

MINERA ESPERANZA
AUDITED FINANCIAL STATEMENTS
FOR THE FULL YEAR ENDED 31 DECEMBER 2008 AND 2007

(TRANSLATION FROM SPANISH VERSION TO BE
FILED WITH SUPERINTENDENCIA DE VALORES Y SEGUROS
DE CHILE 27TH MARCH 2009)

MINERA ESPERANZA

Financial statements for the years ended
December 31, 2008 and 2007 and independent
auditors' report

INDEPENDENT AUDITORS' REPORT


To the Shareholders of
Minera Esperanza

We have audited the accompanying balance sheets of Minera Esperanza as of December 31, 2008 and 2007 and the related cash flows for the years then ended. These financial statements (including the related notes) are the responsibility of the management of Minera Esperanza. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Minera Esperanza at December 31, 2008 and 2007 and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

The accompanying financial statements have been translated into English solely for the convenience of readers outside Chile


February 20, 2009

MINERA ESPERANZA

BALANCE SHEETS AT DECEMBER 31, 2008 AND 2007
(In thousands of United States Dollars - ThUS\$)

ASSETS	2008 ThUS\$	2007 ThUS\$
CURRENT:		
Cash at banks and in hand	22	1
Time deposits	195,774	19
Marketable securities	76,964	
Sundry debtors	49,059	38,867
Inventories	8,538	
Recoverable taxes	80,591	6,395
Deferred taxes	608	
Other assets	5,100	
Total current assets	<u>416,656</u>	<u>45,282</u>
FIXED ASSETS:		
Mining properties	256,952	3,287
Machinery and equipment	74,563	35
Other fixed assets	315,658	4,338
Subtotal	647,173	7,660
Less: Accumulated depreciation	<u>(6,873)</u>	<u>(1)</u>
Total fixed assets	<u>640,300</u>	<u>7,659</u>
OTHER ASSETS:		
Pre-operating costs	138,619	39,845
Other long-term assets	214	
Deferred taxes		4,722
Total other assets	<u>138,833</u>	<u>44,567</u>
TOTAL ASSETS	<u><u>1,195,789</u></u>	<u><u>97,508</u></u>

The accompanying notes are an integral part of these financial statements

LIABILITIES AND SHAREHOLDERS' EQUITY	2008 ThUS\$	2007 ThUS\$
CURRENT:		
Accounts payable	35,201	2,206
Accounts payable to related companies	340,810	18,879
Accruals	4,500	12
Withholdings	549	4
Sundry creditors	<u>9,607</u>	<u> </u>
Total current liabilities	<u>390,667</u>	<u>21,101</u>
LONG-TERM:		
Accounts payable to related company	90,000	
Accruals	1,166	
Deferred taxes	9,596	
Sundry creditors	<u>9,817</u>	<u> </u>
Total long-term liabilities	<u>110,579</u>	<u>-</u>
SHAREHOLDERS' EQUITY:		
Paid-in capital	718,787	99,462
Other reserves	<u>(24,244)</u>	<u>(23,055)</u>
Total shareholders' equity, net	<u>694,543</u>	<u>76,407</u>
 TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	 <u><u>1,195,789</u></u>	 <u><u>97,508</u></u>

MINERA ESPERANZA

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(In thousands of United States Dollars - ThUS\$)

	2008 ThUS\$	2007 ThUS\$
Net income for the year	-	-
Increase in assets that affect cash flows:		
Sundry debtors	(10,192)	(6,055)
Inventories	(8,538)	
Recoverable taxes	(74,196)	(6,395)
Other assets	(5,314)	
Increase in liabilities that affect cash flows:		
Accounts payable	43,735	2,206
Accounts payable to related companies	71,121	18,879
Accruals, withholding of taxes payable and others	14,883	16
Deferred taxes	13,710	
Net cash provided by pre-operating activities	<u>45,209</u>	<u>8,651</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital contribution	350,349	
Due to related companies	340,810	
Net cash provided by financing activities	<u>691,159</u>	<u>-</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Investments in fixed assets	(277,611)	(2,455)
Pre-operating costs	(186,017)	(6,196)
Net cash used in investing activities	<u>(463,628)</u>	<u>(8,651)</u>
NET CASH FLOWS FOR THE YEAR	272,740	-
CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR	<u>20</u>	<u>20</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>272,760</u></u>	<u><u>20</u></u>

The accompanying notes are an integral part of these financial statements

MINERA ESPERANZA

NOTES TO THE FINANCIAL STATEMENTS

(In thousands of US dollars - ThUS\$)

1. INCORPORATION AND COMPANY PURPOSE

The Company was incorporated on December 20, 2006, and is a contract mining company. Its corporate purpose is the exploration, development and exploitation of mining properties including all phases of the mining industry.

