



SEMIRARA MINING CORPORATION
(formerly known as Semirara Coal Corporation)

May 15, 2006

THE PHILIPPINE STOCK EXCHANGE, INC.
4th Floor, Philippine Stock Exchange Center
Exchange Road, Ortigas Center, Pasig City

Attn.: **Ms. JURISITA M. QUINTOS**
Senior Vice-President

Re: SEC Form 17-Q, for the Quarter Ending March 31, 2006

Gentlemen:

In compliance with the Revised Disclosure Rules of the Philippine Stock Exchange, Inc., we are furnishing you copy of the Corporation's SEC Form 17-Q for the quarter ending March 31, 2006.

We hope that you find the foregoing in order.

Thank you.

Very truly yours,

(sgd.) **JOHN R. SADULLO**
Corporate Information Officer

SEC Number : 91447

File Number : _____

SEMIRARA MINING CORPORATION

Company's Full Name

2nd Floor, DMCI Plaza Building
2281 Chino Roces Avenue, Makati City
Company's Address

888-3550 to 888-3565

Telephone Number

For the Quarter Ending March 31, 2006
Period ended

QUARTERLY REPORT FORM 17-Q

Form Type

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 **March 31, 2006**
2. Commission Identification Number **91447**
3. BIR Tax Identification No. **410-000-190-324**
4. Exact Name of issuer as specified in its charter:

SEMI RARA MINING CORPORATION

5. Province, Country or other jurisdiction of incorporation of organization:
PHILIPPINES
6. Industry Classification Code: _____(SEC use only)
7. Address of issuer's principal office Postal Code

**2nd Floor, DMCI Plaza Building 1231
2281 Chino Roces Avenue, Makati City**

8. Registrants telephone Number, including area code:
+63 2 8883550 to +63 2 8883565

9. Former Address : 7th Floor, Quad Alpha Centrum Bldg.,
125 Pioneer St., Mandaluyong City

Telephone Nos. : 631-8001 to 6318010
Former name : Semirara Coal Corporation

No former fiscal year of the registrant.

10. Securities registered pursuant to Section 4 of the RSA.

Title of each class	Number of shares of common Stock Outstanding
<u>Common Stock, P1.00 par value</u>	<u>277,572,800 shares</u>

11. 296,875,000 shares are listed in the Philippine Stock Exchange

12. The registrant has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11 (a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months.

Has been subject for such filing requirements for the past 90 days

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SEMI RARA MINING CORPORATION

Balance Sheets

As of March 31, 2006

	Unaudited March 31, 2006	Audited December 31, 2005
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	1,587,103,036	1,331,641,854
Receivables – net	992,431,051	1,171,854,780
Inventories – net	1,501,794,129	1,366,127,761
Other current assets	73,083,860	84,564,749
Total Current Assets	4,154,412,076	3,954,189,144
NONCURRENT ASSETS		
Property, Plant and Equipment – net	3,114,523,781	2,926,686,987
Other noncurrent assets – net	26,403,956	47,051,433
Total Noncurrent Assets	3,140,927,737	2,973,738,420
	7,295,339,813	6,927,927,564
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts and other payables	382,553,399	388,737,244
Current portion of long term debt	623,400,951	402,742,462
Income Taxes Payable	339,104,344	324,107,390
Customer's Deposit	31,012,680	50,052,467
Total Current Liabilities	1,376,071,374	1,165,639,563
NONCURRENT LIABILITIES		
Long Term Debt – net of current portion	1,487,715,319	1,456,431,223
Pension Liability	43,082,984	42,332,361
Asset Retirement Obligation	10,000,000	10,000,000
Deferred Tax Liability	61,828,094	61,828,094
Total Noncurrent Liabilities	1,602,626,397	1,570,591,678
TOTAL LIABILITIES	2,978,697,771	2,736,231,241
STOCKHOLDERS' EQUITY		
Capital Stock – common stock	296,875,000	296,875,000
Additional Paid-In Capital	1,576,796,271	1,576,796,271
Retained Earnings	2,971,862,031	2,701,658,512
	4,845,533,302	4,575,329,783
Treasury shares, at cost	528,891,260	383,633,460
TOTAL STOCKHOLDERS' EQUITY	4,316,642,042	4,191,696,323
	7,295,339,813	6,927,927,564

SEMI RARA MINING CORPORATION

Income Statement

For the period ending March 31, 2006 and 2005

For the quarter ending March 31, 2006 and 2005

	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	For the period		For the quarter	
	2006	2005	2006	2005
Revenue:				
Sales	1,384,813,916	1,001,397,067	1,384,813,916	1,001,397,067
Cost of Sales:				
Cost of Coal Sold	930,979,021	574,361,287	930,979,021	574,361,287
Shipping, Loading and Hauling Cost	27,702,263	29,694,843	27,702,263	29,694,843
	958,681,284	604,056,130	958,681,284	604,056,130
Gross Profit	426,132,632	397,340,937	426,132,632	397,340,937
Operating Expenses:				
Government Share	40,686,832	29,564,853	40,686,832	29,564,853
General and Adm. Expenses	17,590,309	30,773,216	17,590,309	30,773,216
	58,277,141	60,338,069	58,277,141	60,338,069
INCOME FROM OPERATIONS	367,855,491	337,002,868	367,855,491	337,002,868
Other (Income)Expense				
Other (Income)Charges	(17,583,906)	(761,802)	(17,583,906)	(761,802)
Interest and Financing Charges	59,733,133	5,667,548	59,733,133	5,667,548
Foreign Exchange(Gain)Loss	(52,558,956)	(14,837,624)	(52,558,956)	(14,837,624)
	(10,409,729)	(9,931,878)	(10,409,729)	(9,931,878)
NET INCOME BEFORE TAX	378,265,220	346,934,746	378,265,220	346,934,746
PROVISION FOR INCOME TAX	108,061,703	7,946,819	108,061,703	7,946,819
NET INCOME AFTER TAX	270,203,517	338,987,927	270,203,517	338,987,927
EARNINGS PER SHARE (EPS)	0.971	1.217	0.971	1.217

Basis of EPS:

EPS = NET INCOME(LOSS) FOR THE PERIOD/NO. OF OUTSTANDING SHARES

Wherein:

Wtd Average Outstanding Shares = 278,645,833 (as of March 31, 2005)

Wtd Average Outstanding Shares = 278,277,359 (as of March 31, 2006)

SEMIRARA MINING CORPORATION

Statement of Changes in Stockholders' Equity

For the periods ended March 31, 2006 and 2005

(UNAUDITED)

	2006	2005
CAPITAL STOCK		
Common stock - P1 par value		
Authorized- 1,000,000,000 shares in 2006 and 2005		
Issued and outstanding - 296,875,000 in 2005 and		
250,000,000 shares in 2004		
Balance at beginning of the quarter	296,875,000	250,000,000
Additional issuance of common stock	-	46,875,000
Balance at end of the quarter	296,875,000	296,875,000
ADDITIONAL PAID-IN CAPITAL, beginning of the quarter	1,576,796,271	1,277,836
Add: Premium on subscribed capital stock	-	1,575,518,435
Balance at the end of the quarter	1,576,796,271	1,576,796,271
RETAINED EARNINGS		
Appropriated		
Balance at beginning of the quarter	1,000,000,000	-
Appropriation during the quarter		1,000,000,000
Balance at end of the quarter	1,000,000,000	1,000,000,000
Unappropriated		
Balance at beginning of the quarter, as previously stated	1,701,658,512	1,092,888,006
Effect of adoption of new accounting standards	-	16,427,685
Balance at beginning of the quarter as restated	1,701,658,512	1,109,315,691
Net income during the quarter	270,203,519	338,987,927
Appropriation for future capital expenditures		(1,000,000,000)
Balance at end of the quarter	1,971,862,031	448,303,618
	2,971,862,031	1,448,303,618
COST OF SHARES HELD IN TREASURY	(528,891,260)	(383,633,460)
TOTAL STOCKHOLDERS' EQUITY	4,316,642,042	2,938,341,429

