

MINERA MICHILLA S.A.

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 MICHILLA S.A.

BALANCE SHEET AT MARCH 31, 2006

(In thousand of US dollars - ThUS\$)

ASSETS	ThUS\$
CURRENT:	
Cash and banks	216
Time deposits	5.601
Marketable securities	1.992
Trade debtors	12.469
Sundry debtors	2.302
Accounts receivable from related companies	627
Refundable taxes	4.597
Inventories	20.936
Prepaid expenses	1.002
Deferred taxes	576
Other current assets	13
Total current assets	<u>50.331</u>
FIXED:	
Mining properties	13.622
Buildings and infrastructure	65.056
Machinery and equipment	72.824
Other fixed assets	104.639
Technical revaluation of fixed assets	4.104
Depreciation and accrued amortization	<u>(195.861)</u>
Total fixed assets, net	<u>64.384</u>
OTHERS:	
Investments in other companies	277
Long-term debtors	436
Deferred taxes	79
Others	251
Total other assets	<u>1.043</u>
TOTAL ASSETS	<u><u>115.758</u></u>

The accompanying notes are an integral part of this financial statement

LIABILITIES AND SHAREHOLDERS' EQUITY	ThUS\$
CURRENT:	
Accounts payable	3.300
Sundry creditors	1.176
Accounts payable to related companies	339
Accruals	12.470
Withholdings	985
Income tax payable	<u>551</u>
Total current liabilities	<u>18.821</u>
LONG-TERM:	
Sundry creditors	1.124
Accruals	6.473
Deferred taxes	<u>7.597</u>
Total long-term liabilities	<u>7.597</u>
SHAREHOLDERS' EQUITY	
Paid-in capital	78.422
Technical revaluation reserve	219
Retained earnings	11.734
Net income for the period	6.290
Interim dividends	<u>(7.325)</u>
Total shareholders' equity	<u>89.340</u>
 TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	 <u><u>115.758</u></u>

MINERA MICHILLA S.A.

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

	ThUS\$
REVENUE	42.073
COST OF SALES	<u>(31.175)</u>
GROSS MARGIN	10.898
SELLING AND ADMINISTRATIVE EXPENSES	<u>(3.498)</u>
OPERATING INCOME	<u>7.400</u>
NON-OPERATING INCOME (EXPENSE):	
Financial income	161
Other non-operating income	102
Financial expenses	(69)
Other non-operating expenses	(263)
Exchange differences	<u>462</u>
NON-OPERATING INCOME, NET	<u>393</u>
INCOME BEFORE INCOME TAX	7.793
INCOME TAX	<u>(1.503)</u>
NET INCOME FOR THE PERIOD	<u><u>6.290</u></u>

The accompanying notes are an integral part of this financial statement

MINERA MICHILLA S.A.

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

	ThUS\$
CASH FLOWS FROM OPERATING ACTIVITIES:	
Collection of trade debtors	35.943
Financial income received	161
Dividends and other distributions received	-
Other income received	102
Payments to suppliers and personnel	(37.601)
Interest paid	(29)
Income tax paid	(948)
Other expenses paid	(462)
VAT and other similar taxes paid	(460)
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Net cash used in operating activities	(3.294)
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CASH FLOWS FROM INVESTING ACTIVITIES:	
Sale of fixed assets	
Purchase of fixed assets	(3.726)
Other loans to related companies	(365)
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Net cash used in investing activities	(4.091)
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TOTAL NET NEGATIVE CASH FLOW FOR THE PERIOD	(7.385)
CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE YEAR	15.194
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CASH AND CASH EQUIVALENT AT THE END OF THE YEAR	7.809
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MINERA MICHILLA S.A.