The Company is in a pre-operational stage and all its resources are used to develop the “Esperanza” mining project, likewise, all the costs and expenses for the year are being capitalized as pre-operating costs. Consequently, no Statement of Income is presented for the years ended December 31, 2007 and 2008.

The Company’s management estimates that commercial exploitation will begin during the second half of 2010.

In agreement with applicable regulations issued by the Superintendencia de Valores y Seguros (SVS) through Exempt Resolution N°549 dated September 23, 2005 and N°39 dated February 3, 2006, the Company shall deliver of the SVS its quarterly, and annual audited financial statements and an annual report as established by the aforementioned resolutions, as it is a recipient of Foreign Investment aimed at the development of mining projects, according to foreign investment contracts signed by our shareholders ESP Investment BV. and Los Pelambres Investment Company Limited, pursuant to Article 11 ter of Decree Law 600 of 1974.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

a. Basis of presentation - The financial statements at December 31, 2008 and 2007 have been prepared in accordance with accounting principles generally accepted in Chile.

b. Accounting period - The financial statements cover the period from January 1 to December 31, 2008 and 2007.

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

Transactions denominated in Chilean peso have been translated into United States dollars using the exchange rate reported by Central Bank of Chile on the date of the transaction. At year end, asset and liability balances for accounts recorded in Chilean pesos have been translated into United States dollars using the closing exchange rate published by the Banco Central de Chile of Ch\$636.45 for US\$1 in 2008 (Ch\$496.89 for US\$1 in 2007).

The effects of exchange differences are recorded in pre-operating costs of the Company.

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

e. Marketable securities - These include investments in fixed incomes mutual fund units of debt securities, which are valued at their respective value of the installment at each year end.

f. Inventories - Inventories are valued at weighted average acquisition cost.

Stockpile mineral that correspond to low grade oxides are valued at the lower of monthly extraction average cost and recoverable value.

g. Fixed assets - Fixed assets are presented at acquisition cost or book value at their date of contribution. Depreciation has been calculated by using the straight-line method, according to the estimated life of the mine or the useful lives of the assets, whichever is lower.

Mining properties are presented at their book value at the date of contribution.

Assets acquired under financial leases are not legally owned by the Company, and therefore it cannot freely dispose of them until it exercises the respective purchase option.

h. Pre-operating costs - These assets are presented at their book value at the date of contribution, and include items such as consulting costs, exploratory drilling, research and engineering, which will be amortized based on the future extraction of proven and probable mining reserves, once the Company begins operating.

i. Personnel vacation - The annual cost of personnel vacation is recognized as part of pre-operational costs in the financial statements on an accrual basis.

j. Income tax and deferred taxes - The Company records income tax on the basis of net taxable income determined in agreement with regulations established in the Income Law. Deferred taxes from temporary differences originated from those items that have a different treatment for tax and financial effects are determined and recorded in agreement with Technical Bulletin N°60 and complements of the Chilean Institute of Accountants.

k. Severance indemnity - The Company records severance indemnity at its net present value.

l. Mine closure provision - The Company provides all mine closure costs and work abandonment at their net present value in agreement with corporate regulations.

m. Statement of cash flows - The Company has defined as cash and cash equivalent, all easily realizable financial investments with 90 day maturities or less, including time deposits and marketable securities.

n. Reclassifications - For comparative purposes, certain reclassifications have been made in the financial statements at December 31, 2007.

3. TIME DEPOSITS

The detail of time deposits is as follows:

	Currency	2008 ThUS\$	2007 ThUS\$
Time deposits overseas	US\$	53,521	
Local financial investments	Ch\$	95,196	19
Local financial investments	US\$	<u>47,057</u>	<u> </u>
Total		<u><u>195,774</u></u>	<u><u>19</u></u>

4. MARKETABLE SECURITIES

The detail of investments in marketable securities, is as follows:

	Currency	2008 ThUS\$	2007 ThUS\$
Local mutual funds	Ch\$	<u>76,964</u>	<u> </u>
Total		<u><u>76,964</u></u>	<u><u>-</u></u>

5. SUNDRY DEBTORS

The balance of sundry debtors is as follows:

	2008 ThUS\$	2007 ThUS\$
Advances to suppliers for equipment purchases	47,409	37,781
Others	<u>1,650</u>	<u>1,086</u>
Total	<u><u>49,059</u></u>	<u><u>38,867</u></u>

6. INVENTORIES

The detail is as follows:

	2008 ThUS\$	2007 ThUS\$
Stockpile mineral	7,558	
Supplies	<u>980</u>	<u> </u>
Total	<u><u>8,538</u></u>	<u><u> </u></u>

7. INCOME TAX AND DEFERRED TAXES

- a. Income tax** - At December 31, 2008 and 2007 the Company did not record an income tax provision, as it did not generate tax results.

