

**Volcan Compañía Minera  
S.A.A. and Subsidiaries**

**Independent Auditors' Report**

**Consolidated Financial Statements**

For the Years Ended  
December 31, 2020 and 2019

(Free translation of a report originally issued  
in Spanish)

# **VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES**

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of  
**Volcan Compañía Minera S.A.A. and Subsidiaries**

1. We have audited the accompanying consolidated financial statements of **Volcan Compañía Minera S.A.A. and Subsidiaries**, which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the consolidated statements of profit or loss and other comprehensive loss, changes in equity and cash flows for the years then ended, as well as a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the consolidated financial statements

2. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing approved by the Consejo Directivo de la Junta de Decanos de Colegios de Contadores Públicos del Perú (Peruvian Board of Deans of the Professional Associations of Certified Public Accountants) for their application in Peru. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 internal control of the Company. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

6. In our opinion, the consolidated financial statements indicated above, present fairly, in all material respects, the financial position of **Volcan Compañía Minera S.A.A. and Subsidiaries** as of December 31, 2020 and 2019, their financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

## Emphasis of matter

7. Without modifying our audit opinion, we draw attention to Note 1(e) to the accompanying consolidated financial statements, which indicates the events occurred in the year that caused an adverse impact on the operations and results of the Company and Subsidiaries, such as: a) the COVID-19 pandemic that adversely affected production levels and sales, and increased costs during 2020, and b) the impact on results as a consequence of adjustments made due to assets and liabilities ceased to be classified as held for sale in 2020.

## Other matters

8. The translation of this report has been made solely for the convenience of English-speaking readers, and has been derived from the consolidated financial statements originally issued in Spanish.

*Velásquez, Magueto y Asociados S. Civil de R.L.*

Countersigned by:

 (Partner)  
Karla Velásquez Alva  
CPC Registration No. 21595

March 16, 2021

**VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2020 AND 2019  
(In thousands of U.S. dollars (US\$000))**

	Notes	2020 US\$000	2019 US\$000
<b>ASSETS</b>			
CURRENT ASSETS:			
Cash and cash equivalents	6	114,646	33,828
Trade accounts receivable (net)	8	28,781	36,159
Other accounts receivable (net)	9	89,530	65,344
Other financial assets	10	223	5,416
Inventories (net)	11	60,961	36,709
		294,141	177,456
Assets classified as held for sale	15	-	301,986
Total current assets		294,141	479,442
NON-CURRENT ASSETS:			
Other accounts receivable	9	9,477	7,990
Financial investments and investment in associate	7	195,346	193,794
Inventories (net)	11	7,077	-
Property, plant and equipment (net)	12	772,063	676,790
Right-of-use assets (net)	13	4,285	22,463
Mining concessions, exploration and development costs and other intangibles (net)	14	790,553	780,122
Total non-current assets		1,778,801	1,681,159
TOTAL		2,072,942	2,160,601

	Notes	2020 US\$000	2019 US\$000
<b>LIABILITIES AND EQUITY</b>			
CURRENT LIABILITIES:			
Bank overdrafts		10,070	8,448
Financial obligations	16	37,179	224,476
Trade accounts payable	17	222,640	178,175
Other accounts payable	18	65,883	55,482
Other financial liabilities	10	15,107	53,407
		350,879	519,988
Liabilities directly associated with assets classified as held for sale	15	-	171,484
Total current liabilities		350,879	691,472
NON-CURRENT LIABILITIES:			
Financial obligations	16	888,615	576,322
Provisions	19	229,250	179,089
Deferred income tax	28 (a)	187,277	142,989
Total non-current liabilities		1,305,142	898,400
Total liabilities		1,656,021	1,589,872
EQUITY:			
Issued capital stock	20 (a)	1,134,300	1,134,300
Treasury shares	20 (b)	(60,930)	(60,926)
Legal reserve	20 (c)	11,755	11,755
Higher value in acquisition of treasury shares	20 (d)	(173,231)	(173,217)
Unrealized earnings	20 (e)	(9,265)	(5,918)
Retained earnings		(485,708)	(335,265)
Total equity		416,921	570,729
TOTAL		2,072,942	2,160,601

The accompanying notes are an integral part of these consolidated financial statements.

