COVER SHEET

0 6 9 - 0 3 9 2 7 4
S.E.C. Registration Number

TRANS-ASIA OIL AND ENERGY
DEVELOPMENT CORPORATION

(Company's Full Name)

LEVEL 11 PHINMA PLAZA 39 PLAZA
DRIVE ROCKWELL CENTER MAKATI

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

MR. RAYMUNDO A. REYES, JR.
Contact Person

870-0100
Company Telephone Number

12 31
Month Day
Fiscal Year

17-Q
FORM TYPE

Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

STAMPS

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SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17 (2) (b) THEREUNDER

1. For the quarterly period ended **September 30, 2007**

2. Commission identification number **39274**

3. BIR Tax Identification No. **000-506-020-000**

4. Exact name of issuer as specified in its charter
TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION

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

6. Industry Classification Code (SEC Use Only)

7. Address of issuer's principal office Postal Code
Level 11, Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City 1200

8. Issuer's telephone number, including area code **(632) 870-0100**

9. Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Section 8 and 12 of the Code, or Section 4 and 8 of the RSA

Number of shares of common stock outstanding **1,105,056,728 shares**
Amount of debt outstanding as of September 30, 2007 **P 69,604,908**

11. Are any or all of the securities listed on a Stock Exchange?
Yes (**X**) No ( )

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:
Philippine Stock Exchange Common

12. Indicate by check mark whether the registrant:
(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Section 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)
Yes (**X**) No ( )

(b) has been subject to such filing requirements for the past ninety (90) days.
Yes (**X**) No ( )

PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

Please refer to attached ANNEX "A."

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Please refer to attached ANNEX "B."

PART 11 – OTHER INFORMATION

Please refer to attached ANNEX "C"

Signatures

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on November 14, 2007.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION

PONCIANO L. DIMAYUGA
Senior Vice-President - Finance

Raymundo A. Reyes Jr.

RAYMUNDO A. REYES, JR.
Vice-President – Exploration

ANNEX A

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
September 30, 2007 and December 31, 2006
and Three Quarters Ended September 30, 2007 and 2006

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30 2007	December 31 2006
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 26)	**₱316,853,871**	₱254,915,532
Investments held for trading (Notes 5 and 26)	**383,918,744**	397,057,220
Receivables - net (Notes 6, 15 and 26)	**73,253,599**	73,196,351
Fuel and spare parts	**76,045,224**	23,421,878
Other current assets	**26,588,618**	110,330,063
Company's share in current assets of a joint venture (Note 11)	**145,422,123**	287,865,627
Total Current Assets	**1,022,082,179**	1,146,786,671
Noncurrent Assets		
Property, plant and equipment - net (Notes 7 and 15)	**666,985,955**	645,862,417
Investments in associates (Note 8)	**195,197,098**	205,610,529
Available-for-sale investments (Notes 9 and 26)	**172,986,801**	123,199,290
Investment property (Note 10)	**3,642,098**	3,837,210
Intangible assets (Notes 12)	**192,487,097**	193,269,662
Other noncurrent assets (Note 6)	**369,542**	369,542
Company's share in noncurrent assets of a joint venture (Note 11)	**391,497,168**	428,169,673
Total Noncurrent Assets	**1,623,165,759**	1,600,318,323
	₱2,645,247,938	₱2,747,104,994
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 13, 22 and 26)	**₱121,864,961**	₱112,122,050
Interest-bearing loans and borrowings (Notes 15 and 26)	**–**	204,248,389
Due to stockholders (Notes 22 and 26)	**1,241,686**	1,241,686
Income tax payable	**–**	–
Company's share in current liabilities of a joint venture (Note 11)	**154,906,246**	114,782,276
Total Current Liabilities	**278,012,893**	432,394,401
Noncurrent Liabilities		
Interest-bearing loans and borrowings - net of current portion (Notes 15 and 26)	**–**	25,952,644
Locators' deposits (Note 14)	**23,446,531**	22,896,434
Deferred tax liabilities - net (Note 21)	**72,686,984**	80,740,981
Company's share in noncurrent liabilities of a joint venture (Notes 11 and 21)	**16,956,231**	16,956,231
Total Noncurrent Liabilities	**113,089,746**	146,546,290
Equity		
Capital stock (Note 16)	**1,105,056,728**	1,105,056,728
Additional paid-in capital	**8,194,721**	8,194,721
Unrealized fair value gains on available-for-sale investments	**77,393,065**	27,736,507
Company's share in unrealized fair value gains on available-for-sale investments of a joint venture (Note 11)	**15,640,771**	4,979,588
Retained earnings (Note 16)	**1,051,007,286**	1,025,344,031
Parent company shares of stock held by a joint venture (Note 11)	**(3,147,272)**	(3,147,272)
Total Equity	**2,254,145,299**	2,168,164,303
	₱2,645,247,938	₱2,747,104,994

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	July – Sept	July – Sept.	Year to date	
	2007	2006	**2007**	2006
REVENUES				
Generation revenues (Note 1)	**₱173,923,975**	₱17,067,334	**₱453,547,339**	₱46,896,422
Company's share in revenue of a joint venture (Note 11):				
Generation	**192,187,636**	124,767,493	**615,346,468**	375,939,439
Other income	**1,979,729**	6,257,544	**7,660,667**	9,768,961
Interest and other financial income (Notes 5 and 26)	**15,183,484**	15,683,459	**28,748,904**	26,010,418
Rental income (Note 22)	**523,690**	653,510	**1,573,258**	1,893,156
Equity in net earnings of associates (Note 11)	**(1,070,744)**	(722,269)	**(1,613,432)**	(600,008)
Other income	**6,353,385**	6,684,225	**17,056,128**	26,632,246
	389,081,155	170,391,296	**1,122,319,332**	486,540,634
COSTS AND EXPENSES				
Cost of power generation (Notes 18 and 20)	**141,979,816**	15,745,482	**381,231,272**	43,352,583
General and administrative expenses (Notes 19, 20 and 22)	**53,874,956**	13,537,124	**116,137,303**	45,070,489
Company's share in costs and expenses of a joint venture (Note 11):				
Cost of power generation	**179,730,035**	106,982,527	**476,507,228**	324,388,494
General and administrative expenses	**10,305,259**	8,926,835	**35,303,170**	24,201,084
Foreign exchange loss (gain)	**(3,948,274)**	22,056,901	**2,834,507**	13,431,969
Interest and other financial charges (Note 26)	**2,504,387**	2,069,078	**13,708,775**	5,518,562
Reversal of impairment loss on investment in an associate	**–**		**(3,385,227)**	–
Gain on sale of property and equipment	**–**		**(82,167)**	**–**
Gain on sale of available-for-sale investments	**(274,398)**	(13,495)	**(1,033,336)**	(15,471)
	384,171,781	169,304,452	**1,021,221,525**	455,947,710
INCOME BEFORE INCOME TAX	**4,909,374**	1,086,844	**101,097,807**	30,592,924
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 21)				
Current			**279,662**	–
Deferred	**(2,597,029)**		**(7,774,640)**	–
Company's share in income tax of a joint venture (Note 11)	**1,344,478**	4,577,619	**38,727,261**	13,023,319
	(1,252,551)	4,577,619	**31,232,283**	13,023,319
NET INCOME	**6,161,925**	(3,490,775)	**₱69,865,524**	₱17,569,605
Basic Earnings Per Share (Note 23)			**₱0.063**	₱0.016

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 16)	Additional Paid-in Capital	Retained Earnings (Note 16)	Unrealized Fair Value Gains on Available-for-Sale Investments	Company's Share in Unrealized Fair Value Gains on Available-for-Sale Investments of a Joint Venture	Parent Company Shares Held by Joint Venture	Total
Balance at January 1, 2007	₱1,105,056,728	₱8,194,721	₱1,025,344,031	₱27,736,507	₱4,979,588	(₱3,147,272)	₱2,168,164,303
Cash dividends – P 0.04 per share			(44,202,269)				(44,202,269)
	1,105,056,728	8,194,721	981,141,762	27,736,507	4,979,588	(3,147,272)	2,123,962,034
Increase in fair value gains of available-for-sale investments	–	–	–	49,656,558	–	–	49,656,558
Increase in fair value gains of available-for-sale investments of a joint venture	–	–	–	–	10,661,183	–	10,661,183
Net income for the year	–	–	69,865,524	–	–	–	69,865,524
Total income for the year	–	–	69,865,524	49,656,558	10,661,183	–	130,183,265
Balance at September 30, 2007	₱1,105,056,728	₱8,194,721	₱1,051,007,286	₱77,393,065	₱15,640,771	(₱3,147,272)	₱2,254,145,299
Balance at January 1, 2006	₱1,105,056,728	₱8,194,721	₱742,331,878	₱12,223,435	₱1,042,940	(₱3,147,272)	₱1,865,702,427
Cash dividends - ₱0.04 per share	–	–	(44,202,269)	–	–	–	(44,202,269)
	1,105,056,728	8,194,721	698,129,606	12,223,435	1,042,940	(3,147,272)	1,821,500,158
Increase in fair value gains of available-for-sale investments of a joint venture	–	–	–	–	1,516,777	–	1,516,777
Increase in fair value gains on available-for-sale investments	–	–	–	5,468,500	–	–	5,468,500
Net income for the year	–	–	17,569,605	–	–	–	17,569,605
Total income for the year	–	–	17,569,605	5,468,500	1,516,777	–	24,554,882
Balance at September 30, 2006	₱1,105,056,728	₱8,194,721	₱715,699,211	₱17,691,935	₱2,559,717	(₱3,147,272)	₱1,846,055,040
Balance at January 1, 2006	₱1,105,056,728	₱8,194,721	₱742,331,875	₱12,223,435	₱1,042,940	(3,147,272)	₱1,865,702,427
Cash dividends - ₱0.04 per share		–	(44,202,269)	–	–	–	(44,202,269)
	1,105,056,728	8,194,721	698,129,606	12,223,435	1,042,940	(3,147,272)	1,821,500,158
Increase in fair value gains of available-for-sale investments of a joint venture	–	–	–	15,513,072	–	–	15,513,072
Increase in fair value of available-for-sale investments of a joint venture	–	–	–	–	3,936,648	–	3,936,648
Net income for the year	–	–	327,214,425	–	–	–	327,214,425
Total income for the year	–	–	327,214,425	15,513,072	3,936,648	–	346,664,145
Balance at December 31, 2006	₱1,105,056,728	₱8,194,721	₱1,025,344,031	₱27,736,507	₱4,979,588	(₱3,147,272)	₱2,168,164,303

