Puda Coal, Inc.
Form 10QSB/A
April 16, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM l0-QSB/A
Amendment No. 3

(Mark One)

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2006

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from __________to _________

Commission file number 333-85306

PUDA COAL, INC.
(Exact name of small business issuer as specified in its charter)

Florida (State or other jurisdiction of incorporation or organization)	65-1129912 (IRS Employer Identification No.)

426 Xuefu Street, Taiyuan, Shanxi Province, The People's Republic of China
(Address of principal executive offices)

011 86 351 228 1300
(Issuer's telephone number)

____

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o*

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes o No o

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date, July 28, 2006 **:** 79,902,667 shares.

Transitional Small Business Disclosure Format (Check one): Yes o No x

* The Issuer, as a voluntary filer, is not subject to the filing requirements under Section 13 or 15(d) of the Exchange Act but has been filing all reports required to be filed by those sections for the past 12 months.

EXPLANATORY NOTE

This Amendment No. 3 on Form 10-QSB/A for the quarter ended June 30, 2006 amends and restates items identified below with respect to the report on Form 10-QSB filed by Puda Coal, Inc. (‘we" or the “Company”) with the Securities and Exchange Commission (the “SEC”) on August 7, 2006 (the “Original Filing”) for the quarterly period ended June 30, 2006, and the Amendment No. 1 on Form 10-QSB/A filed by the Company with the SEC on August 21, 2006 (the “Amendment No. 1”) and the Amendment No. 2 on Form 10-QSB/A filed by the Company with the SEC on February 2, 2007 for the same period (the “Amendment No. 2”).

As described in the current report on Form 8-K filed by the Company with the SEC on January 12, 2007, the Company announced it would restate its financial statements for the quarter ended June 30, 2006. As disclosed in the Form 8-K on January 12, 2007, the Company announced that:

(a)(1) On January 8, 2007, the Company determined to further amend its quarterly reports on Forms 10-QSB for the quarterly periods ended June 30, 2005, September 30, 2005, March 31, 2006, June 30, 2006 and September 30, 2006 and its annual report on Form 10-KSB for the fiscal year ended December 31, 2005, as amended and restated, because its previously issued financial statements for the fiscal periods covered by these reports should no longer be relied upon. No prior period financial statements will be restated because the quarterly period ended June 30, 2005 is the first reporting period impacted by the restatements. Ming Zhao, Chief Executive Officer, Xia Jin, Chief Financial Officer and Wenwei Tian, Chief Operating Officer of the Company made such determination.

(a)(2) In connection with the review of Amendment No. 4 to the Company’s Registration Statement on Form SB-2, the SEC asked the Company to explain the basis for its accounting treatment of an option to purchase Shanxi Puda Coal Group Co., Ltd. (formerly Shanxi Puda Resources Co., Ltd.) (“Shanxi Coal”) under an Exclusive Option Agreement dated June 24, 2005 among Taiyuan Putai Business Consulting Co. Ltd., Shanxi Coal, and the two shareholders of Shanxi Coal, Ming Zhao and Yao Zhao, who are also the two principal shareholders of the Company (the “Option”). The Company determined that the accounting treatment for the Option as reflected in its financial statements for the above mentioned periods, as amended and restated, should be revised. As a result of its analysis of EITF Topic D-98, the Company determined that due to the cross-ownership of the Company and Shanxi Coal the exercise of the Option can be deemed outside of the control of the Company and, consequently, the accounting for the Option price, approximately $2,717,000 (RMB22,500,000, the amount of registered capital of Shanxi Coal), which was originally recorded as paid-in capital under stockholders' equity, should be reclassified as temporary equity of the Company under a caption “Option to buy-out Shanxi Coal.” The restatement has the effect of decreasing shareholders' equity by $2,717,000 and increasing “Option to buy-out Shanxi Coal” by the same amount for each period referenced above.

(a)(3) Moore Stephens ("MS"), the Company's independent auditors, discussed with the Company's officers the above-referenced matters.

(b)(1) On January 8, 2007, MS advised the Company that the financial statements in its quarterly reports on Forms 10-QSB for the quarterly periods ended June 30, 2005, September 30, 2005, March 31, 2006, June 30, 2006 and September 30, 2006 and its annual report on Form 10-KSB for the fiscal year ended December 31, 2005, as amended and restated, needed to be further amended.

(b)(2) Specifically, MS advised that the accounting for the Option price should be reclassified from permanent to temporary equity under the caption of “Option to buy-out Shanxi Coal”;

(b)(3) MS has discussed with the Company's officers the above-referenced matters.

The restatements, which were included in the Amendment No. 2 to the quarterly report on Form 10-QSB/A filed with the SEC on February 2, 2007, reflect the Company's determination that the option purchase price, which equals to the registered capital of Shanxi Coal under the Exclusive Option Agreement dated June 24, 2005, should be reclassified from permanent equity to temporary equity in accordance with EITF Topic No. D-98, paragraph 4, as the exercise of the option can be deemed outside of the control of the Company due to the cross-ownership of the Company and Shanxi Coal. The restatement was made in accordance with the provisions of SFAS 154 for correction of errors. Consolidated balance sheets as of quarterly periods ended June 30, 2005 and September 30, 2005 and March 31, 2006 and consolidated balance sheets of yearly ended December 31, 2005 have been restated. There was no tax effect as a result of the restatement.

The above reclassification has the effect of increasing temporary equity by $2,717,000 and decreasing stockholders' equity (permanent equity) by the same amount as of June 30, 2006. The restatement has no impact on the Company's statements of operations and statements of cash flows for the three and six months ended June 30, 2006.

In connection with the review of Amendment No. 5 to the Company's Registration Statement on Form SB-2 and the amendments to annual and quarterly reports filed by the Company with the SEC on February 2, 2007, the SEC asked the Company to explain the basis for its presentation of the line item "Less: reclassified to temporary equity". Based on its discussion with the independent auditors Moore Stephens, the Company determined that the presentation of these items, as reflected in its financial statements for the above mentioned periods, as amended and restated, should be revised to remove the line item "Less: reclassified to temporary equity" and present the reclassification of "Option to buy-out Shanxi Coal" from permanent equity to temporary equity as a direct deduction from the line item "Paid-in capital" in the consolidated balance sheet.

Consolidated balance sheets and consolidated statements of operations as of quarterly periods ended June 30, 2005, September 30, 2005 and March 31, 2006 and as of yearly ended December 31, 2005 have been revised. There was no tax effect as a result of the reclassification.

The reclassification has no impact on the Company's statements of operations and cash flows for the three and six months ended June 30, 2006.

The issuer, as a voluntary filer, is not subject to the filing requirements under Section 13 or 15(d) of the Exchange Act but has been filing all reports required to be filed by those sections for the past 12 months.

Changes Reflected in this Form 10-QSB/A

This Form 10-QSB/A only amends and restates certain information in the following items related to the quarterly period ended June 30, 2006:

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The application of the foregoing has resulted in certain amendments to the Original Filing, as amended. Primarily these amendments are to reflect reclassification as discussed above. Other non-material revisions were also made in order to clarify certain disclosure in the Original Filing, as amended, for accuracy, including the controls and procedures section and the certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed as Exhibits 31.1 and 31.2 to this report, and to enhance the presentation. In addition, the consolidated balance sheets and the consolidated statements of operations for the quarterly periods ended June 30, 2005 and September 30, 2005, the consolidated balance sheets and consolidated statements of operations for the fiscal year ended December 31, 2005 and the consolidated balance sheets for the quarterly period ended March 31, 2006 and September 30, 2006 are also being amended. The application of the foregoing has resulted in certain amendments to the Original Filing as amended and restated subsequently.

Except for the amended information, this Form 10-QSB/A continues to describe conditions as of the date of the Original Filing, and the disclosures contained herein have not been updated to reflect events, results or developments that have occurred after the Original Filing, or to modify or update those disclosures affected by subsequent events. Among other things, forward-looking statements made in the Original Filing have not been revised to reflect events, results or developments that have occurred or facts that have become known to us after the date of the Original Filing (other than this amendment), and such forward-looking statements should be read in their historical context. This Form 10-QSB/A should be read in conjunction with the Company's filings made with the SEC subsequent to the Original Filing, including any amendments to those filings.

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ITEM 1. Financial Statements

PUDA COAL, INC.
UNAUDITED CONSOLIDATED BALANCE SHEET
June 30, 2006
(In thousand of United States dollars)

	Note(s)		June 30, 2006 (Restated - see Note 17)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		$	22,920
Restricted cash	3		233
Accounts receivable, net			4,635
Other receivables			
- Related parties	4		15
- Third parties			39
Advances to suppliers			784
Deferred charges	9		888
Inventories	5		6,618
Total current assets			36,132
PROPERTY, PLANT AND EQUIPMENT, NET	6		10,350
INTANGIBLE ASSETS, NET	7		3,768
TOTAL ASSETS		$	50,250
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Current portion of long-term debt			
- Related party	4, 8	$	1,300
Accounts payable			
- Related party	4		192
- Third parties			2,107
Other payables			
- Related party	4		879
- Third parties			1,088
Accrued expenses			500
Income taxes payable			1,454
VAT payable			1,029
Distribution payable			1,002
Penalty payable	9		437
Total current liabilities			9,988
LONG-TERM LIABILITIES			

Long-term debt		
- Related party	4, 8	11,050
Convertible notes	9	4,787
Derivative conversion feature	9	4,848
Derivative warrants	9	13,312
Total long-term liabilities		33,997

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PUDA COAL, INC.
UNAUDITED CONSOLIDATED BALANCE SHEET (Continued)
June 30, 2006
(In thousand of United States dollars)

	Note(s)		June 30, 2006 (Restated - see Note 17)
TEMPORARY EQUITY			
Option to buy-out Shanxi Coal	1, 17		2,717
STOCKHOLDERS' EQUITY			
Preferred stock, authorized 5,000,000 shares, par value $0.01, issued and outstanding Nil			-
Common stock, authorized 150,000,000 shares, par value $0.001, issued and outstanding 79,888,274			80
Paid-in capital			5,950
Statutory surplus reserve fund			1,366
Accumulated deficit			(4,229)
Accumulated other comprehensive income			381
Total stockholders' equity			3,548
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		$	50,250

