

## INDEPENDENT AUDITORS' REPORT

To the Partners of  
Inversiones Eroush Limitada

We have audited the accompanying special purpose financial statements of Inversiones Eroush Limitada, which comprise the special purpose statements of financial position as of March 31, 2016 and 2015, and the related special purpose statements of comprehensive loss, changes in net deficit, and cash flows for the years then ended, and the related notes to the special purpose financial statements.

### Management's responsibility for the special purpose financial statements

Management is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with the basis described in Note 2; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of special purpose financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on these special purpose financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special purpose financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the special purpose financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes assessing the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by the Company's management, as well as evaluating the overall presentation of the special purpose financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the special purpose financial statements referred to above present fairly, in all material respects, the financial position of Inversiones Eroush Limitada as of March 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with the basis described in Note 2.

## **Emphasis of matter**

As discussed in note 1 to the special purpose financial statements, during the last fiscal year the Company has decided not to continue with the development of the Daniel and Catalina mining assets in view of the falling international iron-ore prices. The Company has a 70% interest share in the subsidiary Santa FE Mining ("SFM"). SFM approved a temporary suspension of its all mining operations for a period between six to twelve months from the end of May 2015, as a result of the continued decrease in the international iron ore prices. As of the date of this report, the subsidiary (SFM) extended the temporary shutdown for a further period until a significant improvement in international iron ore prices. Based on these circumstances the financial statements have been prepared on the going concern basis.

## **Restriction on use and distribution**

This report has been issued solely for the internal use and knowledge of Inversiones Eroush Limitada Management, partners and financial institutions. It should not be distributed to any other third party.



May 6, 2016  
Copiapó, Chile

**INVERSIONES EROUSH LIMITADA****SPECIAL PURPOSE STATEMENTS OF FINANCIAL POSITION  
AS OF MARCH 31, 2016 AND 2015  
(In US dollars - US\$)**

<b>ASSETS</b>	<b>Notes</b>	<b>2016 US\$</b>	<b>2015 US\$</b>
<b>NON-CURRENT ASSETS</b>			
Investment in subsidiary	5	1.376.679	1.376.679
Property, plant and equipment	6	-	69.006.120
Account receivable from related company	8	38.824.913	28.403.425
Total non-current assets		40.201.592	98.786.224
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	11	31.176	148.625
Total current assets		31.176	148.625
<b>TOTAL ASSETS</b>		<b>40.232.768</b>	<b>98.934.849</b>
<b>NET DEFICIT AND LIABILITIES</b>			
<b>NET DEFICIT</b>			
Paid-in capital	7	43.926	43.926
Accumulated losses		(80.258.203)	(7.953.396)
Total net deficit		(80.214.277)	(7.909.470)
<b>NON-CURRENT LIABILITIES</b>			
Accounts payable to related companies	8	120.447.045	106.832.319
Total non-current liabilities		120.447.045	106.832.319
<b>CURRENT LIABILITIES</b>			
Accounts payable		-	12.000
Total current liabilities		-	12.000
<b>TOTAL NET DEFICIT AND LIABILITIES</b>		<b>40.232.768</b>	<b>98.934.849</b>

The accompanying notes are an integral part of these special purpose financial statements

**INVERSIONES EROUSH LIMITADA****SPECIAL PURPOSE STATEMENTS OF COMPREHENSIVE LOSS  
FOR THE YEARS ENDED MARCH 31, 2016 AND 2015  
(In US dollars - US\$)**