## **VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES**

### **CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In thousands of U.S. dollars (US\$000))**

	<u>Notes</u>	<u>2020</u> <u>US\$000</u>	<u>2019</u> <u>US\$000</u>
Net sales	<b>21</b>	535,469	743,578
Cost of sales	<b>22</b>	<u>(513,266)</u>	<u>(619,985)</u>
<b>Gross profit</b>		22,203	123,593
Administrative expenses	<b>23</b>	(40,752)	(58,275)
Selling expenses	<b>24</b>	(15,435)	(23,199)
Other income	<b>25</b>	46,907	66,840
Other expenses	<b>25</b>	(97,347)	(96,341)
Reversal of impairment of long-lived assets	<b>26</b>	-	35,600
Impairment loss of long-lived assets	<b>26</b>	<u>(10,659)</u>	<u>(19,613)</u>
<b>Operating (loss) profit</b>		(95,083)	28,605
Financial income	<b>27</b>	1,820	1,842
Financial expenses	<b>27</b>	<u>(56,473)</u>	<u>(48,386)</u>
<b>Loss before income tax</b>		(149,736)	(17,939)
Income tax expenses	<b>28</b>	<u>(706)</u>	<u>(52,389)</u>
<b>Net loss for the year</b>		<u>(150,442)</u>	<u>(70,328)</u>
Weighted average of the number of outstanding shares (in thousands)	<b>29</b>	<u>3,857,598</u>	<u>3,857,618</u>
<b>Basic and diluted earnings per share</b>	<b>29</b>	<u>(0.039)</u>	<u>(0.018)</u>

The accompanying notes are an integral part of these consolidated financial statements.

## **VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES**

### **CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE LOSS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In thousands of U.S. dollars (US\$000))**

	<u>2020</u>	<u>2019</u>
	<u>US\$000</u>	<u>US\$000</u>
<b>Net loss for the year</b>	(150,442)	(70,328)
<b>OTHER COMPREHENSIVE LOSS:</b>		
<b>Items that can be subsequently reclassified to profit or loss:</b>		
Unrealized profit (loss) of investments in equity instruments	2,445	(9,247)
Unrealized loss of derivative financial instruments	(7,192)	(738)
Deferred income tax	<u>1,400</u>	<u>2,946</u>
<b>Total other comprehensive income that can be subsequently reclassified to profit or loss</b>	<u>(3,347)</u>	<u>(7,039)</u>
<b>Total comprehensive loss, net of income tax</b>	<u>(153,789)</u>	<u>(77,367)</u>

The accompanying notes are an integral part of these consolidated financial statements.

## **VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES**

### **CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In thousands of U.S. dollars (US\$000))**

	<b>Issued capital stock</b>	<b>Treasury shares</b>	<b>Legal reserve</b>	<b>Higher value in acquisition of treasury shares</b>	<b>Revaluation surpluss</b>	<b>Unrealized earnings</b>	<b>Retained earnings</b>	<b>Total equity</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
	<b>Note 20 (a)</b>	<b>Note 20 (b)</b>	<b>Note 20 (c)</b>	<b>Note 20 (d)</b>		<b>Note 20 (e)</b>		
<b>Balance as of January 1, 2019</b>	1,134,300	(61,285)	1,055	(172,801)	30,307	1,121	(284,544)	648,153
Comprehensive loss								
Net loss for the year	-	-	-	-	-	-	(70,328)	(70,328)
Other comprehensive loss for the year	-	-	-	-	-	(7,039)	-	(7,039)
Total comprehensive loss for the year	-	-	-	-	-	(7,039)	(70,328)	(77,367)
Derecognition of Terminales Portuarios Chancay S.A. (now Cosco Shipping Ports Chancay Perú S.A.)	-	-	-	-	(30,307)	-	30,307	-
Legal reserve	-	-	10,700	-	-	-	(10,700)	-
Adjustments	-	359	-	(416)	-	-	-	(57)
<b>Balance as of December 31, 2019</b>	<u>1,134,300</u>	<u>(60,926)</u>	<u>11,755</u>	<u>(173,217)</u>	<u>-</u>	<u>(5,918)</u>	<u>(335,265)</u>	<u>570,729</u>
Comprehensive loss								
Net loss for the year	-	-	-	-	-	-	(150,442)	(150,442)
Other comprehensive loss for the year	-	-	-	-	-	(3,347)	-	(3,347)
Total comprehensive loss for the year	-	-	-	-	-	(3,347)	(150,442)	(153,789)
Adjustments	-	(4)	-	(14)	-	-	(1)	(19)
<b>Balance as of December 31, 2020</b>	<u>1,134,300</u>	<u>(60,930)</u>	<u>11,755</u>	<u>(173,231)</u>	<u>-</u>	<u>(9,265)</u>	<u>(485,708)</u>	<u>416,921</u>

The accompanying notes are an integral part of these consolidated financial statements.

**VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019  
(In thousands of U.S. dollars (US\$000))**

	<u>2020</u>	<u>2019</u>
	<u>US\$000</u>	<u>US\$000</u>
<b>OPERATING ACTIVITIES:</b>		
Collection from:		
Sale of goods	618,526	831,377
Reimbursement of tax credit benefits	24,648	29,834
Payments to/for:		
Suppliers and third parties	(380,532)	(521,438)
Employees	(91,795)	(106,150)
Income tax	(6,065)	(10,538)
Royalties	(5,853)	(8,506)
Hedging transactions, net	11,871	2,060
<b>Net cash and cash equivalents provided by operating activities</b>	<u>170,800</u>	<u>216,639</u>
<b>INVESTMENT ACTIVITIES:</b>		
Payments for:		
Purchase of property, plant and equipment	(62,382)	(89,088)
Exploration and development costs, and intangible assets	(55,032)	(82,043)
<b>Net cash and cash equivalents used in investment activities</b>	<u>(117,414)</u>	<u>(171,131)</u>
<b>FINANCING ACTIVITIES:</b>		
Collection from:		
Financial obligations	419,947	290,000
Other financial liabilities	-	37,840
Payments for:		
Financial obligations	(309,051)	(336,371)
Overdrafts and other financial liabilities	(47,936)	(24,177)
Interests	(37,922)	(39,480)
Dividends	-	(48)
<b>Net cash and cash equivalents provided by (used in) financing activities</b>	<u>25,038</u>	<u>(72,236)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	78,424	(26,728)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>33,828</u>	<u>62,950</u>
	112,252	36,222
TRANSFER OF CASH AND CASH EQUIVALENTS CLASSIFIED AS HELD FOR SALE	<u>2,394</u>	<u>(2,394)</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u><u>114,646</u></u>	<u><u>33,828</u></u>

Transactions that do not result in cash flows are described in Note 35.

The accompanying notes are an integral part of these consolidated financial statements.

# **VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Amounts expressed in thousands of U.S. dollars)**

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### **1. INCORPORATION AND ECONOMIC ACTIVITY, APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS, SUBSIDIARIES, OTHER CONTRACTUAL MATTERS, AND SIGNIFICANT EVENTS DURING THE YEAR**

#### ***(a) Incorporation and economic activity***

**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 class A voting common shares and an economic interest of 23%, excluding treasury shares.

The Company was incorporated on February 1, 1998 in Lima, Peru.

Total class A voting common shares and class B non-voting 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 its 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 have authorizations and electric power generation concessions for self-consumption in their mining operations of Animon and for sale to third parties through firm power or spot price agreements. Subsidiaries Huanchor and EGERBA engaged in the electric power generation business operate in the department of Lima and are connected to SEIN.

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 the consolidated financial statements***

The consolidated financial statements as of December 31, 2020 have been approved by the Company's Management on March 8, 2021 and will be submitted to the Board of Directors and Shareholders for approval. Management believes that the accompanying consolidated financial statements will be approved by the Shareholders' Meeting as presented. The consolidated financial statements as of December 31, 2019 were approved by the Shareholders' Meeting held on July 31, 2020.