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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PUDA COAL, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
For the three and six months ended June 30, 2006 and 2005
(In thousand of United States dollars, except per share data)

	Note(s)	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
NET REVENUE		$ 30,943	$ 8,747	$ 51,714	$ 13,019
COST OF REVENUE		(24,916)	(6,878)	(41,174)	(10,288)
GROSS PROFIT		6,027	1,869	10,540	2,731
OPERATING EXPENSES					
Selling expenses		771	152	1,047	201
General and administrative expenses		557	71	991	135
Other operating expenses		-	1		1
TOTAL OPERATING EXPENSES		1,328	224	2,038	337
INCOME FROM OPERATIONS		4,699	1,645	8,502	2,394
GAIN ON SHORT-TERM INVESTMENTS		-	-	-	6
INTEREST INCOME		3	1	12	1
INTEREST EXPENSE		(1,213)	-	(1,779)	-
DEBT FINANCING COSTS	10	(2,888)	-	(7,841)	-
DERIVATIVE UNREALIZED FAIR VALUE GAIN/(LOSS)	11	487	-	(3,013)	-
INCOME/(LOSS) BEFORE INCOME TAXES		1,088	1,646	(4,119)	2,401
INCOME TAXES	12	(1,451)	(550)	(2,689)	(811)
NET (LOSS)/INCOME		(363)	1,096	(6,808)	1,590
OTHER COMPREHENSIVE INCOME					
Foreign currency translation adjustment		79	-	227	-
COMPREHENSIVE (LOSS)/INCOME		$ (284)	$ 1,096	$ (6,581)	$ 1,590

PUDA COAL, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)
For the three and six months ended June 30, 2006 and 2005
(In thousand of United States dollars, except per share data)

	Note(s)	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
NET (LOSS)/INCOME		(363)	1,096	(6,808)	1,590
LESS: DIVIDENDS					
Option holder preference dividend		-	(2,717)	-	(2,717)
Common dividend		-	-	-	-
UNDISTRIBUTED EARNINGS		$ (363)	$ (1,621)	$ (6,808)	$ (1,127)
BASIC EARNINGS PER SHARE					
-Option holder preference		$ (0.00)	$ 0.04	$ (0.00)	$ 0.04
-Other common holders		(0.00)	(0.03)	(0.09)	(0.02)
		$ (0.00)	$ 0.01	$ (0.09)	$ 0.02
DILUTED EARNINGS PER SHARE					
-Option holder preference		$ (0.00)	$ 0.04	$ (0.00)	$ 0.04
-Other common holders		(0.00)	(0.03)	(0.09)	(0.02)
		$ (0.00)	$ 0.01	$ (0.09)	$ 0.02
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING-BASIC	13	76,733,239	73,750,000	76,531,046	73,750,000
-DILUTED	13	76,733,239	73,792,671	76,531,046	73,792,671

The accompanying notes are an integral part of these unaudited consolidated financial statements.

PUDA COAL, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended June 30, 2006 and 2005
(In thousand of United States dollars)

	Notes	Six months ended June 30, 2006	Six months ended June 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss)/income		$ (6,808)	$ 1,590
Adjustments to reconcile net (loss)/income to net cash provided by operating activities			
Amortization of land-use rights		39	3
Depreciation		473	53
Provision for doubtful debts		2	-
Amortization of debt issue costs		768	-
Amortization of discount on convertible notes and warrants		6,636	-
Derivative unrealized fair value loss		3,013	
Discount on converted shares and exercised warrants		947	-
Issue of common shares for services		21	-
Changes in operating assets and liabilities:			
Decrease in short-term investments		-	117
Increase in accounts receivable		(413)	(525)
Decrease in notes receivable		-	638
(Increase)/decrease in other receivables		(1)	17
Decrease/(increase) in advances to suppliers		2,175	(324)
Decrease/(increase) in inventories		941	(711)
Increase in accounts payable		973	354
Increase in accrued expenses		137	47
Increase in other payables		385	68
Increase in income tax payable		57	815
Increase in VAT payable		712	9
Increase in penalty payable		437	-
Decrease in restricted cash		382	-
Net cash provided by operating activities		10,876	2,151
CASH FLOWS FROM FINANCING ACTIVITIES:			
Exercise of warrants		390	-
Repayment of long-term debt		(650)	-
Shareholder contribution		-	50
Distribution paid to owners		-	(967)
Net cash used in financing activities		(260)	(917)
Effect of exchange rate changes on cash		237	-
Net increase in cash and cash equivalents		10,853	1,234

Cash and cash equivalents at beginning of period			12,067		313
Cash and cash equivalents at end of period		$	22,920	$	1,547
Supplementary cash flow information	14				

The accompanying notes are an integral part of these unaudited consolidated financial statements.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. The Company

Puda Coal, Inc. (formerly Purezza Group, Inc.)("the Company" or “Puda”) is a corporation organized under Florida Law and headquartered in Shanxi Province, China. The Company was incorporated on August 9, 2001 to market a product called Phoslock. Phoslock is a patented product for the removal of phosphorus and other oxyanions in natural and industrial waters and wastewater streams. Prior to April 22, 2004, the Company's activities consisted of capital transactions, organization, and development of the Company's Phoslock product line.

On April 23, 2004, the Company transferred all of its assets including, cash on hand, the Phoslock product line, and all of the Company's rights under a license agreement for the use of the Phoslock product line, to Purezza Marketing, Inc. ("PMI"), a wholly owned subsidiary of the Company. The Company's license agreement was with Integrated Mineral Technology Limited ("Integrated"), an Australian entity, and provided for certain fixed royalty payments by the Company. As part of the Company's asset transfer to PMI, PMI assumed all liabilities under the license agreement, which assumption was consented to by Integrated.

Concurrently with the asset transfer to PMI, the Company distributed on a pro rata basis all of its stock ownership in PMI to the holders of its common stock (the "Distribution"). As a result of this transfer and the Distribution, PMI operates independently from the Company and as a successor to the Company's business and operations and the Company no longer had any meaningful business assets, operations or sources of revenue.

On July 15, 2005, the Company acquired all the outstanding capital stock and ownership interests of Puda Investment Holding Limited (“BVI”) and BVI became a wholly-owned subsidiary of the Company. In exchange, Puda issued to the BVI members 1,000,000 shares of its Series A convertible preferred stock, par value $0.01 per share, of the Company, which are convertible into 678,500,000 shares of Puda’s common stock. The purchase agreement provided that the preferred shares would immediately and automatically be converted into shares of Puda’s common stock (the “Mandatory Conversion”), following an increase in the number of authorized shares of Puda’s common stock from 100,000,000 to 150,000,000, and a 1 for 10 reverse stock split of Puda’s outstanding common stock (the “Reverse Split”). The share data has been retroactively adjusted for the Reverse Split.

On August 2, 2005, the authorized number of shares of common stock of the Company was increased from 100,000,000 shares to 150,000,000 shares. On September 8, 2005, Puda completed the Reverse Split. Following the Mandatory Conversion of preferred shares and the Reverse Split, the BVI members received, in the aggregate, approximately 67,850,000 shares of total of 73,750,000 of Puda’s common stock, representing 92% of the outstanding shares of Puda’s common stock.

BVI is an International Business Company incorporated in the British Virgin Islands on August 19, 2004 and it has a registered capital of $50,000. BVI did not have any operating activities from August 19, 2004 (inception) to June 30, 2006.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. The Company (continued)

BVI, in turn, owns all of the registered capital of Taiyuan Putai Business Consulting Co., Ltd. (Now known as Shanxi Putai Resources Ltd).("Putai"), a wholly foreign owned enterprise ("WFOE") registered under the wholly foreign-owned enterprises laws of the People's Republic of China ("PRC"). Putai was incorporated on November 5, 2004 and has a registered capital of $20,000. Putai did not have any operating activities from November 5, 2004 (inception) until June 24, 2005 when it entered into certain restructuring agreements with Shanxi Puda Coal Group Co., Ltd. (formerly, Shanxi Puda Resources Co. Ltd.)("Shanxi Coal"), a company with limited liability established under the laws of the PRC.

Shanxi Coal was established on June 7, 1995. Shanxi Coal mainly processes and washes raw coal and sells from its plants in Shanxi Province, high-quality, low sulfur refined coal for industrial clients mainly in Central and Northern China. Shanxi Coal has a registered capital of RMB22,500,000 ($2,717,000) which is fully paid-up. The owners of Shanxi Coal are Mr. Zhao Ming (80%) and Mr. Zhao Yao (20%). Zhao Ming and Zhao Yao are executive officers of Puda and are brothers.

On June 24, 2005, Putai and Shanxi Coal entered into an Exclusive Consulting Agreement, an Operating Agreement, and a Technology License Agreement (collectively, these agreements are referred to herein as the "Restructuring Agreements"). Under the Restructuring Agreements, Putai has agreed to advise, consult, manage and operate Shanxi Coal's business, to provide certain financial accommodations to Shanxi Coal, and to license certain technology to Shanxi Coal for use in its business, in exchange for Shanxi Coal's payment of all of its operating cash flow to Putai. Under the Exclusive Option Agreement dated June 24, 2005, each of the holders of the registered capital of Shanxi Coal granted Putai the exclusive right and option (the "Option") to acquire all of their registered capital of Shanxi Coal at Putai's sole and absolute discretion for a purchase price equal to the actual capital contributions paid in by the holders of the registered capital of Shanxi Coal for their respective purchase of the shares at the time of original issuance of the registered capital by Shanxi Coal. The amount of the registered capital of Shanxi Coal as of the date of the Exclusive Option Agreement totaled RMB22,500,000 ($2,717,000). The Option purchase price which equals the registered capital of Shanxi Coal was recorded as temporary equity under the caption "Option to buy-out Shanxi Coal" (Note 17). The exercise of the Option is analogous to creating a second class of common stock, which is referred to as "Option holder preference" in the consolidated statements of operations. Putai was further authorized to exercise the voting rights of the holders of the registered capital of Shanxi Coal and to act as the representative for such holders in all matters respecting Shanxi Coal's registered capital. Although Puda owns none of the outstanding equity interests in Shanxi Coal, the Restructuring Agreements provide Puda control over Shanxi Coal, and the risks and rewards associated with equity ownership.

