

MINERA EL TESORO

UNAUDITED FINANCIAL STATEMENTS
FOR THE FIRST HALF ENDED 30 JUNE 2006

(TRANSLATION FROM SPANISH VERSION
FILED WITH SUPERINTENDENCIA DE VALORES Y SEGUROS
DE CHILE ON 29TH AUGUST 2006)

MINERA EL TESORO

BALANCE SHEET AT JUNE 30, 2006
(In Thousands of US Dollars - ThUS\$)

ASSETS	ThUS\$
CURRENT ASSETS:	
Cash and banks	160
Time deposits	74,321
Trade debtors	45,938
Sundry debtors	2,309
Inventories	46,265
Recoverable taxes	3,219
Prepaid expenses	2,060
Other current assets	3,203
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Total current assets	177,475
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FIXED ASSETS:	
Land	301
Mining properties	46,529
Construction and infrastructure	145,275
Machinery and equipment	115,469
Other	27,590
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Subtotal	335,164
Less: Accumulated depreciation	(74,277)
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Total fixed assets	260,887
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OTHER ASSETS:	
Mine development costs, net	51,263
Others	7,018
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Total other assets	58,281
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TOTAL ASSETS	496,643
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The accompanying notes are an integral part of this financial statement

LIABILITIES AND SHAREHOLDERS' EQUITY

ThUS\$

CURRENT LIABILITIES:

Bank loans - senior debt, current portion	28,128
Accounts payable	7,292
Dividends payable	55,000
Leasing obligations	115
Accounts payable to related companies	1,896
Accruals	23,993
Withholdings	4,179
Income tax payable	13,609
Deferred taxes	838

Total current liabilities 135,050

NON-CURRENT LIABILITIES:

Bank loans - senior debt	21,000
Leasing obligations	92
Accruals	6,048
Deferred taxes	28,596

Total non-current liabilities 55,736

SHAREHOLDERS' EQUITY:

Paid-in capital	90,995
Retained earnings	77,442
Net income for the period	137,420

Total shareholders' equity 305,857

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY496,643

MINERA EL TESORO

STATEMENT OF INCOME FOR THE YEAR ENDED JUNE 30, 2006 (In Thousands of US Dollars - ThUS\$)

	ThUS\$
REVENUES	262,621
COST OF SALES	<u>(81,439)</u>
GROSS MARGIN	181,182
ADMINISTRATIVE AND SALES EXPENSES	<u>(12,956)</u>
OPERATING INCOME	<u>168,226</u>
OTHER INCOME (EXPENSE):	
Financial income	913
Other income	39
Exchange differences	2,013
Financial expenses	(1,687)
Other expenses	<u>(918)</u>
Non operating income	<u>360</u>
INCOME BEFORE INCOME TAX	168,586
INCOME TAX	<u>(31,166)</u>
NET INCOME FOR THE YEAR	<u><u>137,420</u></u>

The accompanying notes are an integral part of this financial statement

MINERA EL TESORO

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2006 (In Thousands of US Dollars - ThUS\$)

	ThUS\$
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net income for the period	137,420
Charges to income that do not represent cash flow:	
Depreciation and amortization	16,866
Income tax	2,652
Exchange differences	(2,013)
Write off of fixed assets - net	547
Increase of assets:	
Trade debtors	(18,547)
Sundry debtors and others	(67)
Inventories	(13,795)
Recoverable taxes	(26,026)
Other assets	(4,504)
Increase (decrease) of liabilities:	
Accounts payable	(1,340)
Due to related companies	218
Income tax payable	28,514
Other liabilities	2,424
Net cash provided by operating activities	<u>122,349</u>
CASH FLOW FROM FINANCING ACTIVITIES:	
Payment of senior debt	(7,000)
Payment of dividends	<u>(40,000)</u>
Net cash used in financing activities	<u>(47,000)</u>
CASH FLOW FROM INVESTING ACTIVITIES:	
Purchase of fixed assets, net	<u>(4,344)</u>
NET POSITIVE CASH FLOW FOR THE PERIOD	71,005
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>3,476</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u><u>74,481</u></u>

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.

According to the requirements of Law N°20,026 on the Specific Mining Tax published in the Official Gazette of 16/06/2005, and the relevant regulations issued by the Superintendence of Securities and Insurance ("SVS") through its Exempt Resolutions 549 of 23/09/2005 and 39 of 3/02/2006, the Company shall deliver its Quarterly and Audited Annual Financial Statements, and an Annual Report, to the SVS, in the manner and at the time stipulated in such Resolutions. Thus, as a company receiving foreign investments earmarked for developing mining projects, it claimed the rights stipulated in new article 11 Ter of Decree-Law 600 of 1974, setting an invariable 4% rate for the aforementioned Specific Mining Tax for a period of 12 years.