At December 31, 2008, the Company accrued tax losses for ThUS\$81,105.

At year end, part of these losses was absorbed by taxed profits with credit from the reinvestment of one of the partner's profits.

The detail of refundable taxes is as follows:

	2008 ThUS\$	2007 ThUS\$
VAT tax credit	66,233	6,394
Tax recoverable from absorption of tax losses	13,788	
Other credits	<u>570</u>	<u>1</u>
Total	<u><u>80,591</u></u>	<u><u>6,395</u></u>

b. Deferred taxes

The detail of deferred taxes is as follows:

	2008		Liabilities	2007
	Assets			Assets
	Short term	Long term	Long term	Long term
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Temporary differences				
Vacation accrual	98			
Bonus provision	510			
Mine closure provision		41		
Fixed assets depreciation		4,965		
Leased assets, net		84	1,426	
Pre-operational costs			11,342	4,722
Severance indemnity			1,918	
Total deferred taxes	<u>608</u>	<u>5,090</u>	<u>14,686</u>	<u>4,722</u>

At December 31, 2008, long-term deferred tax liabilities are presented net in long-term liabilities for ThUS\$9,596.

The effect of deferred taxes of the year of ThUS\$13,710 is presented as a reduction in pre-operational costs.

8. FIXED ASSETS

At December 31, 2008 and 2007, fixed assets are stated as indicated in Note 2g, and their detail is as follows:

	2008 ThUS\$	2007 ThUS\$
Mining properties	<u>256,952</u>	<u>3,287</u>
Machinery and equipment:		
Mobile equipment	74,334	
Minor machinery and equipment	<u>229</u>	<u>35</u>
Total machinery and equipment	<u>74,563</u>	<u>35</u>
Other fixed assets:		
Projects in progress	286,019	
Leased assets	29,121	
Others	<u>518</u>	<u>4,338</u>
Total other fixed assets	<u>315,658</u>	<u>4,338</u>
Total fixed assets - gross	<u>647,173</u>	<u>7,660</u>
Accumulated depreciation	(6,829)	
Accumulated amortization	<u>(44)</u>	<u>(1)</u>
Total accumulated depreciation	<u>(6,873)</u>	<u>(1)</u>
Total fixed assets - net	<u><u>640,300</u></u>	<u><u>7,659</u></u>

9. PRE-OPERATIONAL COSTS

The detail is as follows:

	2008 ThUS\$	2007 ThUS\$
Primary implementations and constructions	16,056	16,056
Feasibility engineering and early works	12,325	12,325
Plant project costs (i)	45,438	
Mine project costs	41,787	
Others	<u>23,013</u>	<u>11,464</u>
Total	<u><u>138,619</u></u>	<u><u>39,845</u></u>

- (i) Corresponds mainly to costs incurred in the Esperanza Project, which refer principally to advisories, services, and others. It also includes the costs associated to the principal contract with Aker Solutions for the design and construction of the main mining facilities.

10. BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

a. Due to - Short-term:

Company	Type of relationship	2008 ThUS\$	2007 ThUS\$
Antofagasta Minerals S.A.	Parent company	612	18,803
Inmobiliaria Punta de Rieles Ltda. (i)	Common shareholder	339,585	
Aguas de Antofagasta S.A.	Indirect	208	
Minera Michilla S.A.	Indirect	61	
Compañía Minera El Tesoro	Common shareholder	<u>344</u>	<u>76</u>
Total		<u><u>340,810</u></u>	<u><u>18,879</u></u>

- (i) The account payable to Inmobiliaria Punta de Rieles Ltda. is expressed in US dollars, interest is calculated each quarter at LIBOR plus a spread of 1.25%. Balances with the other companies do not accrue interest.

b. Accounts payable – long-term:

Company	Type of relationship	2008 ThUS\$	2007 ThUS\$
Compañía Minera El Tesoro (Note 13)	Common shareholder	<u>90,000</u>	<u> </u>
Total		<u><u>90,000</u></u>	<u><u>-</u></u>

c. Transactions with related parties

The main transactions with related companies during 2008 and 2007 are as follows:

Company	Relationship	Transaction	Amount of the transaction		Effect on pre-operational costs charge (credit)	
			2008 ThUS\$	2007 ThUS\$	2008 ThUS\$	2007 ThUS\$
Antofagasta Minerals S.A.	Parent	Loan		18,803		
		Capital contribution	269,289	99,442		
		Administrative services	2,506		2,106	
		Expense reimbursement	132		132	
Minera El Tesoro	Common shareholder	Sundry services	1,357	82	1,140	69
		Advance for mineral sale purchase contract	90,000			
Minera Los Pelambres	Common shareholder	Expense reimbursement	12		10	
Minera Michilla	Common shareholder	Administrative services	58		49	
		Expense reimbursement	1		1	
		Leases	3		3	
Inmobiliaria Punta de Rieles Ltda.	Common shareholder	Loan	339,585		4,296	
Agua de Antofagasta S.A.	Indirect	Purchase of raw water	1,624		1,365	
Banco de Chile	Indirect	Placements	128,435	19	(673)	
		Guarantees	204,071		(1,360)	
Entel S.A.	Indirect	Communication services	463		389	
ESP Investment BV	Shareholder	Capital contribution	215,636			
Los Pelambres Investment Company	Shareholder	Capital contribution	134,400	1		

11. SUNDRY CREDITORS

	2008		2007	
	Short term ThUS\$	Long term ThUS\$	Short term ThUS\$	Long term ThUS\$
Caterpillar Leasing Chile S.A. (a)	1,011	5,831		
Promet Servicios S.A. (b)	9,202	4,936		
Subtotal	10,213	10,767	-	-
Less: Unearned interest	(606)	(950)		
Total	9,607	9,817	-	-

- a) The Company has signed a financial lease contract for the acquisition of 6 Caterpillar trucks, model 797, payable in 66 monthly installments starting May 2008, adjustable and accruing interest at LIBOR (2.8%).

- b) During August 2008, the Company signed a lease contract with purchase option related to the plant construction camp. This contract has a duration of 32 months plus the purchase option with an implicit interest rate of 4.2%.

12. SHAREHOLDERS' EQUITY

- a. The following are the shareholders' equity movements during 2008 and 2007:

	Paid-in capital ThUS\$	Other reserves ThUS\$	Total equity ThUS\$
Balance at January 1, 2007	20		20
Contributions	99,442	(23,055)	76,387
	<hr/>	<hr/>	<hr/>
Balance at December 31, 2007	99,462	(23,055)	76,407
	<hr/>	<hr/>	<hr/>
Balance at January 1, 2008	99,462	(23,055)	76,407
Increase (i)	268,976	(1,189)	267,787
Increase (ii)	158,349		158,349
Increase (iii)	192,000		192,000
	<hr/>	<hr/>	<hr/>
Balance at December 31, 2008	718,787	(24,244)	694,543
	<hr/>	<hr/>	<hr/>

- (i) On July 31, 2008, the majority shareholder, Antofagasta Minerals S.A., made a capital increase of ThUS\$268,976 through ownership and control of mining concessions, studies, services and fixed assets. This contribution was recorded in agreement with Technical Bulletin N°72, under the interest unification method. The difference between these values and the applicable book value recorded at the date of the contribution, is presented in "Other reserves" net of deferred taxes.
- (ii) At the Second Extraordinary Shareholders' Meeting, dated August 12, 2008, it was agreed to increase paid-in capital by ThUS\$158,349. The contributions of Antofagasta Minerals S.A. and ESP Investment B.V. were ThUS\$313, and ThUS\$158,036 respectively.
- (iii) At the Extraordinary Shareholders' Meeting held on November 18, 2008, it was agreed to increase paid-in capital by ThUS\$192,000. The contributions of Los Pelambres Investment Company Limited and ESP Investment B.V. were ThUS\$134,400 and ThUS\$57,600 respectively.

b. At December 31, 2008, equity ownership is as follows:

	Contribution in ThUS\$	Ownership %
Antofagasta Minerals S.A.	368,750	51.302%
ESP Investment B.V.	215,636	30.000%
Los Pelambres Investment Company Limited	<u>134,401</u>	<u>18.698%</u>
Total	<u><u>718,787</u></u>	<u><u>100%</u></u>

13. GUARANTEES AND COMMITMENTS

On April 21, 2008, Minera Esperanza and Minera El Tesoro signed a mineral sale purchase agreement. The object of this contract is the sale of oxide ore obtained by Minera Esperanza as a result of its pre-stripping process. Minera El Tesoro paid ThUS\$90,000 as an advance payment (Note 10b) for the sale of the ore, which should occur during the second half of 2010.

14. SUBSEQUENT EVENTS

Between January 1 and February 20, 2009, the date on which these financial statements were issued, no significant events occurred that could materially affect them

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