Immediately after the Mandatory Conversion and Reverse Split, the percentages owned by Mr. Zhao Ming and Mr. Zhao Yao in the Group companies are as follows:

- Puda Coal, Inc.: Mr. Zhao Ming (approximately 74%); Mr. Zhao Yao (approximately 18%) held directly.
- Puda Investment Holding Limited: Mr. Zhao Ming (approximately 74%); Mr. Zhao Yao (approximately 18%) held indirectly through Puda.
- Taiyuan Putai Business Consulting Co., Ltd (Now known as Shanxi Putai Resources Ltd.): Mr. Zhao Ming (approximately 74%); Mr. Zhao Yao (approximately 18%) held indirectly through Puda and BVI.

- Shanxi Puda Coal Group Co., Ltd.: Mr. Zhao Ming (80%); Mr. Zhao Yao (20%) held directly.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. The Company (continued)

After the above reorganization, Puda Coal, Inc. owns all of the outstanding capital stock of Puda Investment Holging Limited, which in turn, owns all of the outstanding capital stock of Taiyuan Business Consulting Co. Ltd. and as of December 31, 2005, the organizational structure of the Group as at December 31, 2005 is as follows:

Puda Coal, Inc. “Puda”		
ǀ 100%		
Puda Investment Holding Limited “BVI”		Zhao Ming (80%) and Zhao Yao (20%)
ǀ 100%		ǀ
Taiyuan Putai Business Consulting Co., Ltd.(Now known as Shanxi Putai Resources Ltd.) "Putai"	**Operating Agreements** Operation and Control à ß Economic Benefits and Risks	Shanxi Puda Coal Group Co., Ltd. “Shanxi Coal”

2. Summary of Significant Accounting Policies

(a) Basis of Presentation and Consolidation

These unaudited consolidated financial statements include Puda (Registrant and Legal Parent), BVI, Putai and Shanxi Coal (Operating Company). Puda controls BVI and Putai through stock ownership. Puda controls Shanxi Coal by means other than record ownership of voting stock (Note 1). Intercompany items have been eliminated. The unaudited consolidated financial statements give effect to the Mandatory Conversion and Reverse Split. For accounting purpose, the transactions are effective on January 1, 2004.

The merger of a private operating company into a non-operating public shell corporation with nominal net assets typically results in the owners and management of the private company having actual or effective operating control of the combined company after the transaction, with shareholders of the former public shell continuing only as passive investors. These transactions are considered to be capital transactions in substance, rather than business combinations. That is, the transaction is equivalent to the issuance of stock by the private company for the net monetary assets of the shell corporation, accompanied by a recapitalization. The accounting is identical to that resulting from a reverse acquisition, except that no goodwill or other intangible should be recorded. For accounting purposes, Shanxi Coal is deemed to be the acquirer.

The unaudited consolidated balance sheet as of June 30, 2006 includes Puda, BVI, Putai and Shanxi Coal (‘the Group”). The unaudited consolidated statements of operations for the three and six months ended June 30, 2006 include Puda, BVI, Putai and Shanxi Coal. The unaudited consolidated statement of operations for the three and six months ended June 30, 2005 include Shanxi Coal for the full period, and BVI and Putai from June 24, 2005.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (continued)

(a) Basis of Presentation and Consolidation (continued)

The accompanying unaudited consolidated financial statements as of June 30, 2006 and for the three and six month periods ended June 30, 2006 and 2005 have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. In the opinion of management, these unaudited consolidated interim financial statements include all adjustments considered necessary to make the financial statements not misleading. The results of operations for the six months ended June 30, 2006 are not necessarily indicative of the results for the full fiscal year ending December 31, 2006. The unaudited consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2005 as reported in Form 10-KSB.

(b) Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported periods. Significant estimates include depreciation and allowance for doubtful accounts receivable. Actual results could differ from those estimates.

(c) Inventories

Inventories comprise raw materials and finished goods and are stated at the lower of cost or market value. Substantially all inventory costs are determined using the weighted average basis. Costs of finished goods include direct labor, direct materials, and production overhead before the goods are ready for sale.

(d) Property, Plant and Equipment, Net

Property, plant and equipment is stated at cost. Depreciation is provided principally by use of the straight-line method over the useful lives of the related assets. Expenditures for maintenance and repairs, which do not improve or extend the expected useful lives of the assets, are expensed to operations while major repairs are capitalized.

Management considers that they have a 10% residual value for buildings, and a 5% residual value for other property, plant and equipment. The estimated useful lives are as follows:

Buildings and facility	20 years
Machinery and equipment	10 years
Motor vehicles	10 years
Office equipment and others	10 years

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets, and, if any, is recognized in the unaudited consolidated statement of operations.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (continued)

(e) Derivative Financial Instruments

Derivative financial instruments are accounted for under Statement of Financial Accounting Standards No. 133 “Accounting for Derivative Instruments and Hedging Activities” as amended (SFAS No. 133). Under SFAS No. 133, all derivative instruments are recorded on the balance sheet as assets or liabilities and measured at fair value. Changes in the fair value of derivative instruments are recorded in current earnings.

(f) Income Taxes

The Group accounts for income taxes under SFAS No. 109, "Accounting for Income Taxes". Under SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Group reviewed the differences between the tax bases under PRC tax laws and financial reporting under US GAAP, and no material differences were found, thus, there were no deferred tax assets or liabilities as of June 30, 2006.

Under current PRC tax laws, no tax is imposed in respect to distributions paid to owners except individual income tax.

(g) Revenue Recognition

Revenue from goods sold is recognized when (i) persuasive evidence of an arrangement exists, which is generally represented by a contract between the Company and the buyer; (ii) title has passed to the buyer, which generally is at the time of delivery; (iii) the seller’s price to the buyer is agreed between the Company and the buyer; and (iv) collectibility is reasonably assured.

(h) Foreign Currency Transactions

The reporting currency of the Group is the U.S. dollar. Shanxi Coal uses its local currency, Renminbi, as its functional currency. Results of operations and cash flow are translated at average exchange rates during the period, and assets and liabilities are translated at the end of period exchange rates. Translation adjustments resulting from this process are included in accumulated other comprehensive income in stockholders’ equity. Transaction gains and losses that arise from exchange rate fluctuations from transactions denominated in a currency other than the functional currency are included in the results of operations as incurred. These amounts are not material to the unaudited consolidated financial statements for the three and six months ended June 30, 2006 and 2005.

The PRC government imposes significant exchange restrictions on fund transfers out of the PRC that are not related to business operations. These restrictions have not had a material impact on the Group because it has not engaged in any significant transactions that are subject to the restrictions.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (continued)

(i) Earnings Per Share

Basic earnings per share is computed by dividing the earnings for the period by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution of securities by including other potential common stock, including stock options and warrants, in the weighted average number of common shares outstanding for the period, if dilutive. Shares issued in the exchange (see Note 1) are presented as outstanding for all periods.

3. Restricted Cash

Restricted cash is reserved for interest payment on convertible notes**.**

4. Related Party Transactions

As of June 30, 2006, the Group had the following amounts due from/to related parties:-

		June 30, 2006 $'000
Other receivable from an owner, Zhao Ming	$	15
Accounts payable to Shanxi Liulin Jucai Coal Industry Co., Limited. ("Jucai Coal"), a related company with a common owner	$	192
Other payable to Shanxi Puda Resources Group Limited ("Resources Group"), a related company with common owners	$	679
Other payable to an owner, Zhao Yao		200
	$	879
Loan payable to Resources Group:		
-current portion	$	1,300
-non-current portion		11,050
	$	12,350

The balances, except for the loan payable to Resources Group, are unsecured, interest-free and there are no fixed terms for repayment.

The balance payable to Resources Group of $679,000 includes professional and regulatory charges related to the public listing paid by Resources Group on behalf of the Company of $901,000, netted against other receivables of $222,000 due from Resources Group.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Related Party Transactions (continued)

The amount payable to Zhao Yao represents land-use rights paid by him on behalf of Shanxi Coal (see Note 7).

The loan payable to Resources Group of $12,350,000 was incurred in relation to the purchase of the Liulin and Zhong Yang coal washing plants. It bears interest at a rate of 6% per annum payable quarterly. In the three months ended June 30, 2006, Shanxi Coal paid principal of $325,000 and interest of $190,000 to Resources Group. In the six months ended June 30, 2006, Shanxi Coal paid principal of $650,000 and interest $385,000 to Resources Group. This loan is subordinated to the convertible notes (see Note 8).

In the three months ended June 30, 2006 and 2005, Shanxi Coal purchased raw coal from Jucai Coal in the amounts of $4,409,000 and $612,000, respectively. In the six months ended June 30, 2006 and 2005, Shanxi Coal purchased raw coal from Jucai Coal in the amounts of $7,211,000 and $1,289,000, respectively.

On November 17, 2005, Shanxi Coal entered into a coal supply agreement with Jucai Coal, pursuant to which Shanxi Coal has priority to Jucai Coal's high grade metallurgical coking coal supply over Jucai Coal's other customers. Under the terms of the agreement, Shanxi Coal receives a discount of approximately $4 to $6 per metric ton of coal from the price Jucai Coal charges to its other customers.

5. Inventories

As of June 30, 2006, inventories consist of the following:

		June 30, 2006 $'000
Raw materials	$	4,664
Finished goods		1,954
Total	$	6,618

There was no allowance for losses on inventories as of June 30, 2006.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Property, Plant and Equipment, Net

As of June 30, 2006, property, plant and equipment consist of following:

		June 30, 2006 $'000
Cost:		
Buildings and facilities	$	2,961
Machinery equipment		8,131
Motor vehicles		254
Office equipment and others		76
		11,422
Accumulated depreciation:		
Buildings and facility		174
Machinery equipment		734
Motor vehicles		131
Office equipment and others		33
		1,072
Carrying value:		
Buildings and facility		2,787
Machinery equipment		7,397
Motor vehicles		123
Office equipment and others		43
	$	10,350

Depreciation expense for the three months ended June 30, 2006 and 2005 was approximately $237,000 and $26,000, respectively. Depreciation expenses for the six months ended June 30, 2006 and 2005 was approximately $473,000 and $53,000, respectively. In the six months ended June 30, 2006, the amounts included in cost of sales and general and administrative expenses were approximately $460,000 (2005: $42,000) and $13,000 (2005: $11,000), respectively.

