SEMIRARA MINING CORPORATION
(formerly known as Semirara Coal Corporation)

November 14, 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*

Gentlemen:

In compliance with the Revised Disclosure Rules of the Philippine Stock Exchange, Inc., we are furnishing you copy of Semirara Mining Corporation's Quarterly Report using SEC Form 17-Q for the period ended September 30, 2006.

Thank you and we hope that you find the foregoing in order.

Very truly yours,

SEMIRARA MINING CORPORATION

By:

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

2nd Floor DMCI Plaza Building, 2281 Chino Roces Ave., Makati City
Tel. Nos.: (632) 888-3555; 867-3377; 816-7301 • Fax No. (632) 888-3955

SEC Number : 91447
File Number : _________

SEMIRARA MINING CORPORATION
Company's Full Name

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

888-3550 to 888-3565
Telephone Number

For the Period Ending Sept. 30, 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 **Sept. 30, 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:

   SEMIRARA 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 Bldg., 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
Common Stock, P1.00 par value	277,572,800 shares

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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SEMIRARA MINING CORPORATION
Balance Sheets
As of Sept. 30, 2006

	(Unaudited)	(Audited)
ASSETS	Sept. 30, 2006	December 31, 2005
CURRENT ASSETS		
Cash and cash equivalents	605,322,775	1,331,641,854
Receivables - net	746,096,780	1,171,854,780
Inventories - net	1,873,019,977	1,366,127,761
Other current assets	160,576,908	84,564,749
Total Current Assets	3,385,016,438	3,954,189,144
NONCURRENT ASSETS		
Property, Plant and Equipment - net	3,210,574,898	2,926,686,987
Deferred Charges and Other Non-current assets	6,875,094	47,051,433
Total Noncurrent Assets	3,217,449,992	2,973,738,420
	6,602,466,430	**6,927,927,564**
LIABILITIES & STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts and other payables	359,061,558	388,737,244
Current portion of long-term debt	618,567,271	402,742,462
Income Taxes Payable	52,293,746	324,107,390
Customer's Deposit	35,420,746	50,052,467
Total Current Liabilities	1,065,343,321	1,165,639,563
NONCURRENT LIABILITIES		
Long-Term Debt - net of current portion	1,136,150,096	1,456,431,223
Pension Liability	44,584,231	42,332,361
Asset Retirement Obligation	10,000,000	10,000,000
Deferred Tax Liability	61,828,094	61,828,094
Total Noncurrent Liabilities	1,252,562,422	1,570,591,678
	2,317,905,743	2,736,231,241
Capital Stock - common stock	296,875,000	296,875,000
Additional Paid-in Capital	1,576,796,271	1,576,796,271
Retained Earnings	2,939,780,676	2,701,658,512
	4,813,451,947	4,575,329,783
Treasury shares, at cost	528,891,260	383,633,460
TOTAL STOCKHOLDERS' EQUITY	4,284,560,687	4,191,696,323
	6,602,466,430	**6,927,927,564**

SEMIRARA MINING CORPORATION
Income Statement
For the period ending Sept. 30, 2006 and 2005
For the quarter ending Sept. 30, 2006 and 2005

