

**MINERA EL TESORO**  
UNAUDITED FINANCIAL STATEMENTS  
FOR THE FULL YEAR ENDED 31 DECEMBER 2006

(TRANSLATION FROM SPANISH VERSION TO BE  
FILED WITH SUPERINTENDENCIA DE VALORES Y SEGUROS  
DE CHILE 30<sup>TH</sup> MARCH 2007)

## MINERA EL TESORO

BALANCE SHEET AT DECEMBER 31, 2006  
(In thousands of US Dollars - ThUS\$)

ASSETS	ThUS\$
CURRENT ASSETS:	
Cash at bank and in hand	49
Time deposits	218,984
Trade debtors	48,380
Sundry debtors	3,601
Account receivable from related company	96
Inventories	53,750
Recoverable taxes	2,474
Prepaid expenses	955
Other current assets	29
Total current assets	<u>328,318</u>
FIXED ASSETS:	
Land	301
Mining properties	46,529
Construction and infrastructure	147,179
Machinery and equipment	125,061
Other fixed assets	25,370
Subtotal	344,440
Less: Accumulated depreciation	<u>(86,291)</u>
Total fixed assets	<u>258,149</u>
OTHER ASSETS:	
Mine development costs - net	44,445
Others	6,908
Total other assets	<u>51,353</u>
TOTAL ASSETS	<u><u>637,820</u></u>

The accompanying notes are an integral part of this financial statement

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	ThUS\$
<b>CURRENT LIABILITIES:</b>	
Bank loans - senior debt, current portion	14,064
Accounts payable	9,590
Leasing obligations - current portion	120
Accounts payable to related companies	1,063
Sundry creditors	5,225
Accruals and withholdings	27,490
Income tax payable	35,379
Deferred taxes	648
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Total current liabilities	93,579
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<b>LONG-TERM LIABILITIES:</b>	
Bank loans-senior debt	14,000
Leasing obligations	30
Accruals	6,515
Deferred taxes	31,562
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Total long-term liabilities	52,107
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<b>SHAREHOLDERS' EQUITY:</b>	
Paid-in capital	90,995
Retained earnings	77,442
Net income for the year	323,697
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Total shareholders' equity	492,134
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<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u><u>637,820</u></u></b>

## MINERA EL TESORO

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

	ThUS\$
REVENUES	603,190
COST OF SALES	<u>(178,611)</u>
GROSS MARGIN	424,579
ADMINISTRATIVE AND SELLING EXPENSES	<u>(27,219)</u>
OPERATING INCOME	<u>397,360</u>
OTHER INCOME (EXPENSES):	
Financial income	4,754
Other income	337
Exchange differences	1,576
Financial expenses	(2,986)
Other expenses	<u>(2,108)</u>
Other income	<u>1,573</u>
INCOME BEFORE INCOME TAX	398,933
INCOME TAX	<u>(75,236)</u>
NET INCOME FOR THE YEAR	<u><u>323,697</u></u>

The accompanying notes are an integral part of this financial statement

## MINERA EL TESORO

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

	ThUS\$
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES AND NET INCOME FOR THE PERIOD:	
Net income for the year	323,697
Charges (credits) to income which do not represent cash flows:	
Depreciation and amortization	35,278
Deferred taxes	5,427
Exchange differences	(1,576)
Write-offs of projects	1,581
Decrease (increase) in assets which affect cash flows:	
Trade debtors	(20,990)
Sundry debtors and others	(1,497)
Inventories	(20,860)
Recoverable taxes	1,238
Other assets	(1,139)
Increase (decrease) in liabilities which affect cash flows:	
Accounts payable	(2,405)
Accounts payable to related companies	(615)
Income tax payable	23,752
Other liabilities	10,341
Net cash provided by operating activities	<u>352,232</u>
CASH FLOW FROM FINANCING ACTIVITIES:	
Payment of senior debt	(28,000)
Payment of dividends	<u>(95,000)</u>
Net cash used in financing activities	<u>(123,000)</u>
CASH FLOW FROM INVESTING ACTIVITIES:	
Purchase of fixed assets, net	<u>(13,672)</u>
NET POSITIVE CASH FLOW FOR THE YEAR	215,560
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,473</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>219,033</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\$)

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### 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 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 through its Exempt Resolutions 549 of 23/09/2005 and 39 of 3/02/2006, the Company shall deliver its Audited Quarterly and Annual Financial Statements, and an Annual Report, to the SVS, in the manner and at the time stipulated in such Resolutions.

