

MINERA EL TESORO

UNAUDITED FINANCIAL STATEMENTS
FOR THE FIRST QUARTER ENDED 31 MARCH 2006

(TRANSLATION FROM SPANISH VERSION
FILED WITH SUPERINTENDENCIA DE VALORES Y SEGUROS
DE CHILE ON 25TH MAY 2006)

MINERA EL TESORO

BALANCE SHEET AT MARCH 31, 2006

(In thousands of US Dollars - ThUS\$)

ASSETS	ThUS\$
CURRENT ASSETS:	
Cash and banks	145
Time deposits	40.736
Trade debtors	33.217
Sundry debtors	5.584
Inventories	35.569
Recoverable taxes	22.704
Prepaid expenses	499
Other current assets	7.856
Total current assets	<u>146.308</u>
FIXED ASSETS:	
Land	301
Mining properties	46.529
Construction and infrastructure	138.071
Machinery and equipment	113.650
Other fixed assets	35.092
Subtotal	333.643
Less: accumulated depreciation	<u>(68.699)</u>
Total fixed assets	<u>264.945</u>
OTHERS:	
Mine development costs, net	55.890
Others	5.455
Total other assets	<u>61.345</u>
TOTAL ASSETS	<u><u>472.597</u></u>

The accompanying notes are an integral part of this financial statement

LIABILITIES AND SHAREHOLDERS' EQUITY

ThUS\$

CURRENT LIABILITIES:

Bank loans senior debt, short-term portion	14.852
Accounts payable	8.667
Leasing obligations, short-term portion	112
Accounts payable to related companies	1.936
Accruals	20.934
Withholdings	2.662
Income tax payable	33.890
Deferred taxes	1.276

Total current liabilities	84.329
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LONG-TERM LIABILITIES:

Bank loans-senior debt	42.000
Leasing obligations	121
Accruals	5.832
Deferred taxes	27.797

Total long-term liabilities	75.751
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SHAREHOLDERS' EQUITY:

Paid-in capital	90.995
Retained earnings	327.442
Provisional dividends	(155.000)
Net income for the period	49.080

Total shareholders' equity	312.516
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

472.597

MINERA EL TESORO

STATEMENT OF INCOME FOR THE PERIOD ENDED MARCH 31, 2006 (In thousands of US Dollars - ThUS\$)

	ThUS\$
REVENUES	107.299
COSTS OF SALES	<u>(40.645)</u>
GROSS MARGIN	66.654
ADMINISTRATIVE AND SELLING EXPENSES	<u>(6.001)</u>
OPERATING INCOME	<u>60.653</u>
OTHER INCOME (EXPENSES):	
Financial income	294
Other income	17
Financial expenses	(850)
Other expenses	(332)
Exchange differences	<u>553</u>
Other expenses, net	<u>(318)</u>
INCOME BEFORE INCOME TAX	60.335
INCOME TAX	<u>(11.256)</u>
NET INCOME FOR THE PERIOD	<u><u>49.080</u></u>

The accompanying notes are an integral part of this financial statement

MINERA EL TESORO

STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED MARCH 31, 2006 (In thousands of US Dollars - ThUS\$)

	ThUS\$
CASH FLOW FROM OPERATING ACTIVITIES:	
Cash received from customers	101.473
Taxes paid	(5.017)
Interest collected	294
Payments to suppliers and employees	(52.728)
Interest paid and others	(105)
Administrative and selling expenses paid	(3.718)
	<hr/>
Net cash provided by operating activities	40.199
	<hr/>
CASH FLOW FROM INVESTING ACTIVITIES:	
Purchase of fixed assets, net	(2.792)
	<hr/>
NET POSITIVE CASH FLOW FOR THE PERIOD	37.407
	<hr/>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3.473
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CASH AND CASH EQUIVALENTS AT END OF PERIOD	40.880
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RECONCILIATION OF NET INCOME FOR THE PERIOD TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net income for the period	49.080
Charges (credits) to income that do not represent cash flows:	
Depreciation and amortization	8.431
Income tax	7.935
Exchange differences	(553)
Increase in assets:	
Trade debtors	(5.826)
Hedge operations	(7.259)
Inventories	(4.869)
Recoverable taxes	(5.017)
Other assets	(969)
Increase (decrease) in liabilities:	
Accounts payable	(1.470)
Due to related companies	145
Accruals and withholdings	(2.959)
Deferred taxes	3.321
Other liabilities	209
	<hr/>
Net cash provided by operating activities	40.199
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NON-OPERATING ACTIVITIES THAT DID NOT AFFECT CASH FLOW DURING THE PERIOD:	233