By express provision of the above regulations issued by the SVS, the Financial Statements and Annual Report delivered for operations and transactions taking place as of January 1, 2006, will not be compared with the 2005 fiscal year, this year only, because 2006 is the first year in which the above tax is in force.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. General - The financial statements for the period ended June 30, 2006 have been prepared in accordance with accounting principles generally accepted in Chile.

b. Accounting period - The attached financial statements correspond to the period of six months between January 1 and June 30, 2006.

c. 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 rates 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 Banco Central de Chile of Ch\$539.44 for US\$1.

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

e. 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.

f. 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 mine life 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 production.

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

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

i. Income tax and deferred taxes - The Company calculates its income tax liabilities and specific mining tax in accordance with current regulations. Deferred taxes resulting from timing differences, tax losses, and other events creating differences between the accounting and tax base of assets and liabilities are recorded in accordance with standards of Technical Bulletins N°60 and supplements of the Chilean Institute of Accountants.

j. Derivative contracts - The Company has entered into an interest rate collar contract in order to cover the variation experienced by the Libor 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 coverage 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 11).

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

l. 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%.

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

n. 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.

o. 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 as follows:

Time deposits

	Currency	ThUS\$
Overseas time deposits	US\$	64,294
Local investments	Ch\$	<u>10,027</u>
Total time deposits		<u><u>74,321</u></u>

4. TRADE DEBTORS

Trade debtors, clasified by location, are as follows:

	ThUS\$
Foreign customers	
Europe	30,550
South America	5,782
Asia Pacific	6,026
North America	<u>3,116</u>
Total foreign customers	45,474
Local customers	<u>464</u>
Total	<u><u>45,938</u></u>

5. INVENTORIES

Inventories of the Company are as follows:

	ThUS\$
Finished products	6,018
Products in process	33,133
Materials, raw materials and parts	<u>7,114</u>
Total	<u><u>46,265</u></u>

6. FIXED ASSETS

Fixed assets are accounted for as described in Note 2f and their detail is as follows:

	ThUS\$
Land	<u>301</u>
Mining properties	<u>46,529</u>
Constructions and infraestructure:	
Instalations	83,213
Constructions and buildings	28,616
Infraestructure	<u>33,446</u>
Total constructions and infraestructure	<u>145,275</u>
Machinery and equipment:	
Machinery and equipment:	53,234
Mobile equipment	57,472
Minor equipments	4,085
Auxiliary equipments	<u>678</u>
Total machinery and equipment	<u>115,469</u>
Other fixed assets:	
Equipment	9,494
Software and hardware equipment	891
Furniture	60
Leasing assets	353
Work in progress	57
Projects in progress	5,856
Preoperational expenses	<u>10,879</u>
Total other fixed assets	<u>27,590</u>
Total fixed assets	335,164
Total accumulated depreciation	<u>(74,277)</u>
Total fixed assets-net	<u><u>260,887</u></u>

7. DEVELOPMENT COSTS

As mentioned in Note 2g, this balance mainly includes preoperational expenses incurred prior to the start-up and its detail is as follows:

	ThUS\$
Development costs:	
Project expenses	55,057
Financing	23,830
Development costs properties contribution	15,713
Pre-investment expenses	<u>7,560</u>
Total development costs	102,160
Accumulated amortization	<u>(50,897)</u>
Total development costs-net	<u><u>51,263</u></u>

8. BANK LOANS – SENIOR DEBT

The balance is as follows:

Financial institution	Interest	Short term ThUS\$	Long term ThUS\$
The Royal Bank of Scotland - BBVA	LIBOR+0.4%	<u>28,128</u>	<u>21,000</u>
Total		<u><u>28,128</u></u>	<u><u>21,000</u></u>

The senior debt has semi-annual maturity dates, ending on December, 2008.

9. ACCRUALS

The balance is as follows:

	ThUS\$
Short term:	
Operational accruals	23,368
Transport accruals, insurance, export commissions	<u>625</u>
Total short term accruals	<u><u>23,993</u></u>
Long term:	
Severance provision	3,343
Mine closure	<u>2,705</u>
Total long term accruals	<u><u>6,048</u></u>

10. INCOME TAX AND DEFERRED TAXES

The detail of the balance is as follows:

	ThUS\$
Current asset	
VAT (net)	2,793
Others	<u>426</u>
Total current asset	<u><u>3,219</u></u>
Other assets	
Additional tax (technical assessments)	980
Tax credits long term	<u>237</u>
Total long term	<u><u>1,217</u></u>

The long term tax recoverable balance is included as Others in Other long term assets.

a. Income tax

At June 30, 2006, the Company provided for first category tax based on taxable profit of ThUS\$154,782, according to the income tax law. The specific mining tax was calculated based on the operational taxable profit of ThUS\$166,345.