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

	ThUS\$
RECONCILIATION BETWEEN NET CASH FLOW USED IN OPERATING ACTIVITIES AND NET INCOME FOR THE PERIOD	
Net Income for the period	6.290
Charges to income that do not represent cash flows:	
Depreciation	2.019
Amortization	1.775
Write-offs and provisions	220
Exchange differences	(462)
Other credits to income that do not represent cash flows	(75)
Changes in assets that affect cash flows:	
Decrease (increase) in trade accounts receivable	(6.129)
Increase in inventories	(2.086)
Decrease in deferred taxes	66
Decrease (increase) in other assets	(1.660)
Changes in liabilities that affect cash flows:	
Decrease in accounts payable and sundry creditors	(1.706)
Net decrease of valued added tax and other similar taxes payable	(1.625)
Increase in deferred taxes	79
Net cash used in operating activities	<u><u>(3.294)</u></u>

The accompanying notes are an integral part of this financial statement

MINERA MICHILLA S.A.

NOTES TO THE FINANCIAL STATEMENTS

(In thousands of U.S. dollars - ThUS\$)

1. NATURE OF THE OPERATIONS OF THE COMPANY

The corporate purpose of the Company is the exploration, development, exploitation, production, commercialization of minerals, concentrates, precipitates, cathodes and copper bars and bars of non-ferrous metals, and products and sub-products obtained therefrom; and the exploitation of mining properties, including all the stages of the mining industry.

In accordance with the requirements of the law N°20.026 issued on the Official Gazette (Diario Oficial) of June 16, 2005, on the Specific Tax for Mining and the applicable regulations issued by the Superintendency of Securities and Insurances (SVS) through the Exempt Resolution N°549 dated September 23, 2005 and N°39 dated February 3, 2006, the Company should deliver the SVS its audited quarter and annual financial statements, and an annual balance sheet as established in the aforementioned resolutions.

By express resolution of the aforementioned regulations established by the SVS, the financial statements and the annual balance sheet of the operations and transactions occurred from January 1, 2006 will not be compared with 2005, for this year, considering that 2006 is the first year this tax is in force.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. General - The financial statements for the period ended 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 rates prevailing on the date of the transaction.

Assets and liabilities in Chilean pesos were translated into US dollars at the exchange rate at the period end of Ch\$526.18 for US\$1.

c. Time deposits - Time deposits are stated at original investment amount plus accrued interests at the close of the period.

d. Marketable securities – Marketable securities include investments in fixed income mutual funds, which are stated at the value of the respective unit at year end.

e. Estimate for uncollectible accounts – The Company has not recorded an estimate for uncollectible accounts considering the age and risk of its accounts receivable.

f. Inventory – Inventory is valued in accordance with the following criteria:

- Finished products and products in process are carried at the average monthly production cost.
- Materials and supplies are stated at weighted average acquisition cost.

The cost of inventories does not exceed its estimated net realizable value.

g. Fixed assets – Fixed assets are presented at acquisition or revaluation cost. Depreciation has been calculated based on the straight-line method, over the estimated useful life of the assets, except for values disbursed from mining properties that are amortized based on production, considering proven and probable mineral reserves.

The cost of the mine development stages correspond to:

- Exploring and drilling ore deposits in perspective.
Costs for locating mineralized areas, and determining their possible commercial operation are charged to construction in progress. Once results are concluded and analyzed, they are charged to income if not practicable.
- Mine pre-operation expenses
Expenses incurred from the moment the Company determines that the exploitation of an ore deposit is practicable until its start-up are capitalized, and amortized in relation with the mineral production.
- Development expenses of ore deposits being exploited.
The expenses that have the sole purpose of maintaining production volumes are charged to costs when incurred.

Mining licenses paid for mining properties that are not being exploited are amortized during the period.

