

**MINERA MICHILLA S.A.**  
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 MICHILLA S.A.**

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

<b>ASSETS</b>	<b>ThUS\$</b>
<b>CURRENT ASSETS:</b>	
Cash at bank and in hand	161
Time deposits	61,336
Marketable securities	8,047
Trade debtors	15,516
Sundry debtors	962
Accounts receivable from related companies	299
Refundable taxes	1,951
Inventories	18,076
Prepaid expenses	250
Deferred taxes	657
Other current assets	13
<b>Total current assets</b>	<b>107,268</b>
<b>FIXED ASSETS:</b>	
Mining properties	13,622
Construction and infrastructure	73,364
Machinery and equipment	75,897
Other fixed assets	94,791
Technical revaluation of fixed assets	4,104
Accumulated depreciation and amortization	(207,193)
<b>Total fixed assets net</b>	<b>54,585</b>
<b>OTHERS:</b>	
Investments in other companies	106
Long term debtors	16
Deferred taxes	257
Others	299
<b>Total other assets</b>	<b>678</b>
<b>TOTAL ASSETS</b>	<b>162,531</b>

The accompanying notes form an integral part of this financial statement

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**LIABILITIES AND SHAREHOLDERS' EQUITY**

ThUS\$

**CURRENT LIABILITIES:**

Accounts payable	4,683
Sundry creditors	806
Accounts payable to related companies	251
Accruals and withholdings	14,733
Income tax	15,516

Total current liabilities 35,989

**LONG TERM LIABILITIES:**

Sundry creditors	204
Accruals	7,267

Total long term liabilities 7,471

**SHAREHOLDERS' EQUITY**

Paid-in capital	78,422
Reserve for fixed asset technical revaluation	219
Retained earnings	4,409
Net income for the year	86,021
Interim dividends	(50,000)

Total shareholders' equity 119,071

Total liabilities 162,531

**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY**162,531

**MINERA MICHILLA S.A.**

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

	ThUS\$
OPERATING REVENUE	260,484
OPERATING COSTS	<u>(142,277)</u>
OPERATING MARGIN	118,207
ADMINISTRATIVE AND SELLING EXPENSES	<u>(13,231)</u>
OPERATING RESULT	<u>104,976</u>
OTHER INCOME (EXPENSES):	
Financial income	1,896
Other income	763
Financial expenses	(322)
Other expenses	(554)
Exchange differences	<u>716</u>
OTHER INCOME	<u>2,499</u>
INCOME BEFORE INCOME TAX	107,475
INCOME TAX	<u>(21,454)</u>
NET INCOME FOR THE YEAR	<u><u>86,021</u></u>

The accompanying notes form an integral part of this financial statement

**MINERA MICHILLA S.A.**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(In thousands of US dollars -ThUS\$)

	ThUS\$
<b>RECONCILIATION BETWEEN NET CASH FLOW FROM OPERATING ACTIVITIES AND NET INCOME FOR THE YEAR:</b>	
Net income for the year	86,021
Results from the sale of assets	
Income from the sale of fixed assets	(125)
Charges to income that do not represent cash flows:	
Depreciation	8,490
Amortization	6,718
Write-offs and accruals	20,240
Exchange differences	(716)
Other credits to income that do not represent cash flows	846
Variation of assets affecting cash flow:	
Increase in trade debtors	(9,177)
Decrease in inventories	773
Increase in deferred taxes	(15)
Decrease in other assets	337
Variation of liabilities affecting cash flow:	
Decrease in accounts payable and sundry creditors	(1,397)
Net increase in value added tax and other similar payables	322
Decrease in deferred taxes	(257)
Net cash provided by operating activities	<u>112,060</u>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES:</b>	
Sale of fixed assets	124
Purchase of fixed assets	(7,798)
Other loans to related companies	(36)
Net cash used in investment activities	<u>(7,710)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>	
Payment of dividends (less)	<u>(50,000)</u>
Net cash used in financing activities	<u>(50,000)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	54,350
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>15,194</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>69,544</u></u>

The accompanying notes form an integral part of this financial statement

## MINERA MICHILLA S.A.

### NOTES TO THE FINANCIAL STATEMENTS

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

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#### 1. NATURE OF THE COMPANY'S OPERATIONS

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.

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 03/02/2006, 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.

By express stipulation 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. Basis 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 were translated into US dollars at the exchange rate current at year end of \$532.39 for US\$1.

**c. Time deposits** - Time deposits are stated at original investment amount plus accrued interest at the close of the year.

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

**e. Estimate for uncollectible accounts** – Considering the age and risk of its accounts receivable, the Company has decided not to constitute an allowance for uncollectible accounts.

