuance costs	(2,263,940)			2,263,940	
Unrealized foreign currency gains – net	-	(13,360)	-		13,360
	(11,126,806)	(9,196,571)	(9,503,555)	1,943,595	(306,984)
Net deferred tax expense (income)				P 3,099,698	(P 15,420,942)
Net deferred tax asset (liability)	P 3,013,298	P 6,112,996	(P 9,307,946)		

The Company is subject to the MCIT which is computed at 2% of gross income, as defined under the tax regulations or RCIT whichever is higher. The Company reported MCIT in 2011 and 2010. The breakdown of the Company's MCIT follows:

Inception Year	Amount	Expiry Year
2011	P 3,173,204	2014
2010	2,721,479	2013
	P 5,894,683	

In 2010, the Company reported NOLCO amounting to P34,366,252 and of which P18,936,929 was applied in 2011 [see Note 23.2 (d)]. The remaining balance of P15,429,323 can be claimed as deduction from future taxable income until 2013.

In 2011 and 2010, the Company opted to claim itemized deductions.

15.2 Registration with the BOI

On November 23, 2011 and December 10, 2008, the Company had registered its activity for MT Thelma and MT Cherylyn with the BOI under Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987 as a new operator of domestic/interisland shipping on a pioneer status. As a registered entity, the Company is entitled to tax and non-tax incentives which include a six-year income tax holiday (ITH). For MT Cherlyn, the related tax incentives started in April 2009. Meanwhile, the tax incentive for MT Thelma started in November 2011. ITH incentives shall be limited only to the revenues generated by the registered project.

Among the terms and conditions for the registration of MT Thelma with BOI is that the Company shall increase its authorized, subscribed and paid - up capital by at least P231.3 million or equivalent to 25% of the total project costs. In relation to this, the Company received equity advances amounting to P231.3 million from UMRC (see Notes 17.3 and 19).

16. RELATED PARTY TRANSACTIONS

The Company's related parties include its ultimate parent, parent, subsidiaries, companies under common ownership and Company's key management personnel.

The following are the transactions of the Company with its related parties in the ordinary course of business:

16.1 Transactions with Subsidiaries

The Company engaged the services of BMI and MI for its chartering and bunkering requirements. The service agreements are made on the same terms as those transactions with third parties.

Bunkering expense incurred related to the above service agreements amounted to P53.2 million and P92.8 million in 2011 and 2010, respectively, and included as part of Bunkering under Costs of Sales and Services account in the statements of comprehensive income (see Notes 11 and 12). On the other hand, Charter Hire Fees amounted to P22.4 million and P57.3 million in 2011 and 2010, respectively, and included as part of Charter Hire Fees under Costs of Sales and Services account in the statements of comprehensive income (see Notes 11 and 12). As of December 31, 2011, 2010 and 2009, the related outstanding payables amounted to P7.6 million, P40.8 million and P7.8 million, respectively, and are included as part of Trade under Trade and Other Payables account in the statements financial position (see Note 9).

16.2 Transactions with Phoenix Petroleum Philippines, Inc. (PPPI)

The Company renders hauling services and purchases fuel and lubricants from PPPI, also a subsidiary of UMRC. The transactions are made on the same terms as those transactions with third parties.

Charter fees recognized in 2011 and 2010 related to transactions with PPPI totaled to P263.5 million and P238.2 million, respectively, and presented under Revenues account in the statements of comprehensive income. The Company also recognized standby charges amounting to P16.1 million each in 2011 and 2010 from PPPI. As of December 31, 2011, 2010 and 2009, the Company has outstanding receivables from PPPI amounting to P15.2 million, P6.2 million and P32.4 million, respectively, and are presented as part of Trade under Trade and Other Receivables account in the statements of financial position (see Note 4).

Fuel purchases in 2011 and 2010 from PPPI amounted to P98.3 million and P80.1 million, respectively. Fuel consumed were included as part of Bunkering under Costs of Sales and Services account the statements of comprehensive income while the remaining fuel inventory were included as part of Other Current Assets accounts in the statements of financial position (see Notes 5 and 11). The outstanding liability for the purchase of fuel and lubricants amounted to P42.0 million, P84.7 million and P48.5 million as of December 31, 2011, 2010 and 2009, respectively, and is presented as part of Trade under Trade and Other Payables account in the statements of financial position (see Note 9).