Assets acquired under Finance Lease (Note 5) are not legally owned by the Company; therefore it cannot freely dispose of these assets until it exercises its purchase option

h. Investments in other companies – Investments in other companies are stated at cost and represent principally the contribution made in Minera Pampa Fénix S.C.M.. by the Company which owns 90% of said company. The non consolidation of the aforementioned subsidiary does not affect the interpretation of the current financial statements, as its assets, liabilities, results and cash flows are not significant.

i. Personnel vacation – The periodic cost of personnel vacations is recognized as an expense in the financial statements on the accrual basis.

j. Income tax and deferred taxes - The Company determines its provisions for the first category income tax and mining specific tax, based on the Net Taxable Income and Operating Taxable Income, respectively, determined in accordance with the Income Tax Law.

Deferred taxes on temporary differences, tax losses and other events creating differences between the accounting and tax base of assets and liabilities, are recorded following Technical Bulletin N°60 and complements of the Chilean Institute of Accountants and its modifications.

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

l. Mine closure - The Company provides for mine closure cost and abandonment of installations at net present value considering a discount rate of 6.5% and pursuant to regulations of its Parent Company Antofagasta PLC, and legal environment obligations entered into with government organizations.

m. Revenue – Includes the sale of products and the result of future contracts that ensure selling prices. Income from sales are recorded when the risk and ownership of products are substantially transferred to the purchaser.

n. Derivative contracts - The Company has entered into derivative contracts in order to cover the variation experienced by the price of copper. As these contracts were defined as hedge of expected transactions, the unrealized gain or loss has been deferred, as established by Technical Bulletin N°57 of the Chilean Institute of Accountants.

o. 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 mutual fund units.

3. TIME DEPOSITS

The detail is as follows:

Financial institution	Currency or indexation	March 2006 ThUS\$
Royal Bank of Canada	US\$	3.300
Banco Estado	US\$	2.301
Total		<u>5.601</u>

4. TRADE DEBTORS

The balance of trade debtors, broken down by geographical area, is as follows:

	March 2006 ThUS\$
Europe	4.725
Asia Pacific	2.829
North America	3.945
Latin America	5
(Mark to Market estimate and price adjustment)	<u>966</u>
Total	<u>12.469</u>

5. INVENTORIES

The detail of inventories at the period end is as follows:

	March 2006 ThUS\$
Products in process	8.584
Supplies	5.138
Finished products	<u>7.214</u>
Total	<u>20.936</u>

6. FIXED ASSETS

Fixed assets are stated as indicated in Notes 2g, 2h, and 2i. The detail is as follows:

	March 2006 ThUS\$
Mining properties	<u>13.622</u>
Buildings and infrastructure	<u>65.056</u>
Machinery and equipment	<u>72.824</u>
Investments in development and recognition	82.399
Furniture and fixtures, equipment and household goods	3.887
Construction in progress	11.654
Leased fixed assets	5.418
Other fixed assets	<u>1.281</u>
Total other fixed assets	104.639
Technical revaluation of fixed assets	<u>4.104</u>
Total gross fixed assets	<u>260.245</u>
Accumulated depreciation	(115.208)
Depreciation for the period	(2.019)
Accumulated depreciation from technical revaluation of fixed assets	(4.104)
Accumulated amortization	(72.791)
Amortization for the period	<u>(1.739)</u>
Total accumulated depreciation and amortization	<u>(195.861)</u>
Total fixed assets - net	<u><u>64.384</u></u>

7. SHORT AND LONG TERM SUNDRY CREDITORS

The detail of this item is as follows:

Short-term:	March 2006 ThUS\$
Finance leases	1.266
Deferred interest	<u>(90)</u>
Total	<u><u>1.176</u></u>
Long-term:	
Finance leases	1.163
Deferred interest	<u>(39)</u>
Total	<u><u>1.124</u></u>

Leasing obligations correspond to the financing of machinery and equipment, are expressed in US dollars, and accrue an average annual interest of 4.68%.
The long-term balance matures in monthly equal and successive installments until May 10, 2008.

8. BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

a. Accounts receivable from and payable to related companies:

	Type of relationship	March 2006 ThUS\$
Short-term receivables:		
Minera El Tesoro	Indirect	158
Antofagasta Minerals S.A.	Shareholder	9
Madeco S.A.	Indirect	459
Antofagasta (Chile) and Bolivia Railway Plc.	Indirect	<u>1</u>
Total		<u><u>627</u></u>
Short-term payables:		
Antofagasta Minerals S.A.	Shareholder	149
Antofagasta (Chile) and Bolivia Railway Plc.	Indirect	<u>190</u>
Total		<u><u>339</u></u>

Balances receivable and payable are stated in Chilean pesos and do not accrue interest or adjustments.

b. The principal transactions with related companies are as follows:

Entity	Type of relationship	Transaction	Amount of the transaction	Effect on income Charge (credit)
			March 2006 ThUS\$	March 2006 ThUS\$
Antofagasta Minerals S.A.	Shareholder	Administrative services	300	300
		Expense recovery	126	126
		Income from rentals	25	(25)
Antofagasta (Chile) and Bolivia Railway Plc	Indirect	Transport service	244	244
		Expense recovery	1	
Minera Los Pelambres	Indirect	Income from rentals	50	(50)
Madeco S.A.	Indirect	Sale of copper	396	(188)
Minera El Tesoro	Indirect	Sale of supplies	52	(52)
Cía. Inv. Adriático S.A.	Indirect	Office rental	4	4

9. ACCRUALS

The detail of accruals at the period end is as follows:

Sort-term	March 2006 ThUS\$
Monthly expenses	6.301
Sundry US dollars	2.778
Personnel vacations	702
Futures market	1.207
Withholdings payable	1.482
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Total	<u>12.470</u>
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Long-term	March 2006 ThUS\$
Mine closure	1.281
Severance indemnity	5.192
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Total	<u>6.473</u>

10. INCOME TAX AND DEFERRED TAXES

a. Refundable taxes

The balance of this item at period end is as follows:

	March 2006 ThUS\$
Refundable VAT	3.898
Mining licenses	699
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Total	<u>4.597</u>

b. Income Tax

The First Category Income Tax provision at March 31, 2006 was ThUS\$1,386 calculated in conformity with the Income Tax Law. The specific mining tax provision was ThUS\$ 134.

The Income Tax provision calculated is presented in income tax payable in current liabilities net of monthly provisional payments, training credits, donation credits, and other credits.

	March 2006 ThUS\$
Income tax provision	(4.474)
Royalty provision	(134)
Monthly provisional payments	3.572
Royalty monthly provisional payments	174
Sence training expenses	79
Donation credits	222
Other refundable taxes	10
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Total	<u><u>(551)</u></u>

c. Deferred taxes

At March 31, 2006, the detail of accumulated balances for deferred taxes is as follows:

	March 2006		
	<u>Assets</u>		<u>Liabilities</u>
Temporary differences	Short term	Long term	Long term
	ThUS\$	ThUS\$	ThUS\$
Inventories	220		
Fixed assets depreciation			2.131
Vacation provision	120		
Closure costs provision		1.077	
Leasing provision and others	236	535	
Others		489	
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Total deferred taxes	576	2.101	2.131
Complementary accounts net of accumulated amortization			(109)
	<hr/>	<hr/>	<hr/>
Total	<u><u>576</u></u>	<u><u>2.101</u></u>	<u><u>2.022</u></u>

Deferred taxes are presented in the balance sheet as shown below:

	March 2006 ThUS\$
Current deferred tax asset	576
Current deferred tax liability	<u> </u>
Total current assets	<u>576</u>
Long-term deferred tax asset	2.101
Long-term deferred tax liability	<u>(2.022)</u>
Total long-term assets (liabilities) - net	<u>79</u>

The composition of the charge to income from income tax, after recognizing the effect of deferred taxes, is as follows:

	March 2006 ThUS\$
Current tax expense	
Additional tax	(8)
Current tax	(1.386)
Specific mining tax	(134)
Deferred taxes	
Effect from changes in deferred tax assets and liabilities	57
Effect from amortization of complementary accounts and others	(16)
Royalty effect	<u>(16)</u>
Total net charge to income	<u>(1.503)</u>

11. SHAREHOLDERS' EQUITY

The following are the shareholders' equity movements during the period:

	Paid-in capital ThUS\$	Technical revaluation reserve ThUS\$	Retained earnings ThUS\$	Interim dividend ThUS\$	Net income (loss) for the year ThUS\$	Total ThUS\$
Balances at January 1, 2006	78.422	219	-	(7.325)	11.734	83.050
Transfer of 2005 profits			11.734		(11.734)	-
Net income for the period					6.290	6.290
Balances at March 31, 2006	<u>78.422</u>	<u>219</u>	<u>11.734</u>	<u>(7.325)</u>	<u>6.290</u>	<u>89.340</u>

12. OTHER NON-OPERATING INCOME AND EXPENSES

a. Other non-operating income:

	March 2006 ThUS\$
Income from rentals	99
Other income	<u>3</u>
Total	<u><u>102</u></u>

b. Other non-operating expenses:

	March 2006 ThUS\$
Adjustment sulphate inventory tons.	240
Other expenses	<u>23</u>
Total	<u><u>263</u></u>

13. FUTURE OPERATIONS AND OPTIONS

The Company keeps the following hedging contracts:

a. Outstanding positions at March 31, 2006:

At March 31, 2006, the Company has Min-Max options for MT 13,950 maturing MT 3,350 every month, from April to June, 2006, and MT 650 from July to December 2006. These options have a floor of US\$ 1,202 per pound of fine copper and a cap of US\$ 1,462 per pound of fine copper until June 2006, and US\$ 1,334 per pound of fine copper during the second semester.

Min-Max option agreements									Gain (loss) provision 31/03/2006	Greater (lower) contract value v/s market value
Product	N° of contracts	Maturity	Date Settlement	Tons		US\$/Ton.		Settlement US\$/Ton	ThUS\$	ThUS\$
				Min	Max	Put	Call			
Copper	6	31/03/06	04/04/06	3.350	3.350	2.646,00	3.229,97	5.102,85	(6.274)	
Copper	6	30/04/06	04/05/06	3.350	3.350	2.646,00	3.229,97	5.102,85		(6.274)
Copper	6	31/05/06	03/06/06	3.350	3.350	2.646,00	3.229,97	5.102,85		(6.274)
Copper	6	30/06/06	03/07/06	3.350	3.350	2.646,00	3.229,97	5.102,85		(6.274)
Copper	2	31/07/06	03/08/06	650	650	2.646,00	2.940,00	5.102,85		(1.406)
Copper	2	31/08/06	03/09/06	650	650	2.646,00	2.940,00	5.102,85		(1.406)
Copper	2	30/09/06	03/10/06	650	650	2.646,00	2.940,00	5.102,85		(1.406)
Copper	2	31/10/06	03/11/06	650	650	2.646,00	2.940,00	5.102,85		(1.406)
Copper	2	30/11/06	03/12/06	650	650	2.646,00	2.940,00	5.102,85		(1.406)
Copper	2	31/12/06	03/01/07	650	650	2.646,00	2.940,00	5.102,85		(1.406)
Subtotal									(6.274)	(27.258)

This type of operation does not pay premium, therefore there is no cost to amortize.

b. Result of operations realized during the period:

March 2006	Gain ThUS\$	Loss ThUS\$	Total ThUS\$
Options exercised		(17.184)	(17.184)
Total		(17.184)	(17.184)

The result of these operations is presented net under revenue within the statement of income.

14. SUBSEQUENT EVENTS

Between April 1, 2006 and the date of issue of these financial statements, no financial or other type of events have occurred that could materially affect the balances or the interpretation of these financial statements.

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