7. Intangible Assets

		Land-use rights June 30, 2006 $'000
Cost	$	3,831
Accumulated amortization		63
Carrying value	$	3,768

Land-use rights of $197,000 paid by Zhao Yao on behalf of Shanxi Coal is located in Liulin County, Shanxi Province and are amortized over fifty years up to March 2051 (see Note 4).

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Intangible Assets (continued)

Land-use rights in Liulin County purchased from Resources Group are located in Shanxi Province and are amortized over 50 years up to August 4, 2055. Land-use rights of Zhong Yang County purchased from Resource Group are located in Shanxi Province and are amortized over fifty years up to May 20, 2055. Shanxi Coal pledged the land-use rights and plant and equipment until such time when the purchase price and interest thereon is fully paid by Shanxi Coal to Resources Group.

Amortization expense for the three months ended June 30, 2006 and 2005 was approximately $20,000 and $1,000, respectively. Amortization expense for the six months ended June 30, 2006 and 2005 was approximately $39,000 and $3,000, respectively. The estimated aggregate amortization expense for the five years ending December 31, 2006, 2007, 2008, 2009 and 2010 amounts to approximately $76,000, $76,000, $76,000, $76,000 and $76,000, respectively.

8. Long-term Debt

		June 30, 2006 $'000
Conveyance loan	$	12,350
Less: current portion		(1,300)
Long-term portion	$	11,050

The conveyance loan is seller-financed, payable over ten years from December 31, 2005 and bears interest at a rate of 6% per annum, payable quarterly. In the three months ended June 30, 2006, Shanxi Coal paid principal of $325,000 and interest of $190,000 to Resources Group. In the six months ended June 30, 2006, Shanxi Coal paid principal of $650,000 and interest $385,000 to Resources Group. The conveyance loan is subordinated to the convertible notes. Payments by Shanxi Coal to Resources Group under the conveyance loan may not be accelerated while Puda has obligations of principal or interest outstanding to investors under the notes, nor may Shanxi Coal make payments under the conveyance loan if Puda is in default to the investors under the notes (see Note 4).

The future principal payments under the conveyance loan as of June 30, 2006 are as follows:

Year		June 30, 2006 $'000
2007	$	1,300
2008		1,300
2009		1,300
2010		1,300
2011		1,300
Thereafter		5,850
	$	12,350

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PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Convertible Notes and Related Warrants

On November 18, 2005, the Company issued $12,500,000 aggregate principal amount of 8% unsecured convertible notes due October 31, 2008 and related warrants to purchase shares of common stock of the Company. The notes are convertible into common stock at $.50 per share over the term of the debt and $850,000 of aggregate principal amount was converted into 1,700,000 shares of common stock immediately. In the first quarter of 2006, $200,000 was converted into 400,000 shares of common stock, and in June 2006, $1,575,000 was converted into 3,150,000 shares of common stock. The related warrants to purchase 25,000,000 shares of common stock, exercisable at $.60 per share, have a term of five years from the date of issuance. In June 2006, 650,000 warrants were exercised into 650,000 shares of common stock.

Investors were given "full ratchet" anti-dilution protection under the notes and the warrants, meaning that the conversion price under the notes and the exercise price under the warrants will be adjusted to the lowest per share price for future issuances of Puda's common stock should such per share price be lower than the conversion price of the notes or the exercise price of the warrants, with carve-outs for (i) issuance of shares of common stock in connection with the conversion of the notes or exercise of the warrants, (ii) the issuance of shares of common stock for the payment of the penalties under the notes, or (iii) the issuance of common stock to employees or directors pursuant to an equity incentive plan approved by Puda's stockholders. The conversion price of the notes and the exercise price of the warrants are also subject to proportional adjustments for issuance of shares as payment of dividends, stock splits, rights offerings to shareholders in conjunction with payment of cash dividends. Investors were also given registration rights in connection with the resale of (i) the common stock into which the notes may be converted, and (ii) the common stock underlying the warrants, on a registration statement to be filed with the Securities and Exchange Commission (“SEC”). Such registration statement is required to be filed within 30 days following the date of closing of the offer and sale of the units, which occurred on November 18, 2005, and declared effective within 120 days from that date, or Puda will be subject to pay a penalty to investors of an amount equal to 1% of the purchase price of each unit held by investors, payable in shares of common stock for every 30 day period, or part thereof, after the relevant date. Puda is required to pay the costs associated with the registration statement. Puda is also required to pay investors an amount equal to 1% of the purchase price of each unit held by investors for every 30 day period that Puda becomes deficient in its periodic reporting requirements with the SEC under the Securities Exchange Act of 1934, as amended, until all the securities have been sold by the investors. This late filing penalty will be in addition to any other penalties and is payable in shares of Puda’s common stock. Puda may redeem all, but not less than all, of the warrants at $0.001 per share subject to 30 business days’ prior notice to the holders of the warrants, and provided that (i) a registration statement is in effect covering the common stock underlying the warrants, (ii) the closing bid price of the common stock of Puda exceeds $2.50 per share on an adjusted basis for at least 20 consecutive trading days and (iii) the average daily trading volume of the common stock exceeds 50,000 shares per day during the same period. Puda will be subject to default on the notes should they fail to (i) make timely interest payment and such default continues for 15 days, (ii) make payment of the principal when due, (iii) comply with any other agreements under the Note, (iv) commences bankruptcy, provided that note holders representing at least 50% of the principal amount of the notes have notified Puda of the default and Puda has not cured the default within 45 days of such notice.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Convertible Notes and Related Warrants (continued)

The convertible notes and warrants require the Company to register the resale of the shares of common stock upon conversion or exercise of these securities. The warrants are freestanding derivative financial instruments. The Company accounts for the fair value of these outstanding warrants to purchase common stock and conversion feature of its convertible notes in accordance with SFAS No. 133 “Accounting For Derivative Instruments And Hedging Activities” and EITF Issue No. 00-19 “Accounting For Derivative Financial Instruments Indexed To And Potentially Settled In A Company’s Own Stock” which require the Company to account for the conversion feature and warrants as derivatives. Pursuant to SFAS No. 133, the Company bifurcated the fair value of the conversion feature from the convertible notes, since the conversion features were determined not to be clearly and closely related to the debt host. In addition, since the effective registration of the securities underlying the conversion feature and warrants is an event outside of the control of the Company, pursuant to EITF Issue No. 00-19, the Company recorded the fair value of the conversion features and warrants as liabilities. The Company is required to carry these derivatives on its balance sheet at fair value and unrealized changes in the values of these derivatives are reflected in the unaudited consolidated statement of operations as “Derivative unrealized fair value gain / (loss)”.

Based on a Black-Scholes pricing model the warrants, which are exercisable at $.60 per share, have a value of $2.25 per share, or $56,250,000, and the conversion feature, has a value of $2.17 per share, or $54,250,000. As these values are greater than the debt of $12,500,000, the total issue was discounted. The discount was allocated between the warrants and conversion feature based on their relative fair values, resulting in the warrants being valued at $6,363,000 and the conversion feature at $6,137,000. The conversion feature was recorded as a derivative liability as the contract does not contain an explicit limit on the number of shares to be delivered in a share settlement, and is being amortized over the life of the debt of three years using the effective interest method, up to October 31, 2008. The portion of the discount of $794,000 related to the converted shares in the six months ended June 30, 2006 was recorded in interest expense. The amount amortized in the three and six months ended June 30, 2006 was $333,000 and $641,000, respectively. The unamortized amount of $4,055,000 was offset against convertible notes. The amount allocated to the warrants is classified as a derivative liability because they embody an obligation to issue a variable number of shares. This obligation is generated by the Registration Rights and Late Filing Penalties described above. Warrants are being amortized over the term of five years using the effective interest method, up to October 31, 2010 and the amount amortized was $1,061,000 in the three months ended June 30, 2006 and $3,182,000 in the six months ended June 30, 2006. The portion of the discount of $27,000 related to the exercised warrants in the six months ended June 30, 2006 was recorded in interest expense. The unamortized amount of $1,033,000 was offset against convertible notes.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Convertible Notes and Related Warrants (continued)

In conjunction with the issuance of the notes, the placement agent was issued five year warrants, exercisable from November 18, 2005, to purchase 2,500,000 shares of common stock of the Company at an exercise price of $.60 per share. The warrants issued to the placement agent have the same terms and conditions as the warrants issued to the investors, including "full ratchet" anti-dilution protection, proportional exercise price adjustments based on issuances of stock as dividends and share splits, and Puda's right to redeem the warrants subject to an effective registration statement covering the underlying shares of the placement agent's warrant, and certain share price and trading volume requirements. However, the warrants issued to the placement agent, unlike the warrants issued to the investors, have a cashless exercise feature. As with the warrants related to the notes, the placement agent warrants are classified as a derivative liability and are freestanding derivative financial instrument and contain Registration Rights and Late Filing Penalties identical to those held by the investors. These warrants are being amortized over the term of five years using the effective interest method, up to October 31, 2010. The amount amortized in the three and six months ended June 30, 2006 were $938,000 and $2,813,000, respectively. The unamortized amount of $812,000 was recorded in deferred charges. As of June 30, 2006, these warrants were valued at $3.17 per share according to a Black-Scholes pricing model and the unrealized loss on the change in fair value of these warrants of $3,013,000 was included in the unaudited consolidated statements of operations. In the first quarter of 2006, 64,167 placement agent warrants were exercised in a cashless method and resulted in the issue of 55,687 common shares. In June 2006, 191,667 placement agent warrants were exercised in a cashless method and resulted in the issuance of 172,100 common shares. The portion of the discount of $126,000 in the six months ended June 30, 2006 related to the exercised warrants was recorded in interest expense.

Debt issue costs of $1,583,000 are being amortized over the life of the debt of three years using the effective interest method, up to October 31, 2008 and the amount amortized in the three months ended June 30, 2006 and six months ended June 30, 2006 was $177,000 and $768,000 respectively. The unamortized amount of $76,000 as of June 30, 2006 was recorded in deferred charges.