During 2011, the Company received advances from PPPI totaling to P114.8 million and were originally intended as payments for services to be provided by the Company to PPPI. The service, however, was subsequently cancelled and the total amount received was recorded by the Company as part of Advances from Customers account in the 2011 statement of financial position.

16.3 Transactions with Related Parties Under Common Ownership

The Company renders hauling services to Subic Petroleum Trading and Transport Phils., Inc. (SPTT). Revenue earned amounting P4.1 million is presented under Charter Fees in the 2011 statement of comprehensive income. Related accounts receivables presented as part Trade and Other Receivables account in the 2011 statement of financial position amounted to P2.6 million (see Note 4). The transactions are made on the same terms as those transactions with third parties. No similar transaction occurred in 2010.

In 2011, the Company entered into a one year contract of lease for certain vehicle with Valueleases, Inc. (VLI). Related rent expense, which is recognized as part of other operating expenses, amounted to P0.4 million while the outstanding accounts payable, which is included as part of trade and other payables, amounted to P0.04 million (see Notes 9 and 12).

16.4 Advances to and from Related Parties

The Company grants advances to and obtains unsecured advances from its related parties mainly for the acquisition of certain vessel and for working capital purposes. As of December 31, 2011, 2010 and 2009, outstanding receivable and payable balances from these advances are shown as Advances to Related Parties and Advances from Related Parties, respectively, in the statements of financial position. Advances to Related Parties and Advances from Related Parties - current are either receivable in cash or paid thru offsetting, unsecured noninterest-bearing liabilities and are expected to be paid within one year; hence, their carrying values are considered to be a reasonable approximation of their fair values. Non-current advances from related parties, on the other hand, are unsecured non-interest bearing liabilities. These are stated at their carrying value since the date of repayment is not currently determinable (see Notes 10.2 and 10.3).

In 2010, the Company's BOD retracted its plan to file for an increase of the Company's authorized capital stock. Consequently, UMRC agreed to the reclassification of the P128.8 million balance of Deposit for Future Stock Subscriptions to non-current Advances from Related Parties (see Note 17.1).

The breakdown of the Advances to Related Parties as of December 31 is as follows:

	2011	2010	2009
Parent:			
UMRC	**P 16,045,809**	P -	P 49,460,660
Subsidiaries:			
BMI	**3,359,549**	21,723,223	381,690
MI	**1,234,114**	10,330,217	4,336,031
	4,593,663	32,053,440	4,717,721
Related parties under common control:			
Udenna Environmental Services, Inc.	**257,300**	1,433,923	
Udenna Energy Corporation	**121,270**	-	
VLI	**22,219**		
One Subic Power Generation Corp.	**-**	30,000	-
	400,789	1,463,923	-
Individual stockholder	**-**	-	6,032,587
	P 21,040,261	P 33,517,363	P 60,210,968

No impairment loss is recognized in 2011 and 2010 related to advances to related parties.

The movement of advances to related parties in 2011, 2010 and 2009 follows:

	2011	2010	2009
Balance at beginning of year	P 33,517,363	P 60,210,968	P 66,409,702
Additions	22,078,396	28,799,642	47,640,192
Collections	(34,555,498)	(55,493,247)	(53,838,926)
Balance at end of year	P 21,040,261	P 33,517,363	P 60,210,968

The breakdown of the Advances from Related Parties as of December 31 is as follows:

	2011	2010	2009
Current:			
Parent:			
UMRC	P 19,932,826	P -	P
Subsidiary:			
PNX – Chelsea	145,069,755	-	
Related parties under common control:			
SPTT	436,822	-	-
PPPI	-	91,684,497	46,574,409
Phoenix Petroterminals & Industrial Park Corp.	-	4,532,927	-
VLI	-	792,499	-
	436,822	97,009,923	46,574,409
Individual stockholder	3,322,855	-	-
Total current	168,762,258	97,009,923	46,574,409
Non-current:			
Parent:			
UMRC	-	78,430,491	-
Subsidiary:			
PNX – Chelsea	62,077,285	-	-
Individual stockholder	24,102,694	12,736,530	-
Total non-current	86,179,979	91,167,021	-
	P 254,942,237	P 188,176,944	P 46,574,409

The movement of advances from related parties in 2011, 2010 and 2009 follows:

	2011	2010	2009
Balance at the beginning of year	**P 188,176,944**	P 46,574,409	P 48,697,644
Additions	**242,377,065**	6,490,023	
Payments	**(141,049,161)**	(45,110,088)	(2,123,235)
Day one gain – net	**(34,562,611)**	-	
Reclassifications	**-**	180,222,600	
Balance at the end of year	**P 254,942,237**	P 188,176,944	P 46,574,409

Non-current advances from PNX Chelsea and certain stockholder, being subordinated in payment of loans (see Notes 10.2 and 10.3), were discounted for the remaining term of the related loans using effective interest rate of 5.03% per annum. The related day-one gain amounting to P34.6 million, net of current year discount amortization of P1.1 million, was presented as part of Finance Costs - net account in the 2011 statement of comprehensive income (see Note 14).

16.5 Others

(a) The TLA with DBP, OLSA with BDO, loan agreement with RBC and certain banks loans of the Company were guaranteed by certain stockholders through a surety agreement with the respective banks. The two vessels owned by the subsidiaries were also used by the Company as security for certain bank loans (see Note 10.1, 10.2, 10.3 and 10.4).

(b) In 2011, the Company charged certain related parties for their corresponding share on office space rent. Rental income amounted to P5.0 million and is presented as part of Miscellaneous Income. Related receivable, amounting to P1.1 million as of December 31, 2011, is presented as part of other receivables (see Note 4).

(c) The Company's key management personnel received short-term benefits amounting to P18.6 million and P14.4 million in 2011 and 2010, respectively, and have allocated post-employment benefits amounting to P0.1 million in each year of 2011 and 2010.

17. EQUITY

17.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2011	2010	2009	2011	2010	2009
Common shares – P100 par value						
Authorized – 5,000,000 shares						
Issued:						
Balance at beginning of year	4,000,000	3,000,000	3,000,000	P 400,000,000	P 300,000,000	P 300,000,000
Issued during the year	-	1,000,000		-	100,000,000	-
Balance at end of year	4,000,000	4,000,000	3,000,000	400,000,000	400,000,000	300,000,000
Subscribed						
Balance at beginning of year	-	1,000,000	1,000,000	-	100,000,000	100,000,000
Issued during the year	-	(1,000,000)	-	-	(100,000,000)	-
Balance at end of year	-	-	1,000,000	-	-	100,000,000
Subscription receivable						
Balance at beginning of year				-	(51,409,600)	(51,409,600)
Application of deposit for future stock subscriptions				-	51,409,600	
Balance at end of year				-	-	(51,409,600)
				P 400,000,000	P 400,000,000	P 348,590,400

In 2009, the Company, through its BOD, planned to increase its stock capitalization from P500.0 million to P800.0 million. As such, in 2009, UMRC made additional deposits for future stock subscriptions amounting to P128.6 million. An additional P100.0 million was also received from a prospective investor. The amounts received are presented as Deposit for Future Stock Subscriptions account in the 2009 statement of financial position pending the Company's filing of the application with, and the corresponding approval of the SEC on the increase in the authorized capital stock.

In 2010, UMRC's BOD decided to apply against the Company's Subscription Receivable to Deposit for Future Stock Subscriptions amounting to P51.4 million. Consequently, the Company issued additional 1 million shares out of its unissued shares. In addition, the Company's BOD retracted its plan to file for an increase in the Company's authorized capital stock. Consequently, UMRC and the prospective investor agreed to the reclassification of the balance of Deposit for Future Stock Subscriptions amounting to P228.8 million to non-current Advances from Related Parties and Other Payables accounts for P128.8 million and P100.0 million, respectively (see Notes 9 and 16.4).

As of December 31, 2011, 2010 and 2009, the Company has only one stockholder owning 100 or more shares of the Company's capital stock.

17.2 Prior Period Reclassifications

In 2011, the Company changed the presentation and classification of certain items previously classified as Drydocking Costs under Other Non-current Assets account to Tanker (Vessel) under Property and Equipment account.

Presented below are the changes in the statements of financial position as of January 1, 2011 and 2010. Such reclassification resulted to prior period adjustments which increased the retained earnings as of January 1, 2011 and 2010 by P28.4 million and P4.4 million, respectively.