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

- Finished products and products in process are stated at the monthly average 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 for the year has been calculated based on the straight-line method, over the estimated useful lives of the assets, except for values disbursed for mining concessions that are amortized based on production, considering proven and provable ore reserves.

The costs of the mine development stages correspond to:

- Exploring and prospective drilling of ore deposits.

Costs for locating mineralized areas, and determining their possible commercial exploitation are debited to construction in progress. Once results are concluded and analyzed, they are charged to income if not feasible.

- Mine pre-operation expenses

Expenses incurred from the moment the Company determines that the exploitation of an ore deposit is feasible until the moment of start-up, are capitalized and amortized in relation with mineral production.

- Development expenses of ore deposits being exploited.

The expenses for maintaining production volumes are charged to costs when incurred.

Mining licenses paid for mining properties that are not under operation are amortized during the year.

Assets acquired under a Finance Lease (Note 6) are not legally owned by the Company and 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 in Minera Pampa Fénix S.C.M.. The Company owns 90% of this mining 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. Vacations** – The annual cost of personnel vacations is recognized as an expense in the financial statements on an accrual basis.

**j. Income tax and deferred taxes** - The Company determines provisions for the first category income tax and specific mining 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 create differences between the accounting and tax base of assets and liabilities, are recorded according to Technical Bulletin N°60 of the Chilean Institute of Accountants and its complements and modifications.

**k. Severance indemnity** - The Company has accrued severance indemnity at the net present value of the projected cost of the benefit, applying a 6.5% annual discount rate.

**l. Mine closure** - The Company provides mine closure and abandonment of installations cost at net present value considering a discount rate of 6.5% and pursuant to Corporate policies and legal environmental obligations subscribed with government organizations.

**m. Operating revenue** – These include product sales and the result of future contracts that determine sale prices. Sales revenue is recorded when the risk and product ownership are substantially transferred to the buyer.

**n. Derivative contracts** - The Company has entered into derivative contracts to cover the variation in the price of copper. As these contracts were defined as coverage of expected transactions, the unrealized result has been deferred, as established by Technical Bulletin N°57 of the Chilean Institute of Accounts.

**o. Statements 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 mutual fund units.

### 3. TIME DEPOSITS

The detail is as follows:

	Currency	ThUS\$
Time deposit overseas	US\$	57,423
Time deposit local	US\$	<u>3,913</u>
Total		<u><u>61,336</u></u>

4. TRADE DEBTORS

The distribution of this item broken down by geographical destination, is as follows:

	ThUS\$
Europe	5,652
Asia Pacific	2,183
North America	5,916
Latin America	<u>1,765</u>
Total	<u><u>15,516</u></u>

5. INVENTORIES

The detail of inventories at the year-end is as follows:

	ThUS\$
Products in process	7,997
Supplies and materials	5,263
Finished products	<u>4,816</u>
Total	<u><u>18,076</u></u>

## 6. FIXED ASSETS

Fixed assets are stated as indicated in Note 2g. The detail is as follows:

	ThUS\$
Mining properties	<u>13,622</u>
Construction and infrastructure	<u>73,364</u>
Machinery and equipment	<u>75,897</u>
Investments in development and prospecting	85,551
Furniture and fixtures, equipment	3,914
Works in progress	1,592
Leased assets	2,466
Other fixed assets	<u>1,268</u>
Total other fixed assets	<u>94,791</u>
Fixed asset technical revaluation	<u>4,104</u>
Total fixed assets - gross	<u>261,778</u>
Accumulated depreciation	(115,091)
Depreciation for the year	(8,490)
Increased value of accumulated depreciation as a result of technical revaluation of fixed assets	(4,104)
Accumulated amortization	(72,790)
Amortization for the year	<u>(6,718)</u>
Total accumulated depreciation and amortization	<u>(207,193)</u>
Total fixed assets - net	<u><u>54,585</u></u>

7. SHORT AND LONG TERM SUNDRY CREDITORS

The detail of this item is as follows:

	ThUS\$
<b>Short-term:</b>	
Leasing obligations	834
Deferred interest	<u>(28)</u>
Total	<u><u>806</u></u>
<b>Long-term:</b>	
Leasing obligations	206
Deferred interest	<u>(2)</u>
Total	<u><u>204</u></u>

The leasing obligations correspond to machinery and equipment financing. They are expressed in US dollars, and accrue an average annual interest of 4.68%.

The long-term balance matures in equal and successive monthly installments up to May 10, 2008.

8. BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

a. Accounts receivable from/payable to related companies:

	Relationship	ThUS\$
<b>Receivables - short-term:</b>		
Minera El Tesoro	Indirect	67
Antofagasta Minerals S.A.	Shareholder	9
Minera Los Pelambres	Indirect	17
Madeco S.A.	Indirect	205
Antofagasta (Chile) and Bolivia Railway Plc.	Indirect	<u>1</u>
Total		<u><u>299</u></u>
<b>Payables - short-term:</b>		
Antofagasta Minerals S.A.	Shareholder	1
Madeco	Indirect	103
Antofagasta (Chile) and Bolivia Railway Plc.	Indirect	<u>147</u>
Total		<u><u>251</u></u>

The balances receivable and payable are stated in Chilean pesos and do not accrue interest or indexation.

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

Entity	Relationship	Transaction	Amount of	Effect on income
			the transaction	Charge (credit)
			ThUS\$	ThUS\$
Antofagasta Minerals S.A.	Shareholder	Administrative services	1,200	1,200
		Expense refunds	321	321
		Rental income	101	(101)
Antofagasta (Chile) and Bolivia Railway Plc	Indirect	Transport services	1,215	1,215
		Recovery of expenses	6	
Minera Los Pelambres	Indirect	Rental income	201	(201)
		Administrative services	2	2
Madedco S.A.	Indirect	Copper sales	1,653	(785)
		Purchase of materials	128	128
Minera El Tesoro	Indirect	Sale of materials	481	(481)
		Purchase of materials	211	211
		Expense refunds	101	101
Inversiones Adriático S.A.	Indirect	Office rent	16	16
Banco de Chile	Indirect	Investment in time deposits	27,890	(78)

## 9. ACCRUALS AND WITHHOLDINGS

The detail for this item at year-end is as follows:

<b>Short-term</b>	ThUS\$
Monthly expenses accrual	4,740
Sundry US dollar accrual	4,457
Staff vacations accrual	862
Futures market accrual	2,428
Withholdings payable	2,246
<b>Total</b>	<b>14,733</b>
<b>Long-term</b>	ThUS\$
Mine closure	1,448
Severance indemnities	5,819
<b>Total</b>	<b>7,267</b>

## 10. INCOME TAX AND DEFERRED TAXES

### a. Refundable taxes

The balance at year-end is as follows:

	ThUS\$
VAT recoverable	<u>1,951</u>
Total	<u><u>1,951</u></u>

### b. Income Tax

The First Category Income Tax provision at December 31, 2006, was ThUS\$18,014 calculated in conformity with the Income Tax Law. The specific mining tax provision was ThUS\$3,522.

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

	ThUS\$
Income tax accrual	(18,090)
Specific mining tax accrual	(3,522)
Provisional monthly payments	4,989
Provisional monthly specific mining tax payments	998
Sence training expenses and others	<u>109</u>
Total	<u><u>(15,516)</u></u>

**c. Deferred taxes**

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

	<u>Assets</u>		<u>Liabilities</u>
	<u>Short term</u>	<u>Long term</u>	<u>Long term</u>
<b>Temporary differences</b>	ThUS\$	ThUS\$	ThUS\$
Inventories	308		
Fixed asset depreciation			1,885
Vacation provision	146		
Provision for mine closure costs		1,209	
Provision for leasing and others	203	397	
Others		474	
	<u>657</u>	<u>2,080</u>	<u>1,885</u>
Total deferred taxes			
Complementary accounts - net of accumulated amortization			(62)
	<u>657</u>	<u>2,080</u>	<u>1,823</u>

The deferred taxes are presented in the balance sheet as shown below:

	ThUS\$
Current deferred tax assets	<u>657</u>
Total current assets	<u>657</u>
Long term deferred tax assets	2,080
Long term deferred tax liabilities	<u>(1,823)</u>
Total net long term asset	<u>257</u>

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

	ThUS\$
<b>Current tax expense</b>	
Special tax article 21 of the Income Law	(75)
Current tax	(18,014)
Specific mining tax	(3,522)
Difference 2006 income tax	(128)
<b>Deferred taxes</b>	
Effect of the variation of assets and liabilities from deferred taxes	378
Effect of amortization of complementary accounts and others	(62)
Effect of specific mining tax	(31)
	<u>(21,454)</u>
<b>Total net charge to income</b>	<u>(21,454)</u>

## 11. SHAREHOLDERS' EQUITY

The following are the equity movements during the year:

	<b>Paid-in capital</b>	<b>Reserve for negative goodwill technical revaluation</b>	<b>Retained earnings</b>	<b>Interim dividend</b>	<b>Net income for the year</b>	<b>Total</b>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Balance at January 1, 2006	78,422	219		(7,325)	11,734	83,050
Transfer 2005 net income			11,734		(11,734)	
Final dividend			(7,325)	7,325		
Interim dividend				(50,000)		(50,000)
Net income for the year					86,021	86,021
	<hr/>					
Balance at December 31, 2006	<u>78,422</u>	<u>219</u>	<u>4,409</u>	<u>(50,000)</u>	<u>86,021</u>	<u>119,071</u>

At the General Shareholders' Meeting held on April 21, 2006, it was unanimously agreed to approve and ratify the April 25, 2005 Board of Director's decision to distribute against 2005 earnings an interim dividend of US\$7,325,070.51, at US\$0.279375935 per share, which was paid to the shareholders from May 2, 2005 onward.