The income tax and specific mining tax accruals are classified as income tax payable in current liabilities, net of monthly provisional payments and other credits.

	ThUS\$
Income tax accrual for the period	26,252
Mining tax accrual	6,639
Provisional monthly payments	(15,100)
Tax credits from specific mining tax	(3,320)
Provisional monthly payments - specific tax	<u>(862)</u>
Total income tax payable	<u><u>13,609</u></u>

b. Deferred taxes

The detail of accumulated balances at June 30, 2006 of deferred tax assets and liabilities, is as follows:

	<u>Assets</u>		<u>Liabilities</u>	
	Short Term US\$	Long Term US\$	Short Term US\$	Long Term US\$
Temporary differences				
Production indirect expenses			976	
Fixed assets				18,670
Deferred charges			7	21
Preoperating expenses			1,311	11,801
Accrual for mine closure - net		296	315	
Vacation accrual	132			
Severance indemnity		420		
Accruals and others	<u>1,639</u>	<u>1,180</u>		
Balance at June 30,	<u><u>1,771</u></u>	<u><u>1,896</u></u>	<u><u>2,609</u></u>	<u><u>30,492</u></u>

The net balance of short-term deferred taxes is ThUS\$838 and the net balance of long-term deferred taxes is ThUS\$28,596. These balances are presented in current liabilities and long term liabilities, respectively.

The charge to income for income tax is as follows:

	Charge to income
	<u>ThUS\$</u>
Current tax expense:	
Income tax provision for the year	26,252
Mining tax	3,320
Deferred taxes:	
Changes in deferred taxes	<u>1,594</u>
Total	<u><u>31,166</u></u>

11. CONTRACTS TO FIX INTEREST RATE AND COPPER PRICE

a. Zero cost interest rate collar

With regard to the senior debt, an interest rate hedge was established with The Royal Bank of Scotland Plc. for US\$20,000,000, by means of a zero cost collar with a ceiling of 6% and a floor of 4.83% for the period from August 15, 2001 to 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. - BBVA, with the same ceiling 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 had 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. At June 30, 2006, the amount hedged was reduced to ThUS\$7,131.

b. Copper price futures contracts

During 2005, various contracts for future COMEX price base sales and future LME price base purchases were signed for 5,300 tons during 2006. The above tonnage corresponds to the sale contract with Southwire, a client in the United States, whose price is referenced to the COMEX price, but which the Company references to the LME price through this arbitrage.

Open operations at June 30, 2006:

Institution	Date		Amount Tons	Price of the transaction	
	Subscription	Maturity		Sale Future Comex US\$/Ton	Purchase Future LME US\$/Ton
Calyon	02-12-2005	31-07-2006	500	4,034.46	4,024.46
Calyon	02-12-2005	31-08-2006	500	4,034.46	4,024.46
Calyon	02-12-2005	30-09-2006	500	4,034.46	4,024.46
Calyon	02-12-2005	31-10-2006	500	4,034.46	4,024.46
Calyon	02-12-2005	30-11-2006	500	4,034.46	4,024.46
Calyon	02-12-2005	31-12-2006	500	4,034.46	4,024.46
Calyon	02-12-2005	31-01-2007	500	4,034.46	4,024.46

c. Options

During 2005, the Company signed 7 min-max options to cover 3,000 tons per month in the second half of 2005 and 1,500 tons per month in 2006, LME price base.

Open operations at June 30, 2006:

Institution	Amount TM	Date		Options	
		Subscription	Liquidation	Put US\$	Call US\$
Triland Metals	500	06-04-2005	31-07-2006	2,426.00	3,250.00
Calyon	500	06-04-2005	31-07-2006	2,426.00	3,167.00
Standard bank	500	03-06-2005	31-07-2006	2,426.00	3,119.00
Triland Metals	500	06-04-2005	31-08-2006	2,426.00	3,250.00
Calyon	500	06-04-2005	31-08-2006	2,426.00	3,167.00
Standard bank	500	03-06-2005	31-08-2006	2,426.00	3,119.00
Triland Metals	500	06-04-2005	30-09-2006	2,426.00	3,250.00
Calyon	500	06-04-2005	30-09-2006	2,426.00	3,167.00
Standard bank	500	03-06-2005	30-09-2006	2,426.00	3,119.00
Triland Metals	500	06-04-2005	31-10-2006	2,426.00	3,250.00
Calyon	500	06-04-2005	31-10-2006	2,426.00	3,167.00
Standard bank	500	03-06-2005	31-10-2006	2,426.00	3,119.00
Triland Metals	500	06-04-2005	30-11-2006	2,426.00	3,250.00
Calyon	500	06-04-2005	30-11-2006	2,426.00	3,167.00
Standard bank	500	03-06-2005	30-11-2006	2,426.00	3,119.00
Triland Metals	500	06-04-2005	31-12-2006	2,426.00	3,250.00
Calyon	500	06-04-2005	31-12-2006	2,426.00	3,167.00
Standard bank	500	03-06-2005	31-12-2006	2,426.00	3,119.00