2010

	Notes	As Previously Reported	Prior Period Adjustments	As Restated
Changes in assets:				
Property and equipment	6	P 1,270,489,604	P 51,819,753	P 1,322,309,357
Other non current assets	8	55,587,232	(23,463,511)	32,123,721
		P 1,326,076,836		P 1,354,433,078
Total adjustments to equity as at January 1, 2011			P 28,356,242	

2009

	Notes	As Previously Reported	Prior Period Adjustments	As Restated
Changes in assets:				
Property and equipment	6	P 1,317,319,291	P 49,334,092	P 1,366,653,383
Other non-current assets	8	78,255,056	(44,884,468)	33,370,588
		P 1,395,574,347		P 1,400,023,971
Total adjustments to equity as at January 1, 2010			P 4,449,624	

The effect of the reclassification in 2010 statement of comprehensive income is presented below:

	Note	As Previously Reported	Prior Period Adjustments	As Restated
Costs of sales and services	11	P 402,688,630	(P 23,906,618)	P 378,782,012

The reclassifications of certain line items in the statement of financial position as of January 1, 2011 have the following effect on the 2010 statement of cash flows:

	As Previously Reported	Prior Period Adjustments	As Restated
Profit (loss)	(P 6,727,133)	P 23,906,618	P 17,179,485
Depreciation and amortization	91,873,278	(23,906,618)	67,966,660
Acquisitions of property and equipment	(8,455,648)	(4,318,393)	(12,774,041)
Additions in drydocking costs	(15,420,686)	4,318,393	(11,102,293)
	P 61,269,811	P	P 61,269,811

17.3 Equity Advances

The Company received P231.3 million equity advances from UMRC which is intended for conversion to capital stock in the future (see Notes 15.2 and 19).

18. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Company:

18.1 Significant Agreements

(a) *Contract of Affreightment with Cebu Pacific Air, Inc. (CPA)*

CPA contracted the Company on January 9, 2009 for the transport of CPA's Jet A-1 fuel and other fuel requirements for aircrafts from their Subic Loadport to the ports of Mandaue City, Cebu; PPI Terminal, Davao City; New Washington, Zamboanga; and various ports in the Philippines. The agreement shall be effective for a period of three years and renewable upon agreement of the parties.

(b) *Contract of Affreightment with National Power Corporation*

In 2009, the Company entered into a contract with NPC for the transport of bunker fuel from the port of Sucat to the port of NPC in Calaca, Batangas and from port of Subic to the port of Malaya Thermal Plant in Pililia, Rizal. The Company maintains a performance bond amounting to P6.4 million as guaranty for the agreement (see Note 5).

In 2009, the Sucat-Calaca route was subsequently cancelled. However, the performance bond and bank guaranty remains outstanding as of December 31, 2009 until released by NPC in 2010. The performance bond is included in other current assets in the 2010 statement of financial position (see Note 5).

18.2 Operating Lease Commitments – Company as a Lessee

The Company is a lessee under an operating lease covering its office space. The lease has a term of five years commencing on June 1, 2009 with renewal options, and include annual escalation rate of 3% on the second year and 6% from third to fifth year. The future minimum rentals payable under this operating lease are as follows as of December 31:

	2011	2010
Within one year	P 7,488,188	P 7,064,350
After one year but not more than five years	12,725,744	20,213,932
	P 20,213,932	P 27,278,282

Total rentals from these operating leases amounted to P7.1 million and P4.6 million in 2011 and 2010 included as part of Rental under Other Operating Expenses (see Note 12).

Security deposits on these operating leases amounted to P2.5 million as of December 31, 2011 and 2010 and P2.4 million as of December 31, 2009 (see Note 8).

18.3 Others

There are other commitments and contingent liabilities that are not reflected in the financial statements. As of December 31, 2011, management is of the opinion that losses, if any, from these items will not have a material effect on the Company's financial statements.

19. EVENT AFTER THE END OF THE REPORTING PERIOD

On January 2, 2012, the BOD approved the increase in the Company's authorized capital stock from 5 million shares to 10 million shares with the same par value. Accordingly, the BOD approved on the same date the related amendment to the Articles of Incorporation and filing the same with SEC.

20. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks in relation to financial statements. The Company's risk management is coordinated with the Board of Directors, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not engage in the trading of financial assets for speculative purposes nor does it write options. The financial risks to which the Company is exposed to are described below.