	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	For the period		For the quarter	
	2006	2005	2006	2005
Revenue:				
Sales	3,730,397,540	3,772,267,231	962,696,862	1,465,721,174
Cost of Sales:				
Cost of Coal Sold	2,659,457,195	2,500,256,114	752,141,909	1,091,873,270
Shipping,Loading and Hauling Cost	95,974,412	155,550,703	39,861,797	87,510,870
	2,755,431,607	2,655,806,817	792,003,706	1,179,384,140
Gross Profit	974,965,933	1,116,460,414	170,693,156	286,337,034
Operating Expenses:				
Government Share	109,767,525	111,547,763	28,326,743	43,321,041
General and Adm. Expenses	49,965,259	83,279,580	19,882,740	34,257,101
	159,732,783	194,827,343	48,209,482	77,578,142
INCOME FROM OPERATIONS	815,233,150	921,633,071	122,483,674	208,758,892
Other (Income)Expense				
Other (Income)Charges	(98,348,587)	(36,299,947)	(62,503,639)	(35,140,941)
Interest and Financing Charges	157,334,666	72,659,540	43,378,607	35,237,572
Foreign Exchange(Gain)Loss	(64,143,172)	(16,671,561)	(73,992,466)	933,619
	(5,157,093)	19,688,032	(93,117,498)	1,030,250
NET INCOME BEFORE TAX	820,390,243	901,945,039	215,601,172	207,728,642
PROVISION FOR INCOME TAX	249,180,717	73,115,810	47,082,348	56,513,342
NET INCOME AFTER TAX	571,209,526	828,829,229	168,518,824	151,215,300
EARNINGS PER SHARE (EPS)	2.058	2.848	0.607	0.520

Basis of EPS:
EPS = NET INCOME(LOSS) FOR THE PERIOD/NO. OF OUTSTANDING SHARES
Wherein:
Wtd Average Outstanding Shares = 291,037,088 (as of Sept. 30, 2005)

Wtd Average Outstanding Shares = 277,572,800 (as of Sept. 30, 2006)

SEMIRARA MINING CORPORATION
Statement of Changes in Stockholders' Equity
For the periods ended Sept. 30, 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	1,576,796,272
RETAINED EARNINGS		
Appropriated		
Balance at beginning of the quarter	1,000,000,000	1,000,000,000
Appropriation during the quarter	-	-
Balance at end of the quarter	1,000,000,000	1,000,000,000
Unappropriated		
Balance at beginning of the quarter, as previously stated	2,104,349,215	770,501,936
Effect of adoption of new accounting standards	-	-
Balance at beginning of the quarter as restated	2,104,349,215	770,501,936
Net income	168,518,824	151,215,300
Dividends paid	(333,087,360)	-
Appropriation for future capital expenditures	-	-
Balance at end of the quarter	1,939,780,678	921,717,236
	2,939,780,678	1,921,717,236
COST OF SHARES HELD IN TREASURY	(528,891,260)	(89,170,969)
TOTAL STOCKHOLDERS' EQUITY	4,284,560,687	3,706,217,539

SEMIRARA MINING CORPORATION
Statement of Cashflows
For the periods ended Sept. 30, 2006 and 2005

	(Unaudited) 2006	(Unaudited) 2005
CASHFLOWS FROM OPERATING ACTIVITIES		
Net Income before tax	820,390,243	901,945,039
Prior Period Adjustment	-	-
Adjustments to reconcile net income to net cash		
Provided by operating activities:		
Depreciation and depletion and amortization	792,169,591	832,473,749
Interest and Financing Charges	157,334,668	72,659,540
Loss (gain) on disposal/retirement/write-off of assets	(15,066,758)	
Provisions for inventory losses	-	-
Pension liability provision (net of amortization)	2,251,871	6,701,828
Net Unrealized Foreign Exchange (Gain) Losses	(60,584,308)	-
Provision for income taxes	(249,180,718)	(73,115,810)
Interest Income	(47,861,026)	-
Operating Income before working capital changes	1,399,453,562	1,740,664,346
Changes in operating assets and liabilities		
Decrease(increase) in:		
Receivables	425,758,000	(46,159,773)
Inventories	(506,892,216)	(317,968,104)
Other current assets	(76,012,159)	(27,939,103)
Increase (decrease) in:		
Accounts payable and accrued expenses	211,955,212	(61,701,218)
Customer's Deposit	(14,631,721)	16,768,892
Net cash generated from operations	1,439,630,679	1,303,665,040
Interest Received	42,044,121	-
Interest Paid	(142,079,833)	(110,691,938)
Income Tax Paid	(407,370,032)	-
Net cash provided by operating activities	932,224,936	1,192,973,102
CASHFLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(1,187,545,204)	(1,506,198,098)
Decrease(Increase) in other non-current assets	40,176,339	(8,196,462)
Net cash used in investing activities	(1,147,368,865)	(1,514,394,560)
CASHFLOWS FROM FINANCING ACTIVITIES		
Availment of long-term debt	878,042,395	1,154,743,072
Proceeds from additional subscription to capital stock	-	1,622,393,436
Repurchased shares of stocks (treasury shares)	(145,257,800)	(89,170,969)
Payments of Dividends	(333,087,360)	-
Repayment of long-term debt	(910,872,387)	(845,436,958)
(Increase)Decrease in payable to related parties	-	(146,789,315)
Net cash used in financing activities	(511,175,151)	1,695,739,266
NET INCREASE(DECREASE) IN CASH	(726,319,081)	1,374,317,808
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,331,641,854	34,568,979
CASH AND CASH EQUIVALENTS AT END OF YEAR	605,322,774	1,408,886,787