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

**a. Bases of presentation** - The financial statements at December 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 outstanding at the end of the year were translated into US dollars at the observed exchange rate published by the Chilean Central Bank of \$532.39 per US\$1.

**c. Time deposits** - Investments in time deposits include capital plus readjustment and interest accrued at year-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 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. Such assets are not legally owned by the Company until it exercises the purchase option.

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

**f. 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.

**g. Deferred cost** - The Company capitalizes expenses associated with the refinancing of financial obligations, recording them 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.

**h. Income 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 operating taxable income, respectively, determined in accordance 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 N°60 and their complements of the Chilean Institute of Accountants.

**i. Derivative contracts** - The Company has entered into copper forward contracts, 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 periods has been deferred, as established by Technical Bulletin N°57 of the Chilean Institute of Accountants (Note 11).

**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 net 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 net present value in conformity with corporate standards 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.

**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 as follows:

	Currency	ThUS\$
Time deposits overseas	US\$	141,804
Local financial investments	Ch\$	<u>77,180</u>
Total time deposits		<u><u>218,984</u></u>

### 4. TRADE DEBTORS

The split of this balance by geographical destination is follows:

	ThUS\$
<b>Foreign clients:</b>	
Europe	31,850
Latin America	7,851
Asia Pacific	5,713
North America	<u>2,674</u>
Total foreign clients	<u>48,088</u>
<b>Domestic clients:</b>	<u>292</u>
Total	<u><u>48,380</u></u>

### 5. INVENTORIES

Inventories of the Company are as follows:

	ThUS\$
Finished products	5,330
Products in process	41,259
Materials, raw materials and parts	<u>7,161</u>
Total	<u><u>53,750</u></u>

## 6. FIXED ASSETS

Fixed assets are stated as mentioned in Note 2e and their detail as follows:

	ThUS\$
Land	<u>301</u>
Mining properties	<u>46,529</u>
<b>Construction and infrastructure</b>	
Facilities	85,741
Buildings and construction	27,860
Infrastructure	<u>33,578</u>
Total buildings and infrastructure	<u>147,179</u>
<b>Machinery and equipment:</b>	
Machinery and equipment	54,309
Mobile equipment	65,739
Minor equipment	4,236
Auxiliary equipment	<u>777</u>
Total machinery and equipment	<u>125,061</u>
<b>Other fixed assets:</b>	
Equipment	9,659
Computer equipment, software and hardware	892
Furniture	60
Leased assets	353
Construction in progress	930
Ongoing projects	2,597
Preoperating expenses	<u>10,879</u>
Total other fixed assets	<u>25,370</u>
Total fixed assets, gross	<u>344,440</u>
Total accumulated depreciation	<u>(86,291)</u>
Total fixed assets, net	<u><u>258,149</u></u>

7. MINE DEVELOPMENT COSTS - NET

As described in Note 2f, development costs mainly includes preoperational costs incurred prior to the operation, as follows:

	ThUS\$
<b>Development costs:</b>	
Project expenses	55,057
Financing	23,830
Development expenses property contribution	15,713
Preinvestment expenses	<u>7,560</u>
Total development costs, gross	<u>102,160</u>
Accumulated amortization	<u>(57,715)</u>
Total development costs, net	<u><u>44,445</u></u>

8. BANKS LOANS - SENIOR DEBT

The balance is as follows:

<b>Financial institution</b>	<b>Interest</b>	<b><u>Short Term</u></b> ThUS\$	<b><u>Long Term</u></b> ThUS\$
The Royal Bank of Scotland - BBVA	LIBOR+0.4%	<u>14,064</u>	<u>14,000</u>
Total		<u><u>14,064</u></u>	<u><u>14,000</u></u>