SEMIRARA MINING CORPORATION

Statement of Cashflows

For the period ended March 31, 2006 and 2005

	(Unaudited) 2006	(Unaudited) 2005
CASHFLOWS FROM OPERATING ACTIVITIES		
Net Income before tax	378,265,222	346,934,746
Prior Period Adjustment	-	-
Adjustments to reconcile net income to net cash Provided by operating activities:		
Depreciation and depletion and amortization	256,425,102	257,085,982
Interest and Financing Charges	59,733,133	5,667,548
Loss on disposal/retirement/write-off of assets	-	-
Provisions for inventory losses	-	-
Pension liability provision (net of amortization)	750,624	2,233,943
Net Unrealized Foreign Exchange Losses	(52,558,956)	-
Provision for income taxes	(108,061,703)	(7,946,819)
Interest Income	(17,558,166)	-
Operating Income before working capital changes	516,995,256	603,975,400
Changes in operating assets and liabilities		
Decrease(increase) in:		
Receivables	179,423,729	142,525,860
Inventories	(135,666,368)	(289,284,133)
Other current assets	11,480,889	(26,062,537)
Increase (decrease) in:		
Accounts payable and accrued expenses	134,771,315	(15,102,658)
Customer's Deposit	(19,039,787)	(52,839,940)
Net cash generated from operations	687,965,034	363,211,993
Interest Received	17,558,166	-
Interest Paid	(28,398,900)	(75,548,778)
Income Tax Paid	-	-
Net cash provided by operating activities	677,124,300	287,663,215
CASHFLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(439,604,963)	(583,862,652)
Decrease(Increase) in other non-current assets	20,647,477	(8,034,402)
Net cash used in investing activities	(418,957,486)	(591,897,054)
CASHFLOWS FROM FINANCING ACTIVITIES		
Availment of long-term debt	266,444,790	450,249,927
Proceeds from additional subscription to capital stock	-	1,622,393,436
Repurchased shares of stocks (treasury shares)	(145,257,800)	-
Repayment of long-term debt	(123,892,622)	(611,211,933)
(Increase)Decrease in payable to related parties	-	(104,493,275)
Net cash used in financing activities	(2,705,632)	1,356,938,155
NET INCREASE(DECREASE) IN CASH	255,461,182	1,052,704,315
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,331,641,854	34,568,979
CASH AND CASH EQUIVALENTS AT END OF YEAR	1,587,103,036	1,087,273,294

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The principal accounting policies adopted in preparing the financial statements of the Company are as follows:

Basis of Financial Statements Preparation

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the Philippines (Philippine GAAP) using the historical cost basis except for certain property, plant and equipment which are carried at adjusted cost.

Use of Estimates

The preparation of financial statements in conformity with Philippine GAAP requires the Company to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any change in estimates will be recorded in the financial statements as they become reasonably determinable.

The same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements.

2. First Time Adoption of Philippine Financial Reporting Standards (PFRS)

The Company applied PFRS 1, *First Time Adoption of PFRS*, in preparing the financial statements, with January 1, 2003 as the date of transition. The accompanying financial statements are prepared in accordance with PFRS.

As part of the transition to PFRS, the Company adopted new and revised accounting standards that are based on revised International Accounting Standards (IAS) and new International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The Accounting Standards Council (ASC) has renamed the standards that it has issued to correspond better to the issuances of IASB. PAS corresponds to adopted IAS, while PFRS corresponds to adopted IFRS. Previously, accounting standards issued by the ASC were designated as Statements of Financial Accounting Standards (SFAS).

The transition to PFRS resulted in certain changes to the Company's previous accounting policies. The new and revised accounting standards adopted by the Company beginning January 1, 2005 are as follows:

New Accounting Standards

- PFRS 1, *First Time Adoption of PFRS*, requires an entity to comply with each PFRS effective at the reporting date for its first PFRS financial statements. The Company has adopted PFRS for these financial statements as of and for the year ended December 31, 2005. The Company also restated the comparative amounts for the years ended December 31, 2004 and 2003, except for the following courses of action that have been taken as allowed under PFRS 1:

Post Employment Benefits - Defined Benefit Scheme

As allowed under PFRS 1, the Company made use of the exemption not to recognize, using the "corridor approach", the cumulative actuarial gains and losses that resulted from the measurement of such scheme in accordance with PAS 19, *Employee Benefits*, at the date of transition. Instead, the Company has elected to recognize actuarial gains and losses at the date of transition to PFRS.

Financial Instruments

The Company has made use of the exemption available under PFRS 1, and as allowed by the Philippine Securities and Exchange Commission (SEC), to apply PAS 32, *Financial Instruments: Disclosure and Presentation* and PAS 39, *Financial Instruments: Recognition and Measurement*, to financial instruments outstanding as of January 1, 2005. The cumulative effect of adopting PAS 39 was not material. The January 1, 2005 retained earnings was not restated. The accounting policies applied to financial instruments beginning and prior to January 1, 2005 are disclosed separately.

Property, Plant and Equipment - Fair Value as Deemed Cost

The Company has made use of the optional exemption available under PFRS 1 to measure at cost items of property, plant and equipment previously stated at fair values, and used those fair values as their deemed cost at the date of transition to PFRS.

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, specifies the accounting for assets held for sale and the presentation and disclosure requirements for discontinued operations. Under this standard, qualifying noncurrent assets or disposal groups held for sale shall be carried at fair value less cost to sell if this amount is lower than its carrying amount less accumulated impairment losses. The Company shall not depreciate (or amortize) noncurrent assets (or disposal groups) while classified as held for sale. Any gain or loss on the remeasurement of a noncurrent asset (or disposal group) classified as held for sale shall be included in the profit or loss from continuing operations.

- PAS 19, *Employee Benefits*, prescribes the accounting and disclosures by employers for employee benefits (including short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits). For post-employment benefits classified as defined benefit plans, the standard requires: (a) the use of the projected unit credit method to measure an entity's obligations and costs; (b) an entity to determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity; and (c) the recognition of a specific portion of net cumulative actuarial gains and losses when the net cumulative amount exceeds 10% of the greater of the present value of the defined benefit obligation or 10% of the fair value of the plan assets, but also permits the immediate recognition of these actuarial gains and losses.
- PAS 32, *Financial Instruments: Disclosure and Presentation*, covers the disclosure and presentation of all financial instruments. The adoption of this standard resulted to more comprehensive disclosures about the Company's financial instruments, whether recognized or unrecognized in the financial statements. New disclosure requirements include terms and conditions of financial instruments used by the entity, types of risks associated with both recognized and unrecognized financial instruments (market risk, foreign exchange risk, price risk, credit risk, liquidity risk and cash flow risk), fair value information of both recognized and unrecognized financial assets and liabilities and the entity's financial risk management policies and objectives. The standard also requires financial instruments to be classified as debt or equity in accordance with their substance and not their legal form.