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Quarters Ended	
	Sept. 2007	Sept. 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱101,097,807	₱30,592,924
Adjustments for:		
Company's share in income before income tax of a joint venture (Note 11)	(109,178,167)	(35,205,120)
Interest and other financial income (Note 26)	(28,748,904)	(26,010,418)
Depletion, depreciation and amortization	38,065,787	11,447,546
Unrealized foreign exchange loss (gain)	2,834,507	13,431,970
Interest and other financial charges (Note 26)	13,708,775	5,518,562
Equity in net earnings of associates (Note 11)	1,613,432	600,008
Provisions for (recovery from):		
Impairment loss on investments on associates	(3,385,227)	–
Gain on sale of marketable equity securities	(1,033,336)	(15,471)
Gain on sale of property and equipment	(82,167)	–
Operating income before working capital changes	14,892,507	360,001
Decrease (increase) in:		
Receivables	612,705	(13,549,422)
Fuel and spare parts	(52,623,346)	875,583
Other current assets	83,741,445	(3,629,580)
Decrease in accounts payable and other current liabilities	9,632,441	(7,227.503)
Net cash provided by (used for) operations	56,255,752	(23,170,921)
Interest received	22,917,123	8,795,743
Interest paid	(9,500,611)	(3,231,536)
Company's share in net cash flows provided by operating activities of a joint venture	172,590,802	34,739,901
Net cash provided by operating activities	242,263,066	17,133,187
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to:		
Property and equipment	(9,177,472)	(1,122,267)
Investments held for trading	(118,404,277)	(88,287,846)
Available-for-sale investments	(2,008,590)	(10,650,552)
Deferred exploration costs	(8,079,834)	(1,617,006)
Cash dividends received	8,800,000	1,100,000

(Forward)

	For the Three Quarters Ended	
	Sept. 2007	Sept. 2006
Proceeds from:		
Sale/redemption of investments held for trading	₱93,320,473	₱16,452,538
Termination of short-term investments	–	40,630,886
Sale of available-for-sale investments	2,890,972	185,520
Sale of property and equipment	213,000	–
Cash received from the return of investments in associates (Note 8)	3,405,227	–
Decrease in other noncurrent assets	–	143,533
Decrease in locators' deposits	550,097	
Company's share in net cash flows provided by investing activities of a joint venture	134,552,507	(3,896,438)
Net cash provided by investing activities	106,062,103	(47,061,632)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of:		
Cash dividends	(44,202,269)	(44,202,269)
Short-term debt	(197,661,292)	–
Long-term debt	(34,545,454)	(3,636,364)
Increase (decrease) in due to stockholders	–	6,322
Net cash used in financing activities	(276,409,015)	(47,832,311)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
Effect of foreign exchange rate changes on cash and cash equivalents of venture	(2,834,507)	(13,431,969)
Company's share in effect of foreign exchange rate changes on cash and cash equivalents of a joint venture	(359,494)	(172,203)
Net effect of foreign exchange rate changes on cash and cash equivalents	(3,194,001)	(13,604,172)
NET INCREASE IN CASH AND CASH EQUIVALENTS OF VENTURER AND JOINT VENTURE	68,722,153	(91,364,928)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	266,468,912	364,469,242
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱335,191,065	₱273,104,314

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information and Status of Operations

Trans-Asia Oil and Energy Development Corporation (TA-Oil or "Parent Company"), incorporated on September 8, 1969, and its wholly-owned subsidiaries, Trans-Asia Renewable Energy Corporation (Renewable), Trans-Asia (Karang Besar) Petroleum Corporation, CIP II Power Corporation (CIPP) and Trans-Asia Gold and Minerals Development Corporation (TA Gold) (collectively referred to as "the Company") are incorporated and registered with the Philippine Securities and Exchange Commission (SEC). The Parent Company is involved in power generation, oil and mineral exploration, exploitation and production. In 2004, the Parent Company entered into an Electricity Supply Agreement (ESA) with Guimaras Electric Cooperative, Inc. (Guimelco), the lone electricity distributor in the island of Guimaras. The Parent Company completed the construction of a 3.4 megawatt (MW) bunker C-fired diesel generator power station in the island in February 2005 and started commercial operations on June 26, 2005 (see Note 23). The other activities of the Company are investments in various operating companies and financial instruments. As of December 31, 2006, its largest investment is 50% interest in Trans-Asia Power Generation Corporation (TA Power). Its subsidiaries, Renewable and Karang Besar, on the other hand, have not yet started commercial operations. On December 28, 2006, the Parent Company acquired CIPP, a company registered with the Philippine Economic Zone Authority (PEZA) as an ecozone utilities enterprise, particularly, to develop and operate a power supply and distribution system at Carmelray Industrial Park II (CIP II) Special Economic Zone, in Brgy. Punta and Tulo, Calamba, Laguna. TA Gold was incorporated and registered with the SEC on July 2, 2007.

The Energy Regulatory Commission (ERC) granted TA-Oil a certificate of registration as a Wholesale Aggregator in November 2006 and TA Power a certificate of registration as a Wholesale Generator in January 2007.

The registered office address of the Parent Company is 11th Floor, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City.

The direct and ultimate parent company of TA-Oil is Philippine Investment-Management (PHINMA), Inc. TA-Oil is also controlled by PHINMA under an existing management agreement. PHINMA is incorporated in the Philippines.

2. Basis of Preparation

The accompanying consolidated financial statements of the Company have been prepared using the historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) investments that have been measured at fair value with January 1, 2005 as the transition date. The consolidated financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. All values are rounded to the nearest peso unless otherwise stated.

Statement of Compliance
The accompanying consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its wholly owned subsidiaries as of December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

All intragroup balances, transactions, income and expenses and profits and losses resulting from intragroup transactions that are recognized in assets, if any, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

In addition, the Company's share of each of the assets, liabilities, income and expenses of its jointly controlled venture, TA Power, is included as a separate line item in the consolidated financial statements based on the account grouping.

3. Summary of Significant Accounting Policies

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

Financial Assets and Liabilities
Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at FVPL.

The Company recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument and derecognizes a financial asset (or part of a financial asset) when it no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed to an independent third party. A financial liability (or a part of a financial liability) is derecognized when the obligation is extinguished. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits. Financial instruments are offset when there is a legally enforceable right to offset and intention to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are classified into the following categories: Financial asset at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS investments. The Company determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

- Financial Assets and Liabilities at FVPL

  Financial assets or financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

  a. The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

  b. The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

  c. The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

  Financial assets and financial liabilities at FVPL are recorded in the consolidated balance sheet at fair value. Changes in fair value on financial assets and liabilities designated at fair value through profit or loss are recorded in the consolidated statement of income. Interest earned or incurred is recorded in interest and other financial income or charges, respectively, while dividend income is recorded according to the terms of the contract, or when the right of the payment has been established.

  <u>Other financial assets or financial liabilities held for trading</u>
  Other financial assets or financial liabilities held for trading are recorded in the consolidated balance sheet at fair value. Changes in fair value relating to the held-for-trading positions are recognized in the consolidated statement of income. Interest earned or incurred is recorded in interest and other financial income or charges, respectively, while dividend income is recorded when the right to receive payment has been established.

  The Company's investments in mutual and common trust funds, bonds, treasury notes and short-term investments are classified as financial assets at FVPL (see Note 5).

  <u>Derivatives recorded at FVPL</u>
  The Company enters into short-term forward currency contracts to hedge its currency exposure. Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Company has opted not to designate its derivative transactions under hedge accounting. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statement of income.

The fair values of freestanding forward currency transactions are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

As of December 31, 2006, the Company has outstanding currency forward contracts with an aggregate notional amount of US$3.7 million, and weighted average contracted forward rate of ₱53.313 to US$1.00. The net fair value gain on these currency forward contracts as of December 31, 2006 amounted to ₱15.5 million and was included in “Other current assets” account in the 2006 consolidated balance sheet. As of September 30, 2007, the Company has outstanding currency forward contracts with an aggregate notional amount of US$ 15.8 million, and weighted average contracted forward rate of ₱45.292 to US$1.00. The net fair value on these currency forward contracts as of September 30, 2007 amounted to ₱13.1 million and was included in “Other currents assets” account in 2007 consolidated balance sheet.

- Loans and Receivables

  Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

  The Company’s receivables are classified as loans and receivables.

- HTM Investments

  Quoted nonderivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Such assets are carried at amortized cost using the effective interest method.

  Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. HTM financial assets are classified as current if maturity is within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

  The Company did not classify any financial asset as held-to-maturity.

- AFS Investments

  AFS financial assets are those nonderivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. After initial recognition, AFS financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income. AFS financial assets are classified as current if they are expected to be realized within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

The Company's investments in listed and unlisted equity securities are classified as AFS (see Note 9).

The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, and other relevant valuation models.

Impairment of Financial Assets

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

Assets Carried at Amortized Cost. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets Carried at Cost. If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Investments. For AFS investments, the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity investments classified as AFS, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS, impairment is based on the same criteria as loans and receivables and HTM financial assets. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset. If, in the subsequent year, the fair value of a debt instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

If an AFS asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the consolidated statement of income. Reversals in respect of equity instruments classified as AFS are not recognized in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Interest-Bearing Loans and Borrowings
All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in net profit or loss when the liabilities are derecognized as well as through the amortization process.

Embedded Derivatives
An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at fair value through profit or loss.

Embedded derivatives are measured at fair value, and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Company has opted not to designate its derivative transactions as accounting hedges. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statement of income.

Day 1 profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" profit) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" profit amount.

Fuel and Spare Parts

Fuel and spare parts are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method. Net realizable value is the current replacement cost of the fuel and spare parts.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depletion, depreciation and amortization and impairment in value. Land is stated at cost less any impairment value.

The initial cost of property, plant and equipment comprises its purchase price, including import duties (where applicable), borrowing costs incurred during the construction period and other costs directly attributable to bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are charged to income in the year the costs are incurred.

Under the component depreciation method, plant overhaul costs are segregated into two categories, that is: (a) costs that should be depreciated over the useful life of the plant; and, (b) parts that are replaced at periodic intervals. The cost of the initial overhaul that may be capitalized is depreciated over its estimated useful life, through the next overhaul, at which time the process is repeated. Under this method, repairs and maintenance are also expensed as incurred.

Depletion of wells, platforms and other facilities are provided on a field basis under the unit-of-production method based upon estimates of proven reserves. The depletion base includes the estimated future development cost of the undeveloped reserves.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Buildings and improvements	20-25 years
Land improvements	10 years
Machinery and equipment	9.5-20 years
Transportation equipment	3-5 years
Mining and other equipment	10 years
Office furniture, equipment and others	3-10 years

The useful lives and depletion, depreciation and amortization methods are reviewed periodically to ensure that the periods and methods of depletion, depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

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

Construction in-progress is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Investments in Associates

The Company's investments in its associates are accounted for under the equity method of accounting. These are entities in which the Company has significant influence and which are neither subsidiaries nor joint ventures of the Company. The Company's 10% interest in Atlas Holdings Corporation (AHC) is accounted for under the equity method as the Company has significant influence over AHC through representation in AHC's BOD. The investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associates, less any impairment in value. The consolidated statement of income reflects the Company's share of the results of operations of the associates. Unrealized gains arising from transactions with associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

When the Company's accumulated share in net losses of an associate equals or exceeds the carrying amount of the investment, including advances, the Company discontinues the recognition of its share in additional losses and the investment is reported at nil value. If the associate subsequently reports net income, the Company will resume applying the equity method only after its share in that net income equals the share in net losses not recognized during the period the equity method was suspended.