	<b>Notes</b>	<b>2016 US\$</b>	<b>2015 US\$</b>
OPERATING REVENUE		-	-
OPERATING COST		-	-
OTHER OPERATING EXPENSES		<u>(9.803)</u>	<u>(12.000)</u>
TOTAL OPERATING MARGIN		<u>(9.803)</u>	<u>(12.000)</u>
Financial Interest	4	(5.090.496)	(4.764.584)
Financial income	4	1.784.687	1.177.499
Other expenses		(68.988.324)	-
Exchange difference, net		<u>(871)</u>	<u>(8.485)</u>
TOTAL NON-OPERATING EXPENSE		<u>(72.295.004)</u>	<u>(3.595.570)</u>
NET LOSS BEFORE INCOME TAX		(72.304.807)	(3.607.570)
Income tax expense	10	<u>-</u>	<u>-</u>
NET LOSS		<u><u>(72.304.807)</u></u>	<u><u>(3.607.570)</u></u>
<b>STATEMENT OF COMPREHENSIVE LOSS</b>			
NET LOSS		<u>(72.304.807)</u>	<u>(3.607.570)</u>
TOTAL COMPREHENSIVE LOSS		<u><u>(72.304.807)</u></u>	<u><u>(3.607.570)</u></u>

The accompanying notes are an integral part of these special purpose financial statements

## INVERSIONES EROUSH LIMITADA

### SPECIAL PURPOSE STATEMENTS OF CHANGES IN NET DEFICIT FOR THE YEARS ENDED MARCH 31, 2016 AND 2015 (In US dollars - US\$)

	<b>Paid-in capital US\$</b>	<b>Accumulated losses US\$</b>	<b>Total net deficit US\$</b>
Balances at April 1, 2014	43.926	(4.345.826)	(4.301.900)
Net loss for the financial year	<u>-</u>	<u>(3.607.570)</u>	<u>(3.607.570)</u>
Balances at March 31, 2015	<u>43.926</u>	<u>(7.953.396)</u>	<u>(7.909.470)</u>
Balances at April 1, 2015	43.926	(7.953.396)	(7.909.470)
Net loss for the financial year	<u>-</u>	<u>(72.304.807)</u>	<u>(72.304.807)</u>
Balances at March 31, 2016	<u>43.926</u>	<u>(80.258.203)</u>	<u>(80.214.277)</u>

**INVERSIONES EROUSH LIMITADA****SPECIAL PURPOSE STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED MARCH 31, 2016 AND 2015  
(In US dollars - US\$)**

	<b>Notes</b>	<b>2016 US\$</b>	<b>2015 US\$</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>			
Net loss		(72.304.807)	(3.607.570)
Adjustments to reconcile net loss to net cash used in operating activities:			
Impairment of assets		68.988.324	
Exchange difference and other		29.435	8.485
Changes in operating assets and liabilities:			
Accounts receivable from related company		(1.784.688)	(1.177.499)
Accounts payable			12.000
Accounts payable to related company		<u>4.988.162</u>	<u>4.294.081</u>
Net cash flow used in operating activities		<u>(83.574)</u>	<u>(470.503)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>			
Loan granted to related company	8	<u>(8.636.800)</u>	<u>(5.719.000)</u>
Net cash flow used in investing activities		<u>(8.636.800)</u>	<u>(5.719.000)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>			
Loan obtained from related company	8	<u>8.598.000</u>	<u>6.237.000</u>
Net cash flow provided by financing activities		<u>8.598.000</u>	<u>6.237.000</u>
<b>NET NEGATIVE VARIATION OF CASH AND CASH EQUIVALENTS</b>		<b>(122.374)</b>	<b>47.497</b>
<b>EFFECTS OF VARIATIONS IN THE EXCHANGE RATE ON CASH AND CASH EQUIVALENTS</b>		<b>4.925</b>	<b>(8.485)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	11	<u>148.625</u>	<u>109.613</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	11	<u><u>31.176</u></u>	<u><u>148.625</u></u>

The accompanying notes are an integral part of these special purpose financial statements

# **INVERSIONES EROUSH LIMITADA**

## **NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2016 AND 2015**

(In US dollars - US\$)

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### **1. GENERAL INFORMATION**

Inversiones Eroush Limitada (“IEL” or the “Company”) is an investment company established under the laws of Chile, constituted as a limited liability partnership, on November 30, 2007. The principal business of IEL is to invest in mining activities and mining properties. IEL holds 70% of Santa Fe Mining (“SFM”), a contractual mining company incorporated under the laws of Chile.

IEL owns the rights to two mining projects. These projects include Daniel and Catalina. These projects were initially purchased for a total amount of US\$52 million which was financed by bank loans and later repaid out of loans from JSW Steel Limited, the ultimate parent company. See Note 8.

