

Volcan Compañía Minera S.A.A. and Subsidiaries

Consolidated interim financial information (unaudited) as of
September 30, 2019 and 2018

Volcan Compañía Minera S.A.A. and Subsidiaries

Consolidated Statement of Financial Position

As of September 30, 2019 (unaudited) and as of December 31, 2018 (audited)

	Note	September 30, 2019 US\$(000)	December 31, 2018 US\$(000)
Assets			
Current Assets			
Cash and cash equivalents	4	38,529	62,950
Accounts receivable			
Trade, net		19,306	25,363
Accounts receivable from subsidiaries and affiliates		9,827	16,479
Others		132,800	168,597
Other financial assets	6	28	640
Inventories, net	5	69,682	64,640
Total current assets		270,172	338,669
Non-current Assets			
Other accounts receivable		9,212	6,992
Financial investments		195,331	53,305
Property, plant and equipment, net	7	908,133	978,205
Mining exploration and evaluation cost, net	8	744,591	840,067
Inventories, net		7,569	7,752
Total non-current assets		1,864,836	1,886,321
Total assets		2,135,008	2,224,990
Liabilities and Net Stockholders' Equity			
Current Liabilities			
Overdrafts		10,367	34
Financial obligations	9	221,204	208,665
Trade accounts payable		181,138	202,544
Accounts payable to subsidiaries and affiliates		7,568	-
Other accounts payable		59,314	96,969
Other financial liabilities	6	37,572	48,218
Total current liabilities		517,163	556,430
Non-current Liabilities			
Financial obligations	9	584,763	587,764
Other financial liabilities	6	16,145	-
Provision for closing of mining units and communities		205,409	205,515
Deferred income tax liability	10	158,699	199,557
Provision for contingencies		28,150	27,571
Total non-current liabilities		993,166	1,020,407
Total liabilities		1,510,329	1,576,837
Equity			
Issued capital	11	1,134,300	1,134,300
Treasury stock		(60,922)	(61,285)
Other capital reserves		1,055	1,055
Capital reserve		(173,206)	(172,801)
Revaluation		-	30,307
Unrealized gains (loss)		(5,021)	1,121
Retained earnings		(271,527)	(284,544)
Total net stockholders' equity		624,679	648,153
Total liabilities and net stockholders' equity, net		2,135,008	2,224,990

The accompanying notes are an integral part of this statement.

Volcan Compañía Minera S.A.A. and Subsidiaries

Consolidated Income Statement (unaudited)

For the period from January 1, to September 30, 2019 and 2018

	For the period from July		For the cumulative period	
	1 to September 30		from January 1	
	2019	2018	2019	2018
	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Sales, Note 12	169,263	189,307	536,271	602,065
Cost of Sales, Note 13	(140,981)	(135,388)	(434,741)	(394,612)
Gross Income	28,282	53,919	101,530	207,453
Operating income (expenses)				
Administrative expenses	(5,880)	(14,190)	(27,844)	(33,630)
Selling expenses	(5,527)	(6,338)	(16,734)	(19,541)
Exploration Expenses	(6,022)	(3,868)	(12,360)	(7,072)
Other income	11,199	9,829	33,637	28,847
Other expenses	(21,232)	(14,325)	(62,278)	(54,647)
	(27,462)	(28,892)	(85,579)	(86,043)
Operating income	820	25,027	15,951	121,410
Financial income (expenses)				
Financial income, Note 14	26	115	18,753	396
Financial expenses, Note 14	(12,593)	(9,471)	(35,155)	(28,870)
Exchange difference, net	(2,429)	(1,368)	(1,317)	(2,047)
Total other income (expenses), net	(14,996)	(10,724)	(17,719)	(30,521)
Income before income tax	(14,176)	14,303	(1,768)	90,889
Income tax, Note 10(b)	(6,621)	(13,046)	(15,522)	(49,577)
Net income	(20,797)	1,257	(17,290)	41,312
Net earnings per share	(0.005)	0.000	(0.004)	0.011
Weighted average of outstanding shares (in thousands)	3,857,633	3,858,003	3,857,633	3,858,003

The accompanying notes are an integral part of this statement.

Volcan Compañía Minera S.A.A. and Subsidiaries

Consolidated Statement of Comprehensive Income (unaudited)

For the period from January 1 to September 30, 2019 and 2018

	For the cumulative period from July 1 to September 30		For the cumulative period from January 1 to September 30	
	2019 US\$(000)	2018 US\$(000)	2019 US\$(000)	2018 US\$(000)
Net income	(20,797)	1,257	(17,290)	41,312
Others comprehensive income (loss):				
Net change in gains (losses) unrealized on derivate instruments and Financial investments	(3,390)	118	(8,713)	28,548
Income tax	1,000	(35)	2,571	(8,422)
Other comprehensive income (loss) net of income tax	(2,390)	83	(6,142)	20,126
Total comprehensive income	(23,187)	1,340	(23,432)	61,438

The accompanying notes are an integral part of this statement.

Volcan Compañía Minera S.A.A. and Subsidiaries

Statement of changes in the Net Stockholders' Equity (unaudited)

For the period from January 1 to September 30, 2019 and 2018

	Capital Issued	Treasury stock	Other capital reserves	Revaluation	Capital reserve	Unrealized gains (loss)	Retained earnings	Total
	US\$(000)	US\$(000)	US\$(000)		US\$(000)	US\$(000)	US\$(000)	US\$(000)
Balances as of January 1, 2018	1,134,300	(61,222)	1,055	30,307	(174,320)	(20,511)	(297,286)	612,323
Net income	-	-	-	-	-	-	41,312	41,312
Net change in gains unrealized on derivative instruments	-	-	-	-	-	20,126	-	20,126
Dividends declared	-	-	-	-	1,733	-	(16,641)	(14,908)
Conversion effect	-	(63)	-	208	(188)	-	(89)	(132)
Balances as of September 30, 2018	1,134,300	(61,285)	1,055	30,515	(172,775)	(385)	(272,704)	658,721
Balances as of January 1, 2019	1,134,300	(61,285)	1,055	30,307	(172,801)	1,121	(284,544)	648,153
Net income	-	-	-	-	-	-	(17,290)	(17,290)
Net change in gains unrealized on derivative instruments	-	-	-	-	-	(6,142)	-	(6,142)
Conversion effect	-	363	-	-	(405)	-	-	(42)
Transfer for loss of control	-	-	-	(30,307)	-	-	30,307	-
Balances as of September 30, 2019	1,134,300	(60,922)	1,055	-	(173,206)	(5,021)	(271,527)	624,679

The accompanying notes are an integral part of this statement.