12. SHAREHOLDERS' EQUITY:

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

	Paid-in capital US\$	Retained earnings US\$	Net income for the year US\$	Total shareholders' equity US\$
Balances at January 1, 2006	90,995	172,442		263,437
Definitive dividends		(95,000)		(95,000)
Net income for the year			137,420	137,420
Balances at June 30, 2006	<u>90,995</u>	<u>77,442</u>	<u>137,420</u>	<u>305,857</u>

- b. On March 29, 2006 and June 28, 2006, the Board of Directors agreed to distribute dividends against retained earnings for an amount equivalent to ThUS40,000 and ThUS\$55,000, respectively.
- c. At June 30, 2006, the paid-in capital of the Company is represented by 90,994 no-par value shares. The equity ownership is as follows:

	N° Shares	% Ownership
Antofagasta Minerals S.A.	55,506	61
Compañía Contractual Minera Leonor	<u>35,488</u>	<u>39</u>
Total	<u>90,994</u>	<u>100</u>

13. BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

- a. **Accounts payable - Short-term:**

Company	Relationship	ThUS\$
Antofagasta Minerals S.A.	Parent	91
Minera Michilla S.A.	Indirect	252
Minera Los Pelambres	Indirect	17
Antofagasta (Chile) and Bolivia Railway Plc.	Indirect	<u>1,536</u>
Total		<u>1,896</u>

These balances arise from commercial transactions and do not accrue interest or indexation.

b. Transactions with related companies

Significant transactions with related companies between January 1 and June 30, 2006, are as follows:

Company	Relationship	Transaction	Amount of transaction ThUS\$	Effect on income charge (credit) ThUS\$
Antofagasta Minerals S.A.	Parent	Management services	966	966
		Reimbursement of expenses	64	
		Dividends	57,950	
		Sale of energy project	83	(42)
Compañía Contractural Minera Leonor	Shareholder	Royalty	4,568	4,568
		Dividends	37,050	
Minera Michilla S.A.	Indirect	Purchase of supplies	129	
Antofagasta Railway Company Plc. (Agencia en Chile)	Indirect	Transport service	2,943	2,943
		Purchase of water	248	248
		Miscellaneous	3	3
Minera Los Pelambres	Indirect	Outsourcing services	83	83
Entel	Indirect	Communication services	118	118
Banco de Chile	Indirect	Bank expenses	17	17
		Investments	9,712	(30)
Artikos	Indirect	Administration services	17	17
Adriatico	Indirect	Office rent	41	41
Other related	Indirect	Sundry expenses	4	4

14. NON OPERATING INCOME AND EXPENSES

At June 30, 2006, the balance is as follows:

	ThUS\$
Non operating income	
Sale of supplies	<u>39</u>
Total	<u><u>39</u></u>
Non operating expenses	
Fixed assets write offs	<u>918</u>
Total	<u><u>918</u></u>

15. CONTINGENCIES, COMMITMENTS, AND GUARANTEES

- a. The Company has deposits in guarantee for ThUS\$49 in favour of the First Civil Court of Antofagasta, and deposit in current account in favour of the Third Court of Antofagasta and the Second Civil Court of Calama. These court proceedings have ended, with the granting of definitive easements.
- b. The Company has a dispute with the Chilean Internal Revenue Service for the refund of additional tax for overseas advisory services for ThUS\$980, case number N°7889-2004; which is in the Court of Appeal. It also has a dispute for ThUS\$87 in the Review of Inspection Proceedings (RAF) stage, case number 10.078-2005.
- c. During 2006, as part of its normal operations, the Company entered into purchase contracts with suppliers to guarantee the supply of consumables.

16. SUBSEQUENT EVENTS

On July 7, 2006 a prepayment of the senior debt of US\$14,000,000 was made (Note 8).

Between June 30, 2006 and the date of issuance of these financial statements, no additional events have occurred that could significantly affect their interpretation.

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