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

## 9. ACCRUALS AND WITHHOLDINGS

This detail of this item is as follows:

	ThUS\$
<b>Short-term:</b>	
Operations	26,423
Freight, insurance, export commissions	751
Withholdings	<u>316</u>
Total short-term	<u><u>27,490</u></u>
<b>Long-term:</b>	
Severance indemnity	3,684
Mine closure	<u>2,831</u>
Total long-term	<u><u>6,515</u></u>

## 10. INCOME TAX AND DEFERRED TAXES

The balance of recoverable taxes is as follows:

	ThUS\$
<b>Current assets:</b>	
VAT Credit (net)	2,082
Others	<u>392</u>
Total short-term	<u><u>2,474</u></u>
<b>Other assets:</b>	
Additional tax for technical advisory services	993
Long-term tax credits	<u>146</u>
Total long-term	<u><u>1,139</u></u>

The long-term tax recoverable is included in Others under Other long-term assets.

### a. Income tax and deferred taxes

At December 31, 2006, the Company provided for first category income tax based on the net taxable income of ThUS\$367,241, as determined in accordance with the Chilean Income Tax Law. The specific mining tax provision was calculated based on the Operational Taxable Income of ThUS\$468,900.

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

	ThUS\$
Income tax provision for the year	62,431
Specific mining tax provision	18,756
Monthly estimated payments	(34,427)
Specific mining tax credit	(9,378)
Monthly estimated payments - Specific tax	(1,863)
Other credits	(140)
	<u>35,379</u>
Total income tax payable	<u><u>35,379</u></u>

### b. Deferred taxes

The detail of accumulated balances at December 31, 2006 of deferred tax assets and liabilities is as follows:

	<u>Assets</u>		<u>Liabilities</u>	
	<b>Short Term</b> ThUS\$	<b>Long Term</b> ThUS\$	<b>Short Term</b> ThUS\$	<b>Long Term</b> ThUS\$
<b>Temporary differences</b>				
Vacation accrual	144			
Bond accrual	470			
Severance indemnity		374		
Accrual for mine closure, net		325		
Accruals and others	4	1,625	1,266	85
Fixed assets				21,977
Preoperating expenses				12,282
Specific mining tax		458		
	<u>618</u>	<u>2,782</u>	<u>1,266</u>	<u>34,344</u>
Balance at December 31	<u><u>618</u></u>	<u><u>2,782</u></u>	<u><u>1,266</u></u>	<u><u>34,344</u></u>

The net balances of short-term deferred taxes for ThUS\$648, and long-term deferred taxes for ThUS\$31,562, are presented in current liabilities and long-term liabilities, respectively.

The charge to income for income tax for the year is as follows:

	ThUS\$
<b>Current tax expense:</b>	
Income tax	62,431
Overstatement of income tax from prior year	(2,000)
Specific mining tax	18,756
Specific mining tax credit	(9,378)
<b>Deferred taxes:</b>	
Changes in deferred taxes	<u>5,427</u>
Total	<u><u>75,236</u></u>

## 11. COPPER PRICE CONTRACTS

### a. Copper Price futures contracts

In 2005 and 2006 various contracts for future COMEX price base sales and future LME price base purchases were signed for 5,300 and 5,000 tons, respectively. The above tonnage corresponds to the sale contract with the Southwire 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 December 31, 2006:

Product	Institution	Subscription date	Liquidation date	Quantity	Price of the transaction	
				MT Contract	Future Sale US\$/Ton	Future Purchase LME US\$/Ton
Copper	Koch	16-11-2006	04-02-2008	2,000	6,690.00	6,670.00
Copper	Koch	05-12-2006	04-02-2008	1,000	7,120.00	7,110.00
Copper	Koch	05-12-2006	04-02-2008	1,000	7,115.00	7,100.00
Copper	Prudential	14-12-2006	04-02-2008	1,000	6,815.00	6,800.00
		Total		<u>5,000</u>		

The contracts entered into in 2006 are 400 and 100 metric tons of copper for Koch and Prudential, respectively, from April 2007.