Also, under PAS 32, a financial asset and a financial liability shall be offset and the net amount presented in the balance sheet when, and only when, an entity: (a) currently has a net legally enforceable right to offset the recognized amounts; and (b) intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

- PAS 39, *Financial Instruments: Recognition and Measurement*, establishes the accounting and reporting standards for the recognition and measurement of the Company's financial assets and liabilities. PAS 39 requires a financial asset or a financial liability to be recognized initially at cost including related transaction costs. Subsequent to initial recognition, an entity should measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are measured at amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at amortized cost, except for liabilities designated as fair value through profit and loss (FVPL) and derivatives, which are subsequently measured at fair value.

PAS 39 also establishes the accounting and reporting standards requiring that every derivative instrument (including certain derivatives embedded in other contracts) be recorded in the balance sheets as either an asset or liability measured at its fair value.

PAS 39 requires that changes in the derivative's fair value be recognized currently in the statements of income unless specific hedges allow a derivative's gains and losses to offset related results on the hedged item in the statements of income, or deferred in the stockholders' equity as "Cumulative translation adjustment". PAS 39 requires that an entity must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment.

Derivatives that are not designated and do not qualify as hedges are adjusted to fair value through income.

As allowed by the SEC, the adoption of PAS 39 did not result in the restatement of prior years financial statements. The adoption of this standard did not have a material effect on the Company's financial statements.

Revised Accounting Standards

The adoption of the following revised accounting standards did not have a material effect on the Company's financial statements. Additional disclosures required by the revised accounting standards were included in the Company's financial statements.

- PAS 1, *Presentation of Financial Statements*, (a) provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; (b) provides the base criteria for classifying liabilities as current or noncurrent; (c) prohibits the presentation of income from operating activities and extraordinary items as separate line items in the statements of income; and (d) specifies the disclosures about key sources of estimation, uncertainty and judgments management has made in the process of applying the Company's accounting policies (Note 4).
- PAS 2, *Inventories*, reduces the alternatives for measurement of inventories by disallowing the use of the last in, first out (LIFO) formula. Moreover, the revised accounting standard does not permit foreign exchange differences arising directly on the recent acquisition of inventories invoiced in a foreign currency to be included in the cost of inventories.
- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, (a) removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors; (b) updates the previous hierarchy of guidance to which management refers and whose applicability it considers when selecting accounting policies in the absence of standards and interpretations that specifically apply; (c) defines material omissions or misstatements; and (d) describes how to apply the concept of materiality when applying accounting policies and correcting errors.
- PAS 10, *Events after the Balance Sheet Date*, provides a limited clarification of the accounting for dividends declared after the balance sheet date.

- PAS 16, *Property, Plant and Equipment*, (a) provides additional guidance and clarification on the recognition and measurement of items of property, plant and equipment; (b) requires the capitalization of the costs of asset dismantling, removal or restoration as a result of either acquiring or having used the asset for purposes other than to produce inventories during the period; and (c) requires measurement of an item of property, plant and equipment acquired in exchange for a nonmonetary asset or a combination of monetary and nonmonetary assets at fair value, unless the exchange transaction lacks commercial substance. Under the previous version of the standard, an entity measured such an acquired asset at fair value unless the exchanged assets were similar.

PAS 16 also provides additional guidance and clarity on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

- PAS 17, *Leases*, provides a limited revision to clarify on the classification of a lease of land and buildings and prohibits expensing of initial direct costs in the financial statements of lessors.
- PAS 24, *Related Party Disclosures*, provides additional guidance and clarity in the scope of the standard and the definitions and disclosures for related parties. It also requires the disclosure of the total compensation of key management personnel by benefit type (Note 15).
- PAS 33, *Earnings per Share*, prescribes principles for the determination and presentation of earnings per share for entities with publicly traded shares, entities in the process of issuing ordinary shares to the public and any entities that calculate and disclose earnings per share. This standard also provides additional guidance in computing earnings per share including, among others, the effects of mandatorily convertible instruments and contingently issuable shares.
- PAS 36, *Impairment of Assets*, establishes frequency of impairment testing for certain intangibles and provides additional guidance on the measurement of an asset's value in use.
- PAS 38, *Intangible Assets*, provides additional clarification on the definition and recognition of certain intangibles. Moreover, this revised accounting standard requires that an intangible asset with an indefinite useful life should not be amortized but will be tested for impairment by comparing its recoverable amount with its carrying amount annually and whenever there is an indication that the intangible asset may be impaired.

Emerging Issues Task Force (EITF) Issue

Starting December 16, 2005, the Company adopted EITF Issue No. 04-6, *Accounting for Stripping Costs Incurred during Production in the Mining Industry*. EITF Issue No. 04-6 prescribes the accounting for the production-related stripping costs incurred for the removal of overburden and waste materials in order that the underlying mineral deposit may be extracted. Under EITF Issue No. 04-6, the inventories consisting of extracted minerals and stock pile shall be allocated a portion of the production-related stripping costs. Minerals exposed by stripping activities but not extracted from the mine pit do not constitute as inventories and therefore shall not be allocated any production related stripping costs. Accordingly, all other production-related stripping costs incurred are recognized as a component of the cost of sales in the same period. Previously, the production-related stripping costs are deferred based on the difference between the actual stripping ratio (ratio of waste moved to coal mined) and the estimated stripping ratio established in accordance with the survey conducted on the mine.

PFRS Effective in 2006 and 2007

- Amendments to PAS 19, *Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures*. The revised disclosures from the amendments will be included in the Company's financial statements when the amendments are adopted in 2006.
- PFRS 6, *Exploration for and Evaluation of Mineral Resources*. This standard requires a company to develop its own accounting policy for the recognition and measurement of exploration and evaluation assets without specifically considering the requirements of paragraphs 11 and 12 of PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. Thus, a company adopting PFRS 6 may continue to use the accounting policies applied immediately before adopting the PFRS. This includes continuing to use recognition and measurement practices that are part of those accounting policies. The standard also specifies the circumstances in which companies recognized exploration and evaluation assets should test such assets for impairment in accordance with PAS 36, *Impairment of Assets*. The standard also requires companies engaged in the exploration for and evaluation of mineral resources to disclose information about exploration and evaluation assets, the level at which such assets are assessed for impairment and any impairment losses recognized. The Company will adopt PFRS 6 on January 1, 2006. The adoption of this standard will not have a material impact on the Company's financial statements as the Company is not presently engaged in any exploration for and evaluation of mineral resources.
- PFRS 7, *Financial Instruments - Disclosures*. The revised disclosures on financial instruments provided by this standard will be included in the Company's financial statements when the standard is adopted starting January 1, 2007.

3. **Summary of Significant Accounting Policies**

Basis of Financial Statement Preparation

The accompanying financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the Philippines (Philippine GAAP), as set forth in PFRS.

The financial statements have been prepared using the historical cost basis. The preparation of the financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

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 changes in value and are free of any encumbrances.