The accompanying notes are an integral part of this financial statement

MINERA EL TESORO

NOTES TO THE FINANCIAL STATEMENTS

(In thousands of US dollars – ThUS\$)

1. INCORPORATION OF THE COMPANY

The Company was incorporated as a contractual mining company by means of a public deed dated June 20, 1996. The corporate purpose of the Company is the exploration, development and exploitation of mining properties, comprising all stages involved in the mining industry. The Company started its exploitation stage on July 1, 2001.

In accordance with Law No.20,026 published in the Official Gazette on 16/06/2005 on specific mining tax, and pertinent regulation issued by the Superintendency of Securities and Insurance by means of exempt resolution No.549 dated 23/09/2005 and No.39 dated 03/02/2006, the Company shall provide said Superintendency with its Quarterly and Audited Annual Financial Statements and an Annual Report as established by the related Resolutions.

By express stipulation of the abovementioned regulations issued by the Superintendency, the Financial Statements and the Annual Report, which shall be provided for the operations and transactions performed from January 1, 2006, will not be presented in comparative form with 2005, for this time only, considering that the related tax is effective from 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

a. General - The financial statements at March 31, 2006 have been prepared in accordance with accounting principles generally accepted in Chile.

b. Basis of preparation - The official accounting records of the Company are maintained in US dollars.

Transactions in Chilean pesos have been translated into US dollars at the exchange rate prevailing on the date of the transaction. Assets and liabilities in Chilean pesos outstanding at the end of the period were translated into US dollars at the observed exchange rate published by the Chilean Central Bank of \$526.18 per US\$1.

c. Time deposits - Investments in time deposits include capital plus readjustment and interest accrued at period end.

d. Inventories - Inventories of semi-finished products, ore in stockpile, and finished products are stated at monthly average production cost, including indirect manufacturing costs. Materials are stated at weighted average acquisition cost.

These valuations do not exceed the respective net realizable values.

e. Fixed assets - Tangible fixed assets are presented at acquisition cost. Depreciation has been calculated based on the straight-line method, over the lower of the estimated life of mine or the useful lives of the assets.

Fixed assets acquired by the Company through capital lease transactions, are accounted for as a purchase of fixed assets, recognizing the total obligation and interest on the accrual basis. The Company does not legally own these assets and, thus, it cannot dispose of them until it exercises the purchase option.

Mining properties are presented at acquisition cost and are amortized based on mineral extraction.

f. Mine development costs - These assets are presented at acquisition cost or at the cost incurred in developing the mine and include concepts such as consulting services, exploratory drilling, research and engineering, which are amortized based on mineral production.

g. Deferred costs - The Company capitalizes expenses associated with the refinancing of financial obligations, recording them as deferred costs in Other long-term assets. Prior year refinancing expenses are debited to income, whenever a new refinancing is agreed. These costs are being amortized under the straight-line method over the term of the debt.

h. Income tax, specific tax and deferred taxes - The Company calculates its liabilities for First Category income tax and specific mining tax based on the net taxable income and on the taxable operational income, respectively, in conformity with current regulations. The effects of deferred taxes on temporary differences, tax losses and other events giving rise to differences between the accounting and tax base of assets and liabilities are recorded according to standards established in Technical Bulletins No.60 and their supplements of the Chilean Institute of Accountants.