### (c) Subsidiaries

The Subsidiaries included in the preparation of the accompanying consolidated financial statements are presented below:

Consolidated Subsidiaries and economic activity	Direct and indirect interest in ownership		Domicile
	2020	2019	
	%	%	
<b>Mining exploration and operation:</b>			
Compañía Minera Chungar S.A.C.	100.00	100.00	Peru
Óxidos de Pasco S.A.C. (4)	100.00	100.00	Peru
Empresa Administradora Cerro S.A.C. (4)	100.00	100.00	Peru
Empresa Explotadora de Vinchos Ltda. S.A.C.	100.00	100.00	Peru
Minera Aurífera Toruna S.A.C. (1)	80.00	80.00	Peru
Minera San Sebastián AMC S.R.L.	100.00	100.00	Peru
Compañía Minera Vichaycocha S.A.C.	100.00	100.00	Peru
<b>Electric power generation:</b>			
Hidroeléctrica Huanchor S.A.	100.00	100.00	Peru
Empresa de Generación Eléctrica Río Baños S.A.C. (2)	100.00	100.00	Peru
Compañía Hidroeléctrica Tingo S.A. (3)	100.00	100.00	Peru
<b>Investments in general:</b>			
Roquel Global S.A.C.	100.00	100.00	Peru
Corporación Logística Chancay S.A.C.	100.00	100.00	Peru
Remediadora Ambiental S.A.C. (4)	100.00	100.00	Peru
Compañía Industrial Limitada de Huacho S.A.	96.41	96.41	Peru
Empresa Minera Paragsha S.A.C.	100.00	100.00	Peru

- (1) Subsidiary of Empresa Minera Paragsha S.A.C. and indirect subsidiary of the Company.
- (2) Subsidiary of Hidroeléctrica Huanchor S.A. and indirect subsidiary of the Company.
- (3) Subsidiary of Compañía Minera Chungar S.A.C. and indirect subsidiary of the Company.
- (4) As of December 31, 2019, these subsidiaries were classified as assets held for sale (Note 15).

A description of the economic activity of each subsidiary is presented below:

#### (c.1) Mining exploration and operation

##### **Compañía Minera Chungar S.A.C.**

This subsidiary 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. This company has 226 mining concessions with an indefinite term. Relevant obligations and commitments related to the concession are mentioned in Note 33.

In addition, the Subsidiary has 10 hydroelectric power plants, from which 9 are located in Huaral and one in Cerro de Pasco. Six of these plants have a concession (4 indefinite and 2 definite) and four plants do not have a concession nor a permit since this plant has a production less than 500KW, as established in the Electrical Concessions Law.

##### **Óxidos de Pasco S.A.C.**

This subsidiary is currently engaged in the treatment of oxidized minerals at a leach pad. This subsidiary has one beneficiation concession with an indefinite term.

##### **Empresa Administradora de Cerro S.A.C.**

This subsidiary is engaged in the exploration, development and operation of mineral deposits with contents of zinc and lead. Currently, the Subsidiary processes stockpiles since its mining operations have stopped. It conducts its activities in its mining unit Cerro and as 35 mining concessions with an indefinite term. Relevant obligations and commitments related to the concession are mentioned in Note 33.

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

This subsidiary 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 exploration activities to reconsider the potential of its deposit to proceed with the development and operation 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. This subsidiary has 5 mining concessions with an indefinite term. Relevant obligations and commitments related to the concession are mentioned in Note 33.

### ***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 conducted in 2020 and 2019.

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

Subsidiaries Toruna, Minera San Sebastián and Compañía Minera Vichaycocha have 7, 4 and 204 mining concessions, respectively, with an indefinite term. Relevant obligations and commitments related to the concession are mentioned in Note 33.

### ***(c.2) Electric power generation***

#### ***Hidroeléctrica Huanchor S.A.C.***

It is mainly engaged in the sale of energy through the operation and maintenance of electric transmission system generation plants. For this purpose, it has the Huanchor hydroelectric power plant of 19.632 MW and mini hydroelectric power plant of Tamboraque of 1.2 MW, both located in the district of San Mateo, province of Huarochiri, Lima. This subsidiary has a definite electrical concession.

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

It is mainly engaged in the sale of energy through the operation and maintenance of Rucuy hydroelectric power plant of 20 MW, located in the district of Pacaraos, province of Huaral, department of Lima. This plant stopped its operations since March 2017 because of El Niño phenomenon, which caused damages in the penstock and the transmission line. The hydroelectric power plant of Rucuy resumed its operations in the first quarter of 2019. This subsidiary has a definite electrical concession.

#### ***Compañía Hidroeléctrica Tingo S.A.***

It is engaged in the operation and maintenance of generation plants and electrical energy transmission systems. It has the Tingo hydroelectric power plant of 1.25 MW and 82 km of transmission lines of 22.9 and 50 kv. This subsidiary has an indefinite electrical concession.