Financial Instruments

Accounting Policies Effective January 1, 2005

The Company classifies its financial assets in the following categories: (1) fair value through profit or loss (FVPL); (2) available-for-sale (AFS); (3) held-to-maturity investments; and (4) loans and receivables. The classification of the financial assets depends on the purpose for which the financial assets were acquired. The Company classifies financial liabilities in the following categories: (1) FVPL; and (2) other liabilities at amortized cost. Management determines the classification of its financial instruments at initial recognition and re-evaluates this designation at every reporting date.

Financial instruments are recognized initially at cost, which is the fair value of the consideration given (in the case of an asset) or received (in the case of a liability). The fair values of the consideration given or received are determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts discounted using the prevailing market rates of interest for similar instruments with similar maturities. Investments are initially recognized at fair value plus transactions costs that are directly attributable to their acquisition in the case of all financial assets not carried at FVPL.

Financial instruments are recognized in the balance sheets when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are derecognized either when the Company has transferred substantially all the risks and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards of ownership but it no longer has control over the financial assets. Financial liabilities are derecognized when the obligation is extinguished.

The subsequent measurement bases for financial instruments depend on its classification.

Financial instruments that are classified as held-to-maturity investments, loans and receivables, and financial liabilities other than liabilities measured at FVPL are measured at amortized cost using the effective interest rate method. Investments are classified as held-to-maturity investments when these are nonderivatives with fixed or determinable payments and fixed maturity and that the Company has positive intention and ability to hold such investments to maturity. Investments to be held for an undefined period are not included in this classification. Amortized cost is calculated by taking into account any discount, premium and transaction costs on acquisition over the years to maturity. Amortization of discounts, premiums and transaction costs are taken directly to the statements of income. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

Changes in the fair value of financial assets and liabilities measured at fair value of: (a) all derivatives (except for those eligible for hedge accounting); (b) other items that are held for trading; and (c) any item designated as held "at FVPL" at origination, are taken directly to the statements of income. Changes in the fair value of investments classified as AFS securities are recognized in equity, except for the foreign exchange fluctuations on AFS debt securities and the interest component which is taken directly to the statements of income based on the asset's effective yield. Gains or losses on AFS securities are recognized in equity until the investment is sold, collected or otherwise disposed of, 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 statements of income.

Financial assets and liabilities include financial instruments, which may be a primary instrument, such as receivables, payables and equity securities, or a derivative instrument, such as financial options, forwards and swaps.

Derivative financial instruments are recognized in the balance sheets at costs and subsequently re-measured to their fair values. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedge of an identified risk and qualifies for hedge accounting treatment. The objective of hedge accounting is to match the impact of the hedged item and the hedging instrument in the statements of income.

To qualify for hedge accounting, the hedging relationship must comply with strict requirements such as the designation of the derivative of an identified risk exposure, hedge documentation, probability of occurrence of the forecasted transaction in a cash flow hedge, assessment and measurement of hedge effectiveness, and reliability of the measurement bases of the derivative instruments.

Accounting Policies Prior to January 1, 2005

Financial instruments are initially recorded at cost at the time of acquisitions, which are generally measured at the purchase price of the instruments, or the fair values of the assets given up or the security received in the exchange and other costs directly related to the acquisition. Any premiums or discounts included in the carrying amounts of the instruments are amortized on a straight-line basis over the term of the instruments.

Receivables

Receivables are recognized and carried at billable amounts less any allowance for uncollectible accounts. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. The provision is recognized in the statements of income.

Inventories

Inventories are valued at the lower of cost or net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale for coal inventory or replacement cost for spare parts and supplies. Cost is determined using the weighted average production cost method for coal inventory and the moving average method for spare parts and supplies.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation, depletion and amortization and any impairment in value. The cost of an item of property, plant and equipment includes its purchase price, including import duties, taxes and any cost attributable in bringing the asset to its intended location and working condition. Costs also include asset retirement obligations (ARO).

The initial cost of property, plant and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to operations in the year when the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, and the costs of these items can be measured reliably, the expenditures are capitalized as an additional cost of the property, plant and equipment. All other repairs and maintenance expenses are charged to current operations as incurred.

The Company availed of the optional exemption available under PFRS 1, and has chosen to measure at cost items of property, plant and equipment, which were previously stated at fair values, and used those fair values as their deemed cost at the date of transition to PFRS.

Depreciation, depletion and amortization of assets commences once the assets are put into operational use.

Depreciation and amortization of property, plant and equipment are computed on a straight-line basis over the following estimated useful lives of the respective assets:

Conventional and other mining equipment	2 to 3 years
Continuous mining equipment	3 to 13 years
Power plants and buildings	17 years
Roads and bridges	17 years

Depletion of mining rights is calculated based on the units-of-production method.

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

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

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

ARO

The Company is legally required to fulfill certain obligations as required under its Environmental Compliance Certificate (ECC) issued by Department of Environment and Natural Resources (DENR). The Company recognizes the liability for these obligations and these are shown as a separate account in the balance sheets. The ARO is expensed outright.

Mine Exploration and Development Costs

Expenditures for mine exploration and development activities on mining properties are deferred as incurred. These deferred costs are charged to expense when the results of the exploration activities are determined to be negative or not commercially viable. When exploration results are positive or commercially viable, the exploration expenses and subsequent development expenses are capitalized and presented under the *"Other noncurrent assets"* account in the balance sheets. Upon the start of commercial production, such capitalized costs are accordingly, transferred to the *"Property, plant and equipment"* account and amortized using the units-of-production method.

Stripping Costs

As discussed in Note 2, starting December 16, 2005, the Company adopted EITF Issue No. 04-6, *Accounting for Stripping Costs Incurred during Production in the Mining Industry*. Production-related stripping costs incurred for the removal of overburden and waste materials in order that the underlying mineral deposit may be extracted is allocated to the minerals extracted. Unextracted minerals do not constitute inventories and were not allocated any production-related stripping costs. All other production-related stripping costs incurred are recognized as a component of the costs of sales in the same period. Previously, the production-related stripping costs are deferred based on the difference between the actual stripping ratio (i.e., ratio of waste moved to coal mined) and the estimated stripping ratio established in accordance with the survey conducted on the mine. The deferred production-related stripping costs are amortized using the units-of-production method.

Intangible Assets

Intangible assets acquired separately are capitalized at cost and these are shown as part of the other noncurrent assets account in the balance sheet. Subsequently, intangible assets are measured at cost. The useful lives of intangible assets with finite lives are assessed at the individual asset level. An intangible asset with finite life is amortized over its useful life. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier where an indicator of impairment exists.

Costs incurred to acquire computer software (not an integral part of its related hardware) and bring it to its intended use are capitalized as part of intangible assets. These costs are amortized over their estimated useful lives ranging from 3 to 5 years. Costs directly associated with the development of identifiable computer software that generate expected future benefits to the Company are recognized as intangible assets. All other costs of developing and maintaining computer software programs are recognized as expenses as incurred.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statements of income when the asset is derecognized.

Impairment of Assets

Impairment of Financial Assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statements of income.

Impairment is determined as follows:

- (a) for assets carried at amortized cost, such as receivables from customers, impairment is determined based on estimated cash flows discounted at the original effective interest rate.
- (b) for assets carried at fair value, impairment is the difference between cost and fair value.
- (c) for assets carried at cost, impairment is determined based on the present value of the future cash flows discounted at the current market rate of return for a similar financial asset.

In addition, a provision is made to cover the impairment for specific groups of assets where there is a measurable decrease in its estimated future cash flows.