As of June 30, 2006, long-term liabilities include the following:

		June 30, 2006 $000
Convertible notes:		
Gross amount issued	$	12,500
Less: amount converted		(2,625)
Less: unamortized discount on conversion feature		(4,055)
Less: unamortized discount on note warrants		(1,033)
	$	4,787
Derivative conversion feature:		
Amount allocated to conversion feature	$	6,137
Less: amount transferred to equity upon conversion		(1,289)
	$	4,848
Derivative warrants:		
Amount allocated to investor warrants	$	6,363
Placement agent warrants		5,625
Less: amount transferred to equity upon exercise		(989)

Add: change in fair value		2,313
	$	13,312

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Convertible Notes and Related Warrants (continued)

Interest expense on the convertible notes in the three and six months ended June 30, 2006 amounted to $218,000 and $447,000, respectively.

As at June 30, 2006, the registration statement regarding the convertible notes and related warrants has not been declared effective by the SEC. The relevant date of March 17, 2006 for having the SEC declared the registration date has passed. Therefore, Puda is required to pay the penalty to investors for the delay in getting them registration rights. According to the subscription agreement of the convertible notes and related warrants, the penalty is equal to 1% of the purchase price of each unit held by investors, payable in shares of common stock of the Company, for every 30 day period, or part thereof, after the relevant date. The penalty payable to the investors is $4,167 per day after the relevant date. In the three and six months ended June 30, 2006 , the penalty was $379,000 and $437,000, respectively, which was recorded as a current liability and will be transferred to equity when the common shares are issued.

10. Debt Financing Costs

Debt financing costs for the three months ended June 30, 2006 include amortization of debt issue costs of $177,000 (2005: $nil), amortization of discount on convertible notes and warrants of $2,332,000 (2005: $nil), and penalty for the delay in getting the registration statement effective by March 17, 2006 of $379,000 (2005:$nil) Debt financing costs for the six months ended June 30, 2006 include amortization of debt issue costs of $768,000 (2005: $nil), amortization of discount on convertible notes and warrants of $6,636,000 (2005: $nil), and penalty for the delay in getting the registration statement effective by March 17, 2006 of $437,000 (2005:$nil) (See Note 9).

11. Derivative Unrealized Fair Value Gain/(Loss)

Derivative unrealized fair value gain of $487,000 in the three months ended June 30, 2006 (2005: $nil) and derivative unrealized fair value loss of $3,013,000 in the six months ended June 30, 2006 (2005: $nil) represent the change in fair value of the warrants derivative (see Note 9).

12. Taxation

No provision for taxation has been made for Puda, BVI and Putai for the three months ended June 30, 2006 and for the six months ended June 30, 2006 , as they did not generate any taxable profits during the period.

Pursuant to the PRC Income Tax Laws, Shanxi Coal is subject to enterprise income tax at a statutory rate of 33% (30% national income tax plus 3% local income tax).

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Taxation (continued)

Details of income taxes in the statements of operations are as follows:-

	Three months ended June 30, 2006 $'000	Three months ended June 30, 2005 $'000	Six months ended June 30, 2006 $'000	Six months ended June 30, 2005 $'000
Current period provision	$ 1,451	$ 550	$ 2,689	$ 811

A reconciliation between taxes computed at the United States statutory rate of 34% and the Group's effective tax rate is as follows:-

	Three months ended June 30, 2006 $'000	Three months ended June 30, 2005 $'000	Six months ended June 30, 2006 $'000	Six months ended June 30, 2005 $'000
Income before income taxes	$ 1,088	$ 1,646	$ (4,119)	$ 2,401
Income tax on pretax income at statutory rate	370	560	(1,400)	816
Tax effect of expenses that are not deductible in determining taxable profits	939	6	3,815	19
Effect of different tax rates of subsidiary operating in other jurisdictions	(49)	(16)	(87)	(24)
Valuation allowance	191	-	361	-
Income tax at effective rate	$ 1,451	$ 550	$ 2,689	$ 811

As at June 30, 2006, the Group had accumulated net operating loss carryforwards for United States federal tax purposes of approximately of $2,400,000, that are available to offset future taxable income. Realization of the net operating loss carryforwards is dependent upon future profitable operations. In addition, the carryforwards may be limited upon a change of control in accordance with Internal Revenue Code Section 382, as amended. Accordingly, management has recorded a valuation allowance to reduce deferred tax assets associated with the net operating loss carryforwards to zero at June 30, 2006. The net operating loss carryforwards expires in years 2021, 2022, 2023, 2024 and 2025, 2026 in the amounts of $132,000, $394,000, $153,000, $371,000, $287,000 and $1,063,000, respectively.

At June 30, 2006, deferred tax assets consist of:

	June 30, 2006 $'000
Net operating loss carryforwards	$ 816
Less: Valuation allowance	(816)
Net	$ -

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Basic and Diluted Weighted Average Number of Shares

	Three months ended June 30, 2006 $'000	Three months ended June 30, 2005 $'000	Six months ended June 30, 2006 $'000	Six months ended June 30, 2005 $'000
Basic weighted average number of shares	76,733,239	73,750,000	76,531,046	73,750,000
Options outstanding, after adjusting for 10 to 1 reverse split	-	42,671	-	42,671
Diluted weighted average number of Shares	76,733,239	73,792,671	76,531,046	73,792,671

The options, convertible notes and warrants have no dilutive effect on the basic loss per share in the three and six months ended June 30, 2006 because of the loss, but these items could potentially dilute earnings per share in the future.

14. Supplementary cash flow information

	Six months ended June 30, 2006 $'000	2005 $'000
Cash paid during the period for:		
Interest	$ 832	$ 4
Income taxes	$ 2,644	$ -
Major non-cash transactions:		
Notes converted into 3,550,000 common shares	$ 1,775	$ -
Issue of 10,000 common shares for services	$ 21	$ -
Cashless exercise of 255,834 placement agent warrants into 227,787 common shares	$ -	$ -

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PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Options

As at June 30, 2006, Puda has outstanding options as follows:

Number of options granted	After adjusting for the 10 to 1 reverse stock split		Exercise price	Expiry date	Estimated Fair value $'000
150,000	15,000 (i)	$	1	October 20, 2008	45
500,000	50,000 (ii)	$	10	October 27, 2006	0
1,000,000	100,000 (iii)	$	10	November 5, 2006	0

(i) were granted in 2003 to former directors/officers in consideration of services rendered.

(ii) were granted in 2003 to Sanzari Family Trust and TJP Management, Inc. in consideration of providing working capital to the Company.

(iii) were granted in 2003 to Gregory A. Nagel in consideration of providing working capital to the Company.

The following summarizes the share option transactions during the periods:

	Number of options	Weighted average exercise price $
Options outstanding at December 31, 2004 (after adjusting for the 10 to 1 reverse stock split)	165,000	9.2
Granted	-	-
Exercised	-	-
Forfeited	-	-
Expired	-	-
Options outstanding at December 31, 2005	165,000	9.2
Granted	-	-
Exercised	-	-
Forfeited	-	-
Expired	-	-
Options outstanding at June 30, 2006	165,000	9.2

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Condensed Financial Information of Registrant

Balance Sheet-Parent Company Only
(In thousand of United States dollars)

		June 30, 2006 (Restated - see Note 17)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	-
Restricted cash		233
Deferred charges		888
Total current assets		1,121
INVESTMENTS IN SUBSIDIARIES		18,748
TOTAL ASSETS	$	19,869
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Penalty payable		437
Total current liabilities		437
LONG-TERM LIABILITIES		
Convertible notes		4,787
Derivative conversion feature		4,848
Derivative warrants		13,312
Total long-term liabilities		22,947
TEMPORARY EQUITY		
Option to buy-out Shanxi Coal		2,717
STOCKHOLDERS' EQUITY		
Preferred stock, authorized 5,000,000 shares, par value $0.01, issued and outstanding Nil		-
Common stock, authorized 150,000,000 shares, par value $0.001, issued and outstanding 79,888,274 shares		80
Paid-in capital		12,570
Accumulated deficit		(18,882)
Total stockholders' equity		(6,232)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	19,869

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PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Condensed Financial Information of Registrant (continued)

Statement of Operations-Parent Company Only
(In thousand of United States dollars)

	For the three months ended June 30, 2006	For the six months ended June 30, 2006
Revenue	$ -	$ -
General and administrative expenses	(343)	(616)
Loss from operations	(343)	(616)
Interest expenses	(1,023)	(1,394)
Debt financing costs	(2,888)	(7,841)
Derivative unrealized fair value gain/(loss)	487	(3,013)
Net loss	$ (3,767)	$ (12,864)

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Condensed Financial Information of Registrant (continued)

Statement of Cash Flows-Parent Company Only
(In thousand of United States dollars)

		For the six months ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$	(12,864)
Adjustments to reconcile net income to net cash used in operating activities		
Amortization of debt issue costs		768
Amortization of discount on convertible notes and warrants		6,636
Derivative unrealized fair value loss		3,013
Discount on converted shares and exercised warrants		947
Issue of common stock for services		21
Changes in operating assets and liabilities:		
Advance from subsidiaries		270
Increase in penalty payable		437
Decrease in restricted cash		382
Net cash used in operating activities		(390)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Exercise of warrants		390
Net cash provided by financing activities		390
Net increase in cash and cash equivalents		-
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at end of period	$	-

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PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Restatement

After reviewing certain accounting principles the Company had applied in its previously issued financial statements, on January 8, 2007, management determined that the Option purchase price, which equals the registered capital of Shanxi Coal under the Exclusive Option Agreement dated June 24, 2005 (Note 1), should be reclassified from permanent equity to temporary equity in accordance with EITF Topic No. D-98, paragraph 4, as the exercise of the Option can be deemed outside of the control of the Company due to the cross-ownership of the Company and Shanxi Coal. The restatement was made in accordance with the provisions of SFAS 154 for correction of errors. There was no tax effect as a result of the restatement.