## 12. SHAREHOLDERS' EQUITY

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

	<b>Paid-in capital</b>	<b>Retained earnings</b>	<b>Net income for the year</b>	<b>Total shareholders' equity</b>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Balance at January 1, 2006	90,995	18,628	153,814	263,437
Transfer of income		153,814	(153,814)	
Final dividends		(95,000)		(95,000)
Net income for the year			323,697	323,697
Balance at December 31, 2006	<u>90,995</u>	<u>77,442</u>	<u>323,697</u>	<u>492,134</u>

- b. On March 29, 2006 and June 28, 2006, it was agreed to distribute dividends against retained earnings for an amount equivalent to US\$40,000,000 and US\$55,000,000, respectively.
- c. At December 31, 2006, the paid-in capital of the Company is represented by 90,994 no-par value shares. The equity ownership is as follows:

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

## 13. BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

a. **Accounts receivable – Short-term:**

<b>Company</b>	<b>Relationship</b>	<b>ThUS\$</b>
Antofagasta Minerals S.A.	Parent	<u>96</u>
Total		<u><u>96</u></u>

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

<b>Company</b>	<b>Relationship</b>	<b>ThUS\$</b>
Antofagasta Minerals S.A.	Parent	42
Minera Michilla S.A.	Indirect	67
Antofagasta Railway Company Plc. (Agency in Chile)	Indirect	<u>954</u>
<b>Total</b>		<u><u>1,063</u></u>

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

**c. Transactions with related companies**

Significant transactions with related companies during the year, are the following:

<b>Company</b>	<b>Relationship</b>	<b>Transaction</b>	<b>Amount of the transaction ThUS\$</b>	<b>Effect on income charge (credit) ThUS\$</b>
Antofagasta Minerals S.A.	Parent	Administrative services	1,978	1,978
		Reimbursement of expenses	91	
		Final dividends	57,950	
		AMSA project services	362	(181)
Compañía Contractural Minera Leonor	Shareholder	Royalty	12,008	12,008
		Final dividends	37,050	
Minera Michilla S.A.	Indirect	Purchase of supplies	481	
		Sale of supplies	209	
		Administrative services	101	
Antofagasta Railway Company Plc. (Agency in Chile)	Indirect	Transportation	7,731	7,731
		Purchase of water	493	493
		Miscellaneous	5	5
Minera Los Pelambres	Indirect	Outsourcing services	171	171
Entel S.A.	Indirect	Telecommunication services	178	178
Banco de Chile	Indirect	Bank expenses	30	30
		Loans	31,729	(47)
Artikos	Indirect	Administrative services	26	26
Adriatico	Indirect	Office rental	83	83
Other related	Indirect	Sundry expenses	89	89

#### 14. OTHER INCOME AND EXPENSES

At December 31, 2006, the detail is as follows:

	ThUS\$
<b>Other income:</b>	
Sale of supplies	<u>337</u>
Total	<u><u>337</u></u>
<b>Other expenses:</b>	
Write-off of fixed assets	2,072
Product obsolescence and others	<u>36</u>
Total	<u><u>2,108</u></u>

#### 15. CONTINGENCIES, COMMITMENTS AND GUARANTEES

- a. The Company has deposits in guarantee for ThUS\$49 in favor of the First Civil Court of Antofagasta, and deposit in current account in favor 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 in a dispute with the Internal Revenue Service for the refund of additional tax for outside advisory services for ThUS\$993, case number 7889-2004; it also has a dispute for ThUS\$88 in the Review of Inspection Proceedings (RAF) stage, case number 10.078-2005.
- c. As part of its normal operating process, the Company entered into purchase contracts with suppliers to guarantee the supply of consumables.

#### 16. SUBSEQUENT EVENTS

Between January 01, 2007, and the date of issue of these financial statements, there have been no subsequent events that could significantly affect the balances or interpretation of these financial statements.

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