Impairment of Nonmonetary Assets

The carrying values of assets (i.e., property, plant and equipment mine exploration and development cost and intangible assets) are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is charged against income in the year in which it arises.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset. However, the amount should not be higher than the carrying amount that would have been determined (net of any accumulated depreciation, depletion and amortization) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations.

Short-term and Long-term Debts

Effective January 1, 2005, all loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, short-term and long-term debts are subsequently measured at amortized cost using the effective interest rate method. The cumulative effect of change is not material.

Gains and losses are recognized in the statements of income when the liabilities are derecognized or impaired, as well as through the amortization process.

Revenue Recognition

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

Sale of Coal

Revenue from coal sales is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Interest

Interest income is recognized as it accrues, taking into account the effective yield of the assets.

Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to the ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property, or if lower, at the present value of the minimum lease payments. Lease payment is apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income for the year.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Depreciation and amortization are computed using the straight-line method.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as the lease income. Operating lease payments are recognized as an expense in the statements of income on a straight-line basis over the lease term.

Pension Costs

Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with the option to accelerate when significant changes to underlying assumptions occur.

Pension cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses, past service cost and the effect of any curtailment or settlement.

The net pension liability recognized by the Company in respect of the defined benefit pension plan is the lower of: (a) the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs that shall be recognized in later periods; or (b) the total of any 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 future contributions to the plan. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating the terms of the related pension liability.

In accordance with PFRS 1, the effect of change in accounting policy includes all cumulative actuarial gains and losses at the date of transition to PFRS. In subsequent periods after the transition to PFRS, portion of actuarial gains and losses is recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of the 10% of the present value of defined benefit obligation or 10% of the fair value of the plan assets. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plans.

Foreign Exchange Transactions

The functional and presentation currency of the Company is the Philippine Peso. Transactions denominated in foreign currencies are initially recorded in Philippine Peso based on the exchange rates prevailing at the transaction dates. Foreign currency denominated monetary assets and liabilities are translated to Philippine Pesos at exchange rate prevailing at the balance sheet date. Foreign exchange differentials between rate at transaction date, and rate at settlement date or balance sheet date of foreign currency denominated monetary assets or liabilities are credited to or charged against income for the year.

Provisions

A provision is recognized only when the Company has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the 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.

Income Taxes

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

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

The carrying amount of deferred income tax asset 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.

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to the period 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.

Earnings Per Share (EPS)

Basic EPS is computed by dividing earnings applicable to common stock by the weighted average number of common shares outstanding after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the year. Diluted earnings per share amount is computed assuming that the convertible preferred shares are converted to common shares.

Contingencies

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

Subsequent Events

Post year-end events up to the date of the auditors' report that provides additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Any post year-end event that is not an adjusting event is disclosed when material to the financial statements.

4. Critical Accounting Estimates and Judgments

The preparation of the accompanying financial statements in conformity with Philippine GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

PAS 1, *Presentation of Financial Statements*, which was adopted by the Company effective January 1, 2005, requires disclosures about key sources of estimation, uncertainty and judgments management has made in the process of applying accounting policies. The following presents a summary of these significant estimates and judgments:

Management's Use of Estimates

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

Estimating allowance for doubtful accounts

The Company maintains an allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the customer, the customer's payment behavior and known market factors. The Company reviews the age and status of receivables and identifies accounts that are to be provided with allowance. This is performed regularly.

The amount and timing of recorded doubtful accounts for any period would differ if the Company made different judgments or utilized different estimates. An increase in the allowance for doubtful accounts would increase the recorded operating expenses and decrease the current assets.

Estimating allowance for write down in spare parts and supplies

The Company estimates its allowance for inventory write down in spare parts and supplies based on periodic specific identification. The Company provides 100% allowance for write down on items that are specifically identified as obsolete.

The amount and timing of recorded inventory write down for any period would differ if the Company made different judgments or utilized different estimates. An increase in the allowance for inventory write down would increase the Company's recorded operating expenses and decrease its current assets.

Estimating ARO

The Company is legally required to fulfill certain obligations under its DENR issued ECC when it abandons depleted mine pits. These costs are accrued based on in-house estimate, which incorporates estimates of the amount of obligations and interest rates, if appropriate. The Company recognizes the fair value of the liability for these obligations and these are shown as a separate account in the balance sheets. The ARO is expensed outright. Assumptions used to compute the ARO are reviewed and updated annually.

The amount and timing of the recorded obligations for any period would differ if different judgments were made or different estimates were utilized. An increase in ARO would increase the recorded operating expenses and increase noncurrent liabilities.

Estimating useful lives of property, plant and equipment and intangible assets

The Company estimated the useful lives of its property, plant and equipment and intangible assets based on the period over which the assets are expected to be available for use. The Company reviews annually the estimated useful lives of property, plant and equipment and intangible assets based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

A reduction in the estimated useful lives of property, plant and equipment and intangible assets would increase the recorded depreciation, depletion and amortization expense and decrease noncurrent assets.

Estimating provisions for asset impairment losses

The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that can materially affect the financial statements.

Deferred income tax assets

The Company reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Company will generate sufficient taxable profit to allow all or part of its deferred income tax assets to be utilized.

As of December 31, 2005 and 2004, the Company has net deferred income tax liability of ₱61.83 million and ₱7.73 million, respectively.

Estimating pension and other employee benefits

The determination of the obligation and cost of pension and other employee benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. In accordance with Philippine GAAP, actual results that differ from the Company's assumptions are accumulated and amortized over future periods and, therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligations.

The Company also estimates other employee benefits obligation and expense, including cost of paid leaves based on historical leave availments of employees, subject to the Company's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the year.

Financial assets and liabilities

The Company carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), amount of changes in fair value would differ if the Company utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect profit and loss and equity.

Judgments

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

Revenue recognition

The Company's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of the revenues and receivables.

The Company's sales arrangement with its customers includes reductions of invoice price to take into consideration charges for penalties and bonuses. These estimates are based on actual final coal quality analysis on delivered coal using ASTM standards.

There is no assurance that the use of estimates may not result in material adjustments in future periods.

Contingencies

The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Company's defense in these matters and is based upon an analysis of potential results. The Company currently does not believe that these proceedings will have a material adverse affect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2006 FIRST QUARTER OPERATION

Total material excavation hit a remarkable level of 11,500,530 bank cubic meters (bcm) during the first quarter of 2006, registering a 75% increase over first quarter 2005 volume of 6,581,130 bcm. Accordingly, run-of-mine (ROM) coal produced posted an increase from first quarter 2005 production of 584,436 metric tons (MTs) to 625,165 MTs in the current period, of which 485,365 MTs were clean coal, while 139,800 MTs were washable coal. The disproportionate increase in coal production is due to higher strip ratio of 17.68:1 as against last year's same period ratio of 10.55:1. This is a consequence of advance waste stripping activities which is made possible by the infusion of additional capacities towards the latter part of 2005 until the current quarter. Likewise, the employment of the newly installed in-pit crusher system shortens the hauling distance to dumping area, reducing hauling cycle time thus, increasing hauling movement three times faster.

Although, a huge portion of coal block was already exposed, coal extraction was restrained in consideration of the slower pace of shipment. Coal production was managed, such that inventory is being held in the pit, instead of at the stockpile to preserve coal quality. Inventory level is being maintained at 45-60 days sales.