20.1 Foreign Currency Risk

Most of the Company's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates, however, arise from the Company's cash, trade payables and interest bearing loans, which are denominated in U.S. dollars.

To mitigate the Company's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

U.S. dollar denominated financial assets and liabilities, translated into Philippine pesos at the December 31, 2011 closing rate follows. There is no significant foreign currency risk in 2010 and 2009.

Cash	P 307,519
Trade payables	(278,503,520)
Interest -bearing loans	(358,452,480)
Net exposure	**(P 636,648,481)**

If the Philippine peso had strengthened against the U.S. dollar, profit before tax would have increased by P103.0 million in 2011. If the Philippine peso had weakened against the U.S. dollar, then this would have decreased profit before tax for the year by the same amount. This sensitivity of the net result for the year assumes a +/-16.18% change of the Philippine peso/U.S. dollar exchange rate for the year ended December 31, 2011. This percentage has been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months for 2011 estimated at 99% level of confidence. The sensitivity analysis is based on the Company's foreign currency financial instruments held at the end of the reporting period.

Exposures to foreign exchange rates vary during the year depending on the volume of transactions. Nonetheless, the analysis above is considered to be representative of the Company's foreign currency risk.

20.2 Interest Rate Risk

The Company's policy is to minimize interest rate cash flow risk exposures on long-term financing. At December 31, 2011 and 2010, the Company is exposed to changes in market interest rates through certain bank borrowings and cash in bank, which are subject to variable interest rates (see Note 10). All other financial assets and liabilities have either fixed interest rates or noninterest-bearing.

Interest bearing loans and cash in banks which are subject to repricing are tested on a reasonably possible change of +/-4.09% and +/-2.24% for 2011 and 2010, respectively, with effect from the beginning of the year. These percentages have been determined based on the average market volatility of interest rates, using standard deviation, in the previous 12 months estimated at 99% level of confidence. The sensitivity analysis is based on the Company's financial instruments held at the end of the each reporting period, with effect estimated from the beginning of the year. All other variables are held constant.

The changes in percentages would affect profit or loss before tax by +/-P2.4 million and +/-P2.8 million for the years ended December 31, 2011 and 2010, respectively.

20.3 Credit Risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Company. The Company is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers and related parties and by placing deposits.

The Company continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Company's policy is to deal only with creditworthy counterparties. Also, it is the Company's policy that all customers are subject to credit verification procedures.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position as of December 31 as summarized below.

	Notes	2011	2010	2009
Cash		**P 14,190,496**	P 8,689,358	P 48,456,057
Trade and other receivables - net	4	**60,696,517**	63,670,650	76,140,660
Advances to related parties	16	**21,040,261**	33,517,363	60,210,968
Hold-out deposits	8	**10,000,000**	10,793,615	10,500,000
Security deposits	8	**2,535,857**	2,535,857	2,424,185
Bond deposits	5	**-**	-	6,412,673
		P 108,463,131	P 119,206,843	P 204,144,543

None of the financial assets are secured by collateral or other credit enhancements.

As to Cash in bank and Hold-out Deposits, these are maintained in reputable banks with high quality external credit rating; hence, management assessed credit risk to be low.

In respect of trade and other receivables, the Company is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

Trade and other receivables consist of a large number of customers and debtors. Based on historical information about default rates, management considers the credit quality of trade receivables that are not past due or impaired to be good. Advances to related parties do not pose credit risk since these are due from entities that are financially stable and are able to meet their obligation as evidenced by the significant decrease in the receivable amounts.

Trade and other receivables that are past due over 120 days but not impaired amounted to P25.7 million, P9.4 million and P5.8 million as of December 31, 2011, 2010, and 2009, respectively. There are no other financial assets that are past due as of December 31, 2011, 2010 and 2009.

20.4 Liquidity Risk

The Company manages its liquidity needs by carefully monitoring cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection.

The Company maintains cash to meet its liquidity requirements for up to 60-day periods.

As at December 31, 2011, 2010 and 2009, the Company's financial liabilities have contractual maturities which are presented below.