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.

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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.

<u>PFRS Effective in 2006 and 2007</u>

- 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 hav 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.

<u>ARO</u>

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 cummulative 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 THIRD QUARTER OPERATION

With the capacity expansion program fully in place, operations continued to exceed targets during the current quarter. Total materials moved amounted to 6,837,649 bank cubic meters (bcm), registering an 18% increase over Q3 2005 material movement of 5,770,174 bcm. The consistent efficiency in operations in the current year resulted to an overwhelming increase in year-to-date total material movement to 28,343,936 bcm, 50% higher than total material movement of 18,838,859 bcm as of Q3 of 2005. However, on a quarter-to-quarter comparison, Q3 material movement is 41% & 32% lower than Q1 and Q2 movement, respectively. The drop in material movement is a consequence of heavy rains and typhoons in the current quarter and some maintenance activities on equipment programmed for the period. Consequently, current quarter's strip ratio dropped to 10.19:1 from 17.68:1 in Q1 and 12.92:1 in Q2. Nevertheless, this quarter's waste-to-coal ratio is still 19% higher than Q3 2005 ratio of 8.58:1. On a year-on-year comparison, strip ratio as of the current period is still higher by 43% at 13.56:1, compared to the same period of last year's ratio of 9.48:1.

Meanwhile, coal inventory is maintained at 45 to 60 days sales to effectively manage coal quality and ensure supply when demand picks up.

Correspondingly, Run-of-Mine (ROM) coal production reflected a slight 1% increase during the current quarter to 626,933 metric tons (MTs) from 620,682 MTs in Q3 2005. Compared to the previous quarters, Q3 2006 ROM production is 1,768 MTs more than Q1 production and 107,137 less than Q2 figure. Year-to-date ROM is 7% more at 1,986,168 MTs, compared to same period of 2005 production figure of 1,847,962 MTs.

On a positive note, the newly rehabilitated and expanded coal washing plant recorded improved performance this year, registering higher volumes of coal washed. A total of 207,684 MTs of washable coal were fed to the plant during the third quarter, 39% higher than Q3 2005 volume, and 42% better on a year-to-date comparison. Likewise, this figure is 49% and 7% higher than this year's Q1 and Q2 performance, respectively. Recovery is maintained at an average of 60%.

With newer equipment, machine availability for hauling units is high at 89%, while loading units' availability was recorded at 85%. However, actual utilization is down to 45% and 62% for hauling and loading units, respectively. This is likewise a consequence of the slowing down of mining operations during the quarter due to bad weather and programmed maintenance.