i. Derivative contracts - The Company has entered into an interest rate collar contract in order to cover the variation experienced by the Libo rate on a portion of its senior debt. In addition, the Company has entered into copper forward contracts and Min-Max Zero Cost operations, which were defined as hedges of transactions to cover changes in the price of copper. As these contracts were defined as hedges of expected transactions, the unrealized result at the end of the period has been deferred, as established by Technical Bulletin N°57 of the Chilean Institute of Accountants (Note 13).

j. Vacations - The cost of employee vacations is recognized on the accrual basis.

k. Severance indemnity - Severance indemnity has been accrued for employees who have this contractual benefit and has been calculated at the present value of the projected cost of the benefit, using an annual discount rate of 6.5%.

l. Mine closure - The Company accrues the costs of mine closure and abandonment at the present value in conformity with standards established by Antofagasta plc and considering legal environmental obligations entered into with government bodies, and are presented in long-term liabilities.

m. Statement of cash flows - In the statement of cash flows, the Company has considered as cash equivalent all readily disposable financial investments maturing within 90 days, including time deposits and resale agreements.

n. Revenues - Revenue from the sale of cathodes is recognized when the rights and obligations are transferred to the buyer.

3. TIME DEPOSITS

This item includes time deposits and investments in financial instruments under repurchase agreements as follows:

a. Time deposits

Financial institution	Currency	March 2006 ThUS\$
Time deposits abroad:		
Citibank N.A. New York	US\$	3.761
Citibank N.A. New York	US\$	430
Royal Bank of Canada	US\$	10.028
Fortis Bank	US\$	4.009
Fortis Bank	US\$	5.005
Deustche Bank	US\$	5.009
Subtotal		<u>28.241</u>
Financial investments in Chile:		
Banco Santander	UF	1.557
Santander Investment	Ch\$	1.906
Banco Santander	Ch\$	2.860
Banco de Chile	Ch\$	4.766
Scotiabank	Ch\$	1.406
Subtotal		<u>12.495</u>
Total Time Deposits and Financial Investments		<u><u>40.736</u></u>

4. TRADE RECEIVABLES

The detail by geographical area, is as follows:

	March 2006 ThUS\$
Foreign clients:	
Europe	19.730
Latin America	6.526
Asia Pacific	5.326
North America	<u>1.115</u>
Total foreign clients	<u>32.697</u>
Domestic clients	<u>520</u>
Total	<u><u>33.217</u></u>

5. INVENTORIES

The detail of the Company's inventories is as follows:

	March 2006 ThUS\$
Finished products	5.442
Semi-finished products	23.875
Material, raw material and spare parts	<u>6.253</u>
Total	<u><u>35.569</u></u>

6. FIXED ASSETS

Fixed assets are stated as mentioned in Note 2e. The detail of this item is as follows:

	March 2006
	ThUS\$
Land	<u>301</u>
Mining properties:	
Contributed property	46.527
Leonor Cinco	1
Santa Carmen	<u>1</u>
Total mining properties	<u>46.529</u>
Buildings and infrastructure	
Facilities	77.229
Buildings and construction	27.396
Infrastructure	<u>33.446</u>
Total buildings and infrastructure	<u>138.071</u>
Machinery and equipment:	
Machinery and equipment	52.859
Mobile equipment	56.341
Minor equipment	3.772
Auxiliary equipment	<u>678</u>
Total machinery and equipment	<u>113.650</u>
Other fixed assets:	
Equipment	9.496
Computer equipment, software and hardware	892
Furniture	60
Leased assets	353
Construction in progress	590
Projects in progress	12.821
Preoperating expenses	<u>10.879</u>
Total other fixed assets	<u>35.092</u>
Total fixed assets, gross	<u>333.643</u>
Accumulated depreciation buildings and infrastructure	(30.869)
Accumulated depreciation machinery and equipment	(30.282)
Accumulated depreciation other fixed assets	<u>(7.547)</u>
Total accumulated depreciation	<u>(68.699)</u>
Total fixed assets, net	<u><u>264.945</u></u>

7. DEVELOPMENT COSTS

As described in Note 2f, development costs are mainly preoperating costs. The detail of this item is as follows:

	March 2006
	ThUS\$
Development costs:	
Project expenses	55.057
Financing	23.830
Development expenses contributed property	15.712
Preinvestment expenses	<u>7.560</u>
Total development costs	<u>102.160</u>
Accumulated amortization	<u>(46.270)</u>
Total development costs, net	<u><u>55.890</u></u>

8. BANKS LOANS - SENIOR DEBT

The balance of this item is as follows:

Financial institution	Interest rate	<u>Short-term</u>	<u>Long-term</u>
		2006	2006
		ThUS\$	ThUS\$
The Royal Bank of Scotland - BBVA	LIBOR+0,4%	<u>14.852</u>	<u>42.000</u>
Total		<u><u>14.852</u></u>	<u><u>42.000</u></u>

The senior debt will be amortized in half-yearly instalments through December 2009.

9. PROVISIONS

This detail of this item is as follows:

	March 2006 ThUS\$
Short-term:	
Operations	20.261
Freight, insurance, export commissions	<u>673</u>
Total short-term	<u><u>20.934</u></u>
Long-term:	
Severance indemnities	3.190
Mine closure	<u>2.642</u>
Total long-term	<u><u>5.832</u></u>

10. INCOME TAX AND DEFERRED TAXES

The balance of recoverable taxes is as follows:

	March 2006 ThUS\$
Current Assets	
VAT credit (net)	2.691
Monthly estimated payments	18.984
Others	<u>1.028</u>
Total short term	<u><u>22.704</u></u>
Other Assets	
Additional tax on consulting services	1.022
Long term tax credits	<u>237</u>
Total long term	<u><u>1.259</u></u>

Long term taxes recoverable are presented in Other Assets under the item Other.

a. Income tax – At March 31, 2006, the Company provided for First Category Income tax of ThUS\$7,935, and for specific tax of ThUS\$1,024.

b. Deferred taxes - At March 31, 2006, the detail of the accumulated balances of deferred tax assets and liabilities is as follows:

	2006			
	<u>Assets</u>		<u>Liabilities</u>	
	Short-term ThUS\$	Long-term ThUS\$	Short-term ThUS\$	Long-term ThUS\$
Temporary differences				
Leased assets	2	1		
Fixed assets				(16.937)
Deferred charges			(7)	(22)
Preoperating expenses			(1.361)	(11.675)
Vacation accrual	19			
Severance indemnities		496		
Accrual for mine closure, net		449		
Accruals and others	383	786	(975)	(894)
Royalty recognition	<u>800</u>	<u>-</u>	<u>(137)</u>	<u></u>
Balance at March 31	<u><u>1.204</u></u>	<u><u>1.732</u></u>	<u><u>(2.480)</u></u>	<u><u>(29.529)</u></u>

The net balance of short-term deferred taxes of ThUS\$1,276 is presented in current liabilities. The net balance of long-term deferred taxes amounts to ThUS\$27,797.

The detail of the charge to income for income tax for the period is as follows:

	Charge to income
	March 2006
	ThUS\$
Current tax expense:	
Income tax provision for the period	7.935
Deferred taxes:	
Changes in deferred taxes during the period	<u>3.321</u>
Total	<u><u>11.256</u></u>

11. FIXED INTEREST RATE AND COPPER PRICE CONTRACTS

With regard to copper price operations, the Company entered into agreements to cover tons of the second quarter of 2005 and tons of 2006. In addition, a price arbitrage from COMEX price to LME price was contracted, due to a sales agreement whose price is related to COMEX.

a. Zero-cost interest rate collar

An interest rate hedge was established with Royal Bank of Scotland plc. in relation to the senior debt. for ThUS\$20,000, by means of a zero cost collar with a cap of 6% and a floor of 4.83%, for the period between August 15, 2001, and August 15, 2006.