Volcan Compañía Minera S.A.A. and Subsidiaries

Consolidated Cash Flows Statement (unaudited)

For the period from January 1 to September 30, 2019 and 2018 (Note 2C)

	Note	September 30, 2019	September 30, 2019
		US\$(000)	US\$(000)
Operating activities			
Collection of sales proceeds		621,905	724,087
Refund of the credit balance in favor of the exporter and taxes		15,754	17,258
Payments to suppliers and third parties		(373,597)	(382,052)
Payments to workers		(78,946)	(77,280)
Income tax payments		(10,521)	(35,801)
Royalties		(6,297)	(14,173)
Expenses for coverage		-	(18,100)
Cash flows from operating activities, net		168,296	213,939
Investing activities			
Other cash receipts related to the investment activity		1,298	1,261
Acquisition of subsidiary in previous years		327	(26,187)
Disbursements for the acquisition of mining rights, property, plant and equipment		(72,437)	(44,167)
Disbursements for exploration and development activities		(68,414)	(81,023)
Cash flows (used in) investment activities, net		(139,225)	(150,116)
Financing activities			
Collection corresponding to:			
Obtaining financial obligations		120,000	173,516
Obtaining other financial liabilities		25,640	41,362
Payments corresponding to:			
Amortization of financial obligations		(139,765)	(186,721)
Amortization of overdrafts and other financial liabilities		(11,107)	(45,862)
Interest payment		(48,217)	(34,329)
Dividends		(43)	(14,876)
Cash flows (used in) from financing activities, net		(53,492)	(66,910)
Increase (Decrease) in cash and cash equivalents for the period		(24,421)	(3,087)
Cash and cash equivalents at the beginning of the period		62,950	101,829
Cash and cash equivalents at the end of the period	4	38,529	98,742

The accompanying notes are an integral part of this statement

Volcan Compañía Minera S.A.A. and Subsidiaries

Notes to the consolidated interim financial statements (unaudited)

As of September 30, 2019 and December 31, 2018

1. Identification and economic activity

(a) Identification -

Volcan Compañía Minera S.A.A. (hereinafter “the Company”) is a subsidiary of Glencore AG, which is a subsidiary of Glencore Plc., a company domiciled in Switzerland, hereinafter the Parent, owner of 63% of common class A voting shares and an economic interest of 23%, excluding treasury shares. The Company was incorporated on February 1, 1998 in Lima, Peru.

The shares comprising the capital stock of the Company are listed in the Stock Exchange of Lima.

The Company is mainly engaged in the exploration and operation of mining claims and the extraction, concentration, treatment and commercialization of polymetallic minerals. The economic activity of Subsidiaries is explained in paragraph (c). The Company and Subsidiaries engaged in the mining sector operate the mining units of Yauli, Animon, Alpamarca, Cerro and Oxidos in the departments of Cerro de Pasco, Junín and Lima. The Subsidiaries engaged in the electric power generation business operate in the department of Lima.

The Company’s Management addresses and supervises all operations of the economic group.

The legal domicile, where the administrative offices of the Company are located, is Av. Manuel Olguin No. 375, Santiago de Surco, Lima.

(b) Approval of consolidated financial statements -

The consolidated interim financial statements as of September 30, 2019 were approved by the Company’s Management on November 04, 2019. The consolidated financial statements as of December 31, 2018 were approved by the Shareholders’ Meeting on March 15, 2019.

(c) The consolidated financial statements include the financial statements from the following subsidiaries:

Consolidated Subsidiaries and economic activity	Direct and indirect interest in ownership		Domicile
	September	December	
	30, 2019	31, 2018	
	%	%	
Mining exploration and operation:			
Compañía Minera Chungar S.A.C.	100.00	100.00	Perú
Óxidos de Pasco S.A.C.	100.00	100.00	Perú
Empresa Administradora de Cerro S.A.C.	100.00	100.00	Perú
Empresa Explotadora de Vinchos Ltda. S.A.C.	100.00	100.00	Perú
Minera Aurífera Toruna S.A.C. (1)	80.00	80.00	Perú
Minera San Sebastián AMC S.R.L.	100.00	100.00	Perú
Compañía Minera Vichaycocha S.A.C.	100.00	100.00	Perú
Electric power generation:			
Hidroeléctrica Huanchor S.A.	100.00	100.00	Perú
Empresa de Generación Eléctrica Rio Baños S.A.C. (2)	100.00	100.00	Perú
Compañía Hidroeléctrica Tingo S.A. (3)	100.00	100.00	Perú
Public services from private investment:			
Terminales Portuarios Chancay S.A.	-	100.00	Perú
Roquel Global S.A.C.	100.00	100.00	Perú
Investments in general:			
Corporación Logística Chancay S.A.C.	100.00	100.00	Perú
Remediadora Ambiental S.A.C.	100.00	100.00	Perú
Compañía Industrial Limitada de Huacho S.A.	96.41	96.41	Perú
Empresa Minera Paragsha S.A.C.	100.00	100.00	Perú

(1) These are, in turn, subsidiaries of Empresa Minera Paragsha S.A.C.

(2) This is, in turn, a subsidiary of Hidroeléctrica Huanchor S.A.

(3) This is, in turn, a subsidiary of Compañía Minera Chungar S.A.C.

Compañía Minera Chungar S.A.C.

This company has two mining units, Animon and Alpamarca, located in the department of Pasco and is engaged in the exploration, development and operation of mineral deposits, basically with zinc, copper and lead contents. The useful life determined based on the reserves and resources of its mining units of Animon and Alpamarca is 19 years until 2037 (unaudited).

Óxidos de Pasco S.A.C.

This entity is now engaged in the treatment of oxidized minerals at a leach pad. The useful life determined based on reserves and resources of oxidized minerals is 9 years until 2027 (unaudited).

Empresa Administradora de Cerro S.A.C.

This company is engaged in the exploration, development and operation of mineral deposits, basically with zinc and lead contents. Now, the Subsidiary processes stockpiles since its mining operations have been stopped. This company develops its activities in its mining unit Cerro. The useful life determined based on the reserves and resources of its mining unit Cerro is one year until 2019 (unaudited).

Empresa Explotadora de Vinchos Ltda. S.A.C.

This company does not perform operations since 2015 because Management decided to redirect its mining activities in other Subsidiaries of the Company. As from 2019, Management decided to conduct explorations to reconsider the potential of its deposit and then develop and operate it provided it is viable and profitable; otherwise, it will enter into a simple reorganization process in the short term and will be absorbed by an operating subsidiary of the Company in order to search for synergies for the development of its projects.

Empresa Minera Paragsha S.A.C.

This company was incorporated for exploration, operation, assignment and mining usufruct; however, its main activity is now the purchase and sale of investments in equity instruments. This company has shares of the Company and Cementos Polpaico S.A.

Management considers that they will continue receiving financial support from the Company due to its strategic importance.

Minera Aurífera Toruna S.A.C., Minera San Sebastián AMC S.R.L. and Compañía Minera Vichaycocha S.A.C.

These companies were incorporated for the exploration, development and operation of mineral deposits and their main activity is the exploration of their mining concessions through the financing of the Company and Subsidiaries. No activities have been developed in 2018.

The Company's Management is reevaluating potential projects or the option of a simple reorganization in order to search for synergies for the development of their projects.

Hidroeléctrica Huanchor S.A.C.

This company is engaged in electric power generation and has the hydroelectric power plants of Huanchor, Tamboraque I and II.

Empresa de Generación Energética Río Baños S.A.C.

This company is engaged in electric power generation and has the hydroelectric power plants of Baños V and Rucuy. The hydroelectric power plant of Rucuy has stopped its operations since March 2017 as a consequence of El Niño phenomenon, which caused issues in the penstock and the transmission line. On June 1, 2019, it resumed operations.

Compañía Hidroeléctrica Tingo S.A.

This company is engaged in the operation and maintenance of gen-sets and electrical energy transmission systems. It has the hydroelectric power plant of Tingo of 1.24 MW and 82 km of transmission lines of 22.9 and 50 kv.

Terminales Portuarios Chancay S.A.

This company is now at the development stage and will be engaged in port activities. Its objective is the development, construction, implementation, commissioning and operation of a multi-purpose port at Chancay Bay, in the northern area of Lima. The construction of the port started in 2017 and it is estimated to commence operations in 2022. On May 13, 2019, it ceased to be a subsidiary of the Company.

Roquel Global S.A.C.