2006 THIRD QUARTER FINANCIAL CONDITION

Total Revenues as at Q3 2006 was recorded at P3.73 billion. This is comprised of Coal Sales amounting to P3.659 billion and Coal Handling income of P71.48 million. Cost of Sales registered at P2.755 billion, consisting of Cost of Coal Sold amounting to P2.707 billion and Coal Handling Expenses amounting to P47.68 million, thus registering an increase of 33% over the same period of last year's total cost of P2.656 billion. On a per metric ton basis, Cost of Coal Sold was recorded at P1,682, showing an increase of 9% over the previous period's cost per ton of P1,541. The increase in cost was primarily triggered by higher strip ratio and increased depreciation cost per bcm as a result of the influx of additional mining equipment in the current year. In addition materials expense remarkably shot up in the third quarter when major expenses related to replacement of tires of mining equipment; replacement of various parts of the conveying system; rehabilitation and maintenance of industrial and building facilities; and issuances of safety supplies were made to take advantage of operation slowdown because of rain.

Consequently, Gross Margin dropped by 13% from P1.116 billion as at Q3 2005 to P974.966 million in the current period. Gross Profit Ratio now stands at 26%, as against Q3 2005 year-to-date ratio of 30%.

The slight drop in Coal Sales resulted to a corresponding reduction in Government Share from P111.548 million in the previous year to P109.768 million as at the current quarter. Likewise, General and Administrative Expenses, fell by 40% from P83.28 million in the previous period to P49.965 million as at Q3 2006. The previous year's General and Administrative Expenses swelled with the incurrence of expenses related to the international shares offering in Q1 2005.

The drop on Operating Expenses by 18% considerably cushioned the decrease in Operating Income from P921.633 million as at Q3 2005 to P815.233 million in the current period.

Meanwhile, Other Income of P36 million from insurance claims settlement, as well as interest income on short-term placements boosted the account by 171% from P36.3 million in the previous period to P98.35 million, inclusive of P15.067 million Gain on Sales of Equipment, as at Q3 2006. The increase in Interest & Financing Charges for the current year is largely the result of the adjustment made to reverse over-accrual of interest charges due to the government in 2005 amounting to P86 million. As the peso strengthened vis-à-vis the US dollar towards the end of the quarter, the Company recognized Foreign Exchange Gains of P64.143 million, P60.584 million of which is unrealized. The movements of the foregoing accounts translated to net Other Income of P5.157 million, as against the previous period's P19.688 million Net Other Expenses, cushioning the decline in Net Income Before Tax from P901.945 in the previous period to P820.39 million in the current year, equivalent to 9%.

However, with the exhaustion of the Net Operating Loss Carry Over (NOLCO) incentive, which allowed the Company to only provide for Minimum Corporate Income Tax in the same period last year as against the current year provision of 35% of taxable income, Provision for Income Tax surged to P249.181 million, a huge 241% increase over last year's Tax Provision of P73.116 million. Remarkably, total contribution of the Company to the government, including Government Share and Taxes, as at the current period is P358.949 million, representing 44% of Pre-Tax profit.

As a result, Net Income After Tax trimmed down to P571.21 million, compared to the previous period's bottom line of P828.829 million.

Despite adverse market developments, the Company managed to maintain a strong balance sheet, remarkably reducing its Total Liabilities.

The reduction in Cash and Cash Equivalents, inclusive of Short-Term Investments is attributed to debt servicing amounting to P911 million, inclusive of the pre-payment of the equipment loan from Marubeni Corporation amounting to P387 million, payment of cash dividends amounting to P333.08 million during the first quarter, and payment of Income Taxes of P407.37 million (2005 annual Income tax of P235.8 million was paid, while the remaining P171.57 accounted for first two quarters Income Tax Payables).

Meanwhile, declining Sales as well as the updated collection of Trade Receivables caused the drop in Receivables.

The increase in Inventories reflected the increase in Coal Inventory 564,066 MTs valued at P1.040 billion. On the other hand, Materials, Fuel, Lube and Other Supplies were maintained at its yearend level, posting a slight increase of 2% at P833.314 million. This is mainly comprised of fuel and lube, conveyor belts, engine and transmission assemblies, construction materials, and other conventional and continuous mining system parts and materials.