During the last fiscal year the Company has decided not to continue with the development of the Daniel and Catalina mining assets in view of the falling international iron-ore prices. The Company has a 70% interest share in the subsidiary Santa FE Mining (“SFM”). SFM approved a temporary suspension of its all mining operations for a period between six to twelve months from the end of May 2015, as a result of the continued decrease in the international iron ore prices. As of the date of this report, the subsidiary (SFM) extended the temporary shutdown for a further period until a significant improvement in international iron ore prices. Based on these circumstances the financial statements have been prepared on the going concern basis.

### **2. BASES OF PRESENTATION**

#### **2.1 Accounting principles**

These special purpose financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and the interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) adopted by Panama based on the information submitted by the Company for consolidation purposes with its Parent Company. These special purpose financial statements have been prepared under the historical cost convention.

These special purpose financial statements are pre-consolidated and intended to present the Company on a stand-alone basis.

## 2.2 Adoption of new accounting standards

### a) New and revised IFRS effective in the current year

The following new and revised IFRS have been adopted in these financial statements:

Amendments to IFRS	Effective date
<i>Defined Benefit Plans: Employee Contributions</i> (Amendments to IAS 19)	Annual periods beginning on or after July 1, 2014
Annual Improvements 2010-2012 Cycle	Annual periods beginning on or after July 1, 2014
Annual Improvements 2011-2013 Cycle	Annual periods beginning on or after July 1, 2014

The application of these standards has had no significant impact on the amounts reported in these special purpose financial statements; however, they could affect the accounting for future transactions or agreements.

### b) New and revised IFRS in issue but not yet effective:

New Standards	Effective date
IFRS 9, Financial Instruments	Annual periods beginning on or after January 1, 2018
IFRS 14, <i>Regulatory Deferral Account</i>	Annual periods beginning on or after January 1, 2016
Amendments to Standards	Effective date
Accounting for Acquisitions of interests in Joint Operations (Amendments to IFRS 11)	Annual periods beginning on or after January 1, 2016
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	Annual periods beginning on or after January 1, 2016
Agriculture: Bearer Plants (amendments to IAS 16 and IAS 41)	Annual periods beginning on or after January 1, 2016
Equity Method in Separate Financial Statements (Amendments to IAS 27)	Annual periods beginning on or after January 1, 2016
Disclosure Initiative (Amendments to IAS 1)	Annual periods beginning on or after January 1, 2016



Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	Annual periods beginning on or after January 1, 2016
Annual Improvements 2012-2015 Cycle	Annual periods beginning on or after July 1, 2016

Management believes that the adoption of the standards, amendments and interpretations described above will have no significant impact on the special purpose financial statements of the Company.

### **2.3 Responsibility for the information and estimates**

The Management of the Company is responsible for the information contained in these special purpose financial statements. These special purpose financial statements have occasionally used estimates made by the Senior Management of the Company to quantify some of the assets, liabilities, income, expenses and commitments recorded therein. On May 7, 2016, the Senior Management approved these special purpose financial statements.

These estimates are explained in greater detail in Note 3 and involve the following:

- Impairment of assets
- Useful economic life of assets
- Provisions for litigation and other contingencies
- Calculation of deferred tax liabilities and assets

Regardless of the fact that these estimates were made with the best information available at the time, they may possibly need to be revised in future years as a result of future events; this would be done prospectively, as stipulated in IAS 8.

## 2.4. Summary of significant accounting policies

**a. Functional currency** - The functional currency of the Company will be determined as the currency of the main economic environment in which it operates. Transactions other than those performed in the entity's functional currency will be converted at the exchange rate in effect on the date of the transaction. Monetary assets and liabilities denominated in currencies other than the functional one will be converted again at the year end exchange rates. Gains or losses from the reconversion will be included in net income or losses for the year, within other financial items. The functional and presentation currency is the US dollar.

**b. Foreign currency** - Transactions in a currency other than a company's functional one are considered to be "foreign currency" transactions and they are recorded in their functional currency at the exchange rate in effect on the date of the operation. At each year end, the statement of financial position amounts of monetary items in a foreign currency are valued at the year-end exchange rate and the exchange rate differences arising from such valuation are recorded in the profit or loss in the period.