This company is engaged in real estate development in order to perform port and logistics activities in relation to the Chancay Port. The pre-investment stage will commence in 2019. The financial statements of this subsidiary are presented consolidated with those of the Company since 2017.

Corporación Logística Chancay S.A.C.

Corporación Logística Chancay S.A.C. was incorporated as subsidiary in 2017 and its purpose is to engage in real estate development and port and logistics activities.

Compañía Industrial Limitada de Huacho S.A.

This company is mainly engaged in real estate activities. The financial statements of this subsidiary are presented consolidated with those of the Company since 2017.

Remediadora Ambiental S.A.C.

This company is engaged in environmental consultancy, environmental studies and acquisition of properties. The financial statements of this subsidiary are presented consolidated with those of the Company since 2018.

- (d) Subscription and Investment Agreement between Volcan Compañía Minera S.A.A. and Cosco shipping Ports -

On January 23, 2019, the Company entered into a subscription and investment agreement and a shareholders' agreement, with Cosco Shipping Ports Limited (CSPL) and its subsidiary Cosco Shipping (Chancay) Ports Limited (CSPL SPV), with the participation of Terminales Portuarios Chancay S.A. (TPCH), under which CSPL, through its subsidiary CSPL SPV, became the shareholder of TPCH with 60% of shares of the capital stock at the closing date, which is subject to the verification of the compliance with the Antitrust Law, provided by the international authorities of Ukraine and China.

The price of the transaction is US\$225,000 thousand through the increase of the capital stock of Terminales Portuarios Chancay S.A. It is important to mention that the Company remains with 40% of shares of the capital stock of Terminales Portuarios Chancay S.A.

The infrastructure project is located 50 km. on the northern area of the Callao Port. This project consists in a multi-purpose port terminal that will have two specialized terminals: (i) a terminal for containers that will include 11 docks for this type of cargo; and (ii) a terminal for loading bulk, general and rolling cargoes that will have four docks. At the first stage, an area of 141 hectares will be developed with an investment of US\$1,300,000 thousand.

On May 13, 2019, the agreement to close the transaction was signed, that left the Company with 40% of the shares.

- (e) Bond issuance -

At the Shareholders' Meeting held on November 4, 2011, it was approved to issue obligations for up to US\$1,100,000 thousand or its equivalent amount in soles, to be placed in the international and/or local market, with a first tranche of up to US\$600,000 thousand in order to fund mining and energy projects in the next five years.

At the Board of Directors' meeting of the Company held on January 16, 2012, the issuance of bonds was approved under Rule 144A and Regulation S of the U.S. Securities Act of the United States of America, for up to US\$600,000 thousand.

On February 2, 2012, bonds known as "Senior Notes Due 2022" were issued and placed in its entirety in the international market for US\$600,000 thousand, at an annual rate of 5.375%, maturing in 10 years. Interests will be paid in semiannual installments from August 2, 2012 to February 2, 2022. Compliance covenants were not established for this obligation.

Those funds were mainly allocated for growth projects of its Subsidiaries: i) Oxidos de Pasco S.A.C., for the development of the silver oxide plant and ii) Compañía Minera Alpamarca S.A.C. (now Compañía Minera Chungar S.A.C.), for the development of the Alpamarca

mining unit - Pallanga River; having invested in them for camps, tailings facilities, concentration plant and mine development. In addition, funds were allocated for the acquisition of the hydroelectric power plant Huanchor.

2. Significant accounting policies

Significant accounting policies used by the Company and Subsidiaries for the preparation of the consolidated financial statements are as follows:

(a) Statement of compliance and basis of preparation and presentation -

The accompanying consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), including International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), or by the former Standing Interpretations Committee (SIC), adopted by the IASB. Historical cost basis was applied for these purposes, except those items measured at fair value, as further explained in the section of significant accounting policies (letter (d)).

Fair value is the price that should be received when selling an asset, or paid when transferring a liability in an organized transaction between third parties at a measurement date, regardless of the fact that such price is directly observable or estimable through another valuation technique. When estimating the fair value of an asset or liability, the Company considers the characteristics of such asset or liability in the event that market participants would want to consider them when setting a price at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined over such basis, except share-based payment transactions (which are within the scope of IFRS 2), lease transactions (within the scope of IAS 17), and measurements somehow similar to fair value, but are not fair value, such as net realizable value in IAS 2, or value in use in IAS 36.

Additionally, for financial reporting purposes, fair value measurements are categorized in three levels: 1, 2 or 3; depending on the degree in which the information for fair value measurements are observable, and their significance to fair value measurement in its entirety, as described below:

Level 1: Input is quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company may access to at the measurement date.

Level 2: Input is different from quoted prices included in Level 1, which are observable for the asset or liability, whether directly or indirectly.

Level 3: Input is not observable for the asset or liability. Non-observable input data will be used to measure fair value provided such relevant observable input data are not available, considering situations where there is low market activity, if any, for the asset or liability at the measurement date.

(b) Consolidation principles -

The accompanying consolidated financial statements include the accounts of the Company and of those entities controlled by the Company (Subsidiaries). The Company considers that control of an entity is achieved when the Company has the power to govern their financial and operating policies in order to obtain benefits from their activities.

All significant intercompany transactions have been eliminated in consolidation. When necessary, adjustments are made to the financial statements of certain Subsidiaries to bring their accounting policies into line with those used by other members of the group.

Profit and loss of subsidiaries acquired or disposed during the year are included in the consolidated statement of profit or loss as from the effective date of acquisition or up to the effective date of sale, as applicable. Total comprehensive income of those subsidiaries is attributed to the Company's shareholders and to the non-controlling owners of these subsidiaries even in cases when these interests result in a deficit balance.

Changes in the interest in subsidiaries that do not correspond to a loss of control over them are accounted for as equity transactions. The carrying amounts of interest of the shareholders of the Company and the non-controlling owners of these subsidiaries are adjusted to reflect the changes in their interest. Any difference between these amounts and the fair value of the consideration paid or received is directly attributed to equity of shareholders of the Company.

Goodwill is recognized by the excess of the acquisition cost of the interest of the Company in the fair value of net assets acquired by Subsidiaries.

(c) Functional and presentation currency -

The Company prepares and presents its consolidated financial statements in U.S. dollars, its functional currency. The functional currency is the currency of the main economic environment in which an entity operates, which influences selling prices of traded goods and services, among other factors.

For the preparation and presentation of the consolidated financial statements, the assets and liabilities of Subsidiaries in a functional currency different from the functional currency of the Company are translated at the exchange rate of the preparation date of those consolidated financial statements. Revenue and expenses are translated at average exchange rates, provided the exchange rate has not changed significantly during the year.

Exchange differences derived from such translation are recognized as part of other comprehensive income (and attributed to non-controlling interest).

Translation to U.S. dollars

The Company prepares its consolidated financial statements in U.S. dollars based on its accounting records carried in soles. Those consolidated financial statements are translated into U.S. dollars (functional currency) following the methodology explained below:

Non-monetary assets and liabilities and equity accounts in soles have been translated into U.S. dollars using the exchange rate in force at the original date of the transaction. The consumption of supplies and accumulated depreciation of property, plant and equipment, the amortization of mining concessions, exploration and development expenses and other mining assets were calculated based on the amounts translated into U.S. dollars of related assets. Non-monetary assets and liabilities in U.S. dollars are held at their original value in such currency.

Profit or loss items denominated in U.S. dollars are presented in their original currency, and other transactions are translated from soles to U.S. dollars using the effective exchange rate at the original date of the transaction, except items that result from non-monetary assets, which are determined as indicated in the paragraph above.