The above reclassification has the effect of increasing temporary equity by $2,717,000 and decreasing stockholders' equity (permanent equity) by the same amount as of June 30, 2006. The restatement has no impact on the Company's statements of operations for the three and six months ended June 30, 2006 and statement of cash flows for the six months ended June 30, 2006. The adjustments to the consolidated balance sheet are summarized as follows:

UNAUDITED CONSOLIDATED BALANCE SHEET
June 30, 2006
(In thousand of United States dollars)

	Initial Filing	Restatement	Restated
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 22,920	$ -	$ 22,920
Restricted cash	233	-	233
Accounts receivable, net	4,635	-	4,635
Other receivables			
- Related parties	15	-	15
- Third parties	39	-	39
Advances to suppliers	784	-	784
Deferred charges	888	-	888
Inventories	6,618	-	6,618
Total current assets	36,132	-	36,132
PROPERTY, PLANT AND EQUIPMENT, NET	10,350	-	10,350
INTANGIBLE ASSETS, NET	3,768	-	3,768
TOTAL ASSETS	$ 50,250	$ -	$ 50,250

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Restatement (continued)

UNAUDITED CONSOLIDATED BALANCE SHEET (continued)
June 30, 2006
(In thousand of United States dollars)

	Initial Filing	Restatement	Restated
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Current portion of long-term debt			
- Related party	$ 1,300	$ -	$ 1,300
Accounts payable			
- Related party	192	-	192
- Third parties	2,107	-	2,107
Other payables			
- Related party	879	-	879
- Third parties	1,088	-	1,088
Accrued expenses	500	-	500
Income taxes payable	1,454	-	1,454
VAT payable	1,029	-	1,029
Distribution payable	1,002	-	1,002
Penalty payable	437	-	437
Total current liabilities	9,988	-	9,988
LONG-TERM LIABILITIES			
Long-term debt			
- Related party	11,050	-	11,050
Convertible notes	4,787	-	4,787
Derivative conversion feature	4,848	-	4,848
Derivative warrants	13,312	-	13,312
Total long-term liabilities	33,997	-	33,997
TEMPORARY EQUITY			
Option to buy-out Shanxi Coal	-	2,717	2,717
STOCKHOLDERS' EQUITY			
Preferred stock, authorized 5,000,000 shares, par value $0.01, issued and outstanding Nil	-	-	-
Common stock, authorized 150,000,000 shares, par value $0.001, issued and outstanding 79,888,274	80	-	80
Paid-in capital	8,667	(2,717)	5,950
Statutory surplus reserve fund	1,366	-	1,366
Retained earnings	(4,229)	-	(4,229)
Accumulated other comprehensive income	381	-	381
Total stockholders' equity	6,265	(2,717)	3,548

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	50,250	$	-	$	50,250

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Forward-Looking Statements

The following discussion may contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are intended to be covered by the safe harbor created by such provisions. These statements include the plans and objectives of management for the future growth of Puda Coal, Inc., formerly Purezza Group, Inc. ("Puda Coal" or the "Company") and its controlled affiliates, including plans and objectives related to the consummation of acquisitions and future private and public issuances of Puda Coal's equity and debt securities. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of Puda Coal. Although Puda Coal believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Form 10-QSB/A will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by Puda Coal or any other person that the objectives and plans of Puda Coal will be achieved.

The words "we," "us" and "our" refer to Puda Coal and its subsidiaries and controlled affiliates. The words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," o expressions are intended to identify "forward-looking statements." Actual results could differ materially from those projected in the forward looking statements as a result of a number of risks and uncertainties, including but not limited to: (a) limited amount of resources devoted to expanding our business plan; (b) our failure to implement our business plan within the time period we originally planned to accomplish; and (c) other risks that are discussed in our Form 10KSB filed on March 30, 2006, as amended and restated subsequently and incorporated herein by reference or included in our previous filings with the Securities and Exchange Commission.

Amendment to Financial Statements

The following discussion and analysis gives effect to the changes described in Note 17 to the unaudited consolidated financial statements for the quarter ended June 30, 2006 contained herein. They have no impact on the Company's results of operations and statements of cash flows for the three and six months ended June 30, 2006.

Results of Operations

Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005

Net Revenue. Net revenue increased $22,196,000, or 254%, to $30,943,000 in the three months ended June 30, 2006 from $8,747,000 in the three months ended June 30, 2005. The tonnage sales of cleaned coal increased approximately 277,000 tons to approximately 397,000 tons in the three months ended June 30, 2006 from approximately 120,000 tons in the three months ended June 30, 2005, a 231% increase. This was the primary reason for our increase in net revenue. The increase in tonnage sales was primarily due to increased orders of cleaned coal from existing and new customers in the three months ended June 30, 2006. The increase in orders was primarily because of the increase in the general demand for high-grade coking coal in China, which was largely driven by the substantial economic growth that China continued to experience in the three months ended June 30, 2006. Steel is a key component of the rail systems, bridges, ports, airports, construction projects and car production spearheading China's economic growth and the increased demand for steel directly affects the demand for the cleaned high-grade metallurgical coking coal, which we sell. The increase in net revenue was also contributed by the increase in average selling price to approximately $78 per ton in the three months ended June 30, 2006 from approximately $75 per ton in the three months ended June 30, 2005.

In response to this increase in general demand, we are in the process of significantly expanding our capacity to 2.7 million MT per year through the purchase of two new coal processing facilities in November 2005. One of our new facilities became operational in late 2005 and the other became operational by the end of March 2006. Management anticipates that China's strong economic growth will continue in 2006 and we believe that this will drive strong demand for steel and high-grade metallurgical coking coal. However, in response to this strong demand in the market, it is expected that there will be more supply in the market from competitors and due to increased supply, and notwithstanding the expected strong demand, our average per ton sales price is not expected to increase.

Cost of Revenues. Puda's cost of revenue increased $18,038,000, or 262%, to $24,916,000 in the three months ended June 30, 2006 from $6,878,000 in the three months ended June 30, 2005. This was primarily due to the increase in sales volume and the increase in average price of raw coal to approximately $46 per ton in the three months ended June 30, 2006 from approximately $41 per ton in the three months ended June 30, 2005.

Gross Profit. Gross profit increased $4,158,000 or 222%, to $6,027,000 in the three months ended June 30, 2006 from $1,869,000 in the three months ended June 30, 2005 due to the increase in sales volume. Gross profit margin in the three months ended June 30, 2006 was 19% versus 21% in the three months ended June 30, 2005 due to the increase in average price of raw coal in the three months ended June 30, 2006.

Selling Expenses. Selling expenses were $771,000 in the three months ended June 30, 2006 compared to $152,000 in the three months ended June 30, 2005. This represents an increase of $619,000, or 407%, primarily due to the increase in sales volume.

General and Administrative Expenses. General and administrative expenses $557,000 in the three months ended June 30, 2006 compared to $71,000 in the three months ended June 30, 2005. This represents an increase of $486,000, or 685%, primarily due to increases in salary and benefits, legal and professional fees and investor relation expenses.

Income from Operations. Operating profit was $4,699,000 in the three months ended June 30, 2006 compared to $1,645,000 in the three months ended June 30, 2005. The increase of $3,054,000, or 186%, was primarily the result of increased gross profit of $4,158,000, which was offset by the increased operating expenses of $1,104,000.

Interest Expense. Interest expense of $1,213,000 in the three months ended June 30, 2006 includes interest payments of $218,000 for the 8% convertible notes, $190,000 for the 6% loan from Resources Group for the purchase of the

Liulin and Zhong Yang plants and $805,000 for the expended portion of the discount on the conversion feature and warrants related to converted shares and exercised warrants. No such expense was incurred in the three months ended June 30, 2005.

Debt Financing Costs. Debt financing costs of $2,888,000 in the three months ended June 30, 2006 include amortization of debt issue costs of $177,000, amortization of discount on convertible notes and warrants of $2,332,000, and penalty of $379,000 for not getting the registration statement effective by March 17, 2006. No such expenses were incurred in the three months ended June 30, 2005.

Derivative Unrealized Fair Value Gain. Derivative unrealized fair value gain in the three months ended June 30, 2006 of $487,000 represented the change in fair value of the warrants issued to placement agent.

Income Before Income Taxes. Income before income taxes was $1,088,000 in the three months ended June 30, 2006 compared $1,646,000 in the three months ended June 30, 2005. The decrease of $558,000 or 34%, was primarily the result of increased operating profit of $3,054,000 and increased derivative unrealized fair value gain of $487,000, which was offset by the increased interest expense of $1,213,000 and increased debt financing costs of $2,888,000.

Income Taxes. Income taxes increased $901,000, or 164%, to $1,451,000 in the three months ended June 30, 2006 from $550,000 in the three months ended June 30, 2005, due to the increase in the operating profit of Shanxi Coal to $4,855,000 in the three months ended June 30, 2006 from $1,646,000 in the three months ended June 30, 2005. Income tax was imposed on Shanxi Coal by the China Tax Bureau.

Net Income. Net loss was $363,000 in the three months ended June 30, 2006, compared to net income of $1,096,000 in the three months ended June 30, 2005, a decrease of $1,459,000, or 133%, mainly due to increased operating expenses of $1,104,000, increased interest expense of $1,213,000, increased debt financing costs of $2,888,000 and increased income taxes of $901,000, which were offset by the increased gross profit of $4,158,000 and increased derivative unrealized fair value gain of $487,000 in the three months ended June 30, 2006.

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

Net Revenue. Net revenue increased $38,695,000, or 297%, to $51,714,000 in the six months ended June 30, 2006 from $13,019,000 in the six months ended June 30, 2005. The tonnage sales of cleaned coal increased approximately 485,000 tons to approximately 664,000 tons in the three months ended June 30, 2006 from approximately 179,000 tons in the six months ended June 30, 2005, a 271% increase. This was the primary reason for our increase in net revenue. The increase in tonnage sales was primarily due to increased orders of cleaned coal from existing and new customers in the six months ended June 30, 2006. The increase in orders was primarily because of the increase in the general demand for high-grade coking coal in China, which was largely driven by the substantial economic growth that China continued to experience in the six months ended June 30, 2006. Steel is a key component of the rail systems, bridges, ports, airports, construction projects and car production spearheading China's economic growth and the increased demand for steel directly affects the demand for the cleaned high-grade metallurgical coking coal, which we sell. The increase in net revenue was also contributed by the increase in average selling price to approximately $78 per ton in the six months ended June 30, 2006 from approximately $75 per ton in the six months ended June 30, 2005.

In response to this increase in general demand, we are in the process of significantly expanding our capacity to 2.7 million MT per year through the purchase of two new coal processing facilities in November 2005. One of our new facilities became operational in late 2005 and the other became operational by the end of March 2006. Management anticipates that China's strong economic growth will continue in 2006 and we believe that this will drive strong demand for steel and high-grade metallurgical coking coal. However, in response to this strong demand in the market, it is expected that there will be more supply in the market from competitors and due to increased supply, and notwithstanding the expected strong demand, our average per ton sales price is not expected to increase.