The rehabilitation of the coal washing plant which is almost complete has already demonstrated an improvement of coal recovery from 60% last year to 73% amounting to 99,238 MTs in the current period. However, the interruptions caused by the rehabilitation activities brought down coal feed volume to 44% from the first quarter of 2005 volume of 197,240 MTs.

Meanwhile, machine availabilities of the new and old loading units (trucks) registered at 97% and 89%, respectively. Likewise, average machine availabilities for the large loading units (excavators) and mid-range excavators were recorded at 96% and 87% respectively. Effective utilization of these mining equipment ranges from 80% - 86% during the quarter.

Total coal sold during the period reached 600,026 MTs with an average heating value of 9,666 BTU. Sales to NPC accounted for 50.7% or 304,730 MTs, while the rest were sold to Philippine National Oil Company – EC (PNOC-EC), Toledo Power Corporation, APO Cement Corporation, PHILPHOS and Solid Cement Corporation.

2006 FIRST QUARTER FINANCIAL CONDITION

First quarter Revenues amounted to P1.385 billion, comprised of P1.356 billion Coal Sales and Coal Handling Revenues of P28.51 million. Cost of sales was recorded at P958.68 million posting a gross profit ratio of 31% and net profit ratio is 20%.

Cost of Coal Sold, which is a major component of Cost of Sales, including Shipping, Loading and Hauling, registered at P942.48 million, translating to P1,571/MT, higher by P238/MT vis-à-vis Q1 2005 of P1,333/MT. The remaining balance of P16.20 million represents Cost of Coal Handling operations at Calaca Power Plant. The escalation in Cost of Coal Sold per MT may be explained by higher production cost per MT which is a consequence of higher strip ratio of 17.68:1 versus last year Q1 ratio of 10.55:1. In accordance with the accounting treatment prescribed in EITF Issue No. 04-6 of the Financial Accounting Standards Board effective 2005, all waste stripping cost was fully absorbed by the quantity of coal actually produced during the period. However, the company has already adopted this accounting treatment since 2003. The benefit of the advance stripping in the first quarter will be realized when production picks up to address increasing demand in the subsequent quarter(s), as operations can easily extract coal from the ground at a low strip ratio. Correspondingly, higher coal production volume in the subsequent periods will bring down the cost per metric ton as stripping cost will be spread over a greater number of coal tonnage produced. The mining plan for the current year targets an average strip ratio of 7.9:1 which would indicate lower strip ratio, thus lower production costs in the subsequent periods. The estimated average strip ratio over the life of the Panian mine is 8:1.

Increase in Government Share from P29.6 million at the first quarter last year to P40.7M in the current year is due to higher coal revenues while the favorable decrease in General and Administrative Expenses from P30.8M to P17.6 M in the first quarter of 2005 and 2006 respectively was brought about by the absence of non-recurring charges for the current quarter as compared to the same period last year when the Company recognized expenses related to the international shares offering including road show expenses and professional fees to lawyers and auditors.

The most remarkable negative variance in the expense items is the increase in Interest and Financing Charges from P5.7 million to P59.7 million in Q1 2005 and 2006 respectively. This can be explained by the various new equipment loans concluded late in 2005 in line with the company's capacity expansion program, which started to impact on the first quarter of 2006.

Moreover, the adjustment in 2005 on over-accrual of interest charges due to the government further offset the level of interest expense reported during the first quarter of the prior year. Meanwhile, Foreign Exchange Gains in the current period is largely attributed to unrealized foreign exchange gain of P51.97 million, while the balance represents realized gains incurred in foreign exchange differentials at the time of actual payment vis-à-vis the booked rates. Foreign denominated loans were adjusted at exchange rate as at 31 March 2005 due to the appreciation of the peso against the US dollar from P53.067 : 1USD at year-end 2005 to P51.284 : 1USD at end of the current quarter.

The resulting Net Income Before Tax is 9% higher at P378.27 million than Q1 2005 performance of P346.93 million. However, Provision for Income Tax in the current quarter amounting to P108.06 million ate up a significant part of earnings and is 13.6x more than the comparative period of last year's tax provision of P7.95 million. The surge in Income Tax liability is a result of the exhaustion of Net Operating Loss Carry Over (NOLCO) incentive which allowed the Company to provide only for Minimum Corporate Income Tax in the same period last year as against the current year provision of 35% of taxable income.

Current Assets of the Company closed at P4.15 billion, P200 million more than yearend 2005 figures of P3.95 billion. The modest rise from December 2005 figure came from Cash and Cash equivalents of P1.58 billion increasing from P1.33 billion as of yearend last year or by P255 million. Cash and Cash equivalents accounted for the biggest share of the pie at 38%, of which short-term money placements amounted to P1.34 billion. The bulk of the short-term placements came from temporary excess cash generated from operations of about P700 million and the balance of IPO proceeds amounting to P543 million which was earmarked for working capital.

Inventories accounted for 36% of Current Assets, of which Coal Inventory of 405,766 MT's amounted to P686.72 million. Inventory level is being maintained at 45 to 60 days sales. On the other hand, Materials and Supplies Inventory of P815 million remained at almost the same level as yearend 2005 of P814 million. It includes conveyor belts which will shortly be installed in the conveying systems amounting to P76.13 million, fuel and lube costing P81.59 million, in-transit parts amounting to P11.37 million. The balance are various materials and parts for mine operations and other projects, including civil works requirements; materials for the rehabilitation of power plant, coal washing plant, pier; and in-pit crusher parts and materials for assembly.

Other Current Assets include creditable withholding taxes during the quarter amounting to P66.29 million, prepaid insurance of P5.29 million, and environmental guarantee fund of P1.50 million. The decrease in Other Current Assets from end of last year amount of P84.6 million to P73 million in the Q1 current year was partly caused by the utilization of Creditable Withholding Tax amounting to P83.06 million to settle corporate income tax due for taxable year 2005.

Receivables account declined due to the decrease in Trade Receivables by P117.56 million, decrease in Receivables From Related Parties by P33.73 million and drop in Other Receivables after reclassification of Deposit To Suppliers for the acquisition of equipment. Despite the softening of the US dollar against the peso, net average coal price of Semirara coal inched up by 2% from December 2005 level of P2,205/MT FOB to P2,260/MT FOB as a result of bonuses earned on higher heating values of coal deliveries.

Major additions to Property, Plant and Equipment which grew by P187.8 million from last yearend level consisted of additional trucks funded by a loan from a foreign bank, eight out of 12 units of which were booked in 2006. The other four units were booked in 2005 as In-transit Equipment. Other equipment acquired during the period are one unit small excavator, one unit forklift, and other minor equipment. The increase was partially offset by the depreciation cost recorded for the quarter amounting to P246.34 million.

Other Non-Current Assets represents marginal deposits on Letters of Credit opened with local banks for importation of other equipment and parts.

Total Liabilities of the Company posted a net increase of P242.5 million from December 31, 2005 level. The reclassification of Long-term Portion of Long-term Debt to Current Portion and new loans in the form of Letters of Credit/Trust Receipts substantially contributed to the increase in Current Liabilities from P1.17 billion as of the end of 2005 to P1.38 billion as of March 2006. Income Tax Payable likewise increased due to the Provision for Income Tax Payable for the current quarter and income tax payable for calendar year 2005 which was subsequently settled on 12 April 2006. Income tax provision for the period is higher at Regular Corporate Income Tax (RCIT) position from the Minimum Corporate Income Tax (MCIT) paid in the first quarter of 2005 as the Net Operating Loss Carry Over (NOLCO) was already fully utilized in 2005.