Exchange difference gains or losses are recognized in the consolidated statement.

(d) Financial instruments -

Financial instruments are contracts that simultaneously give rise to a financial asset in a company and a financial liability or equity instrument in another company. Financial assets and liabilities are recognized when the Company and Subsidiaries become part of the contractual agreements of the corresponding instrument.

Financial assets and liabilities are initially measured at fair value plus transaction costs directly attributable to their acquisition or issuance, except for those classified at fair value through profit or loss, which are initially recognized at fair value and whose transaction costs directly attributable to their acquisition or issuance, are recognized immediately in profit or loss for the year.

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis and require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss.

Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss provision. On the other hand, the gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss provision.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at fair value through other comprehensive income. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired.

For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company and Subsidiaries recognize interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired. Interest income is recognized in the consolidated statement of profit or loss.

Impairment of financial assets

The Company and Subsidiaries recognize a provision for expected credit losses of financial assets that are measured at amortized cost or at fair value through other comprehensive income. An impairment loss for investments in equity instruments is not recognized. The amount of expected credit losses is updated at each reporting date in order to reflect the changes in credit risk since the initial recognition of the pertinent financial instrument.

The Company and Subsidiaries recognize lifetime expected credit losses for trade accounts receivable and other accounts receivable. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company and Subsidiaries' historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the presentation date, including time value of money where appropriate.

For all other financial instruments, the Company and Subsidiaries recognize lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. The evaluation of whether the expected credit losses should be recognized during the life of the credit is based on significant increases in the probability or the risk that a noncompliance may occur since initial recognition instead of the evidence that the credit of a financial asset is impaired at the presentation date of the report or an actual noncompliance has occurred.

The duration of expected credit losses during the life of the credit represents the expected credit losses that will result from all possible default events over the expected useful life of a financial instrument. In contrast, 12-month expected credit losses during the life of the credit represents the portion of the useful life of expected credit losses during the life of the credit that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Financial liabilities

Financial liabilities are classified at fair value through profit or loss or at amortized cost using the effective interest method. The Company and Subsidiaries determine the classification of financial liabilities upon initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is held for trading or it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company and Subsidiaries manage and have a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading may be designated as a financial liability at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company and Subsidiaries' documented risk management or investment strategy, and information about the Company and Subsidiaries is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are measured at fair value, with any profit or losses arising on the new measurement recognized in profit or loss. The net profit or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the "other profit and losses" line item.

However, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Profit or losses on financial guarantee contracts and loan commitments issued by the Company and Subsidiaries that are designated as at fair value through other profit or loss are recognized in profit or loss.

Financial liabilities measured subsequently at amortized cost

Other financial liabilities, including loans, trade accounts payable and others, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts cash flows receivable or payable (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) estimated through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Derecognition of financial liabilities

The Company and Subsidiaries derecognize financial liabilities when, and only when, the Company and Subsidiaries' obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivative financial instruments

The Company and Subsidiaries enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, rates and prices of commodities.

Derivatives are recognized initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Profit or loss from changes in the fair value of these assets is recognized in profit or loss of the period they occur, unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

(e) Cash and cash equivalents -

Cash comprises cash on hand and freely available deposits. Cash equivalents comprise short-term financial investments with maturities of three months or less counted from their acquisition date, which are readily convertible into known amounts of cash and are not subject to an insignificant risk of changes in value.

(f) Inventories and obsolescence estimate -

Inventories are valued at the lower of acquisition or production cost or net realizable value. The cost of concentrates includes the cost of direct materials, and in this case, direct labor costs and manufacturing overheads, include the cost of transferring inventories to their current location and conditions. The cost of concentrates and supplies is determined by applying the weighted average cost method; the cost of inventories in transit is determined by applying the specific cost method. Net realizable value is the sales price estimated in the normal course of business, less the estimated costs to place inventories in sale conditions and perform their sale. Due to the reductions of the carrying amount of inventories to their net realizable value, an estimate for inventory obsolescence is established and charged to profit or loss of the period when those reductions occur.

(g) Investment properties -

Investment properties (land and buildings, entirely or partially considered, or both), held to obtain revenue, goodwill or both, are initially measured at cost, including costs associated with the transaction.

In subsequent measurements, the cost model is used, for which cost is measured less accumulated depreciation and any accumulated impairment loss.

An investment property is derecognized at disposal or when the investment property is permanently unused and no future economic benefits are expected to be received from such sale. Any profit or loss arising from such derecognition (calculated as the difference between net income from sale and the carrying amount of the asset) is included in profit and loss of the period when such property was derecognized.

(h) Property, plant and equipment -

Property, plant and equipment are presented at acquisition cost, less accumulated depreciation and the accumulated amount of impairment losses, except land with port preparation, which is presented under the revaluation model. The historical acquisition cost includes disbursements directly attributable to the acquisition of assets.

Initial disbursements, as well as those subsequently incurred, related to goods whose cost can be estimated reliably, and it is probable that future economic benefits will be obtained from them, are recognized as property, vehicles and equipment. Disbursements for maintenance and repairs are recognized as expenses during the period when incurred. Main components of major equipment are recorded independently and are depreciated according to their useful life. Profit or loss arising from the sale or disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset, which is recognized in profit or loss for the period when the sale is considered performed.

Property, plant and equipment under construction or acquisition are presented at cost, less any determined impairment loss. The cost of these assets in process includes professional fees and, for qualifying assets, borrowing costs. Those assets are subsequently classified to their category of property, plant and equipment when the construction or acquisition process has been completed and they are ready for intended use. These assets are depreciated from that moment, similarly to the rest of categories of property, plant and equipment.

The residual value, useful life and depreciation and amortization methods are reviewed and adjusted prospectively where appropriate at the end of every year.

Depreciation

Units-of-production method

The depreciation of buildings and other mining constructions is calculated by units of production based on economically recoverable reserves and a portion of resources from the pertinent mining unit.

The units of production are measured in recoverable metric tons of lead, copper and zinc. The depreciation ratio per units of production considers the expenses paid up to that date.

Straight-line method

The depreciation of other mining and hydroelectric assets is calculated by applying the straight-line method based on the lower of the estimated useful life of assets or the remaining useful life of the mining unit for mining assets. The useful lives used by the Company are as follows:

	<u>Years</u>
Buildings and other construction	Up to 33 years
Environmental management program infrastructure	Up to 10 years
Machinery and equipment	Up to 10 years
Vehicles	Up to 5 years
Furniture and fixtures, and computer equipment	Up to 10 years
Sundry equipment	Up to 10 years

- (i) Mining concessions, exploration and development costs and other intangibles -

Depreciation

Mining rights represent the ownership of the Company and Subsidiaries of mining properties that contain the acquired mineral reserves. Mining rights that are related to mineral reserves are amortized following the units-of-production method, using the proven and probable reserves as a basis and a portion of inferred resources.

Mining concessions correspond to exploration rights in areas of interest for the Company and Subsidiaries. Mining concessions are capitalized in the consolidated statement of financial position and represent the ownership of the Company and Subsidiaries of mining properties with a geological interest. Mining concessions are amortized as from the production stage based on the units-of-production method, using proven and probable reserves and a portion of inferred resources. In case the Company and Subsidiaries abandon those concessions, associated costs are written off in the consolidated statement of profit or loss and other comprehensive income.