**c. Offsetting balances and transactions** - As a general standard, assets and liabilities, income and expenses, are not offset in the financial standards, except for those cases in which offsetting is required or is allowed by some standard and the presentation is a reflection of the substance of the transaction.

**d. Borrowing costs** - Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

**e. Investment in subsidiary** - The Company records its investment in subsidiary in these special purpose separate financial statements at cost, according to IAS 27.

**f. Property, plant and equipment** - Property, plant and equipment is stated at their cost of acquisition (net of VAT) or construction. Cost comprises of all costs incurred to bring the assets to their location and working condition up to the date the assets are ready to use. Besides, the costs related directly to the construction of an asset, indirect expenses incurred up to the date of commencement of commercial production which are incidental and related to construction are capitalized as part of the construction cost.

Property, plant and equipment are depreciated over its remaining useful life, or life of the operation, if shorter, until its residual value. The major categories of property, plant and equipment are depreciated as follows:

(i) *Mining projects* – Mining projects are depreciated over the life of the mine from the beginning of commercial production using the units of production method. As explained in Note 1, all mining projects were fully written off during the last fiscal year.

**g. Exploration costs** - Until the commencement of commercial production, all expenses incurred, including financial costs and depreciation are being capitalized. These will be amortized over the life of the mining assets.

**h. Taxation** - Current tax is measured at the amount expected to be paid/recovered from the revenue authorities, using the applicable tax rates and laws.

Deferred tax is the tax expected to be payable or recoverable on temporary differences (i.e. differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit). Deferred tax is accounted for using the balance sheet liability method and is provided on all temporary differences.

Deferred tax assets are recognized only to the extent that it is probable that they will be recovered through sufficient future taxable profit. The carrying amount of deferred tax assets is reviewed at each balance sheet date.

**i. Impairment of tangible and intangible assets** - At each statement of financial position date, the assets are tested annually for impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates their recoverable amount from the cash generating units.

**j. Provisions** - Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable the Company will be required to settle the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date.

**k. Financial assets and liabilities** - The financial assets and liabilities are recognized in the statement of financial position of the Company on the following basis:

- Accounts receivable - The accounts receivable are booked at their nominal value and reduced for appropriated provisions for the estimated non-recoverable amounts, based on a review of all outstanding amounts at the end of the year. Bad debts are written-off when identified.
- Accounts payable - The accounts payable are presented at their nominal value.
- Loans and debts - All the loans and debts are initially recognized at cost, which is the reasonable value of the service received, including the associated transaction costs of the loan.

**l. Cash and cash equivalents** - The Company considers liquid financial assets, which may be easily converted into cash within no more than three months and where the risk of a change in their value is insignificant, to be cash equivalents.

Operating activities: these are the activities that constitute the main source of ordinary income of the Company, as well as other activities that can not be classified as investment or financing activities.

Investment activities: these correspond to activities of acquisition, sale or disposal through other methods of long-term assets and other investments not included in cash and cash equivalents. Financing activities: these are the activities that cause variations in the composition of the net equity, and of the financial liabilities.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the special purpose financial statements requires accounting estimates, judgments and assumptions to be made regarding the values at which various assets and liabilities are reflected in the special purpose financial statements and on the reported revenues and expenses during the reporting period. These accounting estimates and judgments are based on historical experience, industry trends and other factors considered relevant and/or significant. Actual results could differ from these accounting estimates and differences between actual results, due to impairment, if any, in the estimation of liabilities are recognized in the periods in which the results are known or materialize.

As specified in Note 2 to the special purpose financial statements, management necessarily makes judgements and estimates that have a significant effect on the figures presented in the special purpose financial statements. Changes in assumptions and accounting estimates may have a significant impact on the special purpose financial statements. The details of the most critical accounting estimates and judgments made are as follows:

**a. Impairment of assets** - The Company reviews the book value of its tangible assets to determine whether there is any indication that such assets have been impaired. In the impairment assessment, assets that fail to generate an independent cash flow are grouped together in an appropriate cash-generating unit. The recoverable amount of these assets or cash-generating unit is measured as the higher of its fair value (discounted future cash flow method) and its book value. Management necessarily applies judgments in grouping together the assets that fail to generate independent cash flows and also in the estimates, timing and values of the calculation's underlying cash flows.