Customers' Deposit decreased principally due to deliveries to National Power Corp. (NPC) Calaca plant amounting to P21.55 million which was applied to MOA1, offset by an adjustment in advances from Solid Cement amounting to P2.51 million.

Accordingly, Long-Term Debt (Net of Current Portion) showed a minimal increase when the increase in equipment loan from a bank was offset by the reclassification of the Current Portion to Current Liabilities. Meanwhile, the increase in Pension Liability represents additional accrual of pension liability based on the latest actuarial valuation dated 11 March 2006, net of amortization of liability already recognized in the prior years.

The net earnings of P270.20 million in the first quarter boosted Stockholder's Equity. The increase was tempered by the acquisition of shares in accordance with the buy-back program launched by the Company in 2005. Shares held in Treasury at the end of the period amounted to P528.89 million for the acquisition of 19,302,200 common shares. As a result, Total Stockholders' Equity posted a slight increase of 3% to P4.32 billion from the P4.19 billion reported at the beginning of the period. Subsequently, the high level of Retained Earnings afforded the Company to declare cash dividends of P1.20 per share amounting to P333.09 million, representing 20.9% of 2005 Net Income After Taxes. Cash dividends declared last March 6, 2006 were paid on April 20, 2006.

2006 COMPARATIVE REPORT

I. PRODUCTION

Current period production yielded 569,245 MTs of product coal out of a total run-of-mine coal of 625,165 MTs. This production level is 7% higher than the first quarter 2005 level. Although the increased equipment complement correspondingly increased production capacity, mining operations were managed to approximate coal demand. Thus, to maximize equipment utilization, the focus of operation is diverted to waste stripping, as reflected by the high stripping ratio posted in the current quarter as against the comparable period in the previous year.

Waste stripped this quarter, inclusive of limestone and silt is recorded at a high of 11.05 million bcm or 79% more than the 6.16 million bcm reported in the first quarter of 2005. It is noted that no major accidents which could disrupt operations occurred during the period. Thus, in contrast to last year's focus of equipment deployment which was to stabilize the slopes on the portion of the pit wherein a landslide happened, this period's stripping activities were aimed to expose coal blocks for easier and quicker coal extraction from the ground. The importation of additional 12 trucks which started running at the beginning of the period has augmented material movement capacity.

Meanwhile, machine availabilities of the new and old loading units (trucks) posted a 5% improvement at 97% and 89%, respectively. Old units were phased-out from mine operations, some of these phased-out units were used as support equipment, hence improving overall operations efficiency. Likewise, average machine availabilities for large loading units (excavators) and mid-range excavators were recorded at 96% and 87% respectively. The 4% improvement in the performance of the large loading units from 92% last year can be attributed to proper maintenance program.

II. MARKETING

With Calaca plant no. 2 back in full operation, NPC sales marked a 52% improvement at 304,730 MTs, compared to 2005 first quarter deliveries of 200,106 MT's. However, projected increase in total NPC volume did not materialize as targeted volumes to other NPC IPP plants in Masinloc, Sual, and Pagbilao, did not take place as these plants were still fulfilling import commitments made in 2004 when there was a scarcity of coal supply.

Meanwhile, from the total sales volume of 600,026 MTs, sales to the Calaca Plants accounted for 51%, against last year's first quarter total NPC market share of 52%, inclusive of sales volumes diverted to Sual Power Plant amounting to 25,919 MTs. Deliveries to Toledo Power plant plummeted to 40,125 MTs indicating a 51% decrease from the previous period's level of 81,953 MTs.

Total deliveries to power plants were posted at 369,595 MT's, 10% higher than the 336,608 MTs figure recorded in the first quarter of 2005. Taking up a 62% share in the Company's total market, power plants are still the major users of Semirara coal. However, it is noteworthy to mention that even with a bigger volume, power plants' share in the total market of 62% is lower than last year's share of 77%. This is a welcome development for the Company as this connotes the growing share of other users outside the power plant industry.

At the forefront of this growing market is the cement industry which posted an impressive aggregate improvement of 133% from 97,402 MTs in the previous period to 226,927 MTs in the current quarter. Purchases by PNOC-EC almost doubled from 76,747 MTs to 143,667 MTs, while APO Cement almost tripled its volume from 30,383 MTs during the first quarter in the previous year to 90,000 this period. Moreover, Solid Cement which started to buy in the second quarter of 2005 continued to use Semirara coal and was able to take up 18,000 MTs this quarter. Philphos, a long time user of Semirara coal also bought 3,504 MTs this period.

The increase in volume sold to NPC-Calaca, PNOC, APO and Solid Cement tempered by lower sales to Sual, Toledo Power and PICOP resulted to an increase in sales volume by 38% over the first quarter of 2005.

The effectivity of the additional Value Added Tax (VAT) of 2% in February this year, which is imputed in the pricing formula of coal deliveries to NPC as stipulated in the import parity pricing scheme with the buyer, had a favorable effect to its FOB price. This tempered the adverse effect of the softening of the dollar against the peso during the current period. Nevertheless, average composite price slid slightly from P2,263.78/ MT in the Q1 of 2005 to P2,260.41/ MT this period.

III. FINANCE

A. Sales and Profitability

Coal Sales of P1.36 billion during the period is 38% better than the previous year's comparable period figure of P985.50 million. Similarly, coal handling revenues of P28.51 million, which is tied up to coal deliveries to the Calaca Plants, also generated a 79% increase against last year's amount of P15.90 million as the two plants were already operating smoothly during the current period. Consequently, Total Revenues posted a 38% growth from P1.00 billion in the first quarter of 2005 to P1.38 billion this year.

Gross Profit Margin of P426.13 million this period reflects a gross profit ratio of 31%. Although 7% higher than the gross profit earnings of P397.34 million during the previous period in terms of amount, last year's gross profit ratio is better at 40%. The higher cost of sales in the current period which had an adverse effect to profitability was a function of higher strip ratio. Cost of Coal Sold this quarter registered at P1,571/MT as against last year's cost of P1.333/MT. Despite the higher government royalties and financial expenses, Net Income Before Tax in the current period reflected a 9% increase to P378.27 million from P346.93 million last year due to the positive effects of foreign exchange gains to the tune of P52.6 million. However, higher Provision for Income Taxes amounting to P108.06 million as compared to the MCIT provision of P7.95 million in the first quarter of 2005, when the Company had tax breaks in the form of the remaining NOLCO, resulted to the decline in Net Profit After Taxes by 20% from P338.99 million in Q1 2005 to P270.2 million in 2006. Net profit ratio is recorded at 20% compared to the healthier margin of 34% reported in the first quarter of 2005. On a positive note, EBITDA in the current period is impressively high at P694.42 million, P135.6 million or 24% higher than the P558.87 million recorded in the previous year's comparable period.

B. Solvency and Liquidity

Current quarter operations generated an impressive net cash of P 687.97 million 89% higher than same period last year cash generation of P 363.21 million. With interest payments on loans amounting to P28.40 million, and offset by interest earnings of P17.56 million on short-term placements, Net Cash Provided by Operating Activities was logged at P677.12 Million, 135% more than the previous comparable period's figure of P287.66 million.