Prepaid Expenses and Other Current Assets increase represents creditable withholding taxes on coal sales, prepaid insurance and Environmental Guarantee Fund. The significant drop in this account from beginning of the year balance is mainly caused by the utilization of P83.06 million creditable withholding taxes to pay previous year's Income Taxes in April 2006.

In sum, Total Current Assets posted a drop of 14% from yearend 2005 level of P3.954 billion to P3.385 billion as at the end of the period.

The arrival of additional production and support equipment amounting to P1.181 billion in 2006 resulted to the surge of the Property, Plant and Equipment (PPE) account, tempered by total depreciation amounting to P941 million and amortization of mining rights amounting to P11.2 million. Job Orders in progress as of 30 September was recorded at P282 million from P86 million as at yearend 2005. Among the operations-related projects are: rehabilitation of the power plant (P94 million), construction of in-pit crusher and conveying systems - line 1 & 2 (P84 million), and construction of aggregate crusher (P15 million). On the other hand, projects in connection with the Company's Community Social Responsibility programs were likewise undertaken, including construction of Company housing projects (P17 million); putting up of an Ice Plant for the fisherfolks in the community (P10 million); improvement of school facilities at DWSSI (P11.5 million); construction of a 12-classroom building for Tinogboc Nationall High School (P19 million); construction of a pottery building (P3.9 million); and construction of other various facilities.

Other Non-Current Assets represents remaining Marginal Deposits on Letters of Credit opened with local banks for programmed importation of equipment and parts.

The Company's Total Liabilities reflected a 15% drop from 31 December 2005 level. Accounts and Other Payables posted a decrease of 8% in the books as a result of the updating of Accounts Payables. Of the remaining balance, P68 million are Accrued Payables set up upon receipt of delivered materials, P116 million pertain to Accounts Payables – Trade, and P175 million consists of Real Property Tax Payable, Retirement Cost, Accrued Interest, Restoration Cost, etc.

The growth in Current Portion of Long Term Debt reflected the various Letters of Credit opened with local banks for importation of materials and parts. Meanwhile, actual payments of Income Taxes covering calendar year 2005 and Q1 and Q2 2006 considerably reduced Income Tax Payable by 84% to P52.294 million in the current period from yearend 2005 figure of P324.107 million. The reduction in Customers' Deposit represented actual deliveries of coal paid in advance by customers. As a result, Total Current Liabilities fell by 9% from P1.166 billion as at 31 December 2005 to P1.065 in the current period.

The more significant decrease of 20% drop in Liabilities in the Non-Current Liabilities stemmed from full settlement of the Marubeni Loan way ahead of its maturity.

Remarkably, Total Liabilities dropped by 15% from yearend level of P2.736 billion to P2.318 billion.

Meanwhile, Stockholders' Equity increased by the period's positive earnings of P571.21 million. The positive growth was however slightly tempered by the buyback program of the Company which continued up to the first quarter of the current year amounting to P145.258 million and the payment of cash dividends during the quarter, which cut Retained Earnings by P333.09 million. Shares Held in Treasury at the end of the period amounted to P528,891 representing 19,302,200 common shares. Total Stockholders' Equity posted a welcome 2% growth from yearend 2005 level of P4.192 billion to P4.285 billion as at the end of the current period.

2006 COMPARATIVE REPORT

I. PRODUCTION

The sluggish market condition during the third quarter compelled operations to restrain coal extraction to preserve coal quality. From ROM coal production of 626,933 MTs, operations generated Net Product Coal of 538,421 MTs during the period. This is 4% and 17% lower than Q1 and Q2 production, respectively, and 3% less than Q3 2005 production.

The continued advance stripping activities disposed waste, inclusive of limestone and silt, amounting to 6,389,840 bcm. This posted a 20% increase over Q3 2005 waste movement. However, as coal production was down as weather-hampered operations in the current quarter, this figure is 42% and 33% less than total waste movement during Q1 and Q2 movement, respectively. On a year-to-date comparison, total waste stripped from the pit registered an impressive 54% increase over last year's performance.