	Notes	2011			
		Current		Non-current	
		Within 6 Months	6 to 12 Months	1 to 5 Years	Beyond 5 Years
Trade and other payables (excluding output VAT)	9	P 269,445,502	P 271,718,755	P -	P -
Interest-bearing loans	10	131,585,320	153,407,138	491,446,987	122,477,696
Advances from related parties	16.4	168,762,258	-	-	86,179,979
		P 569,793,080	P 425,125,893	P 491,446,887	P 208,657,675

	Notes	2010			
		Current		Non-current	
		Within 6 Months	6 to 12 Months	1 to 5 Years	Beyond 5 Years
Trade and other payables	9	P 320,622,791	P 17,631,788	P -	P -
Interest-bearing loans	10	145,467,105	145,467,105	499,987,894	-
Advances from related parties	16.4	97,009,923	-	91,167,021	-
		P 563,099,819	P 163,098,893	P 591,154,915	P -

	Notes	2009			
		Current		Non-current	
		Within 6 Months	6 to 12 Months	1 to 5 Years	Beyond 5 Years
Trade and other payables	9	P 138,718,363	P 86,035,404	P -	P -
Interest-bearing loans	10	169,155,023	169,155,023	748,905,457	-
Advances from related parties	16.4	46,574,409	-	-	-
		P 354,444,795	P 255,190,427	P 748,905,457	P -

These contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of reporting period.

21. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts and fair values of the categories of assets and liabilities presented in the statement of financial position are shown below.

	2011		2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets						
Loans and receivables						
Cash	P 14,190,496	P 14,190,496	P 8,689,358	P 8,689,358	P 48,456,057	P 48,456,057
Trade and other receivables	60,696,517	60,696,517	63,670,650	63,670,650	76,140,660	76,140,660
Advances to related parties	21,040,261	21,040,261	33,517,363	33,517,363	60,210,968	60,210,968
Held-out deposits	10,000,000	10,000,000	10,793,615	10,793,615	10,500,000	10,500,000
Security deposits	2,535,857	2,535,857	2,535,857	2,535,857	2,424,185	2,424,185
Bond deposits	-	-	-	-	6,412,673	6,412,673
	P 108,463,131	P 108,463,131	P 119,206,843	P 119,206,843	P 204,144,543	P 204,144,543
Financial Liabilities						
Trade and other payables	P 541,164,257	P 541,164,257	P 338,254,579	P 338,254,579	P 224,750,767	P 224,750,767
Interest bearing loans	804,135,322	804,135,322	607,171,487	607,171,487	829,964,639	829,964,639
Advances from related parties	254,942,237	289,504,848	188,176,944	188,176,944	46,574,409	46,574,409
	P 1,600,241,816	P 1,634,804,427	P 1,133,603,010	P 1,133,603,010	P 1,101,289,815	P 1,101,289,815

See Notes 2.4 and 2.8 for a description of the accounting policies for each category of financial instrument. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 19.

22. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's objectives when managing capital are to safeguard the Company's ability to continue as going concern in order to provide optimum return to shareholders.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new share or sell assets to reduce debt.

The Company monitors capital on the basis of the carrying amount of equity as presented in the statements of financial position. Capital for the reporting periods under audit is summarized as follows:

	2011	2010	2009
Total liabilities	P 1,722,812,605	P 1,136,931,771	P 1,160,869,360
Total equity	774,472,721	465,636,677	664,665,585
Debt to equity ratio	2.22	2.44	1.75

23. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

23.1 Requirements under Revenue Regulations (RR) 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR 15-2010 issued on November 25, 2010 are as follows:

(a) Output VAT

In 2011, the Company declared output VAT amounting to P72.5 million based on the total vatable income amounting to P604.3 million reported as part of Revenues and Other Income in the 2011 statement of income. There is no exempt or zero-rated sale in 2011. The outstanding output VAT payable as of December 31, 2011 after set-off with input VAT amounted to P2.3 million and is presented as part Other Payables in the 2011 statement of financial position (see Note 9).

The tax bases are included as part of Revenues and Other Income in the 2011 statement of comprehensive income. The tax base is based on the Company's gross receipts for the year, hence, may not be the same with the amount accrued in the 2011 statement of comprehensive income.

(b) Input Value added Tax

The movement of Input VAT in 2011 is summarized below.

Balance at beginning of year	P 35,371,732
Services lodged under other accounts	2,778,816
Goods other than for resale or manufacture	12,406,613
Services lodged under cost of goods sold	16,479,925
Capital goods not subject to amortization	525,168
Others	4,950,174
Applied against output VAT	(72,512,428)
Balance at end of year	P -

(c) Taxes on Importation

In 2011, the total landed costs paid by the Company from purchase of materials for repairs and maintenance amounted to P0.3 million and included as part of Repairs and Maintenance under Other Operating Expenses in the 2011 statement of comprehensive income (see Note 12).