In properly matching funds with the nature of the requirement, P266.44 million worth of long term-debts were availed to finance the acquisition of several mining equipment during the period. The decline of 41% from last year's total loan availments of P450.25 signified lower planned capital expenditures in the current year as the capacity expansion program of the Company is approaching completion.

The buy-back program undertaken by the Company starting 2005 continued during the period. Additional 5,499,500 common shares, costing P145.26 million were reacquired by the Company and were logged as treasury shares. On the other hand, portion of the cash generated was also used to repay debts amounting to P123.89 million.

The highly liquid finances of the Company continued to punctuate its financial condition as Current Ratio still impressively stands at 3.02x from 3.39x as at the end of last year. The slight dip is attributed to the reclassification of current portion of Long-term Debt during the period. Meanwhile, the Net Income of P270.2 million for Q1 2006 increased capitalization to P4.32 billion contributing to the strong solvency condition of the Company as Total Debt to Equity Ratio remained strong at 0.69:1 in the current period from 0.65:1 as of December 31, 2005.

Earnings per share of P0.97 during the period is 20% lower than the P1.22 recorded as at the first quarter of 2005, mainly as a result of higher tax provision in the current period.

IV. PERFORMANCE INDICATORS:

- 1. Average Selling Price** - The imposition of additional 2% VAT on imported coal augured well for the price of Semirara Coal. The import parity pricing mechanism in the Coal Supply Agreement with NPC- Calaca used in determining Semirara coal price provides for the imputation of this additional tax. Hence, the effect of the decline of the dollar against the peso is cushioned by the additional revenue brought about by the VAT.
- 2. Debt to Equity Ratio** - At the end of the quarter, the Company continued to enjoy a highly solvent position with a strong Debt-to-Equity ratio of 0.69:1, despite new loan draw downs to fund Capital Expenditures.

3. **Capital Expenditures** – Additional large capacity trucks and other support equipment were acquired during the period in line with the company's capacity expansion program. Together with the operation of the in-pit crusher system, production efficiency of the mine has vastly improved, registering a 75% increase in total material movement. These capital expenditures likewise established the long-term competitive advantage of the mine since economies of scale spells lower production cost as production volumes increase. Concurrently, the in-pit crusher system could cushion the increasing cost of fuel as it substitutes for hauling of materials by trucks.

4. **Expanded Market** - Despite the smooth operation of the NPC Calaca Power Plants which improved sales volume during the period, market share of other customers outside NPC captured a hefty share of 49%. The increasing up take of these non-traditional markets indicate that the Company is able to wean itself out of its dependence to a single market, and that its market diversification strategy is succeeding.

5. **Improved coal quality** - Deliveries during the current quarter registered higher heating values averaging 9,666 BTU compared with last year's average of 9,524 BTU. This increases the net effective price of Semirara coal as bonuses were earned during the period.

PART II OTHER INFORMATION

Other disclosures:

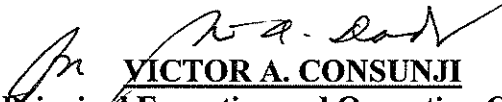
- a. Company's operation is not cyclical in nature or seasonal. Mining activities is continuous throughout the year;
- b. There were no issuances, repurchases, and repayments of debt in equity securities which transpired during the quarter;
- c. There are no subsequent events, that came to our knowledge, which are material enough to warrant an adjustments in the interim financial statements;
- d. The company has no business segments;
- e. The company has no contingent assets nor liabilities known as of interim balance sheet date;

PART III SIGNATURES

Pursuant to the requirement of the Revised Securities Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer: **SEMIRARA MINING CORPORATION**

Signature and Title:


VICTOR A. CONSUNJI
Principal Executive and Operating Officer

Date: May 10, 2006


NESTOR D. DATIVAS
Principal Financial Officer/Comptroller

Date: May 10, 2006


JUNALINA S. TABOR
Principal Accounting Officer

Date: May 10, 2006

SEMIRARA MINING CORPORATION

Aging of Accounts Receivable

As of March 31, 2006

	TOTAL	Current	2 - 3 Months	4 - 6 Months	7 Months to 1 Year	1 to 2 Years	2 to 5 Years	Over 5 Years	Allowance for doubtful acct.
A. ACCOUNTS RECEIVABLE - TRADE									
1. NPC	588,246,371.56	215,416,444.99	237,939,112.16	106,292,960.76		7,467,041.98	9,126,294.79	12,004,516.88	22,777,242.91
2. MMDC	400,000.00						400,000.00		400,000.00
3. PNOG	212,514,685.63	110,989,327.77	99,230,240.57		1,114,708.93	444,886.44	735,521.92		812,426.18
4. GFCC	12,599,953.64				9,549,845.59	231,736.71	2,818,371.34		3,209,947.33
5. TPC	84,884,502.48	30,834,486.33	51,638,120.23		172,181.76	2,239,714.16			485,833.90
6. APO	5,072,140.67	1,726,411.01		2,578,864.27			512,995.35	253,870.04	1,232,178.36
6. PFFC	12,238,701.71		7,709,719.87	2,907,630.96			1,561,883.69	59,467.19	2,785,477.03
7. PASAR	98,615.00					98,615.00			98,615.00
8. SUAL - MIRANT	-								
9. PICOP	-								
10. SOLID	33,083,714.68	22,941,584.77	10,142,129.91						
11. NPC - Coal Handling	16,888,602.93	6,140,164.80	10,748,438.13						
	<u>966,027,288.30</u>	<u>388,048,419.67</u>	<u>417,407,760.87</u>	<u>111,779,455.99</u>	<u>10,836,736.28</u>	<u>12,556,873.33</u>	<u>13,393,525.28</u>	<u>12,004,516.88</u>	<u>31,801,720.71</u>
Less: Allowance for doubtful account	<u>31,801,720.71</u>								
TOTAL	<u>934,225,567.59</u>								
B. NON - TRADE RECEIVABLES									
1. Advances - Officers	555,244.20	555,244.20							
2. Advances - Employees	(1,358,221.73)	(1,358,221.73)							500,910.10
3. Advances - Suppliers	12,796.95	12,796.95							1,948,808.90
4. Advances - Operations									822,913.36
5. Advances - Contractors	26,297,283.52	7,261,207.99	413,575.91	3,972,335.75	5,867,523.97	8,782,639.90			917,702.67
6. Advances - for Liquidation	2,920,245.80	178,827.41	1,528,976.40	1,212,441.99					1,999,906.81
7. Advances - SSS Claims	513,672.48			27,647.00	172,633.57	313,391.91			
8. Advances - Others	76,228.37	2,612.00			73,616.37				
9. Advances - Medical Accounts	630,659.85				630,659.85				
10. Accounts Receivable - Others	9,504,784.24							9,504,784.24	9,504,784.24
11. Receivable from Related Parties	34,747,816.00	34,747,816.00							
	<u>73,900,509.68</u>	<u>41,400,282.82</u>	<u>1,942,552.31</u>	<u>5,212,424.74</u>	<u>6,744,433.76</u>	<u>9,096,031.81</u>	<u>-</u>	<u>9,504,784.24</u>	<u>15,695,026.08</u>
Less: Allowance for D/A-AR Others	15,695,026.08								
Net NON - TRADE RECEIVABLE	<u>58,205,483.60</u>								
NET RECEIVABLES (A & B)	<u>992,431,051.19</u>								