At every year-end, the Company and Subsidiaries evaluate for each cash-generating unit if there is any indication that the value of their mining rights may be impaired. If any indication exists, the Company and Subsidiaries establish an estimate of the recoverable amount of the asset.

Evaluation and exploration costs

Exploration costs are capitalized only provided that they are estimated to be economically recoverable through a successful operation in the future or when the activities are in process in the area of interest and it has not reached a stage that allows evaluating

reasonably the existence of economically recoverable reserves. These costs mainly include used materials and fuel, land survey costs, drilling costs and payments made to contractors. For this purpose, economically recoverable benefits of exploration projects can be evaluated properly when any of the following conditions are met: i) the Board of Directors authorizes Management to conduct a feasibility study for the project, and ii) the purpose of the exploration is to convert resources into reserves or to confirm resources.

Exploration costs are amortized just as development costs.

All capitalized evaluation and exploration costs are monitored to identify impairment indications. When a possible impairment is identified, each area of interest or cash-generating unit (CGU) is evaluated. If capitalized costs are not expected to be recovered, they are charged to the consolidated statement of profit or loss.

Development costs

Costs associated with the mine development stage are capitalized. Development costs required to keep production going are charged to profit or loss of the period when incurred.

Development costs are amortized from the beginning of production using the units-of-production method. Development costs are amortized based on proven and probable reserves and a portion of inferred resources to which they are related.

Intangibles

Intangible assets with finite useful lives separately acquired are reported at cost less accumulated amortization and any recognized accumulated impairment loss. Amortization is calculated using the straight-line method based on useful lives estimated by the Company and Subsidiaries. Estimates on useful lives and depreciation methods are reviewed at the end of each reporting period to evaluate possible material changes in previous expectations or the expected consumption pattern of future economic benefits inherent to those assets, prospectively incorporating the effects of any change in these estimates against net profit or loss in the period they are made.

Intangible assets with indefinite useful lives are not amortized and are reviewed every year in order to identify whether there is any impairment indication according to item (j) below.

(j) **Review of impairment of long-term assets -**

The Company and Subsidiaries regularly review the carrying amounts of their tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If it is not possible to estimate the recoverable amount of an individual asset, the Company and Subsidiaries estimate the recoverable amount of the cash-generating unit to which the asset belongs. If a reasonable and consistent distribution basis can be identified, corporate assets

are also distributed to individual cash-generating units, or otherwise, to the smallest group of cash-generating units for which a reasonable and consistent distribution basis is identified.

The recoverable amount is the higher of fair value less the cost to sell and value in use. Value in use is determined based on future estimated cash flows discounted to their present value, using a discount rate before taxes that reflects current market valuations related to the time value of money and the specific risks of the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is immediately recognized as expense, unless the corresponding asset is held at revalued amounts, in which case the impairment loss is recognized primarily as a reduction of the revaluation surplus.

An impairment loss can be subsequently reversed and recognized as revenue in profit for the year, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized for the asset (cash-generating unit) in previous years.

(k) Leases -

Leases are classified as finance leases when the terms and conditions of the agreement substantially transfer all risks and advantages inherent to the ownership of the leased asset. All other leases are classified as operating leases.

Machinery and equipment under finance leases are initially recognized as assets of the Company at the lower value resulting from comparing the fair value of the leased asset and the present value of minimum lease payments. Machinery and equipment recorded as indicated above are depreciated by applying the method and basis mentioned above. Corresponding obligations are recognized as liabilities.

Each lease installment is distributed between the liability and financial charge so as to achieve a constant rate on the outstanding balance. The obligation for corresponding lease installments, net of financial charges, is included in "Financial obligations". Interest of financial cost is treated as debt cost and an expense is recognized in profit or loss or is capitalized during the lease term in order to obtain a constant interest rate on the liability balance for each period.

Payments derived from operating lease agreements, where the Company acts as lessee, are recognized as an expense on a straight-line basis over the lease term, except where another systematic assignment basis is more representative to properly reflect the pattern of leasing benefits. Contingent payments are recognized as expenses in the periods when incurred.

(l) Provisions -

Provisions are recognized when the Company and Subsidiaries have a present obligation (legal or constructive) as a result of a past event, it is probable that the Company and Subsidiaries will have to dispose of resources that provide economic benefits in order to settle the obligation, and a reliable estimate of the obligation amount can be made.

The amount recognized as provision corresponds to the best estimate of the necessary disbursement to settle the present obligation at the date of the consolidated statement of financial position, considering the risks and uncertainties surrounding most of the events and circumstances concurrent to its valuation. If the provision amount is measured using estimated cash flows to settle the obligation, the carrying amount is the present value of corresponding disbursements.

In case it is expected that a part or the total disbursement necessary to settle the provision may be reimbursed by a third party, the portion receivable is recognized as an asset when its recovery is virtually certain, and the amount of such portion can be determined reliably.

(m) Provision for closure of mining units -

The asset and liability for closure of mining units is recognized when: (i) the Company and Subsidiaries have a present obligation related to the dismantling and removal of assets, as well as the restoration of areas where its mining units are located, and (ii) the amount of those obligations can be estimated reliably.

The initial amount of the recognized asset and liability is the present value of future estimated disbursements to meet those obligations.

Subsequently: (i) the liability is adjusted each following period to update the initially recognized present value; such increase of the liability is recognized as a financial expense; (ii) the asset is depreciated based on proven and probable reserves by applying the units-of-production method. Related depreciation is recognized as expense.

(n) Financial costs -

Financing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized and added to the cost of the project until those assets are considered to be substantially ready for their intended use, that is, when such assets are able to generate commercial production. If a loan is requested for a specific use in the project, the capitalized amount represents actual costs incurred to obtain such loan.

If short-term excess funds derived from the specific loan are available, earnings provided by temporary investment are also capitalized and deducted from the total debt cost. If funds used to finance a project are part of the general debt, the capitalized amount is calculated by applying the weighted average rate of the general debt of the Company and Subsidiaries

during the period. All other debt costs are recognized in the consolidated statement of comprehensive income in the period when incurred.

(o) Revenue recognition -

Revenue is measured by using the fair value of the consideration received or receivable, derived therefrom. This revenue is reduced by estimates such as refunds from customers, discounts and other similar items.

Revenue is recognized as follows:

- (i) Revenue is associated with the sale of concentrates, Dore bars and others satisfies its obligation of short-term performance, when the control of the sold asset is transferred to the customer. Transfer control indicators include an unconditional obligation to advance a significant payment, legal title, physical ownership, transfer of risks and benefits, and acceptance from the customer. It generally occurs when concentrates are delivered at the loading port, warehouse or vessel, pursuant to the agreement entered into with the buyer. The buyer controls the concentrates at that place. If the Company is responsible of delivery costs and other services after the date when control of goods is transferred to the customer, these other services are considered as independent performance obligations; therefore, a portion of revenue obtained from the agreement are allocated and recognized when these performance obligations are met.

Sale agreements of concentrates, Dore bars and others generally provide for a significant provisional payment based on provisional tests and prices of quoted metals that on average are in the range of 85 percent to 95 percent of the provisional invoiced value. The final liquidation is based on the results of final assays and prices of metals applicable in specific quotation periods, which tend to range between a month after the shipment and up to three months after the shipment arrives to the agree-upon place, and is based on the average prices of metals in the market. For this purpose, the transaction price can be measured reliably for those products, such as zinc, lead, copper and gold, for which there is a free and active market, such as the London Stock Exchange. When it is the case that the value of the final settlement is less than the provisional settlement, the obligation to return part of the consideration paid as an advance is established. On the other hand, the payment of customers for contracts of sale abroad is guaranteed by means of a letter of guarantee and the sale to the client is guaranteed through the issuance of the laboratory certificate and tests.