Heavy rains and typhoons during the third quarter disrupted operations. However, no major accidents further interrupted mining activities.

II. MARKETING

After the rehabilitaiton of the National Power Corporation's (NPC) Calaca plant no. 2 in 2005, deliveries to Calaca have shown a 26% improvement over last year's sales volume of 748,825 MTs as at the end of Q3, with the current period's sales volume of 940,866 MTs. The decline in Q3 sales to 265,719 MTs from 304,730 MTs in Q1 and 370,417 MTs in Q2 is largely due to the combined low demand for power, the effect of the seasonal entry of the hydrothermal power plants during the rainy season and the intermittent shutdown of Calaca Plant no. 1 for maintenance repairs. Moreover, the natural gas-fueled power plants were given priority in dispatch by the government during the period to maximize use of available fuel. Hence, dispatch of Calaca plants was also tempered. On a more positive note however, the Company was able to start to deliver again to the NPC IPP plant in Sual. Since this plant and other NPC IPP plants in Masinloc and Pagbilao were fulfilling import commitments, no deliveries were made to these customers in the first and second quarters of the year. The lost sales volume in these three IPPs caused a significant impact to total NPC purchases, such that despite the improved sales to Calaca plants, total NPC deliveries only reflected a minimal increase of 1% from 933,500 MTs as at Q3 2005 to

946,830 MTs. Total NPC sales accounted for 59% of the total sales volume of 1,609,478 MTs as at Q3 2006.

Sales to other markets outside of NPC comprised 41% of the total volume. Of which, 195,743 MTs or 12% were sold to other power plants, making the power plant industry the major consumer of Semirara coal, accounting for 71% of total sales and maintaining its share in the pie last year. Meanwhile, cement industry took up 28% of sales, with delivery of 447,126 MTs – this is slightly lower than total cement sales of 466,048 MTs as at 3Q 2005. The rest of the deliveries went to a paper mill and to a fertilizer company.

Composite price per metric ton is remarkably maintained, even showing slight improvements, despite the devaluation of the US dollar against the peso. It is worthy to note that price to NPC Calaca, the Company's single biggest buyer, is set at import parity. The effect of the 10% Value Added Tax (VAT) imposed in November 2005, and the additional 2% VAT enforced starting 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, cushioned the impact of the foreign exchange movement on the price. Furthermore, the continuous pursuit of operations to improve quality earned the Company bonuses on coal deliveries. Composite average FOB price as at the end of Q3 2006 was recorded at P2,260/MT, posting a P34 increase over the same period of last year's price of P2,226/MT. Likewise, Q3 composite FOB price of P2,289/MT is also better than Q1 price of P2,225/MT and Q2 price of P2,275.

The slower than expected development in the domestic market propelled the Company to reevaluate its marketing strategies and start exploring the export market. Considering that the expanded capacity is already in place, the availability of coal inventory at the stockpile and the advance stripping performed at the pit, the Company is gearing up to take the next step and strive to establish a niche in the global market. Semirara's reserves, its open pit mining operation, newly modernized equipment and close distance of the mine to the loading port are among the competetive advantages of the Company to venture into the global market.

III. FINANCE

A. Sales and Profitability

The slump in coal sales as at Q3 2006 by 4% correspondingly brought down Coal Revenues to P3.659 million from P3.717 billion in the previous period. The slow movement of the product in the market during the current quarter caused Coal Revenues to slide to P944.225 million from P1.356 million in Q1 and P1.358 million in Q2. Meanwhile, better composite average FOB price in Q3 slightly offset the huge drop in sales volume. On the other hand, increased deliveries to Calaca plants, which comprise 58% of total Coal Sales as against its market share of 45% during the same period last year, consequently resulted into a 30% increase in Coal Handling Revenues from P55.011 million as at Q3 2005 to P71.48 million as at Q3 2006 as activities increased in the plants.