In Board Meeting No. 294 of August 28, 2006, the Board of Directors agreed unanimously to distribute an interim dividend of US\$50,000,000, at US\$1.906984613 per share, charged to the net income from 2006, which was paid to the shareholders on September 5, 2006.

12. OTHER INCOME AND EXPENSES

**a. Other income:**

	ThUS\$
Rental income	381
Sale of fixed assets	125
Other income	<u>257</u>
Total	<u><u>763</u></u>

**b. Other expenses:**

	ThUS\$
Adjustment sulfate inventory tonnage	295
Grinding stock adjustment	191
Other expenses	<u>68</u>
Total	<u><u>554</u></u>

13. FUTURE OPERATIONS AND OPTIONS

The Company holds the following hedge contracts:

**a. Outstanding positions at December 31, 2006:**

At December 31, 2006, the Company holds Min-Max options for 12,000 MT, with 1,000 MT maturing each month, from January to December, 2007. These options have a floor of US\$2.81227 per pound of fine copper, and a cap of US\$3.37926 per pound of fine copper.

At December 31, 2006, the Company has future contracts (fixing) for 9,600 MT, maturing 800 MT each month from January to December 2007. These contracts have a fixed price of US\$3.068552 per pound of fine copper.

### Min-Max options

Product	N° of cont.	Date		Tons		US\$/Ton.	
		Maturity	Liquidation	Min	Max	Put	Call
Copper	1	31/01/07	05/02/07	1,000	1,000	6,200.00	7,450.00
Copper	1	28/02/07	05/03/07	1,000	1,000	6,200.00	7,450.00
Copper	1	31/03/07	04/04/07	1,000	1,000	6,200.00	7,450.00
Copper	1	30/04/07	04/05/07	1,000	1,000	6,200.00	7,450.00
Copper	1	31/05/07	05/06/07	1,000	1,000	6,200.00	7,450.00
Copper	1	30/06/07	04/07/07	1,000	1,000	6,200.00	7,450.00
Copper	1	31/07/07	03/08/07	1,000	1,000	6,200.00	7,450.00
Copper	1	31/08/07	05/09/07	1,000	1,000	6,200.00	7,450.00
Copper	1	30/09/07	04/10/07	1,000	1,000	6,200.00	7,450.00
Copper	1	31/10/07	05/11/07	1,000	1,000	6,200.00	7,450.00
Copper	1	30/11/07	04/12/07	1,000	1,000	6,200.00	7,450.00
Copper	1	31/12/07	03/01/08	1,000	1,000	6,200.00	7,450.00
Total				<u>12,000</u>	<u>12,000</u>		

### Future contracts (Fixing)

Product	N° of cont.	Date		Tons	Price of the transaction
		Maturity	Liquidation		Sale US\$/Ton.
Copper	1	31/01/07	05/02/07	800	6,765
Copper	1	28/02/07	05/03/07	800	6,765
Copper	1	31/03/07	04/04/07	800	6,765
Copper	1	30/04/07	04/05/07	800	6,765
Copper	1	31/05/07	05/06/07	800	6,765
Copper	1	30/06/07	04/07/07	800	6,765
Copper	1	31/07/07	03/08/07	800	6,765
Copper	1	31/08/07	05/09/07	800	6,765
Copper	1	30/09/07	04/10/07	800	6,765
Copper	1	31/10/07	05/11/07	800	6,765
Copper	1	30/11/07	04/12/07	800	6,765
Copper	1	31/12/07	03/01/08	800	6,765
Total				<u>9,600</u>	

This type of operation does not pay a premium; therefore, there is no amortization cost.

As at December 31, 2006, the fair value of the future contracts (fixing) was ThUS\$863.

**b. Result of operations performed during the period:**

	<b>Loss</b> ThUS\$	<b>Total</b> ThUS\$
Options	<u>(74,462)</u>	<u>(74,462)</u>
Total	<u><u>(74,462)</u></u>	<u><u>(74,462)</u></u>

The result of these operations is presented net in Sales in the statement of income.

14. 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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