**b. Useful economic life of assets** - Tangible assets are depreciated using the straight-line method over the life of the assets. Management reviews the bases used for calculating the life of assets on an annual basis; however, any change could potentially affect the depreciation rates and book values of the assets going forward.

**c. Provisions for litigation and other contingencies** - The final cost for claims and lawsuits could vary due to estimates based on different interpretations of the regulations, opinions and final evaluations of the amount of the damages. Therefore, any change in the circumstances involved in this contingency could have a significant effect on the amount of the contingency provision recorded.

**d. Calculation of taxes on deferred tax liabilities and assets** - Proper valuation of the taxes on deferred tax liabilities and assets depends on several factors, including the realization of deferred tax and the timeliness of the payments of taxes. Current charges and payments could differ materially from such estimates due to changes in tax regulations and unforeseen future transactions having an impact on the Company tax balance sheet.

#### 4. FINANCIAL COST AND INCOME

During the year ended March 31, 2016 and 2015, the details of financial costs are as follows:

	<b>2016</b> US\$	<b>2015</b> US\$
Interest on JSW Steel Limited - India loan, net of withholding tax	4.954.678	4.164.071
Interest on JSW Panama Holdings Corporation loan, net of withholding tax	71.158	120.923
Other Charges	<u>64.660</u>	<u>479.590</u>
Total	<u><u>5.090.496</u></u>	<u><u>4.764.584</u></u>

During the year ended March 31, 2016 and 2015, the details of financial income are as follows:

	<b>2016</b> US\$	<b>2015</b> US\$
Interest on Santa Fe Mining loan	<u>1.784.687</u>	<u>1.177.499</u>
Total	<u><u>1.784.687</u></u>	<u><u>1.177.499</u></u>

#### 5. INVESTMENT IN SUBSIDIARY

Company	Subsidiary paid-in capital		Ownership Percentage		Total	
	2016 US\$	2015 US\$	2016 %	2015 %	2016 US\$	2015 US\$
Santa Fe Mining	-	1.966.684	70	70	<u><u>1.376.679</u></u>	<u><u>1.376.679</u></u>

## 6. PROPERTY, PLANT AND EQUIPMENT

	<b>Mining properties (1) US\$</b>	<b>Others (2) US\$</b>	<b>Total US\$</b>
<b>Assets</b>			
Opening balance at April 1, 2014	52.000.000	16.986.707	65.322.275
Additions	-	19.413	19.413
Balance at March 31, 2015	52.000.000	17.006.120	69.006.120
Additions	-	-	-
Balance at March 31, 2016	52.000.000	17.006.120	69.006.120
<b>Accumulated depreciation</b>			
Opening balance at April 1, 2014	-	-	-
Balance at March 31, 2014	-	-	-
Additions & other	-	(17.796)	(17.796)
Impairment of assets	(52.000.000)	(16.988.324)	(68.988.324)
Balance at March 31, 2015	(52.000.000)	(17.006.120)	(69.006.120)
<b>Net assets</b>			
Balance at March 31, 2014	52.000.000	17.006.120	69.006.120
Balance at March 31, 2015	0	0	0

(1) The mining properties of the Company consists of two projects at eight owned properties - Daniel (XX, XXI, XXII & XXIII) and Catalina (I, II, III & IV), which were bought from the related Company JSW Steel (Netherland) B.V. on March 31, 2008.

(2) This relates to capitalized interest and other costs related to the development of the mining projects.

As explained in Note 1, both projects were fully written off during the last fiscal year.

## 7. PAID-IN CAPITAL

The Company's issued and fully paid in capital, as at March 31, 2016 and 2015, amounts to US\$43,926.