Due to the refinancing of the senior debt, on December 30, 2004, the operation was terminated with no cost, while simultaneously entering into a collar with The Royal Bank of Scotland plc., with the same cap and floor, but with rates and compensating payment fixing dates coincident with the interest payments of the refinanced senior debt, and with a maturity date on December 15, 2006. This new operation has a cost of ThUS\$192, which is equal to the compensation the Company would have had to pay as of February 15, 2005 under the terminated hedge and covers an initial amount of ThUS\$15,500. During 2005, the hedged amount was cut to ThUS\$8,680.

b. Copper Price futures contracts

In 2005, the Company entered into future sale contracts based on the COMEX price and of future purchase contracts based on the LME price for 5,300 tons in 2006. Said tons correspond to the sales agreement with Southwire, a client in the United States, whose price is related to COMEX. Through said arbitrage the Company indexes it to the LME price.

Open positions at March 31, 2006:

Product	Institution	Subscription date	Maturity date	Quantity MT	Price of the transaction	
					Futures Sale Comex US\$/Ton	Future Purchase LME US\$/Ton
Copper	Calyon	02/12/2005	30/04/2006	150	4.254,92	4.244,92
Copper	Calyon	02/12/2005	31/05/2006	150	4.254,92	4.244,92
Copper	Calyon	02/12/2005	30/06/2006	500	4.034,46	4.024,46
Copper	Calyon	02/12/2005	31/07/2006	500	4.034,46	4.024,46
Copper	Calyon	02/12/2005	31/08/2006	500	4.034,46	4.024,46
Copper	Calyon	02/12/2005	30/09/2006	500	4.034,46	4.024,46
Copper	Calyon	02/12/2005	31/10/2006	500	4.034,46	4.024,46
Copper	Calyon	02/12/2005	30/11/2006	500	4.034,46	4.024,46
Copper	Calyon	02/12/2005	31/12/2006	500	4.034,46	4.024,46
Copper	Calyon	02/12/2005	31/01/2007	500	4.034,46	4.024,46

c. Options

In 2005, the Company subscribed 7 min-max options to cover 3,000 monthly tons during the second quarter of 2005 and 1,500 monthly tons in 2006 based on the LME price. At March 31, 2006, the operations with options on copper price are as follows:

Open positions at March 31, 2006:

Product	Institution	Subscription date	Liquidation date	Quantity MT		Options	
				Floor	Cap	Put US\$/Ton	Call US\$/Ton
Copper	Triland Metals	06/04/2005	30/04/2006	500	500	2.426,00	3.500,00
Copper	Calyon	06/04/2005	30/04/2006	500	500	2.426,00	3.440,00
Copper	J. Aron & Co.	03/06/2005	30/04/2006	500	500	2.426,00	3.350,00
Copper	Triland Metals	06/04/2005	31/05/2006	500	500	2.426,00	3.500,00
Copper	Calyon	06/04/2005	31/05/2006	500	500	2.426,00	3.440,00
Copper	J. Aron & Co.	03/06/2005	31/05/2006	500	500	2.426,00	3.350,00
Copper	Triland Metals	06/04/2005	30/06/2006	500	500	2.426,00	3.500,00
Copper	Calyon	06/04/2005	30/06/2006	500	500	2.426,00	3.440,00
Copper	J. Aron & Co.	03/06/2005	30/06/2006	500	500	2.426,00	3.350,00
Copper	Triland Metals	06/04/2005	31/07/2006	500	500	2.426,00	3.250,00
Copper	Calyon	06/04/2005	31/07/2006	500	500	2.426,00	3.167,00
Copper	Standard bank	03/06/2005	31/07/2006	500	500	2.426,00	3.119,00
Copper	Triland Metals	06/04/2005	31/08/2006	500	500	2.426,00	3.250,00
Copper	Calyon	06/04/2005	31/08/2006	500	500	2.426,00	3.167,00
Copper	Standard bank	03/06/2005	31/08/2006	500	500	2.426,00	3.119,00
Copper	Triland Metals	06/04/2005	30/09/2006	500	500	2.426,00	3.250,00
Copper	Calyon	06/04/2005	30/09/2006	500	500	2.426,00	3.167,00
Copper	Standard bank	03/06/2005	30/09/2006	500	500	2.426,00	3.119,00
Copper	Triland Metals	06/04/2005	31/10/2006	500	500	2.426,00	3.250,00
Copper	Calyon	06/04/2005	31/10/2006	500	500	2.426,00	3.167,00
Copper	Standard bank	03/06/2005	31/10/2006	500	500	2.426,00	3.119,00
Copper	Triland Metals	06/04/2005	30/11/2006	500	500	2.426,00	3.250,00
Copper	Calyon	06/04/2005	30/11/2006	500	500	2.426,00	3.167,00
Copper	Standard bank	03/06/2005	30/11/2006	500	500	2.426,00	3.119,00
Copper	Triland Metals	06/04/2005	31/12/2006	500	500	2.426,00	3.250,00
Copper	Calyon	06/04/2005	31/12/2006	500	500	2.426,00	3.167,00
Copper	Standard bank	03/06/2005	31/12/2006	500	500	2.426,00	3.119,00