Since these agreements will be settled in the future based on international quotations of contents payable to be finally agreed upon, these agreements are treated as embedded derivatives, and as of the closing of the year, are

adjusted due to significant changes in international quotations to reflect them at their fair value. Changes in fair value are recognized as adjustments to revenue provided by sale. Definite adjustments that result from final liquidations are recorded in the period when issued, generally when the seller and buyer exchange weights and contents payable, and establish the quotation term, according to conditions previously agreed upon in the pertinent sale agreements.

IFRS 15 requires that the variable consideration should be recognized only when it is highly probable that a significant reversal does not occur in the amount of recognized accumulated revenue. The Company concluded that the adjustments related to final liquidations for the quantity and quality of sold concentrates are not significant and do not restrict revenue recognition.

(ii) Revenue from interests is recognized based on the effective yield in proportion to the time elapsed.

(iii) Other revenue is recognized when earned.

(p) Recognition of costs and expenses -

The cost of sales of ore concentrates is recognized in the period when shipment or delivery is performed based on contractual terms and conditions, against profit or loss of the period when corresponding operating income is recognized. Expenses are recognized when there has been a decrease in future economic benefits related to a decrease in assets or increase in liabilities and, additionally, when expenses can be measured reliably, regardless of the payment date.

(q) Employee benefits

Benefits to employees include, among others, short-term benefits, such as wages, salaries and social security contributions, annual paid leaves, paid sick leaves, profit-sharing and incentives, if paid within twelve months following the end of the period. These benefits are recognized against profit or loss for the period when the employee has provided the services that entitle them to receive those benefits. Corresponding obligations payable are presented as part of other liabilities.

(r) Operating profit

Operating profit is understood as total net sales less total cost of sales, administrative expenses, selling expenses, other income and expenses (net) and revenue from the impairment reversal of non-financial assets and impairment loss of non-financial assets (net), excluding financial income and expenses.

(s) Income tax

Income tax expense for the period comprises current and deferred income tax and mining taxes.

This tax is recognized in the consolidated statement of profit or loss and other comprehensive income, except when it is related to items directly recognized in equity, in which case, such tax is also directly recognized in equity.

Current income tax is calculated based on tax laws published or substantially enacted at the date of the financial position report. Management regularly evaluates the position assumed in tax returns with regard to situations in which tax laws are subject to interpretation. When applicable, Management establishes provisions on amounts the Company shall pay to tax authorities.

Deferred income tax is determined in its entirety by applying the liability method on temporary differences that arise between the tax bases of assets and liabilities and their corresponding values presented in the consolidated financial statements. However, deferred income tax is not recorded if it arises from the initial recognition of an asset or liability in a transaction different from a business combination, which does not affect taxable or accounting profit or loss at the date of such transaction. Deferred income tax is determined by applying tax rates (and laws) that have been enacted at the date of the financial position report and which are expected to be applicable when the deferred income tax asset is realized or the income tax liability is paid.

Deferred income tax is only recognized to the extent that it is probable that future tax benefits will be obtained against which temporary differences can be used.

Balances of deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off taxable assets with current tax liabilities and when deferred income tax assets and liabilities are related to the same tax authority of the taxable entity or different taxable entities where it is intended to settle those balances over a net basis.

Deferred income tax liabilities are recognized for taxable temporary differences related to investments in subsidiaries, associates and interests in joint ventures, except for those cases when the Parent is able to control the timing of reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets arising from deductible temporary differences associated with those investments and interests are only recognized to the extent that it is probable that temporary differences will reverse in the foreseeable future and taxable profit is available against which such temporary differences can be used.

(t) Contingent assets and liabilities

Contingent liabilities are recorded in the consolidated financial statements when it is probable that they will be confirmed in time and can be quantified reasonably; otherwise, they are disclosed in a note to the consolidated financial statements.

Contingent assets are not recorded in the consolidated financial statements, but are disclosed in a note when their contingency level is probable.

(u) Basic and diluted earnings per share

Basic earnings per share is calculated by dividing net profit or loss attributable to shareholders by the weighted average number of outstanding common shares during the period, including shares for the restatement into constant currency. Since there are no diluted potential common shares, that is, financial instruments or other contracts that allow obtaining common shares, basic and diluted earnings per share are the same.

3. Seasonality of operations

The Company operates on a continuous basis, with no important fluctuations due to seasonal factors.

4. Cash and cash equivalents

Herein below is the composition of this heading:

	As of September 30,	As of December 31,
	2019	2018
	US\$(000)	US\$(000)
Funds available:		
Cash	7	67
Fixed fund	27	27
Bank checking accounts	37,791	62,407
Funds subject to restriction	704	449
	38,529	62,950

5. Inventories

The composition of this heading is presented below:

	As of September 30, 2019	As of December 31, 2018
	US\$(000)	US\$(000)
Concentrates	15,006	15,347
Raw material (extracted ore)	10,954	11,814
Miscellaneous supplies	49,994	43,964
Inventories in transit	668	104
Value of stockpiles	7,569	7,752
Allowance for obsolescence of spare parts and supplies (a)	(6,940)	(6,589)
	<u>77,251</u>	<u>72,392</u>
Less: non-current portion	<u>7,569</u>	<u>7,752</u>
Current portion	<u>69,682</u>	<u>64,640</u>

The company's Management estimates that the balances carried under "Inventories" do not exceed their net realization values as of September 30, 2019 and as of December 31, 2018.

(a) In the opinion of the Company's Management, the allowance for obsolescence of spare parts and supplies adequately covers such risk as of September 30, 2019 and as of December 31, 2018.

6. Other financial assets (liabilities)

Here in below is the composition of receivables:

	As of September 30 2019	As of December 31 2018
	US\$(000)	US\$(000)
Fair value swaps	28	640
	<u>28</u>	<u>640</u>
Less: non-current portion	-	-
Current portion	<u>28</u>	<u>640</u>

Here in below is the composition of payables:

	As of September 30 <u>2019</u> US\$(000)	As of December 31 <u>2018</u> US\$(000)
Fair value of trading derivatives	1,759	1,718
Settled derivative financial instruments and premiums	51,860	46,500
	<u>53,619</u>	<u>48,218</u>
Fair value swaps	98	-
	<u>98</u>	<u>-</u>
	<u>53,717</u>	<u>48,218</u>
Less: non-current portion	(16,145)	-
Current portion	<u>37,572</u>	<u>48,218</u>

The Company uses derivative instruments to reduce its exposure to market risks. Such risks are primarily related to the effects of constantly fluctuating prices for the metals traded by the Company.

Mineral quotations hedging transactions -

As of June 30, 2019 the Company has executed price hedging operations contracts to hedge future cash flows from its sales. Critical hedge transaction terms have been negotiated with agents so as to match those terms negotiated under the related commercial contracts.