Cost of Revenues. Puda's cost of revenue increased $30,886,000, or 300%, to $41,174,000 in the six months ended June 30, 2006 from $10,288,000 in the six months ended June 30, 2005. This was primarily due to the increase in sales volume and the increase in average price of raw coal to approximately $45 per ton in the six months ended June 30, 2006 from approximately $41 per ton in the six months ended June 30, 2005.

Gross Profit. Gross profit increased $7,809,000 or 286%, to $10,540,000 in the six months ended June 30, 2006 from $2,731,000 in the six months ended June 30, 2005 due to the increase in sales volume. Gross profit margin in the six months ended June 30, 2006 was 20% versus 21% in the six months ended June 30, 2005 due to the increase in average price of raw coal in the six months ended June 30, 2006.

Selling Expenses. Selling expenses were $1,047,000 in the six months ended June 30, 2006, compared to $201,000 in the six months ended June 30, 2005. This represents an increase of $846,000, or 421%, primarily due to the increase in sales volume.

General and Administrative Expenses. General and administrative expenses were $991,000 for the six months ended June 30, 2006 compared to $135,000 for the six months ended June 30, 2005. This represents an increase of $856,000, or 634%, primarily due to increases in salary and benefits, legal and professional fees and investor relation expenses.

Income from Operations. Operating profit was $8,502,000 in the six months ended June 30, 2006 and $2,394,000 in the six months ended June 30, 2005. The increase of $6,108,000, or 255%, was primarily the result of increased gross profit of $7,809,000, which was offset by the increased operating expenses of $1,701,000.

Interest Expense. Interest expense of $1,779,000 in the six months ended June 30, 2006 includes interest payments of $447,000 for the 8% convertible notes, $385,000 for the 6% loan from Resources Group for the purchase of the Liulin and Zhong Yang plants and $947,000 for the expended portion of the discount on the conversion feature and warrants related to converted shares and exercised warrants. No such expense was incurred in the six months ended June 30, 2005.

Debt Financing Costs. Debt financing costs of $7,841,000 in the six months ended June 30, 2006 include amortization of debt issue costs of $768,000, amortization of discount on convertible notes and deferred financing costs of warrants of $6,636,000, and penalty of $437,000 for not getting the registration statement effective by March 17, 2006. No such expenses were incurred in the six months ended June 30, 2005.

Derivative Unrealized Fair Value Loss. Derivative unrealized fair value loss in the six months ended June 30, 2006 of $3,013,000 represented the change in fair value of the warrants issued to placement agent.

Income Before Income Taxes. Loss before income taxes was $4,119,000 in the six months ended June 30, 2006, compared to income before income taxes of $2,401,000 in the six months ended June 30, 2005. The decrease of $6,520,000 or 272%, was primarily the result of increased interest expense of $1,779,000, increased debt financing costs of $7,841,000 and increased derivative unrealized fair value loss of $3,013,000, which was offset by the increased operating profit of $6,108,000.

Income Taxes. Income taxes increased $1,878,000, or 232%, to $2,689,000 in the six months ended June 30, 2006 from $811,000 in the six months ended June 30, 2005 due to the increase in the operating profit of Shanxi Coal to $8,744,000 in the six months ended June 30, 2006 from $2,401,000 in the six months ended June 30, 2005. Income tax was imposed on Shanxi Coal by the China Tax Bureau.

Net Loss. Net loss was $6,808,000 in the six months ended June 30, 2006, compared to net income $1,590,000 in the six months ended June 30, 2005, a decrease of $8,398,000, or 528%, mainly due to increased operating expenses of $1,701,000, increased interest expenses of $1,779,000, increased debt financing costs of $7,841,000, increased derivative unrealized fair value loss of $3,013,000 and increased income taxes of $1,878,000, which were offset by the increased gross profit of $7,809,000 in the six months ended June 30, 2006.

Liquidity and Capital Resources

Net cash provided by operating activities was $10,876,000 in the six months ended June 30, 2006, compared to $2,151,000 in the six months ended June 30, 2005, an increase of $8,725,000. This was primarily due to the increase in income from operations (after adjusting for non-cash items) of $3,445,000, improved cash flows for inventory of $1,652,000, improved cash flows for accounts payable of $619,000, improved cash flows for advance to suppliers of $2,499,000 and improved cash flows for VAT payable of $703,000 in the six months ended June 30, 2006 compared to the six months ended June 30, 2005.

Net cash used in financing activities of $260,000 in the six months ended June 30, 2006 was related to the repayment of long-term debt of $650,000 which was offset by the cash received from the exercise of warrants of $390,000. Net cash used in financing activities of $917,000 in the six months ended June 30, 2005 was related to the dividend distribution.

On November 17, 2005, Shanxi Coal entered into two conveyance agreements with Resources Group. The two agreements transfer two new coal washing plants, related land-use rights and coal washing equipment in Liulin County and Zhong Yang County, Shanxi Province. The Liulin County plant is expected to have an annual clean coal washing capacity of 1.1 million MT while the Zhong Yang County plant is expected to have an annual clean coal washing capacity of 1.2 million MT. After completing trial production, the Liulin County plant started formal production at the end of November 2005. The Liulin County plant, land-use rights and related equipment were purchased for a cost of $5,800,000. The Zhong Yang County plant started formal production at the end of March 2006. The Zhong Yang County plant, land-use rights and related equipment were purchased for a cost of $7,200,000. Each conveyance agreement provides that the purchase price paid by Shanxi Coal to Resources Group, which totals $13,000,000, be amortized over 10 years from December 31, 2005 and bear interest at a rate of 6% per annum payable quarterly.

Our principal on-going capital requirements are to finance our coal washing operations and to fund the payment of the loans totaling $13,000,000 for the acquisition of the New Shanxi Liulin Jucai Plant and the New Zhong Yang Plant. We must also pay interest on the notes issued in our November 18, 2005 private placement which have an aggregate principal amount of $12.5 million, an interest rate of 8% per annum and a maturity date of October 31, 2008. Interest is payable quarterly and the principal amount is payable at the maturity date. These notes may be converted into our common stock at the conversion price of $.50 per share. The price of our stock is likely to impact our liquidity needs for payment of these notes on both a long-term and short-term basis. We believe that as our stock becomes more valuable, the note holders will be more likely to convert their notes into common stock, and we would not be required to pay the interest any longer or the principal at all, decreasing our need for cash. Conversely, if our stock price decreases, note holders are less likely to convert and our need for cash to pay interest and principal on the notes will increase. Warrants were also issued in that private placement to acquire up to 25,000,000 shares of our common stock which are exercisable at price of $.60 per share, or an aggregate of $15,000,000. We believe that the likelihood that these warrants being exercised increases as our stock price increases and decreases as our stock price decreases, with a corresponding effect on the likelihood of our realizing proceeds from their exercise.

Our business is heavily dependent on our coal inventory. Because of recent coal mining accidents, the Chinese government has been closing mines throughout China. In addition, in Shanxi Province, the authorities are not approving new mines that produce less than 300,000 MT output per year, are closing mines that produce less than 90,000 MT per year and are consolidating existing mines into larger mines with outputs between 300,000 and 900,000 MT. These activities may lead to increased competition for coal and result in higher prices for the raw coal we purchase, increasing our need for capital resource.

In addition, while the Chinese steel industry has been expanding over-supply could have the effect of depressing steel prices, making the collection of our accounts receivable more difficult. We are considering the construction of a power generating plant. We intend to use a portion of the proceeds from the exercise of the warrants issued in our November 2005 private placement, to the extent such warrants are exercised. However, these proceeds which would aggregate $15,000,000 to the extent they are all fully exercised, are not sufficient to pay the $18,100,000 the plant is projected to cost. The balance of the cost would be paid from our operations for this purpose, or we would have to secure a loan or issue additional equity.

We believe that our liquidity will be adequate to satisfy our obligations for the foreseeable future. Future requirements for our business needs, including the funding of capital expenditures and debt service for outstanding financings are expected to be financed by a combination of internally generated funds, the proceeds from the sale of our securities, borrowings and other external financing sources. However, we may not be able to generate sufficient operating cash flow and external financing sources may not be available in amounts or on terms sufficient to meet our liquidity needs. Our opinion concerning our liquidity is based on current information. If this information proves to be inaccurate, or if circumstances change, we may not be able to meet our capital needs.

Putai, a wholly-owned indirect subsidiary of Puda has an Option to purchase Shanxi Coal under an Exclusive Option Agreement dated June 24, 2005 among Putai, Shanxi Coal, and the two shareholders of Shanxi Coal, Zhao Ming and Zhao Yao, who are also the two principal shareholders of Puda. Due to the cross-ownership of Puda and Shanxi Coal, the Option may be exercised outside of the control of Puda. The two principal shareholders of Puda may compel Puda to exercise the Option to buy-out Shanxi Coal, in which case Puda will have an obligation to pay the Option exercise price of $2,717,000 (RMB22,500,000, the amount of registered capital of Shanxi Coal). Puda may pay the Option price through existing cash resources or other internally generated funds or through proceeds of third party equity or debt financing.

ITEM 3. CONTROLS AND PROCEDURES

As of the end of the period covered by this Report, Puda Coal conducted an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of Puda Coal's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "1934 Act")). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Puda Coal's disclosure controls and procedures are effective to ensure that information required to be disclosed by Puda Coal in reports that it files or submits under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. There was no change in Puda Coal's internal controls over financial reporting during Puda Coal's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, Puda Coal's internal controls over financial reporting.

The certifying officers of the Original Filing, the Amendment No. 1, the Amendment No. 2 and this Form 10-QSB/A, Zhao Ming, our Chief Executive Officer, and Jin Xia, our Chief Financial Officer, have considered the effect on the effectiveness of the Company’s disclosure controls and procedures in light of the revisions to the financial statements contained in the Original Filing, the Amendment No. 1 and the Amendment No. 2 and have determined that the Company’s disclosure controls and procedures are effective for the fiscal quarter ended June 30, 2006. The revisions to the financial statements relate to complicated accounting matters and while the Company had the correct information regarding the conversion feature, warrants, debt issuance and Option to buy-out Shanxi Coal and therefore believes it has effective disclosure controls and procedures, it came to the wrong conclusion regarding applicable accounting treatments. The Company is currently seeking a Chief Financial Officer with more expertise in the generally accepted accounting principles of the U.S. and experience in financial reporting requirements and guidelines of the SEC.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES

In April, 2006, we issued 50,000 shares of our common stock to Sage Capital Investments upon assignment and conversion of a portion of a convertible note held by Southridge Partners, L.P. Southridge acquired the convertible note in our private placement of notes and securities which closed in November, 2005. A replacement convertible note was issued to Southridge Partners, L.P. in the amount of $700,000 representing the outstanding principal balance of the note which was partially converted.