12. SHAREHOLDERS' EQUITY

a. The changes in shareholders' equity were as follows:

	Paid-in capital ThUS\$	Retained earnings ThUS\$	Total shareholders' equity ThUS\$
Balance at January 1, 2006	90.995	172.442	263.437
Net income for the period		49.080	49.080
		<hr/>	<hr/>
Balance at March 31, 2006	90.995	221.521	312.516

b. At March 31, 2006, the paid-in capital of the Company is represented by 90,994 no-par value shares. The equity ownership is as follows:

	N° of shares 2006	% ownership 2006
Antofagasta Minerals S.A.	55.506	61
Compañía Contractual Minera Leonor	35.488	39
	<hr/>	<hr/>
Total	90.994	100

13. BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

a. **Accounts payable – Short-term:**

Company	Relationship	March 2006 ThUS\$
Antofagasta Minerals S.A.	Parent	272
Minera Michilla S.A.	Indirect	158
Minera los Pelambres	Indirect	17
Antofagasta (Chile) and Bolivia Railway Plc.	Indirect	1.488
		<hr/>
Total		1.936

The balances mentioned above arise from commercial transactions and do not accrue interest or indexation.

b. Transactions with related companies

Significant transactions with related companies during the first quarter of 2006, are as follows:

Company	Relationship	Transaction	March 2006	
			Amount of the transaction ThUS\$	Effect on income ThUS\$
Antofagasta Minerals S.A.	Parent	Administrative services	482	482
		Reimbursement of expenses	47	
		Sale of power project	36	18
Compañía Contractural Minera Leonor	Shareholder	Royalties	1.954	1.954
Minera Michilla S.A.	Indirect	Purchases of supplies	52	
Antofagasta (Chile) and Bolivia Railway Plc.	Indirect	Transport	1.049	1.049
		Purchase of water	44	44
		Miscellaneous	3	3
Minera Los Pelambres	Indirecta	Outsourcing services	42	42

14. OTHER INCOME AND EXPENSES

At March 31, 2006, the detail of this item is as follows:

	March 2006 ThUS\$
Other income	
Sale of supplies	17
Total	17
Other expenses	
Write down of fixed assets	332
Total	332

15. CONTINGENCIES, COMMITMENTS AND GUARANTEES

- a. The Company has deposits in guarantee for ThUS\$50 in favor of the First Civil Court of Antofagasta and deposits in current account granted in favor of the Third Court of Antofagasta and of the Second Civil Court of Calama. These proceedings have resulted in the granting of definitive easements.
- b. The Company's recoverable additional tax on foreign technical advisory services for ThUS\$1,004 is currently in dispute with the Chilean IRS, trial No.7889-2004. It also has a dispute under Review of Inspection Measure (RAF) trial No.10,078-2005 for ThUS\$89.
- c. At December 31, 2005, the Company has issued promissory notes in favour of the General Treasury of the Republic of Chile for ThUS\$1,875 (including interest) from which the Company recovered ThUS\$1,218 through the recovery of VAT credit, in accordance with Law 18,634.
- d. As part of its common operations, the Company has entered into purchase contracts of materials with suppliers, which guarantee said supply.

16. SUBSEQUENT EVENTS

Between March 31, 2006 and the date of issuance of these financial statements and except for the abovementioned, no events have occurred that could significantly affect their interpretation.

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