Interest in a Joint Venture

The Company's interest in its joint venture is proportionately consolidated to the accounts of the Parent Company. This method involves presenting as separate line items the Company's share in the joint venture's assets, liabilities, income and expenses in the consolidated financial statements.

The joint venture's investment in the Parent Company's shares of stock is accounted for as "Parent Company shares of stock held by a joint venture" included and shown as a reduction in the equity section of the consolidated balance sheet.

Investment Property

Investment property is carried at cost, including transaction costs, net of accumulated depreciation. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Depreciation is calculated on a straight-line basis over the estimated useful life of 20 years.

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

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Deferred Exploration Costs

The Company follows the full cost method of accounting for exploration costs determined on the basis of each service contract (SC)/geophysical survey and exploration contract (GSEC) area. Under this method, all exploration costs relating to each SC/GSEC are tentatively deferred to the extent that the capitalized costs do not exceed the value of those reserves, pending determination of whether the contract area contains oil and gas reserves in commercial quantities, net of an allowance for impairment losses.

Expenditures for mineral exploration and development work on mining properties are also deferred as incurred, net of any allowance for impairment losses. These expenditures are provided for with an allowance when there are indications that the exploration results are negative. These are written off against the allowance when the projects are abandoned or determined to be definitely unproductive. When the exploration work results are positive, the net exploration costs and subsequent development costs are capitalized and amortized from the start of commercial operations.

Deferred exploration costs are assessed for impairment when:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area; or,

- sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, impairment loss is measured, presented and disclosed in accordance with PAS 36.

Business Combinations

Business combinations are accounted for using the acquisition accounting method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. If the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Company reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and recognizes immediately in profit or loss any excess remaining after that reassessment.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Company are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Customer contracts and relationships acquired through business combinations are assessed to have finite useful life and amortized over the useful economic life of five years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Revenue

Revenue is recognized when it is probable that the economic benefits associated with the transactions will flow to the Company and the revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

Generation Revenue. Revenues from the sale of electricity are recognized during the period when electricity is generated. Revenue from take-or-pay arrangement is recognized in accordance with the terms of the ESA in relation to the electricity generated.

Equity in Net Earnings of Associates. Revenue is recognized in accordance with the equity method of accounting for investments in associates.

Dividend. Dividend income is recognized when the Company's right to receive the payment is established.

Interest. Income is recognized as the interest accrues, taking into account the effective yield on the asset.

Rental. Income is accounted for on a straight-line basis over the lease term.

Pensions and Other Post-Employment Benefits

The Company has a defined benefit pension plan. The costs of providing benefits under the defined benefit plan are determined using the projected unit credit actuarial valuation method. The method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, reduced by past service cost not yet recognized, and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of the past service cost of the current period exceeding any increase in the present value of the economic benefits stated in the foregoing are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

Stock Option

The Company has an existing stock option plan offered to qualified employees, officers and directors of the Company. As allowed under PFRS 1, “First Time Adoption of Philippine Financial Reporting Standards,” the Company availed of the exemption from applying PFRS 2, “Share-based Payment,” to stock options granted after November 7, 2002 but are fully vested as of January 1, 2005. There are no stock options granted after November 7, 2002 which remained unvested as of January 1, 2005.

Stock option grants subsequent to January 1, 2005 will be accounted for in accordance with PFRS 2, that is, the cost of stock option awards will be measured by reference to the fair value at the date on which they are granted. The cost of such awards will be recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award. The cumulative expense that will be recognized at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company’s best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of the period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of the award are modified, the minimum expense recognized is the expense if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where the stock option is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the preceding paragraph.

Operating Leases

Operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease term.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs, including foreign exchange differences arising from foreign currency-denominated borrowings, to the extent they are regarded as an adjustment to interest costs, are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Asset Impairment

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

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

Foreign Currency Transactions
Transactions in foreign currencies are recorded in Philippine peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at the balance sheet date. Exchange gains or losses arising from the settlement or restatement of monetary items at rates different from those at which they were initially recorded during the year are credited or charged directly to current operations.

Income Tax
Current Tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the balance sheet date.

Deferred Tax. Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

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

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.

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

Earnings Per Share (EPS)
Basic EPS is computed based on weighted average number of issued and outstanding common shares during each year after giving retroactive effect to stock dividends declared during the year. Diluted EPS is computed as if the stock options were exercised as of the beginning of the year and as if the funds obtained from exercise were used to purchase common shares at the average market price during the year. Outstanding stock options will have a dilutive effect under the treasury stock method only when the fair value of the underlying common shares during the period exceeds the exercise price of the option. Where the outstanding stock options have no dilutive effect, diluted EPS is not presented.

Segment Reporting
For purposes of financial reporting, the Company has two reportable segments namely: oil exploration and power generation. The investment activities are incidental to the Company's power generation activities arising from management of the Company's excess funds. There are no activities in the oil exploration segment except incurrence of exploration costs, shown as deferred exploration costs under "Intangible assets" account in the consolidated balance sheet.

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

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

4. Cash and Cash Equivalents

	September 2007	December 2006
Cash on hand and in banks	**₱5,827,632**	₱51,176,047
Short-term deposits	**311,026,239**	203,739,485
	₱316,853,871	₱254,915,532

Cash in banks earns interest at the respective bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

For purposes of the consolidated statements of cash flows, cash and cash equivalents consist of the following at September 30, 2007 and December 31, 2006:

	September 2007	December 2006
Cash and cash equivalents of venturer	**₱316,853,871**	₱254,915,532
Share in cash and cash equivalents of a joint venture (see Note 11)	**18,337,194**	11,553,380
	₱335,191,065	₱266,468,912

5. Investments Held for Trading

	September 2007	December 2006
Investments in bonds and Fixed Treasury Notes (FXTNs)	**₱383,918,744**	₱318,511,470
Investments in Unit Investment Trust Funds (UITF) and mutual funds	**–**	78,545,750
	₱383,918,744	₱397,057,220

Investments in bonds represent Republic of the Philippines (ROP) bonds denominated in US Dollar which are stated at quoted market price with maturity dates of October 6, 2007 to May 31, 2009. The principal amounts of these ROP bonds are $7.6 million as of September 30, 2007, with effective interest rates of 4.93% to 9% . Investments in FXTNs are peso-denominated government notes which constitute direct and unconditional obligations of the national government and are stated at quoted market price with maturity dates of October 24, 2007 to March 3, 2011. The principal amount of these FXTNs is ₱40.1 million as of September 30, 2007.

Loss from changes in fair value of investments held for trading of ₱1 million in the three quarters ended September 30, 2007 and ₱4.7 million gain from changes in fair value of investments held for trading for the same period last year were included in “Interest and other financial income” (see Note 25).

6. Receivables

	September 2007	December 2006
Trade	**₱65,481,937**	₱65,449,319
Due from related companies	**24,042,031**	24,685,802
Others	**10,532,363**	9,863,962
	100,056,331	99,999,083
Less allowance for doubtful accounts	**26,802,732**	26,802,732
	₱73,253,599	₱73,196,351

Trade receivables represent receivables from Guimelco, in accordance with the terms of the ESA between the Company and Guimelco, and CIPP’s receivables from locators in CIP II.

Due from related companies mainly includes a long-outstanding receivable from a company under common control of PHINMA, fully provided with allowance for doubtful accounts.

Other receivables include interest receivable of ₱6.8 million and ₱6.1 million as of September 30, 2007 and December 31, 2006, respectively.

The Company extended a loan to Guimelco with interest of 12.7% per annum and a monthly amortization of ₱18,726 beginning May 2005 up to February 2008. The monthly amortization will be offset against the monthly rental of ₱20,000 under the lease contract between Guimelco and TA Oil. In case the lease contract is terminated prior to the full settlement of the loan, the remaining outstanding balance becomes due and demandable.

The outstanding balance of the loan receivable as of September 30, 2007 and December 31, 2006 is ₱90,729 and ₱242,477, respectively. The amounts due within the next twelve months after September 30, 2007 and year end of 2006 totaled ₱53,863 and ₱205,612, respectively and are included as part of other receivables. The noncurrent portions of the loan receivable amounted to ₱36,865 as of September 30, 2007 and December 31, 2006 and are included as part of "Other noncurrent assets" account in the consolidated balance sheet.

7. Property, Plant and Equipment

	Land	Building and Improvements	Machinery and Equipment	Wells, Platforms and Other Facilities	Transportation Equipment	Mining and Other Equipment	Office Furniture, Equipment and Others	Total
Cost:								
At January 1, 2006	₱–	₱88,589,427	₱102,596,426	₱20,346,661	₱7,053,935	₱4,408,164	₱24,671,250	₱247,665,864
Additions	–	–	–	–	943,714	298,902	195,500	1,438,116
Acquisition of CIPP	57,983,000	1,893,102	399,801,796	–	50,000	–	22,614	459,750,512
At December 31, 2006	57,983,000	90,482,529	502,398,222	20,346,661	8,047,649	4,707,066	24,889,364	708,854,492
Additions	–	4,124,594	50,000,000	–	4,303,222	93,888	655,768	59,177,472
Disposal					(712,500)			(712,500)
At September 30, 2007	57,983,000	94,607,123	552,398,222	20,346,661	11,638,371	4,800,954	25,545,132	767,319,464
Accumulated depreciation and impairment:								
At January 1, 2006	–	13,823,028	3,508,016	20,346,661	1,745,569	607,683	7,911,449	47,942,407
Depreciation charge for the year	–	4,558,588	5,616,894	–	1,203,686	486,876	3,183,624	15,049,668
At December 31, 2006	–	18,381,616	9,124,910	20,346,661	2,949,255	1,094,559	11,095,073	62,992,075
Depreciation charge for three months	–	4,148,486	29,506,593	–	1,351,593	394,114	2,522,315	37,923,101
Disposal	–	–	–	–	(581,667)	–	–	(581,667)
At September 30, 2007	–	22,530,102	38,631,503	20,346,661	3,719,181	1,488,673	13,617,388	100,333,509
Net book value:								
At September 30, 2007	₱57,983,000	₱72,077,021	₱513,766,719	₱–	₱7,919,190	₱3,312,281	₱11,927,744	₱666,985,955
At December 31, 2006	57,983,000	72,100,913	493,273,312	–	5,098,394	3,612,507	13,794,291	645,862,417
At January 1, 2006	–	74,766,399	99,088,410	–	5,308,366	3,800,481	16,759,801	199,723,457

Included under “mining and other equipment” is a wind tower constructed in Sual, Pangasinan. Construction of the wind tower was completed on December 21, 2005.