Cost of Coal Sold/MT is peculiarly high during the third quarter with the escalation of Materials expense, despite posting a lower strip ratio. It must however be emphasized that these expenses are not regular in nature on a quarter-to-quarter basis and therefore not a trend. As a result, Gross Profit Ratio during the current quarter is lowest in the year at 18%, compared to the 31% margin in Q1 and 27% in Q2. Moreover, Q3 results likewise dampened the year-to-date Gross Profit Ratio of 26% from 30% in 2005.

Meanwhile, the decrease of General and Administrative Expenses to normal level, recognition of Other Income from insurance claims and Interest Income, recording of Foreign Exchange Gains, and earnings from Sale of Assets improved pre-tax profitability. However, as NOLCO has already been fully utilized, the Company is now imposed Regular Corporate Income Tax which is 35% of taxable income, such that Provision for Income Tax as at the end of the current period soared to P249.181 million, 3.4 times the Q3 2005 tax provision of P73.116 million. However, EBITDA was maintained at almost the same level. Despite the substantial decline of 31% in after tax income, EBITDA posted just a slight 2% drop from last year's level of P1.811 million to P1.770 million as at Q3 2005.

B. Solvency and Liquidity

Operations as at Q3 2006 recorded a Net Decrease in Cash of P726.319 million, as against previous year's comparative period performance of Net Increase in Cash of P1.374 billion. Payments of taxes, cash dividends, and pre-payment of a major loan are the main reasons for the drop in this account. Moreover, it is noted that last year's cash generation was boosted by the proceeds of the offering of additional shares, which added P1.622 billion to the coffers of the Company.

The slower pace in Sales and the huge payments of taxes are the primary causes in bringing down Net Cash Provided by Operating Activities to P932.225 million in the current period, as against last year's similar period cash generation of P1.297 billion.

On the other hand, the company shelled out P1.188 billion to complete its capacity expansion program. Only P878.042 million worth of loans were availed to finance these additions to PPE, while the rest is funded internally. This is 24% lower than last year's loan availment of P1.155 billion as at the end of Q3.

The Shares Buy-Back Program, which commenced in 2005 continued until Q1 of 2006. During the current year, additional 5,499,500 common shares costing P145.258 million were logged as Treasury Shares.

Meanwhile, the continued recognition of positive earnings afforded the Company to pay cash dividends of P333.087 million and retire debts amounting to P910.872 million during the period.

Despite these cash outflows, Current Ratio still remarkably stands at a healthy level of 3.18x, a slight dip from yearend's 3.39x. On a similar note, total capitalization continued to grow to P4.285 billion, despite the buyback and the dividend payment, from P4.192 billion as at yearend 2005. This resulted to further improvement in Debt-to-Equity Ratio from 0.65:1 as at the close of the previous fiscal year to 0.54:1 as at Q3 2005.

On the other hand, the slump in after-tax income, brought about by increased tax payments, has brought down Earnings Per Share (EPS) to P2.058 as at Q3 2006 from P2.848 as at Q3 2005. On a quarter-to-quarter comparison, Q3 EPS of P0.607 showed a 28% improvement over Q2 EPS of P0.476. However, this is still 37% short of Q1 EPS of P0.971.

IV. PERFORMANCE INDICATORS:

1. **Average Selling Price** – The fluctuations in regional prices of coal have an impact on the price of Semirara coal. The surge in oil prices benifited the Company since freight costs in bringing in imported coal has become more expensive. Likewise, the addditional 10% VAT imputed on all imported coal starting November 2005, and the additional 2% effected in February 2006, augured well for the Company, since it is has an import parity pricing agreement with its major customer, the NPC-Calaca. Price is also a function of coal quality. Hence, as the quality of Semirara coal improves, composite price correspondingly gets better as bonuses are earned.

2. **Debt to Equity Ratio** - The nature of a mining operation requires huge investments in mining equipment. In order to properly match the life of an equipment with its financing, the Company availed loans to partially fund Capital Expenditures. Despite the intensive purchases of new mining equipment and other support facilities to complete the capacity expansion program, Debt-to-Equity Ratio managed to record a 17% drop to 0.54:1 as at the end of Q3 2006 from 0.65 as at yearend 2005. This is already taking into consideration the negative effects in Stockholders' Equity of cash dividend payout and reacquisition of shares.