(d) Excise Tax

The Company did not have any transactions in 2011 which are subject to excise tax.

(e) Documentary Stamp Tax

As of December 31, 2011, documentary stamp tax paid and accrued is broken down below [see Note 22.1(f)]:

Loan instruments	P	3,513,868
Insurance		1,560,746
	P	**5,074,614**

The tax base of loan and insurance instruments amounted to P422.4 million and P15.6 million, respectively.

(f) Taxes and Licenses

The details of Taxes and Licenses account in 2011 are as follows:

Documentary stamp tax	P	5,074,614
Licenses and permit fees		3,185,422
Business and local taxes		1,544,613
Others		100,042
	P	**9,904,691**

Licenses and permits fees were are recognized under Costs of Sales and Services (see Note 11). The remaining balance of taxes and licenses were recognized as part of Other Operating Expenses in the 2011 statement of comprehensive income (see Note 12).

(g) Withholding Taxes

The total withholding taxes for the year ended December 31, 2011 is shown below:

Expanded	P	4,929,692
Compensation and benefits		9,376,765
	P	**14,306,457**

The Company has no transactions which are subject to final withholding taxes in 2011.

(b) Deficiency Tax Assessment and Tax Cases

In 2011, the Company was assessed for deficiency taxes on documentary stamp taxes, VAT, withholding taxes and income taxes totaling to P0.4 million for taxable year 2010. The tax assessment was fully settled in 2011.

As of December 31, 2011, the Company does not have any other final deficiency tax assessments with the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open years.

23.2 Requirements under RR 19-2011

On December 9, 2011, the BIR issued RR 19-2011 which prescribes the new form that will be used for income tax filing covering and starting with periods ending December 31, 2011 and onwards. This recent RR requires schedules of taxable revenues and other non-operating income, costs of sales and services, and itemized deductions, to be disclosed in the notes to financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR, hence, may not be the same as the amounts reflected in the 2011 statement of comprehensive income.

(a) Taxable Revenues

The composition of the Company's taxable revenues for the year ended December 31, 2011 is presented below:

	Exempt	Regular Tax Rate
Charter fees	P 167,093,852	P 312,014,539
Standby charges	15,805,531	325,594
Bunkering	-	816,317
Others	-	1,268,201
	P 182,899,383	P 314,424,651

(b) Deductible Costs of Sales and Services

Deductible costs of sales and services for the year ended December 31, 2011 comprises the following:

	Exempt	Regular Tax Rate
Bunkering	P 66,311,679	P 32,015,967
Depreciation and amortization	29,129,031	23,164,789
Port expenses	26,556,910	25,616,009
Salaries and employee benefits	13,331,646	9,884,787
Repairs and maintenance	6,574,096	9,226,671
Insurance	5,601,317	10,920,087
Taxes and licenses	1,501,929	1,683,494
Charter hire fees		74,566,268
Professional fees	-	19,219,086
	P 149,006,608	P 206,297,158

The Company's exempt transactions arose from its registered activity with BOI (see Note 15.2).

(c) Taxable Non-operating and Other Income

The details of taxable non-operating and other income in 2011 which are subject to regular tax rate are shown below.

Gain on sale of vessel	P 44,124,607
Rentals	4,973,696
Realized foreign exchange gains	1,434,405
	P 50,532,708

(d) Itemized Deductions

The amounts of itemized deductions for the year ended December 31, 2011 which are subject to regular tax rate are as follows:

Interest expense	P 56,388,562
Salaries and employee benefits	35,471,934
Handling fee and processing	8,634,724
Rent	7,482,617
Depreciation	7,007,777
Taxes and licenses	6,719,268
Utilities	3,233,036
Transportation and travel	3,090,625
Professional fees	3,846,919
Representation	1,159,944
Repairs and maintenance	1,082,527
Supplies	863,163
Insurance expense	396,164
Others	4,346,012
	139,723,272
NOLCO	18,936,929
	P 158,660,201

As discussed in Note 15.1, the Company applied portion of the 2010 NOLCO against the 2011 taxable income.