8. **Investments in Associates**

The details and movements of investments in associates accounted for under the equity method are as follows:

	September 2007	December 2006
Acquisition costs – net of return of investment of P 3,405,227	**₱227,834,913**	₱231,240,140
Accumulated equity in net earnings:		
Balance at beginning of year	**(20,665,133)**	(22,513,284)
Equity in net earnings for the year	**(1,613,432)**	2,948,151
Dividends received	**(8,800,000)**	(1,100,000)
Balance at end of year	**(31,078,565)**	(20,665,133)
	196,756,348	210,575,007
Less accumulated impairment	**1,559,250**	4,964,478
	₱195,197,098	₱205,610,529

The percentage of ownership and the carrying values of investments in associates which are accounted for under the equity method are as follows:

	Percentage of Ownership	**September 2007**	December 2006
Bacnotan Industrial Park Corporation (BIPC)	30.00	**₱150,779,812**	₱151,815,122
AHC	10.00	**43,726,820**	53,101,344
Union Aggregates Corporation (UAC)*	31.25	**–**	–
Asia Coal Corporation (Asia Coal)*	28.18	**690,466**	694,063
		₱195,197,098	₱205,610,529

** Ceased operations*

Information with regard to the Company's significant associates is shown below:

<u>BIPC</u>

	September 2007	December 2006
Cash and cash equivalents	**₱10,937,183**	₱18,024,762
Investments in UITFs and mutual fund	**7,861,018**	2,083,040
Input tax and other assets	**15,131,876**	13,150,148
Land and development costs	**418,114,455**	418,017,846
Property and equipment - net	**143,933,314**	151,037974
	595,977,846	602,313,770
Accounts payable and accrued expenses	**21,860,459**	19,037,821
Deferred gross profit	**13,441,496**	13,441,496
Estimated liability for land development	**14,114,732**	14,114,732
Deposits for construction costs	**15,599,864**	15,599,864
Other taxes payable	**–**	467,694
Long-term debt	**23,475,777**	23,829,828
	88,492,328	86,491,435
Net assets	**₱507,485,518**	₱515,822,335

	Jan.-Sept. 2007	Jan.-Sept. 2006
Revenue	**₱15,616,000**	₱17,074,000
Costs and expenses	**(23,317,000)**	(27,497,000)
Other income (expenses)	**(597,000)**	914,000
Benefit from (provision for) income tax	**(39,000)**	(34,000)
Net income (loss)	**(₱8,337,000)**	(₱9,543,000)

BIPC is engaged in the development of a 110-hectare industrial estate in Calaca, Batangas.

<u>AHC</u>

	September 2007	December 2006
Current assets	**₱422,050,153**	₱504,187,256
Current liabilities	**801,025**	3,738,703
Net assets	**₱421,249,128**	₱500,448,553

	Jan.-Sept. 2007	Jan.-Sept. 2006
Revenue	**₱21,795,890**	₱25,013,962
Costs and expenses	**(12,770,952)**	(2,236,121)
Benefit from (provision for) income tax	**(112,291)**	(28,341)
Net income (loss)	**₱8,912,647**	₱22,749,500

AHC is a holding company whose primary purpose is to invest, hold, purchase, acquire, lease, contract, or otherwise in real and personal properties.

On March 29, 2007, the BOD of AHC declared cash dividends of ₱40 a share payable to all stockholders of record as of declaration date. Such dividends were paid on April 11, 2007. The Company received ₱8.8 million cash dividends from AHC.

9. Available-for-Sale Investments

	September 2007	December 2006
Shares of stock:		
Listed	**₱99,493,549**	₱62.336,038
Unlisted	**45,293,252**	45,293,252
Golf club shares	**28,200,000**	15,570,000
	₱172,986,801	₱123,199,290

Available-for-sale investments are stated at fair value as of September 30, 2007 and December 31, 2006 except for investments in unlisted shares of stock which are stated at cost net of any impairment.

10. Investment Property

	September 2007	December 2006
Cost	**₱4,893,663**	₱4,893,663
Accumulated depreciation:		
Balance at beginning of the year	**1,056,453**	796,303
Addition during the period	**195,112**	260,150
Balance at end of year	**1,251,565**	1,056,453
	₱3,642,098	₱3,837,210

Investment property is stated at cost less accumulated depreciation and any impairment losses. The fair value of the investment property as determined by an independent firm of appraisers is ₱4.4 million.

11. Interest in a Joint Venture

The Company has a 50% interest in TA Power, which is engaged in power generation.

The Company's proportionate share in the assets and liabilities of TA Power as of September 30, 2007 and December 31, 2006 and income and expenses for the three quarters ended September 30, 2007 and 2006, excluding elimination of intercompany transactions and balances, are as follows:

	September 2007	December 2006
Current assets	**₱145,480,756**	₱287,865,627
Noncurrent assets*	**391,497,168**	428,169,673
	536,977,924	716,035,300
Current liabilities	**155,149,949**	114,961,324
Noncurrent liabilities	**16,956,231**	16,956,231
	172,106,180	131,917,555
Net assets	**₱364,871,744**	₱584,117,745

* *Net of investment in shares of stock of the Parent Company of ₱3.1 million in September 2007 and December 2006.*

	Jan.-Sept. 2007	Jan.-Sept. 2006
Revenue	**₱615,346,468**	₱375,939,438
Cost of sales	**(476,507,228)**	(324,388,494)
General and administrative expenses	**(37,435,449)**	(26,145,225)
	101,403,791	25,405,719
Other income - net	**7,774,376**	9,799,401
Income before income tax	**109,178,167**	35,205,120
Provision for income tax	**38,727,261**	13,023,319
Net income	**₱70,450,906**	₱22,181,801

Details of the Company's share in the current and noncurrent assets and current liabilities of the joint venture as of September 30, 2007 and December 31, 2006, after elimination of intercompany balances, are as follows:

	September 2007	December 2006
Current assets:		
Cash and cash equivalents	**₱18,337,194**	₱11,553,380
Investments held for trading	**–**	135,053,702
Trade and other receivables	**61,699,517**	74,956,512
Fuel and spares - at cost	**58,215,521**	44,371,757
Prepaid expenses and other current assets	**7,169,891**	21,930,276
	₱145,422,123	₱287,865,627
Noncurrent assets:		
Property, plant and equipment - net	**₱341,912,532**	₱389,246,220
Available-for-sale investments	**49,584,636**	38,923,453
	₱391,497,168	₱428,169,673
Current liabilities:		
Trade and other payables	**₱148,831,986**	₱111,316,468
Due to related parties	**1,804,746**	565,082
Derivative liability	**–**	400,726
Provisions	**4,269,514**	2,500,000
	₱154,906,246	₱114,782,276
Noncurrent liabilities -		
Deferred tax liability - net (see Note 21)	**₱16,956,231**	₱16,956,231

Details of the Company's share in the cost of sales and general and administrative expenses of the joint venture for the three quarters ended September 30, 2007 and 2006, after elimination of intercompany transactions, are as follows:

	Jan.-Sept. 2007	Jan.-Sept. 2006
Cost of sales:		
Fuel	**₱385,038,245**	₱267,080,471
Depreciation and amortization	**46,990,706**	26,103,886
Repairs and maintenance	**21,702,766**	9,031,100
Labor	**11,581,040**	10,819,974
Taxes and licenses	**5,996,439**	6,371,195
Insurance	**2,904,277**	3,009,404
Security, janitorial and professional fees	**881,911**	715,575
Others	**1,411,844**	1,256,889
	₱476,507,228	₱324,388,494

	Jan.-Sept. 2007	Jan.-Sept. 2006
General and administrative expenses:		
Management and professional fees	**₱20,034,698**	₱10,616,104
Salaries and directors' fees	**9,340,183**	8,019,608
Employee benefits	**990,255**	710,752
Transportation and travel	**728,242**	884,502
Taxes and licenses	**921,043**	1,184,166
Depletion, depreciation and amortization	**718,634**	453,655
Entertainment, amusement and recreation	**12,572**	15,640
Others	**2,557,543**	2,316,657
	₱35,303,170	₱24,201,084

12. **Intangible Assets**

	September 2007	December 2006
Deferred exploration costs	**₱142,266,831**	₱134,186,997
Customer contracts and relationships	**50,220,266**	59,082,665
	₱192,487,097	₱193,269,662

Deferred Exploration Costs

	September 2007	December 2006
Oil exploration costs	**₱289,851,253**	₱287,540,357
Mineral exploration costs	**14,588,585**	8,819,647
	304,439,838	296,360,004
Less allowance for impairment losses	**162,173,007**	162,173,007
	₱142,266,831	₱134,186,997

The balance of the deferred exploration costs consists of expenditures incurred in the following production-sharing petroleum projects:

	September 2007	December 2006
SC No. 6 (Northwest Palawan)	**₱112,924,507**	₱112,460,894
SC No. 41 (Sulu Sea)	**51,673,917**	51,673,887
SC No. 42 (North Palawan)	**33,880,927**	33,880,927
SC 51/GSEC No. 93 (East Visayas)	**31,860,606**	30,621,923
GSEC No. 94 (Offshore West Palawan)	**28,228,563**	28,228,563
Offshore North Mindoro-West Batangas	**17,290,300**	17,290,300
GSEC No. 91 (Southwest Palawan)	**8,103,315**	8,103,315
SC 55 (Offshore West Palawan)	**5,348,138**	4,739,568
Others	**540,980**	540,980
	₱289,851,253	₱287,540,357

The foregoing deferred costs represent the Company's share in the expenditures incurred under Petroleum SCs or GSECs with the Philippine Department of Energy (DOE). The contracts provide for certain minimum work and expenditure obligations and are covered by operating agreements which set forth the participating interests, rights and obligations of the contractors.

Refer to the Review of Operations (Annex B-1) for the status of the Company's projects.

Customer Contracts and Relationships
Customer contracts and relationships were acquired through business combinations. This account will be amortized evenly over their useful economic life of five years.

	September 2007	December 2006
Customer contracts and relationships	**₱59,082,665**	₱59,082,665
Less amortization of intangible assets	**8,862,399**	–
	₱50,220,266	₱59,082,665

13. Accounts Payable and Other Current Liabilities

	September 2007	December 2006
Trade and nontrade accounts payable	**₱72,813,271**	₱89,919,830
Accrued expenses	**18,261,304**	11,254,871
Output tax	**3,002,645**	5,502,891
Accrued directors' and annual incentives	**25,878,210**	5,176,849
Due to related parties (see Note 22)	**1,742,891**	206,802
Deferred rent income	**141,111**	35,278
Others	**25,529**	25,529
	₱121,864,961	₱112,122,050

14. Locators' Deposits

Locators' deposits represent security and meter deposits of CIPP which are in the process of being refunded to the locators and for replacement with bank guarantee documents.