The change in the equity account “Unrealized gains (loss)” is presented below:

	Hedging Financial Derivatives <u>US\$(000)</u>	Income tax <u>US\$(000)</u>	Unrealized Gains (losses) <u>US\$(000)</u>
Balances as of December 31, 2017	(29,094)	8,583	(20,511)
Total change in hedging derivative financial instruments	29,734	(8,772)	20,962
Total change in Financial investments	950	(280)	670
Balances as of December 31, 2018	<u>1,590</u>	<u>(469)</u>	<u>1,121</u>
Total change in hedging derivative financial instruments	(739)	219	(520)
Total change in Financial investments	(7,974)	2,352	(5,622)
Balances as of September 30, 2019	<u>(7,123)</u>	<u>2,102</u>	<u>(5,021)</u>

7. Property, Plant and Equipment, net

The activity and composition of this heading are presented below:

	Balances as of January 1, 2019	Additions	Write-offs	Transfers and / or Reclassifications	Corporate Addition	Low Company	Recovery of deterioration	Estimation for deterioration	Balances as of September 30, 2019
<u>2019</u>	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)
<u>Cost</u>									
Land	97,750	1,184	-	33,199	-	(101,759)	-	-	30,374
Buidings and other constructions	926,968	1,878	-	42,905	-	(618)	-	-	971,133
Environmental management program infrastrl	22,293	-	(12)	-	-	-	-	-	22,281
Machinery and equipment	279,381	42,206	(14,267)	2,071	-	(20)	-	-	309,371
Transportation units	11,174	5,437	-	-	-	(151)	-	-	16,460
Furniture and fixtures and IT equipment	14,401	307	-	-	-	(130)	-	-	14,578
Miscellaneous equipment	450,131	9,516	(69)	604	-	(21)	-	-	460,161
Units in transit	312	1,395	-	(604)	-	-	-	-	1,103
Works in progress	59,408	26,310	(2,528)	(31,207)	-	-	-	-	51,983
	1,861,818	88,233	(16,876)	46,968	-	(102,699)	-	-	1,877,444
<u>Accumulated depreciation</u>									
Buidings and other constructions	(276,541)	(58,500)	-	-	-	35	-	-	(335,006)
Environmental management program infrastrl	(22,277)	(4)	-	-	-	-	-	-	(22,281)
Machinery and equipment	(245,470)	(18,539)	11,213	-	-	6	-	-	(252,790)
Transportation units	(10,391)	(2,035)	-	-	-	103	-	-	(12,323)
Furniture and fixtures and IT equipment	(10,018)	(707)	-	-	-	85	-	-	(10,640)
Miscellaneous equipment	(318,916)	(17,422)	60	-	-	7	-	-	(336,271)
	(883,613)	(97,207)	11,273	-	-	236	-	-	(969,311)
Net cost	978,205								908,133
<u>2018</u>									
Cost	1,710,991	74,700	(13,835)	3	13,868	-	93,007	(16,916)	1,861,818
Accumulated depreciation	(788,951)	(105,907)	11,245	-	-	-	-	-	(883,613)
net cost	922,040								978,205

8. Mining exploration and evaluation costs, net

The activity and composition of this heading are presented below:

	Balances as of January 1, 2019	Additions	Write-offs	Transfers and / or Reclassification	Low Company	Recovery of deterioration	Estimation for deterioration	Balances as of September 30, 2019
<u>2019</u>	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)
<u>Cost</u>								
Mining rights and concessions	268,688	3,314	-	-	-	-	-	272,002
Exploration	247,997	20,927	-	-	-	-	-	268,924
Development and stripping costs	708,302	54,950	-	(17,911)	-	-	-	745,341
Closing of mining units	140,083	-	-	-	-	-	-	140,083
Communal rights	-	-	-	17,911	-	-	-	17,911
Other intangible assets	140,954	4,141	-	(46,968)	(80,295)	-	-	17,832
	1,506,024	83,332	-	(46,968)		-	-	1,462,093
<u>Accumulated amortization</u>								
Mining rights and concessions	(190,769)	(4,102)	-	-	-	-	-	(194,871)
Exploration	(104,385)	(9,093)	-	-	-	-	-	(113,478)
Development and stripping costs	(319,561)	(27,890)	-	-	-	-	-	(347,451)
Closing of mining units	(40,055)	(8,596)	-	-	-	-	-	(48,651)
Communal rights	-	(1,076)	-	-	-	-	-	(1,076)
Other intangible assets	(11,187)	(788)	-	-	-	-	-	(11,975)
	(665,957)	(51,545)	-	-	-	-	-	(717,502)
Net cost	840,067							744,591
<u>2018</u>								
Cost	1,356,639	184,816	(48)	(3)	-	16,965	(52,345)	1,506,024
Accumulated depreciation	(603,851)	(62,107)	1	-	-	-	-	(665,957)
Net cost	752,788							840,067

9. Financial obligations:

The activity and composition of this heading are presented below:

	Balances as of January 1, 2019	Adoption IFRS	Loans	Payment	Balances as of september 30, 2019	Current	Non-current
	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)
Financial Institutions - leasing							
Banco internacional del Perú-Interbank	256	-	1,188	(156)	1,288	531	757
Scotiabank Perú S.A.A.	2,752	-	6,390	(3,499)	5,643	2,487	3,156
Financial Institutions - loans							
Citibank NA, New York	56,875	-	-	(13,125)	43,750	17,500	26,250
Atlas Copco Financial Solutions AB	81	-	-	(81)	-	-	-
Banco internacional del Perú-Interbank	8,111	-	-	(1,452)	6,659	1,984	4,674
Scotiabank Perú S.A.A.	8,111	-	-	(1,452)	6,659	1,984	4,674
Scotiabank Perú S.A.A.	-	-	60,000	-	60,000	60,000	-
Banco Continental	-	-	60,000	-	60,000	60,000	-
Financial Institutions - synthetic loans							
Banco Continental	60,000	-	-	(60,000)	-	-	-
Scotiabank Perú S.A.A.	60,000	-	-	(60,000)	-	-	-
Scotiabank Perú S.A.A.	50,000	-	-	-	50,000	50,000	-
Bonds	535,264	-	-	-	535,264	-	535,264
	781,450	-	127,578	(139,766)	769,262	194,487	574,775
Interest payable	14,979	-	27,252	(34,595)	7,636	7,636	-
Operating lease (IFRS 16)	-	29,069	-	-	29,069	19,081	9,988
	14,979	29,069	27,252	(34,595)	36,705	26,717	9,988
TOTAL	796,429	29,069	154,830	(174,361)	805,967	221,204	584,763
Financial obligations current	208,665				221,204		
Financial obligations non-current	587,764				584,763		

10. Deferred income tax

(a) The composition of this heading, according to the items originating same, is provided below:

	As of September 30 2019 US\$(000)	As of December 31 2018 US\$(000)
Deferred assets		
Provision for the closing of mining units	53,717	53,423
Expenses of amortization of property, plant and equipment and amortization of mining rights and concessions, exploration, development and stripping costs	42,630	44,121
Recoverable tax loss	9,212	8,172
Provision for operating lease	8,575	-
Contingencies provisions	8,196	7,781
Provision for communities	6,111	6,436
Fair value Polpaico Cement	5,199	2,847
Embedded derivative and sales adjustment	3,430	1,374
Effect by translation of the tax benefits to dollars	2,666	2,581
Estimation for devaluation of inventories	2,047	1,944
Vacation payments outstanding	1,633	1,612
Provision for doubtful accounts	1,263	1,250
Fair value of derivates financial instruments	603	1,770
Provision of mining royalties	502	459
Speculative loss of derivates financial instruments	-	591
Other minors	1,236	789
	147,020	135,150
Deferred liabilities		
Utilization of amortization of mining rights and concessions, Effect by translation of the tax benefits to dollars	250,473	239,878
Fair value of shares	44,777	46,951
Value of stock piles	5,395	-
Insurance indemnity	2,260	2,287
Fair value of derivates financial instruments	2,025	2,025
Embedded derivative and sales adjustment	399	596
Revaluation of assets	61	113
Other minors	-	42,351
	329	506
	305,719	334,707
Assets (Liabilities) Net deferred	(158,699)	(199,557)