## 8. BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

**a. Partners** - The Company's partners as at March 31, 2016 and 2015 are as follows:

<b>Partners</b>	<b>Percentage of shares</b>
JSW Panama Holdings Corporation	94.9%
JSW Steel Limited	5.0%
JSW Steel (Netherlands) B.V.	0.1%
Total	100.0%

**Non-current balances** - The detail of non-current balances due to related parties are as follows:

### Account receivable:

<b>Company</b>	<b>Relationship</b>	<b>2016 US\$</b>	<b>2015 US\$</b>
Santa Fe Mining (3)	Subsidiary	<u>38.824.913</u>	<u>28.403.425</u>

### Accounts payable:

<b>Company</b>	<b>Relationship</b>	<b>2016 US\$</b>	<b>2015 US\$</b>
JSW Steel Limited (1)	Ultimate Parent	116.791.696	103.239.040
JSW Panama Holdings Corporation (2)	Parent	3.655.349	3.584.191
Santa Fe Mining	Subsidiary	<u>0</u>	<u>9.088</u>
Total		<u>120.447.045</u>	<u>106.832.319</u>

- (1) This balance is composed of four loans as follows: (a) US\$11,610,000 obtained on October 15, 2009, (b) US\$54,505,000 obtained in 2011 and 2010 in two separate tranches, (c) US\$13,450,000 obtained in 2012, (d) US\$ 6,237,000 obtained in 2014-2015, and ( e) US\$8,598,000 obtained in 2015-2016. Each of these loans has an interest rate of Libor plus 4.5%. The funds of the last loan were used to grant a loan to Santa Fe Mining.
- (2) This account payable is composed of two loans, US\$1,500,000 on January 14, 2008 and US\$1,200,000 on July 24, 2009, which have a rate of monthly Libor plus 5% payable quarterly and Libor plus 3% annually, respectively.
- (3) This balance is composed of a loan of (a) US\$5,950,000 granted in December 2010 plus accrued interests at a fixed annual rate of 5%, (b) US\$13,450,000 granted in 2012 plus accrued interests at a fixed annual rate of 6%; (c) US\$5,719,000 granted in 2014-2015 plus accrued interests at a fixed annual rate of 6% and (d) US\$8,636,800 granted in 2015 – 2016 plus accrued interests at a fixed annual rate of 6%.

**b. Transactions** - The main transactions with related parties are as follows:

Company	Relationship	Nature of the transaction	2016 US\$	2015 US\$
JSW Panama Holdings	Partner	Interest accrued	71.158	120.923
JSW Steel Limited	Partner	Loan received	8.598.000	6.237.000
		Interest accrued	4.954.678	4.164.071
Santa Fe Mining	Subsidiary	Loan granted	8.636.800	5.719.000
		Interest accrued	1.784.687	1.177.499

## 9. FINANCIAL INSTRUMENTS

### a. Financial assets

At March 31, 2016 and 2015 the carrying values and fair values of financial assets are as follows:

	2016		2015	
	Estimated fair value US\$	Carrying value US\$	Estimated fair value US\$	Carrying value US\$
Accounts receivable from related companies	38.824.913	38.824.913	28.403.425	28.403.425
Total financial assets	38.824.913	38.824.913	28.403.425	28.403.425

The fair value of the financial assets at March 31, 2016 and 2015 is not materially different to the carrying value.

The exposure of the Company's financial assets to interest rate and currency risks are as follows:

	March 31, 2016				March 31, 2015			
	Total US\$	Variable rate US\$	Fixed rate US\$	Interest-free US\$	Total US\$	Variable rate US\$	Fixed rate US\$	Interest-free US\$
Chilean pesos	-	-	-	-	-	-	-	-
US dollar	38.824.913	-	38.824.913	-	28.403.425	-	28.403.425	-
Total financial assets	38.824.913	-	38.824.913	-	28.403.425	-	28.403.425	-



## b. Financial liabilities

At March 31, 2016 and 2015 the carrying values and fair values of financial liabilities are as follows:

	2016		2015	
	Estimated fair value US\$	Carrying value US\$	Estimated fair value US\$	Carrying value US\$
Accounts payable to related company	<u>120.447.045</u>	<u>120.447.045</u>	<u>106.832.319</u>	<u>106.832.319</u>
Total financial liabilities	<u><u>120.447.045</u></u>	<u><u>120.447.045</u></u>	<u><u>106.832.319</u></u>	<u><u>106.832.319</u></u>

The exposure of the Company's financial liabilities to interest rate and currency risks are a follows:

	March 31, 2016				March 31, 2015			
	Total US\$	Variable rate US\$	Fixed rate US\$	Interest-free US\$	Total US\$	Variable rate US\$	Fixed rate US\$	Interest-free US\$
US dollar	<u>120.447.045</u>	<u>120.447.045</u>	<u>-</u>	<u>-</u>	<u>106.832.319</u>	<u>106.832.319</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u><u>120.447.045</u></u>	<u><u>120.447.045</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>106.832.319</u></u>	<u><u>106.832.319</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

## c. Exposure to and management of financial risks

Significant financial risks that the Company is exposed to are liquidity risk, foreign currency risk and interest rate risk.

### • Liquidity risk

Liquidity risk refers to the risk that the Company always has adequate funds to meet its payment obligations. This is achieved by having the funds in cash and current account bank balances. The Company manages liquidity by maintaining adequate reserves, banking facilities and financial support from its partners.

### • Exchange rate risk and interest rate risk

The Company's operating currency is Chilean pesos and it also maintains its accounts in Chilean pesos. However, the Company has its trade liabilities in US dollars. Thus the Company is exposed to fluctuations in the parity between US dollar and Chilean pesos.

The Company is exposed to fluctuations in the Libor interest rate.

## 10. INCOME AND DEFERRED TAX

The Company has accumulated tax losses amounting to US\$31,351,382 as of March 31, 2016 (US\$18,184,978 as of March 31, 2015), which do not expire.

On September 29, 2015 the Tax Reform Act 20,780 (the “Act”) which aims to replace the system of taxation of income tax and introduces various settings in the Chilean tax system was published in the official gazette. The Act introduced a dual tax system beginning from 2017. The dual tax system classified entities into one of two systems depending on the type of entity. The two systems are the Attributed Income System and the Semi-Integrated System. The Company’s applicable tax system is the Semi-Integrated System. In 2015, as a result of further amendments to the tax reform, the Company is only entitled to apply the “semi-integrated system”.

Furthermore, the Act provides gradual increases in the First Category income tax rate over several years, depending on the applicable system, as follows:

- Commercial Year 2015: 21% rate
- Commercial Year 2016: 22.5% rate
- Commercial Year 2016: 24% rate
- Commercial Year 2017: 25.5% rate
- Commercial Year 2018: 27% rate

As a result of these changes in tax rates, the Company remeasured the deferred income tax assets and liabilities using the new rates, based on the Semi-Integrated System, in the years of the expected reversal of the book and tax differences.

### a. Deferred tax

The detail of deferred taxes at March 31, 2016 and 2015 are as follows:

	2016 US\$	2015 US\$
<b>Deferred tax assets</b>		
Accumulated tax losses	25.408.657	4.591.652
Total	<u>25.408.657</u>	<u>4.591.652</u>
<b>Deferred tax liabilities</b>		
Property, plant and equipment	(25.408.657)	(4.591.652)
Total	<u>(25.408.657)</u>	<u>(4.591.652)</u>
Total net deferred tax assets (liabilities)	<u>-</u>	<u>-</u>

**b. Income tax expense**

The Company has no current or deferred income tax expense for the years ended March 31, 2016 and 2015.

**11. CASH AND CASH EQUIVALENTS**

The detail of cash and cash equivalents as at March 31, 2016 and 2015, are as follow:

	<b>2016</b> US\$	<b>2015</b> US\$
Cash and banks	<u>31.176</u>	<u>148.625</u>

**12. COMMITMENTS**

The Company has not made any commitments towards capital expenses as at March 31, 2016.

**13. SUBSEQUENT EVENTS**

The Company's management is not aware of any events subsequent to April 1, 2016 and until May 6, 2016, the date these special purpose financial statements were available to be issued, that could materially affect them.

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