15. Interest-bearing Loans and Borrowings

Current
Included in current interest-bearing loans and borrowings are:

- ₱165.0 million Philippine peso-denominated loans from a local bank which were used to finance the acquisition of CIPP. The loans have a fixed interest rate of 7.8% and with maturity on March 28, 2007 and January 9, 2007. The loans are secured by financial assets amounting to US$3.2 million and ₱20 million which are under the custody of the creditor bank. ₱15 million and ₱150 million was paid January 9, 2007 and August 24, 2007, respectively.

- ₱32.7 million US dollar loan of CIPP from a local bank with maturity on June 26, 2007. This loan was preterminated on January 3, 2007.

Noncurrent
Long-term debt represents a term loan in the amount of ₱80 million used to finance the construction and installation of a 3.4 MW Bunker C-fired diesel power plant in Guimaras Island. The loan has a fixed interest rate of 12.7% payable quarterly and a term of seven years, inclusive of one year grace period on principal payment, which will mature on September 30, 2011. The loan is payable in equal quarterly amortization of ₱1.8 million. On December 27,

2005, the Company paid ₱40 million. The interest rate is converted from a fixed rate to a variable rate effective December 31, 2005. The loan balance of P 34.5 million was preterminated on June 29, 2007.

The loan is secured by: (i) a chattel mortgage on various machinery and equipment that constitute the 3.4 MW Bunker C-fired power plant located at Barangay San Miguel, Jordan, Guimaras; (ii) assignment of rights over the Electric Supply Agreement with Guimaras Electric Cooperative, Inc.; (iii) assignment of contract receivables from Guimelco; and (iv) assignment to the bank of proceeds from Performance Bond required from contractors and suppliers of the Company.

Machinery and equipment with net carrying amount of ₱90.8 million as of December 31, 2006 have been pledged as security for the loan. The bank released the chattel mortgage on September 27, 2007.

16. **Equity**

Following are the details of the Company's capital stock:

	Number of Shares	
	September 2007	December 2006
Authorized capital stock - ₱1 par value	**2,000,000,000**	2,000,000,000
Issued:		
Balance, beginning of year	**1,105,056,728**	1,105,056,728
Issuance during the year	**–**	–
Balance, end of year	**1,105,056,728**	1,105,056,728

As of September 30, 2007, the Company's retained earnings balance is ₱1 billion while paid-up capital is ₱1.1 billion. Undistributed earnings of associates and joint venture included in the Company's retained earnings amounting to ₱405.7 million and ₱611.5 million as of September 30, 2007 and December 31, 2006, respectively, are not currently available for dividend distribution.

Dividends declared and paid in 2005, 2006 and three quarters of 2007 are as follows:

	Dividend			
Date of Declaration	Type	Rate	Amount	Record Date
March 14, 2005	Special cash	₱0.04 per share	₱33,950,705	March 30, 2005
March 14, 2005	Cash	0.04 per share	33,950,705	March 30, 2005
March 14, 2005	Stock	30%	255,304,091	September 23, 2005
March 27, 2006	Cash	0.04 per share	44,202,269	May 23, 2006
April 2, 2007	Cash	0.04 per share	44,202,269	April 19, 2007

17. **Employee Stock Option Plan (Plan)**

The Company has an existing Plan covering up to 25 million shares. The Plan entitles qualified employees, officers and directors to purchase shares of stock during the offering years at a price of ₱1 a share.

On June 7, 2004, the Company's BOD approved the reallocation of stock options for a total of 12,518,650 shares out of the original 25 million shares, which expired in April 2003 and May 2004. Such stock options were allocated among directors and employees of the Company and the exercise of such options is subject to the following terms and conditions:

Subscription Price	At par value of ₱1 per share
Period of Exercise	Up to 100% of the allocated shares within three years from June 8, 2004
Payment of Shares	Cash payment upon exercise of option
Right to Exercise Option	Continuous employment required

Outstanding stock options total 1,261,000 shares as of December 31, 2006 and 2005. Such stock options are fully vested as of December 31, 2004. This stock option expired in June 2007.

As allowed under PFRS 1, "First Time Adoption of Philippine Financial Reporting Standards," the Company availed of the exemption from applying PFRS 2, "Share-based Payment," to stock options granted after November 7, 2002 but are fully vested as of January 1, 2005.

On April 2, 2007, the Board of Directors and stockholders approved a total of 100 million shares set aside from the unsubscribed portion of the corporation's 2 billion authorized shares for (a) stock grants for officers and managers of the corporation, and (b) stock options for directors, officers and employees of the corporation and its subsidiaries and affiliates for the purposes and under terms and conditions as determined by the Executive Committee of the Board of Directors. The exercise of such grants and options are subject to the following terms and conditions:

Executive Stock Grants Plan

Coverage	For all officers of the PHINMA Energy Group, including unclassified Managers who are covered by the Variable Compensation Plan
Share Price	20% discount on weighted average closing price for 20 trading days before the date of grant but not over than par value of P 1.00 per share
Vesting Period	Upon achievement of company's goal and determination of the payout under the Variable Compensation Plan
Payout Scheme	As 20% of the officer's annual Variable Compensation
Holding Period From Grant Date	For 1st stock grants, 1/3 of shares hold for 1 year, 1/3 of shares hold for 2 years and the balance hold for 3 years. For succeeding stock grants, all shares hold for 3 years.

Stock Options Plan

Coverage	Directors, permanent, officers and employees of Tran-Asia Oil and its affiliates/subsidiaries
Option Price	At weighted average closing price for 20 trading days prior to grant date but should not be lower than par value of P 1.00 per share
Period of Option	Valid for 3 years from date of grant: Up to 33% of the allocated shares can be exercised on the 1st year from date of grant; Up to 66% of the allocated shares can be exercised on the 2nd year from the date of grant; and Up to 100% of the allocated shares can be exercised on the 3rd year from the date of grant.
Payment of Shares	Cash payment required upon exercise of option
Rights to Exercise Option	Continuous employment required. In the event of resignation, termination or retirement, the optionee shall be entitled only to the options due him/her up to the effectivity of separation. Full payment is required prior to separation date. In the event of death of optionee, his/her heirs, executors, or administrators shall have the right to exercise the balance of options granted and pay in cash.

18. **Cost of Power Generation**

	Jan.–Sept. 2007	Jan.-Sept. 2006
Fuel	**₱305,595,604**	₱32,409,959
Rental and concession fee	**19,370,842**	202,048
Depreciation and amortization	**17,146,932**	4,558,434
Building maintenance and repairs	**12,265,202**	768,682
Labor (see Note 19)	**11,250,476**	2,712,663
Insurance	**1,850,282**	485,677
Taxes and licenses	**1,530,025**	1,295,255
Employees benefits (see Note 19)	**1,446,043**	652,329
Others	**10,775,866**	267,536
	₱381,231,272	₱43,352,583

19. General and Administrative Expenses

	Jan.-Sept. 2007	Jan.-Sept. 2006
Depletion, depreciation and amortization	**₱29,781,255**	₱6,889,112
Management and professional fees (see Note 21)	**45,834,559**	14,130,272
Salaries and directors' fees (see Note 19)	**14,317,668**	7,887,703
Building maintenance and repairs	**5,576,450**	4,544,524
Insurance, dues and subscriptions	**4,351,545**	1,048,216
General exploration	**3,617,814**	1,786,148
Employee benefits (see Note 19)	**2,613,490**	1,819,907
Transportation and travel	**3,063,982**	2,366,720
Taxes and licenses	**2,062,147**	766,175
Office supplies	**1,217,980**	1,243,583
Rent	**610,309**	201,749
Donation and contribution	**507,670**	702,549
Entertainment, amusement and recreation	**70,867**	1,818
Others	**2,511,567**	1,682,013
	₱116,137,303	₱45,070,489

20. Personnel Expenses

	Jan.-Sept. 2007	Jan.-Sept. 2006
Salaries and directors' fees included under:		
Cost of power generation	**₱11,250,476**	₱2,712,663
General and administrative expenses	**14,317,668**	7,887,703
Deferred exploration costs	**1,610,081**	1,724,245
Employee benefits included under:		
Cost of power generation	**1,446,043**	652,329
General and administrative expenses	**2,613,490**	1,819,907
	₱31,237,758	₱14,796,847

21. Income Tax

The Company's deferred tax liabilities amounting to ₱ 72,686,984 and ₱80,740,981 as of September 30, 2007 and December 31, 2006, respectively, pertain to the tax effect of the difference between fair values and carrying amounts of net assets arising from the acquisition of CIPP and unrealized fair value gains on investments held for trading.

The Company's deductible temporary differences, unused NOLCO and unused MCIT for which no deferred tax assets were recognized in the consolidated balance sheets are as follows:

	September 2007	December 2006
NOLCO	**₱112,019,200**	₱112,019,200
Unrealized foreign exchange losses	**16,904,329**	16,904,329
Allowance for impairment losses	**6,712,782**	6,712,782
Accrued expenses	**6,651,926**	6,651,926
Allowance for probable losses on mineral exploration and research and development costs	**5,173,106**	5,173,106
Unamortized past service cost	**4,686,665**	4,686,665
Allowance for doubtful accounts	**3,270,365**	3,270,365
MCIT	**2,000,265**	2,000,265
Asset retirement obligation	**240,000**	240,000
Deferred rent income	**35,278**	35,278
Unrealized marked to market loss	**25,529**	25,529
	₱157,719,445	₱157,719,445

Deferred income tax assets have not been recognized in respect of the foregoing items as it is not probable that sufficient future taxable income will be available against which related deferred income tax assets can be used. Deferred income tax asset is also not recognized for the difference between the cost recovery account and capitalized costs for financial reporting purposes because the income tax liability is assumed by the Philippine Government.

The Company's share in noncurrent deferred tax assets (liabilities) of a joint venture is as follows:

	September 2007	December 2006
Capitalized unrealized foreign exchange gains	**(₱16,820,529)**	(₱16,820,529)
Unrealized foreign exchange gains	**(901,398)**	(901,398)
Past service costs and accrued retirement	**765,696**	765,696
	(₱16,956,231)	(₱16,956,231)

MCIT amounting to ₱2.0 million and NOLCO totaling to ₱112.0 million can be claimed as deduction from income tax due and regular taxable income, respectively, as follows:

	Amount	
Expiry Date	MCIT	NOLCO
December 31, 2007	₱626,273	₱42,606,785
December 31, 2008	276,852	60,162,413
December 31, 2009	1,097,140	9,250,002
	₱2,000,265	₱112,019,200

MCIT amounting to ₱0.4 million and NOLCO amounting to ₱25.1 million expired in 2006.