(b) The income tax expense carried in the income statement:

	For the period from July 1		For the period from	
	to September 30		January 1	to September 30
	2019	2018	2019	2018
	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Income Tax				
Current	8,575	(6,468)	(5,046)	(33,998)
Deferred	(13,617)	(3,700)	(3,883)	(3,302)
	<u>(5,042)</u>	<u>(10,168)</u>	<u>(8,929)</u>	<u>(37,300)</u>
Tax on mining royalties	(1,729)	(2,771)	(6,524)	(11,706)
Contribution to the retirement fund	150	(107)	(69)	(571)
Total income (loss) tax expense	<u>(6,621)</u>	<u>(13,046)</u>	<u>(15,522)</u>	<u>(49,577)</u>

11. Issued capital

It is represented by 1,633,414,553 class "A" shares with right to vote and 2,443,157,622 class "B" shares with no right to vote but right to preference dividend distribution; such right is not cumulative. From the total, 182,955,893 class "A" shares and 12,234,901 class "B" shares are held by subsidiary Empresa Minera Paragsha S.A.C.; 23,442,345 class "A" shares by subsidiary Compañía Minera Chungar S.A.C., 306,283 class "A" shares by subsidiary Compañía Industrial Limitada de Huacho S.A.

Both class "A" and class "B" common shares listed in the Lima Stock Exchange were frequently traded by the stock market. As of September 30, 2019, their quotation was S/ 3.50 and S/ 0.475 per share, respectively (S/ 3.50 and S/ 0.71 per share, respectively, as of December 31, 2018). As of September 30, 2019, the trading frequency for class "A" shares was 5.00 percent, and for class "B" shares 100 percent (for class "A" shares was 9.96 percent, and for class "B" shares 100 percent as of December 31, 2018).

At the board meeting held on January 23, 2017, the directors approved the distribution of cash dividends of up to S/ 49,106 thousand (equivalent to US\$.14,854 thousand) in favor of the shareholders, which correspond to the profits of fiscal year 2014. Said dividends were paid on February 28, 2017.

At the board meeting held on October 2, 2017, the directors approved the distribution of cash dividends of up to S/ 54,584 thousand (equivalent to US\$.16,397 thousand) in favor of the shareholders, which correspond to the profits of fiscal year 2016. Said dividends were paid on October 27, 2017.

In November 2017, Glencore International AG, subsidiary of Glencore PLC, conducted a Public Acquisition Tender of common class A shares and purchased 603,077,387 shares. Glencore PLC and its related entities, at the announcement date of the Public Acquisition Tender, were the owners of 295,754,888 shares, with which they accumulated 898,832,275 common class A voting shares, which represent 63% of common outstanding class A voting shares, and an economic interest of 23.29%, excluding treasury shares.

At the board meeting held on July 24, 2018, the directors approved the distribution of cash dividends in advance on account of freely available profits as of June 30 of up to S/ 54,583 thousand (equivalent to US\$.16,641 thousand) in favor of the shareholders, which correspond to the profits of fiscal year 2018. Said dividends were paid on August 22, 2018.

12. Net sales

The table herein below provides a detail of net sales:

	For the period from July 1 to September 30		For the cumulative period from January 1 to September 30	
	2019 US\$(000)	2018 US\$(000)	2019 US\$(000)	2018 US\$(000)
Net concentrate sales				
Zinc	96,250	121,077	322,436	395,367
Lead	35,611	48,246	115,673	148,080
Copper	9,990	9,529	28,086	26,578
Silver	11,388	10,949	31,592	37,036
Silver Bars	21,134	12,721	50,863	45,156
Final settlement adjustments	(11,078)	(11,839)	(5,231)	(14,390)
	<u>163,295</u>	<u>190,683</u>	<u>543,419</u>	<u>637,827</u>
Gain (loss) realized on financial instruments	-	4,034	-	(13,995)
Sales adjustment for the current period (a)	(4,430)	(15,800)	(9,664)	(17,730)
Embedded derivatives for the current period (b)	10,398	10,390	2,516	(4,037)
	<u>169,263</u>	<u>189,307</u>	<u>536,271</u>	<u>602,065</u>

(a) Sales adjustment

Sales of concentrates by the Company and its Subsidiaries are based on commercial contracts whereby a provisional value is assigned to sales, to be adjusted in accordance with a forward and final quotation. The sales adjustment is regarded as an embedded derivative which must be separated from the contract. Sales agreements are related to future market prices. The embedded derivative does not qualify as a hedging instrument; accordingly, any changes in its fair value are charged to profit and loss. As of September 30, 2019 and 2018, the Company holds embedded derivatives based on forward prices with respect to the anticipated liquidation date, since, under commercial contracts, final prices are to be established over the next months. The adjustment of the provisional sales value is recorded as an adjustment of net current sales.

Sales of concentrates include adjustments to the provisional sales value resulting from changes in the embedded derivatives fair value. Such adjustments resulted in loss for US\$ 9,664 thousand and US\$ 17,730 thousand in the nine-months periods ended September 30, 2019 and 2018; respectively, and are shown as part of net sales.

(b) Embedded derivatives

As of September 30, 2019 the fair value of embedded derivatives yielded in profit for US\$ 2,516 thousand (loss for US\$ 4,037 thousand as of September 30, 2018). It is shown in net sales in consolidated

income statement. The price forecasts of our open positions as of September 30, 2019 and 2018 have been taken from entities that work with the London Metal Exchange (LME) publications.

13. Cost of sales

The composition of this below:

	For the period from July 1 to September 30		For the cumulative period from January 1 to September 30	
	2019	2018	2019	2018
	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Concentrates beginning inventory	11,518	8,182	15,347	10,734
Raw materials (extracted ore) beginning inventory	9,949	13,913	11,814	16,395
Production cost:				
Labor	15,460	17,578	51,937	54,675
Rental, power and other expenses	54,326	54,620	157,356	157,984
Supplies used	29,098	26,892	82,426	75,320
Depreciation and amortization	46,928	35,228	140,139	99,805
Purchase of concentrate and minerals	34	602.00	1,016	602.00
Exceptionals, others	(372)	390	666	1,114
Less - concentrates ending inventory	(15,006)	(8,171)	(15,006)	(8,171)
Less - raw materials (extracted ore) ending inventory	(10,954)	(13,846)	(10,954)	(13,846)
	140,981	135,388	434,741	394,612

14. Financial income (expenses)

The composition of this below:

	For the period from July 1		For the period from January 1	
	to September 30		to September 30	
	2019	2018	2019	2018
	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Financial income				
Investment valuation	-	-	18,503	-
Loan interest	11	88	164	268
Another financial income	15	27	86	128
Total other financial income	26	115	18,753	396
Financial expenses				
Interest on bonds issued	7,552	7,575	22,655	22,678
Interest on financial obligations	2,229	1,741	6,388	5,633
Commissions and other expenses	438	155	1,222	559
	10,219	9,471	30,265	28,870
Closure of mines and communities	1,226	-	3,019	-
Operating lease (IFRS 16)	1,148	-	1,871	-
	2,374	-	4,890	-
Total financial expenses	12,593	9,471	35,155	28,870

15. Remuneration of the personal key

The remuneration of the key personnel of the Company and Subsidiaries as of September 30, 2019 and 2018 amounted to US\$ 6,222 thousand and US\$ 5,595 thousand, respectively and corresponds to short-term employee benefits.