3. **Capital Expenditures** – The completed 4 million MTs of coal per annum capacity expansion program undertaken placed the Company in a position to explore possibilites of exporting coal. The high capacity is also expected to bring down costs of production.

4. **Expanded Market** – The Company's market has greatly improved over the years. It can be recalled that in 1998, 100% of coal sales went to a single market. Now, that dependence is narrowed down to 45%. However, while other markets are showing stregnthening acceptance of Semirara coal, particularly the local cement industry and other industrial plants, the Company is realizing that in the long run, it is not wise to be dependent on the local market if it wants to achieve sustainable growth and development. Hence, the Company is currently working to continuously expand its market base to include the export market.

5. **Improved coal quality** – Semirara coal has inherent quality limitations being low-grade coal. While the Company cannot currently serve all markets, with technological advancements in using coal as fuel cleanly and efficiently, and plants are being designed to use a whole range of coal quality, sooner or later, all coal users may be able to use the product 100%. Meanwhile, management is continuously exerting efforts to improve coal quality through investments in quality-enhancing processes, such as rehabilitation and expansion of the coal washing plant and drying facility. Moreover, the employment of selective mining strategy has greatly improved acceptability of Semirara coal. As at the end of the period heating value of mined coal has registered an average of 9,557 BTU, as against the previous period's 9,597 BTU.

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: November 10, 2006

NESTOR D. DADIVAS
Principal Financial Officer/Comptroller

Date: November 10, 2006

JUNALINA S. TABOR
Principal Accounting Officer

Date: November 10, 2006

PART IV - ANNEX

SEMIRARA MINING CORPORATION
AGING OF ACCOUNTS RECEIVABLE
As of September 30,2006

	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	477,852,742	277,705,441	163,091,940	12,382,308	18,371,002	3,708,286	2,593,764		3,389,777
2. MMDC	-								
3. PNOC	110,781,569	33,564,846	74,604,283	355,760	2,256,680				
4. GFCC	-								
5. TPC	55,701,412	9,452,399	18,869,338		21,352,695	6,026,980			
6. APO	-								
6. PPFC	49,386			49,386					
7. PASAR	-								
8. SUAL - MIRANT	-								
9. PICOP	10,902,235	5,942,702	4,959,533						
10. SOLID	-								
11. NPC - Coal Handling	9,452,508	9,452,508							
	664,739,852	336,117,897	261,525,094	12,787,454	41,980,377	9,735,266	2,593,764	-	3,389,777
Less: Allowance for doubtfull account	3,389,777								
TOTAL	661,350,075								

	TOTAL	1 Month	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.
B NON - TRADE RECEIVABLES									
1. Advances - Officers	318,472				318,472				
2. Advances - Employees	5,948,295	5,948,295							822,913
3. Advances - Suppliers	44,460			44,460					614,352
4. Advances - Operations	-								
5. Advances - Contractors	14,091,697		4,528,298	1,520,174	3,753,970	4,171,894	117,361		2,303,258
6. Advances - for Liquidation	2,436,880		311,171	913,268	1,212,442				1,948,809
7. Advances - SSS Claims	535,235		24,600	26,963			319,702	163,971	500,910
8. Advances - Others	128,852			68,913	59,939				
9. Advances - Medical Accounts	1,028,251		372,823	54,210	601,217				
10. Receivable from Related Parties	66,404,805	66,404,805							
	90,936,947	72,353,100	5,236,892	2,627,987	5,946,040	4,171,894	437,063	163,971	6,190,242
Less: Allowance for D/A-AR Others	6,190,242								
Net NON - TRADE RECEIVABLE	84,746,705								
NET RECEIVABLES (A & B)	746,096,780								