22. Related-Party Transactions

PHINMA

The Parent Company is controlled by PHINMA through a management agreement. Under the existing management agreement, the Parent Company pays PHINMA a fixed monthly management fee plus an annual incentive based on a certain percentage of the Parent Company's net income. The management agreement with PHINMA was renewed for another five years starting September 1, 2003. Total management fees, including annual incentive, amounted to ₱15.1 million and ₱4.2 million for the three quarters ended September 30, 2007 and 2006, respectively. Net payable to PHINMA amounted to ₱13.5 million and ₱2.5 million as of September 30, 2007 and December 31, 2006, respectively.

<u>TA Power</u>
TA Power leases and occupies part of the office space owned by the Parent Company. Rental income earned amounted to ₱0.87 million and ₱0.97 million in the three quarters ended September 30, 2007 and 2006, net of the Company's interest. Net receivable from TA Power amounted to ₱0.5 million as of September 30, 2007 and December 31, 2006, net of the Company's interest. Outstanding receivable from TA Power amounted to ₱0.6 million and ₱ 0.2 million as of September 30, 2007 and December 31, 2006, respectively.

<u>PHINMA Property Holdings Corporation (PPHC)</u>
PPHC is likewise controlled by PHINMA through a management agreement. In 2006, PPHC leased and occupied part of the office space owned by the Parent Company. Rental income earned amounted to P 36 thousand as of March 31, 2006. Net receivable from PPHC amounted to ₱1 million as of December 31, 2006 and ₱0.2 million net payable to PPHC as of September 30, 2007.

<u>Directors</u>
The Company recognized bonus to directors computed based on net income before the effect of the application of the equity method of accounting. Directors' bonus amounted to ₱1.5 million for the three quarters ended September 30, 2007. The related unpaid amount included under the "Accounts payable and other current liabilities" account in the consolidated balance sheets amounted to ₱13.8 million and ₱3.0 million as of September 30, 2007 and December 31, 2006, respectively.

Compensation of key management personnel of the Company are as follows:

	Jan.-Sept. 2007	Jan.-Sept. 2006
Short-term employee benefits	**₱7,709,897**	₱6,847,019

<u>Stockholders</u>
Amounts due to stockholders for unclaimed dividends totaled ₱1.2 million as of September 30, 2007 and December 31, 2006.

23. EPS Computation

	Jan.-Sept. 2007	Jan.-Sept. 2006
(a) Net income	**₱69,865,524**	₱17,569,605
Common shares outstanding at beginning of year	**1,105,056,728**	1,105,056,728
Weighted average number of shares issued during the year	**–**	–
Stock dividends	**–**	–
(b) Weighted average common shares outstanding	**1,105,056,728**	1,105,056,728
Basic EPS (a/b)	**₱0.063**	₱0.016

The outstanding stock option has no dilutive effect in 2007 and 2006.

24. Commitments

On November 12, 2003 and July 26, 2004, the Company signed an ESA and amendment to the ESA, respectively, with Guimelco, a nonstock, nonprofit cooperative (see Note 1). Under the ESA, the Company agreed to construct, operate and maintain a 3.4 MW bunker C-fired diesel generator power station and to supply Guimelco with electricity based on the terms and conditions set forth in the ESA. Following are the significant provisions of the ESA, among others:

Cooperation Period	Ten years, and may be extended pursuant to the ESA.
Electricity Fees	Electricity fees is based on a formula as set forth in the ESA and shall be payable monthly during the Cooperation Period.
Electricity Delivery Procedures	Guimelco must give priority to electricity generated by the Company's power station up to 1.8 MW, over any other power source.

The power plant commenced commercial operations on June 26, 2005.

Operating Lease Commitment

The Company has entered into a lease contract with Guimelco for a parcel of land used only as site for electric generating plant and facilities. The term of the lease is 10 years with a renewal option included in the contract. The Company is given the first option to buy the property if the lessor decides to sell the land. The lease is at a fixed monthly rate of ₱20,000 for the duration of the lease term. Future minimum operating lease payable under this lease agreement as of September 30, 2007 and December 31, 2006 are as follows:

	September 2007	December 2006
Within one year	**₱240,000**	₱240,000

After one year but not more than five years	**1,200,000**	1,200,000
More than five year	**560,000**	560,000
	₱2,000,000	₱2,000,000

Concession Agreement
CIPP has a concession agreement with Carmelray-JTCI Corporation (CJC), the developer of CIP II in Calamba, Laguna, where the CIPP power plant is located. The cooperation period under the concession agreement shall end in 2027, subject to extension. CJC has the option to purchase the power plant or the distribution system, or both at the end of the cooperation period or any extension thereof. The purchase price for the power plant shall be its net book value and that for the distribution system shall be US$1.

In consideration of the grant of concession by CJC to CIPP, CIPP shall pay CJC a concession fee in an amount equivalent to 2% of CIPP's gross receipts on the sale and supply of generated electricity to locators within CIP II.

Electric Power Industry Reform Act
Republic Act No. 9136, the Electric Power Industry Reform Act of 2001 (EPIRA), and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector which include among others:

(1) The unbundling of the generation, transmission, distribution and supply, and other disposable assets of the Company, including its contracts with independent power producers, and electricity rates;

(2) Creation of a Wholesale Electricity Spot Market; and

(3) Open and non-discriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of generation and distribution companies within five years from the effectivity of the EPIRA. It provides cross ownership restrictions between transmission and generation companies and between transmission and distribution companies, and a cap of 50% of its demand that a distribution utility is allowed to source from an associated company engaged in generation except for contracts entered into prior to the effectivity of the EPIRA.

There are also certain sections of the EPIRA, specifically relating to generation companies , which provide for a cap on the concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity.

Based on the assessment of the Company, it is in the process of complying with the applicable provisions of the EPIRA and its IRR.

25. Financial Risk Management Objectives and Policies

The Company's principal financial instruments managed by the Company's Treasury comprise of cash and short-term deposits, corporate promissory notes and bonds, government bonds, listed shares of stocks, and investments in mutual and trust funds, in Philippine peso, US dollar and Euro currencies. The main purpose of these financial instruments, as well as the Company's receivables and accounts payable and other current liabilities, is to finance the Company's operations and investments.

The main risks arising from the Company's treasury transactions are interest rate risk, liquidity risk, foreign currency risk and credit risk. Careful study, skill, prudence and due diligence are exercised at all times in the handling of the funds of the Company. An Investment Committee, comprised of some of the Company's BOD, reviews and approves policies and directions for investments and risk management. The basic parameters approved by the Investment Committee in 2006 and 2007 are:

Investment Objective	Safety of Principal
Tenor	Three years maximum for any security, with average duration between one and two years
Exposure Limits	▪ For banks and fund managers: maximum of 20% of total fund of the Company per bank or fund ▪ For peso investments: minimal corporate exposure except for registered bonds of non-affiliates outside the Group ▪ For US dollar or Euro investments: maximum 70% in Philippine government or corporate securities, 10% in Asian bonds, and 20% in non-Asian bonds.

Interest Rate Risk

The following table sets out the carrying amount (in thousands), by maturity, of the Company's financial assets and liabilities that are exposed to interest rate risk:

	Interest Rates	Within 1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Total
2007 Fixed Rate							
Short-term deposits:							
Special savings account	3.75-5.5%	₱42,323	₱–	₱–	₱–	₱–	₱42,323
Placement	1.2-7.5%	268,703	–	–	–	–	268,703
Investments in bonds							
and FXTNs	4.375-11.875%	298,148	75,128	–	10,643		383,919
Note receivable	12.7%	54	37	–	–	–	91
Notes payable	–	–	–	–	–	–	–

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

The other financial instruments of the Company that are not included in the above table are noninterest-bearing investments and are therefore not subject to interest rate volatility.

Foreign Currency Risk

Philippine risk is managed by holdings of cash and securities in Philippine peso, US dollar or Euro denominated currencies according to an approved currency exposure allocation scheme. The portfolio is biased in favor of US dollar in view of the plans to bid for the NPC power plants, which bids are in US dollar denomination.

On the other hand, foreign exchange risks on US dollar and Euro are managed by constant monitoring of the political and economic environments and trading either by spot conversions and forward transactions on a deliverable or nondeliverable basis to protect values.

Returns are also calibrated on a per currency basis to account for the perceived risks with higher returns expected from weaker currencies.

The Company's foreign currency-denominated assets and liabilities as of September 30, 2007 are as follows (in thousands):

	US Dollar	Euro	Singapore $
Assets:			
Cash and cash equivalents	3,182	–	–
Investments in bonds	7,612	–	–
Investments in UITFs and mutual funds	–	–	–
	10,794	–	–
Liabilities:			
Accounts payable and other current liabilities	–	–	–
Notes payable	–	–	–
	–	–	–
Net foreign currency-denominated assets (liabilities)	10,794	–	–
Peso equivalent	₱487,573	₱-	₱-

Credit Risk

Investments are restricted only to the Company's duly accredited domestic and foreign banks and mutual funds. Even if a maximum of 20% of the Company's investible funds can be invested in one bank/mutual fund, Treasury allocates funds according to its periodic assessment of the banks'/funds' financial soundness and business performance.

For UITF and Mutual Funds, fund placements cannot exceed 10% of the UITF's or Mutual Fund's total funds. UITF's and Mutual Funds' investment performances are reviewed weekly and monthly.

Investments in nonrated securities, primarily corporate bonds or affiliates are subject to a comprehensive credit and business review in coordination with sponsoring dealers or underwriters. For rated corporate bonds and sovereign bonds, credit ratings studies/updates from the major rating agencies are used as references (S and P, Moody's).

Discussions are done on every major investment by Treasury en banc before it is executed. Exposure limits are tracked for every transaction; major transaction executions are supervised by a senior Treasury Officer.

Market and portfolio reviews are done at least once a week during the weekly Treasury meeting and as often as necessary should market conditions require so. Weekly and monthly reports are given to the Chief Financial Officer.

Liquidity Risk

This is managed by continuous monitoring of the weekly/monthly cash flows as well as the annual plans of the Company.

Liquidity risks are managed by restricting investments principally to publicly traded securities with a history of marketability and in dealing with only large reputable domestic and international institutions.

Maturities of each investment are spread on a weekly, monthly, and annual basis as may be required by the Company's plans. The average duration adheres to the guideline provided by the Investment Committee.

When necessary, placements are preterminated or securities liquidated; but this is largely avoided.

26. Financial Instruments

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the Company's financial statements.