In May 2006, we issued 50,000 shares of our common stock to Gerdz Investments Limited Partnership RLLLP upon conversion of convertible note held by Gerdz Investments Limited Partnership RLLLP. Gerdz acquired the convertible note in our private placement of notes and securities which closed in November, 2005. $25,000 of the outstanding principal balance of the note was so converted.

In May 2006, we issued 50,000 shares of our common stock to Ossellos of Butte Profit Sharing Trust FBO Guy J. Ossello upon conversion of convertible note held by Ossellos. Ossellos acquired the convertible note in our private placement of notes and securities which closed in November, 2005. $25,000 of the outstanding principal balance of the note was so converted.

In May 2006, we issued 150,000 shares of our common stock to Jack Thompson upon conversion of convertible note held by Jack Thompson. Thompson acquired the convertible note in our private placement of notes and securities which closed in November, 2005. $75,000 of the outstanding principal balance of the note was so converted.

In May 2006, we issued 56,820 shares of our common stock to Reed Madison upon cashless exercising of warrants held by Reed Madison. Reed Madison acquired the agent warrants in our private placement of notes and securities which closed in November, 2005. 64,167 shares of the warrants was so exercised.

In May 2006, we issued 200,000 shares of our common stock to John S. Lemak upon conversion of convertible note held by John S. Lemak. John S. Lemak acquired the convertible note in our private placement of notes and securities which closed in November, 2005. $100,000 of the outstanding principal balance of the note was so converted.

In May 2006, we issued 115,280 shares of our common stock to Randy Haag upon exercising of warrants held by Randy Haag. Randy Haag acquired the agent warrants in our private placement of notes and securities which closed in November, 2005. 127,500 shares of the outstanding warrants were so exercised.

In May 2006, we issued 50,000 shares of our common stock to Steve Zelinger and Lisa Gordon upon conversion of convertible note held by Steve Zelinger and Lisa Gordon. Steve Zelinger and Lisa Gordon acquired the convertible note in our private placement of notes and securities which closed in November, 2005. $25,000 of the outstanding principal balance of the note was so converted.

In May 2006, we issued 50,000 shares of our common stock to Robet Lapidus and Donna Lapidus JTWROS upon conversion of convertible note held by Robet Lapidus and Donna Lapidus JTWROS. Robet Lapidus and Donna Lapidus JTWROS acquired the convertible note in our private placement of notes and securities which closed in November, 2005. $25,000 of the outstanding principal balance of the note was so converted.

In May 2006, we issued 50,000 shares of our common stock to Jason Flynn upon conversion of convertible note held by Jason Flynn. Jason Flynn acquired the convertible note in our private placement of notes and securities which closed in November, 2005. $25,000 of the outstanding principal balance of the note was so converted.

In May 2006, we issued 150,000 shares of our common stock to Maurice Micek and Jennifer Micek upon conversion of convertible note held by Maurice Micek and Jennifer Micek. Maurice Micek and Jennifer Micek acquired the convertible note in our private placement of notes and securities which closed in November, 2005. $75,000 of the outstanding principal balance of the note was so converted.

In May 2006, we issued 50,000 shares of our common stock to Maurice Micek CFBO Benajmin Micek upon conversion of convertible note held by Maurice Micek CFBO Benajmin Micek. Maurice Micek CFBO Benajmin Micek acquired the convertible note in our private placement of notes and securities which closed in November, 2005. $25,000 of the outstanding principal balance of the note was so converted.

In May 2006, we issued 50,000 shares of our common stock to Maurice Micek CFBO Andrew Micek upon conversion of convertible note held by Maurice Micek CFBO Andrew Micek. Maurice Micek CFBO Andrew Micek acquired the convertible note in our private placement of notes and securities which closed in November, 2005. $25,000 of the outstanding principal balance of the note was so converted.

In May 2006, we issued 150,000 shares of our common stock to John Micek II Revocable Trust upon conversion of convertible note held by John Micek II Revocable Trust. John Micek II Revocable Trust acquired the convertible note in our private placement of notes and securities which closed in November, 2005. $75,000 of the outstanding principal balance of the note was so converted.

In May 2006, we issued 100,000 shares of our common stock to Austin D. Grose upon conversion of convertible note held by Austin D. Grose. Austin D. Grose acquired the convertible note in our private placement of notes and securities which closed in November, 2005. $50,000 of the outstanding principal balance of the note was so converted.

In May 2006, we issued 1,000,000 shares of our common stock to Sandor Capital Master Fund L.P. upon conversion of convertible note held by Sandor Capital Master Fund L.P.. Sandor Capital Master Fund L.P. acquired the convertible note in our private placement of notes and securities which closed in November, 2005. $500,000 of the outstanding principal balance of the note was so converted.

In June 2006, we issued 100,000 shares of our common stock to Jerry Peterson upon conversion of convertible note held by Jerry Peterson. Jerry Peterson acquired the convertible note in our private placement of notes and securities which closed in November, 2005. $50,000 of the outstanding principal balance of the note was so converted.

In June 2006, we issued 50,000 shares of our common stock to Brian Murphy upon conversion of convertible note held by Brian Murphy. Brian Murphy acquired the convertible note in our private placement of notes and securities which closed in November, 2005. $25,000 of the outstanding principal balance of the note was so converted.

In June 2006, we issued 50,000 shares of our common stock to Beeman Insurance Agency upon conversion of convertible note held by Beeman Insurance Agency. Beeman Insurance Agency acquired the convertible note in our private placement of notes and securities which closed in November, 2005. $25,000 of the outstanding principal balance of the note was so converted.

In June 2006, we issued 50,000 shares of our common stock to Robert DiPietro upon conversion of convertible note held by Robert DiPietro. Robert DiPietro acquired the convertible note in our private placement of notes and securities which closed in November, 2005. $25,000 of the outstanding principal balance of the note was so converted.

In June 2006, we issued 100,000 shares of our common stock to Jerry Peterson upon exercising of warrants held by Jerry Peterson with a cash payment of $60,000 to Puda Coal. Jerry Peterson acquired the warrants in our private placement of notes and securities which closed in November, 2005. 100,000 of the outstanding principal balance of the warrants were so exercised.

In June 2006, we issued 100,000 shares of our common stock to Jerry Peterson upon exercising of warrants held by Jerry Peterson with a cash payment of $60,000 to Puda Coal. Jerry Peterson acquired the warrants in our private placement of notes and securities which closed in November, 2005. 100,000 of the outstanding principal balance of the warrants were so exercised.

In June 2006, we issued 300,000 shares of our common stock to Chelverton Dividend Income Fund Limited upon exercising of warrants held by Wachovia Securities LLC FBO Chelverton Dividend Income Fund Limited with a cash payment of $180,000 to Puda Coal. Jerry Peterson acquired the warrants in our private placement of notes and securities which closed in November, 2005. 300,000 of the outstanding principal balance of the warrants were so exercised and the balance of warrants for 800,000 were assigned to Wachovia Securities FBO Chelverton.

In June 2006, we issued 50,000 shares of our common stock to Brian Murphy upon exercising of warrants held by Brian Murphy with a cash payment of $60,000 to Puda Coal. Brian Murphy acquired the warrants in our private placement of notes and securities which closed in November, 2005. 50,000 of the outstanding principal balance of the warrants were so exercised.

In June 2006, we issued 100,000 shares of our common stock to Teawood Nominees Limited upon exercising of warrants held by Perinvest Dividend Equity Fund Limited - Teawood Nominees Limited with a cash payment of $60,000 to Puda Coal. Perinvest acquired the warrants in our private placement of notes and securities which closed in November, 2005. 100,000 of the outstanding principal balance of the warrants were so exercised and the balance of warrants for 200,000 were reissued to Teawood Nominees Limited.

In June 2006, we issued 100,000 shares of our common stock to Perinvest Special Situations Fund Limited upon exercising of warrants held by Wachovia FBO PerInvest Special Situations with a cash payment of $60,000 to Puda Coal. Wachovia FBO PerInvest Special Situations acquired the warrants in our private placement of notes and securities which closed in November, 2005. 100,000 of the outstanding principal balance of the warrants were so exercised and the balance of warrants for 100,000 were reissued to Wachovia FBO PerInvest Special Situations.

In June 2006, we issued 50,000 shares of our common stock to Ann Hodel upon conversion of convertible note held by Ann Hodel. Ann Hodel acquired the convertible note in our private placement of notes and securities which closed in November, 2005. $25,000 of the outstanding principal balance of the note was so converted.

In June 2006, we issued 650,000 shares of our common stock to Jayhawk China Fund upon conversion of convertible note held by Jayhawk China Fund. Jayhawk China Fund acquired the convertible note in our private placement of notes and securities which closed in November, 2005. $25,000 of the outstanding principal balance of the note was so converted.

The convertible notes which were converted and the warrants which were exercised in connection with each of the above issuances were offered and sold in our November, 2005 private placement only to accredited investors in the United States and to persons who are not "U.S. persons" as defined in Regulation S under the Securities Act. The notes and related warrants, or Units, offered in such private placement, as well as shares of common stock issued upon conversion of the notes and exercise of the warrants and their respective conversions and exercises were offered and sold in reliance on the exemptions from registration afforded under Rule 506 of Regulation D and Regulation S under the Securities Act. We did not engage in any public advertising or general solicitation in connection with the issuance of the Units.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(a) Exhibits

31.1*	Certification of Mr. Zhao Ming pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Ms. Jin Xia pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer of Puda Coal, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

Signatures

In accordance with the requirements of the Exchange Act, the registrant caused this report on 10-QSB/A to be signed on its behalf by the undersigned, thereunto duly authorized.

PUDA COAL, INC.

/s/ Zhao Ming
Zhao Ming
Chief Executive Officer and President

Dated: April 13, 2007