	Carrying Amount		Fair Value	
	September 2007	December 2006	**September 2007**	December 2006
Financial assets:				
Cash and cash equivalents	**₱316,853,871**	₱254,915,532	**₱316,853,871**	₱254,915,532
Investments held for trading	**383,918,744**	397,057,220	**383,918,744**	397,057,220
Receivables	**73,253,599**	153,247,339	**73,253,599**	153,247,339
Available-for-sale investments	**172,986,800**	123,199,290	**172,986,800**	123,199,290
Derivative asset	**–**	15,508,980	**–**	15,508,980
Financial liabilities:				
Accounts payable and other current liabilities	**121,864,961**	135,018,484	**121,864,961**	135,018,484
Interest-bearing loans and borrowings:				
Notes payable	–	197,661,292	–	197,661,292
Long-term debt	–	32,539,741	–	32,539,741
Due to stockholders	**1,241,686**	1,241,686	**1,241,686**	1,241,686

The following methods and assumptions are used to estimate the fair values of each class of financial instruments:

Cash and Cash Equivalents, Short-term Investments, Receivables, Notes Payable, Accounts Payable and Other Current Liabilities, Due to Stockholders. The carrying amounts of cash and cash equivalents, short-term deposits, receivables, notes payable, and accounts payable and other current liabilities approximate fair values due to the relatively short-term maturities of the financial instruments.

Investments Held for Trading and Available-for-Sale Investments. Quoted market prices have been used to determine the fair values of investments held for trading and listed AFS investments. The fair values of unlisted available-for-sale investments are based on cost since the fair values are not readily determinable.

Derivative asset. The fair value of freestanding forward currency transactions is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Long-term Debt. The carrying value of floating rate loan that reprice on a quarterly basis, at the least, approximates fair value as of balance sheet date. The carrying value approximates fair value because of recent and regular repricing based on market conditions.

Details of interest and other financial income and interest and other financial charges are as follow:

Interest and Other Financial Income

	Jan. –Sept. 2007	Jan. – Sept. 2006
Interest income	**₱23,651,731**	₱12,596,104
Gain on redemption/sale of investments held for trading	**4,191,894**	8,526,913
Unrealized gains (loss) on change in fair value of investments held for trading	**905,279**	4,887,401
	₱28,748,904	₱26,010,418

Interest and Other Financial Charges

	Jan.-Sept. 2007	Jan.-Sept. 2006
Interest expense on loans and borrowings	**₱9,669,713**	₱3,485,207
Amortization of bond premium/discount	**882,803**	1,419,616
Amortization of debt issuance cost	**2,005,714**	613,739
Other financial charges	**1,150,545**	
	₱13,708,775	₱5,518,562

TRANS-ASIA OIL & ENERGY DEVELOPMENT CORPORATION
AGING OF ACCOUNTS RECEIVABLE
AS OF SEPTEMBER 30, 2007

	Total	Current	Over 30 days	Over 60 days	Over 120 days
Trade Receivables					
Guimaras Electric Cooperative, Inc.	5,576,937	5,576,937			
Various CIPP customers	59,905,000	59,905,000			
Non-Trade Receivables					
Union Aggregates Corporation	23,532,366				23,532,366
Accrued Interest Receivable	6,856,108	6,856,108			
GSEC 93 Partners	2,120,366				2,120,366
Midex	1,150,000				1,150,000
Trans-Asia Power Corp.	394,801	394,801			
Officers & Employees	105,637	105,637			
Guimaras Electric Cooperative, Inc.	53,863	53,863			
Others	361,253	361,253			
Sub-total	100,056,331	73,253,599	-	-	26,802,732
Less: Allowance for doubtful accounts	26,802,732				26,802,732
Net Receivables	73,253,599				

Accounts Receivable Description

Type of Receivables	Nature/Description	Collection Period
Union Aggregates Corporation	Royalty and advances	Provision for doubtful accounts already set-up
GSEC 93 Partners	Advances to partners	Provision for doubtful accounts already set-up

Normal Operating Cycle: Calendar Year

ANNEX B

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

Consolidated revenues increased to P 389.1 million in the third quarter of 2007 compared with P 170.4 million for the same period last year due to the following:

- Generation revenues rose to P 173.9 million from P 17.1 million brought about mainly by the revenues from CIP II Power Corporation (CIPP) which was acquired last December 28, 2006.
- Company's share in generation revenues of joint venture grew to P 192.2 million from P 124.7 million on account of higher energy sales and power rate.

In spite of the rise in total consolidated revenues in the third quarter of 2007, the Company reported unfavorable results for the following:

- Company's share in other income of joint venture dropped to P 2 million from P 6.2 million on account of lower level of placements brought about by the declaration of P 600 million cash dividend paid in July and August 2007.
- Interest and other financial income decreased to P 15.2 million from P 15.7 million due to lower market value of financial assets.
- Rental income went down to P 523 thousand from P 653 thousand as a result of the termination of lease contract with a tenant.
- Equity in net losses of associates increased to P 1 million in the third quarter of 2007 as compared with P 722 thousand in the same period last year brought about by lower net income reported by Atlas Holdings Corporation (AHC) of P 2.8 million against P 9.1 million in the third quarter of 2006.
- Other income decreased to P 6.3 million from P 6.9 million due to the cash dividends received from Phinma Property Holdings Corporation in the third quarter of 2006.

Consolidated costs and expenses rose to P 384 million in the third quarter of 2007 against P 169 million in the third quarter of 2006 due to the following:

- Cost of power generation grew to P 142 million from P 15.7 million brought about by the cost of generation from CIPP which was acquired last December 28, 2006.
- General and administrative expenses increased to P 53.9 million from P 13.5 million which was attributed to the expenses incurred by CIPP and higher professional fees.
- Rise in Company's share in cost of power generation of joint venture to P 179.7 million from P 107 million due to higher energy sales, depreciation and repairs and maintenance.
- Company's share in general and administrative expenses of joint venture went up to P 10.3 million from P 8.9 million due to higher management and professional fees in the third quarter of 2007.
- Interest and other financial charges increased to P 2.5 million from P 2 million on account of higher interest expense this quarter brought about by the P 165 million loan borrowed last December 28, 2006 to finance the acquisition of CIPP.

Despite the increase in total consolidated costs and expenses in the third quarter of 2007, the Company reported favorable results for the following:

- Due to the gain from Non-Deliverable Forward Contract entered into by the Company, foreign exchange gain of P 3.9 million was reported in the third quarter of 2007 compared with foreign exchange loss of P 22 million incurred in the same period last year.
- Gain on sale of available-for-sale investments went up to P 274 thousand from P 13 thousand.

During the third quarter of 2007, benefit from deferred income tax of P 2.6 million was reported from the depreciation and amortization of intangible assets. Company's share in income tax of joint venture went down to P 1.3 million from P 4.5 million brought about by the decreased in joint venture's taxable income in the third quarter of 2007.

As a consequence of the above-cited factors, a net income of P 6.1 million was reported in the third quarter of 2007 against P 3.5 million loss reported in the same period last year.

Consolidated revenues rose to P 1.1 billion in the three quarters of 2007 compared with P 486.5 million for the same period last year due to the following:

- Generation revenues went up to P 453.5 million from P 46.9 million brought about mainly by the revenues from CIP II Power Corporation (CIPP) which was acquired last December 28, 2006.
- Company's share in generation revenues of joint venture rose to P 615.3 million from P 376 million on account of higher energy sales and power rate.
- Interest and other financial income improved to P 28.7 million from P 26 million on account of higher level of placements and interest rates.

In spite of the rise in total consolidated revenues, the Company reported unfavorable results for the following:

- Company's share in other income of joint venture went down to P 7.6 million from P 9.7 million due to lower level of placements in the three quarters of 2007.
- Rental income slightly decreased from P 1.6 million to P 1.9 million as a result of the termination of lease contract with a tenant.
- Equity in net loss of associates went up to P 1.6 million from P 600 thousand due to lower net income reported by AHC.
- Other income declined to P 17 million from P 26.6 million as a result of lower service income from the contract entered into by the Company for the preparation of a technical study on energy in the three quarters of 2007.

Consolidated costs and expenses rose to P 1 billion in the three quarters of 2007 against P 455.9 million for the same period last year due to the following:

- Cost of power generation grew to P 381.2 million from P 43.3 million brought about by the cost of generation from CIPP which was acquired last December 28, 2006.
- General and administrative expenses rose to P 116.1 million from P 45.1 million due to expenses incurred by CIPP, professional fees and higher depreciation and amortization.
- Company's share in cost of power generation of a joint venture went up to P 476.5 million from P 324.4 million due to higher energy sales and depreciation.
- Company's share in general and administrative expenses of a joint venture increased to P 35.3 million from P 24.2 million due to higher management and professional fees in the three quarters of 2007.

- Interest and other financial charges rose to P 13.7 million from P 5.5 million on account of higher interest expense in the three quarters of 2007 brought about by the P 165 million loan borrowed last December 28, 2006 to finance the acquisition of CIPP.

In spite of the growth in total consolidated costs and expenses, the Company reported a reversal of impairment of loss on associates of P 3.4 million, gain on sale of property and equipment of P 82 thousand and gain on sale of available-for-sale investments of P 1 million. Due to the gain from Non-Deliverable Forward Contract entered into by the Company, foreign exchange loss was reduced to P 2.8 million from P 13.4 million in the three quarters of 2007.

Provision for income tax of P 279 thousand and benefit from deferred income tax of P 7.8 million were reported in the three quarters of 2007. Company's share in income tax of joint venture rose to P 38.7 million from P 13 million brought about by the increase in its taxable income in the three quarters of 2007.

As a consequence of above-cited factors, net income rose to P 69.9 million in the three quarters of 2007 compared with P 17.6 million for the same period last year.

Total consolidated assets and stockholders' equity remained constant at P 2.7 billion and P 2.2 billion, respectively as of September 30, 2007. Total consolidated liabilities went down to P 391.1 million from P 578.9 million.

Following are the material changes in the balance sheet accounts:

- Cash and cash equivalents grew to P 316.9 million from P 254.9 million. The Consolidated Statements of Cash Flows show details of material changes in cash and cash equivalents.
- Investments held for trading decreased to P 383.9 million from P 397 million. The Consolidated Statements of Cash Flows show the details of materials changes in investment held for trading.
- Fuel and spare parts rose to P 76 million from P 23.4 million mainly as a result of the inventories from the acquisition of CIPP.
- Other current assets dropped to P 26.6 million from P 110.3 million due to the liquidation of the P 80 million escrow fund and the collection of receivables from the Non-Deliverable Forward Contracts.
- Company's share in current assets of joint venture declined to P 145.4 million from P 287.9 million on account of cash dividends paid in July and August.
- Property, plant and equipment increased to P 667 million from P 645.9 million due to the rehabilitation of CIPP's equipment which was capitalized.
- Investments in associates decreased to P 195.2 million from P 205.6 million as a result of the cash dividend declared by AHC.
- Available-for-sale investments grew to P 173 million from P 123.2 million brought about by higher market value of said investments.
- Investment property decreased to P 3.6 million from P 3.8 million on account of depreciation expenses for the three quarters of 2007.
- Company's share in noncurrent assets of joint venture declined to P 391.5 million from P 428.2 million due to depreciation expenses.
- Accounts payable and other current liabilities increased to P 121.8 million from P 112 million brought about by higher accrued expenses.
- The current and noncurrent portion of interest-bearing loans and borrowings were fully settled in the third quarter of 2007.

- The rise in Company's share in current liabilities of joint venture to P 154.9 million from P 114.8 million was brought about by the increase in its trade and nontrade payables and provision for income tax.
- Locators' deposits increased to P 23.4 million from P 22.9 million due to the accrual of interest due to locators.
- Deferred tax liabilities decreased to P 72.7 million to P 80.7 million as a result of the tax effect of the amortization of intangible assets.
- Regarding the equity section, unrealized fair value gains on available-for-sale investments went up to P 77.4 million from P 27.7 million due to higher market value of the said investments.
- The growth in Company's share in unrealized fair value gains on financial assets of a joint venture of P 15.6 million from P 5 million was brought about by the higher market value of the said financial assets.
- Retained earnings increased slightly to P 1.05 billion from P 1.03 billion due to the net income earned in the three quarters of 2007.

The top five (5) key performance indicators of Trans-Asia and its majority-owned subsidiaries, as consolidated, are the following:

1. Current Ratio = $\dfrac{\text{Current Assets}}{\text{Current Liabilities}}$

   Current ratio improved to 3.68:1 as of September 30, 2007 from 2.65:1 as of December 31, 2006 mainly on account of rise in cash and cash equivalents brought about by the cash dividends received from TA Power.

2. Current Assets to Total Assets = $\dfrac{\text{Current Assets}}{\text{Total Assets}}$

   The ratio of current assets to total assets went down to 38.6% as of September 30, 2007 from 41.7% as of December 31, 2006 due to decrease in company's share in current assets of joint venture.

3. Debt/Equity Ratio = $\dfrac{\text{Total Liabilities}}{\text{Stockholders' Equity}}$

   Debt/equity ratio improved to 0.17:1 as of September 30, 2007 from 0.27:1 as of December 31, 2006 due to the full settlement of all interest-bearing loans and borrowings.

4. Rate of return on stockholders' equity = $\dfrac{\text{Net Income}}{\text{Average Stockholders' Equity}}$

   The rate of return on stockholders' equity improved to 3.2% for the three quarters ended September 30, 2007 as compared with 0.9% for the same period last year due to higher net income recorded in the three quarters of 2007.

5. Earnings per share = $\dfrac{\text{Net Income less Preferred Stock Dividend}}{\text{Average No. of Common Shares Outstanding}}$

   Earnings per share improved to P 0.063 from P 0.016 on account of higher net income reported in the three quarters ended September 30, 2007.

During the three quarters of Calendar Year 2007:

- There were no unusual items that affected assets, liabilities, equity, net income or cash flows.
- The Company had two reportable segments namely: oil exploration and power generation. The fund placements are incidental to the Company's power generation activities arising from management of the Company's funds. The exploration costs are shown as "deferred exploration costs" in the consolidated balance sheets.
- There were no events that had occurred subsequent to the balance sheet date that required adjustments to or disclosure in the financial statements.
- The Company had not been involved in any business combinations, acquisition or disposal of subsidiaries and long-term investments, restructuring and discontinuing operations.
- There were no contingent assets or contingent liabilities since the last annual balance sheet date.
- There were no material contingencies and any other events or transactions that occurred that were material to an understanding of the current interim period.
- There were no operations subject to seasonality and cyclicality.
- There were no material trends, demands, commitments, events or uncertainties known to the Company that would likely affected adversely the liquidity of the Company.
- There were no trends, events or uncertainties occurred that had or that were reasonably expected to have material favorable or unfavorable impact on net revenues/income from continuing operations.
- There were no significant elements of income or loss that did not arise from continuing operations that had material effect on the financial condition or result of operations.
- There were no events that trigger direct or contingent financial obligation that was material to the Company.
- There were no material off-balance sheet transactions, arrangements, obligations and other relationships of the Company with unconsolidated entities or other persons created during the period.

OPERATION OF THE COMPANY CONCERNING EXPLORATION

Please refer to attached Review of Operations (Annex B-1)

Annex "B-1

PROGRESS REPORT
For the Quarter, July 1, 2007 to September 30, 2007

OIL EXPLORATION

SC 6 A Northwest Palawan

The Department of Energy approved the Farm-In Agreement between SC Block A consortium members and Vitol GPC Investments (Switzerland) on September 21, 2007. Vitol commenced technical due diligence on the area.

Vitol and SC 6 Block A partners signed a Joint Operating Agreement on September 13, 2007.

Trans-Asia holds a 7.78% working interest and a 2.475% carried interest in the block.

SC 51 East Visayas

The consortium completed a 146 - sq. km. 3D seismic survey in Cebu Strait on July 5, 2007.

Execution of the programmed 261 - km 2D seismic survey in the same area was deferred, following instructions from the DOE.

Processing of the newly-acquired 3D seismic data is 47% completed as of September 30, 2007.

The consortium submitted the final report of the engineering study on the Villaba gas discovery to the DOE on August 8, 2007.

Trans-Asia owns 6.67% participating interest in SC 51.

SC 6 Block B, SC 14 Tara & SC 14 North Matinloc-Northwest Palawan

A consortium composed of an Australian and a Filipino company proposed to conduct a minimum 3-month to maximum 6-month exclusive technical evaluation of subject blocks, with an option to acquire 70% interest in each block by carrying respective consortia in costs up to first oil production.

Trans-Asia has 14.063%, 22.50% and 6.103% in SC 6 Block B, SC 14 Tara and SC 14 North Matinloc, respectively.

SC 55 Ultra Deepwater West Palawan

Processing of newly-acquired 954 - km 2D seismic data is 39% completed as of September 30, 2007.

Interpretation of newly-processed and reprocessed seismic lines (455 km, 2006 vintage; 373 km 2003 vintage and 745 km, 1980s vintage) progressed.

Trans-Asia holds 15% participating interest in SC 55.

Area 8 PECR 2006 Camotes Sea

In a letter dated August 22, 2007, the DOE informed the NorAsian Energy Philippines, Inc. – Trans-Asia consortium of the selection of its service contract proposal for priority consideration. The date of contract negotiations will be announced.

MINERALS

Jose Panganiban, Camarines Norte

The Department of Environment and Natural Resources awarded Trans-Asia the Mineral Production Sharing Agreement over a 333-hectare area on July 28, 2007.

Mines and Geosciences Bureau Regional Office No. 5 deferred registration of the MPSA following the filing of a claim by a third party of ownership of mineral rights over a portion of the MPSA area.

Batong Buhay, Pasil, Kalinga

Trans-Asia signed on July 27, 2007 a Memorandum of Agreement with Balatoc Kalinga Tribe, Inc. and Balatoc Tribe Exploration and Mining Corporation (BTEMC) granting Trans-Asia the exclusive right to conduct exploration work on the Batong Buhay property subject to the award of an Exploration Permit to BTEMC by the DENR, and the exclusive option to develop and operate said property under a successor mineral agreement with the government.

Certified Correct:

RAYMUNDO A. REYES, JR.
Geologist No. 716
PRC License Valid to Feb. 5, 2008
PTR No. 0008274
Issued on January 30, 2007
at Makati City

Signed in the presence of:

//pc

ANNEX C

Reports on SEC Form 17-C

The Company filed the following reports on SEC 17-C during the third quarter ended September 30, 2007 covered by this report:

Date of Filing	Items Reported
July 30, 2007	Trans-Asia Oil and Energy Development Corporation ("Trans-Asia") entered into a Memorandum of Agreement with Balabac Kalinga Tribe, Inc. and Balabac Tribe Exploration and Mining Corporation ("BTEMC") granting Trans-Asia the exclusive right to conduct exploration work over the Batong Buhay property in Barangay Balatoc, Pasil, Kalinga subject to an Exploration Permit to be granted to BTEMC by the Department of Environment and Natural Resources ("DENR") and the exclusive option to develop and operate said property under a successor mineral agreement with the government. The National Commission on Indigenous Peoples ("NCIP") had earlier formally recognized the Balatoc tribe's priority right to develop, extract or exploit any natural resources within their ancestral domain in Barangay Balatoc, Pasil, Kalinga, pursuant to the Indigenous Peoples Rights Act of 1997 and directed the Balatoc tribe to submit their project application to the DENR.
August 1, 2007	This refers to PSE's letter dated July 30, 2007 addressed to VP-Compliance Officer, Mr. Carlos I. Arguelles, requesting additional information on the Memorandum of Agreement entered into by Trans-Asia Oil and Energy Development Corporation, Balatoc Kalinga Tribe, Inc. and Balatoc Tribe Exploration and Mining Corporation. a. We regret to inform you that, due to certain strategic and sensitive information contained in said MOA pertaining to the mining rights of the concerned indigenous people, we are unable to provide you a copy of same. b. Trans-Asia concluded the MOA to become the private sector partner of the Balatoc tribe for the exploration, development and production of mineral resources within the Batong Buhay property. The property includes a former copper-gold mine which suspended operations in the 1980s primarily due to the then prevailing peace and order conditions in the area.

	c. Balatoc Kalinga Tribe, Inc. is the indigenous people's organization of the Balatoc tribe of Kalinga, whereas Balatoc Tribe Exploration and Mining Corporation is the corporate mining arm of BKTI. BTEMC will be 100% equity holder upon award of the Exploration Permit by the government. On the other hand, Trans-Asia will be Operator. An Operating Agreement between BTEMC and Trans-Asia will be negotiated in due course. d. The effect of the transaction on the financial condition of Trans-Asia could not be determined at this time inasmuch as the project is still in the exploration stage.
August 10, 2007	Trans-Asia Oil and Energy Development Corporation signed on August 9, 2007 a Mineral Production Sharing Agreement ("MPSA") with the Department of Environment and Natural Resources covering a 333 – hectare block in Jose Panganiban, Camarines Norte. The date of effectivity of the MPSA is July 28, 2007. Said MPSA grants Trans-Asia the exclusive right to explore, develop and produce mineral deposits within the property, which includes the former mine site of Philippine Iron Mines, Inc. PIM produced iron and copper from the mine until the early 1970s.
August 21, 2007	At the regular meeting of the Board of directors if Trans-Asia Oil and Energy Development Corporation held August 21, 2007, the Board approved the appointment of Mr. Frederick C. Lopez as Vice President for Materials Management.
September 28, 2007	The Department of Energy has approved the Farm-in Agreement dated March 7, 2007 between members of the SC 6 Block A consortium and Vitol GPC Investments S.A. of Switzerland. Under said Farm-in Agreement, Vitol will undertake at its sole cost and risk geological, geophysical and engineering studies in the block over a one-year period. At the end of the study period, Vitol will decide whether it will acquire seventy percent (70%) participating interest in the block, or withdraw. If Vitol decides to proceed it will carry the original SC 6 Block A partners in the cost of drilling of one (1) well. Trans-Asia currently owns 7.78% participating interest in SC 6 Block A.