### ***(c.3) Other investments***

#### ***Roquel Global S.A.C.***

It is engaged in the real estate business in order to perform port and logistics activities in relation to the Chancay Port. During 2019, it performed municipal procedures for the award of acquired land (sanitation stage).

#### ***Corporación Logística Chancay S.A.C.***

Corporación Logística Chancay S.A.C. was incorporated as subsidiary since 2017. Its purpose is to engage in real estate business and port and logistics activities. This subsidiary is currently in the pre-operation stage.

### **Remediadora Ambiental S.A.C.**

This Subsidiary is engaged in environmental consulting services, environmental studies and acquisition of properties.

### **Compañía Industrial Limitada de Huacho S.A.**

It is mainly engaged in the real estate business.

### **Empresa Minera Paragsha S.A.C.**

It was incorporated for exploration, operation, assignment and mining usufruct; however, currently, its main activity is the purchase and sale of investments in equity instruments. This subsidiary holds shares of the Company and Cementos Polpaico S.A. (Note 7) and has 47 mining concessions with an indefinite term.

### **(c.4) Unconsolidated entities**

The Company prepares its consolidated financial statements incorporating the balances and transactions of those entities over which it has control, regardless of the level of equity interest, except for those subsidiaries, which are undergoing a liquidation process. Management believes that the financial statements of unconsolidated entities do not represent relevant balances for the consolidated financial statements that could affect the economic decisions of users.

### **(c.5) Financial information of Subsidiaries**

The financial statements of direct and indirect Subsidiaries (unaudited) as of December 31, 2020 are summarized below:

	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>	<b>Net profit</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>(loss)</b>
				<b>US\$000</b>
Compañía Minera Chungar S.A.C.	728,332	447,916	280,416	(16,607)
Empresa Explotadora de Vinchos Ltda. S.A.C.	1,376	19,015	(17,639)	(664)
Empresa Minera Paragsha S.A.C.	256,421	85,942	170,479	(329)
Minera Aurífera Toruna S.A.C. (1)	12	1,930	(1,918)	(685)
Minera San Sebastián AMC S.R.L.	47	934	(887)	(764)
Compañía Minera Vichaycocha S.A.C.	61	10,739	(10,678)	(4,230)
Hidroeléctrica Huanchor S.A.C.	70,601	14,921	55,680	1,585
Empresa de Generación Eléctrica Río Baños S.A.C. (2)	50,688	34,950	15,738	(4,240)
Compañía Hidroeléctrica Tingo S.A. (3)	18,734	2,416	16,318	208
Roquel Global S.A.C.	26,560	1,136	25,424	(1,130)
Corporación Logística Chancay S.A.C.	547	20	527	(78)
Compañía Industrial Limitada de Huacho S.A.	6,590	769	5,821	666
Óxidos de Pasco S.A.C.	198,564	39,029	159,535	(4,992)
Empresa Administradora Cerro S.A.C.	53,272	144,337	(91,065)	(13,555)
Remediadora Ambiental S.A.C.	54	15,222	(15,168)	(3,607)
Unconsolidated entities	276	-	276	-
	<u>1,412,135</u>	<u>819,276</u>	<u>592,859</u>	<u>(48,422)</u>

- (1) Subsidiary of Empresa Minera Paragsha S.A.C. and indirect subsidiary of the Company.
- (2) Subsidiary of Hidroeléctrica Huanchor S.A. and indirect subsidiary of the Company.
- (3) Subsidiary of Compañía Minera Chungar S.A.C. and indirect subsidiary of the Company.

The financial statements of direct and indirect Subsidiaries (unaudited) as of December 31, 2019 are summarized below:

	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>	<b>Net profit (loss)</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Compañía Minera Chungar S.A.C.	853,459	552,578	300,881	(7,820)
Empresa Explotadora de Vinchos Ltda. S.A.C.	2,193	19,168	(16,975)	(7,048)
Empresa Minera Paragsha S.A.C.	270,589	85,662	184,927	(10,999)
Minera Aurífera Toruna S.A.C. (1)	29	1,262	(1,233)	(3,188)
Minera San Sebastián AMC S.R.L.	127	493	(366)	(1,488)
Compañía Minera Vichaycocha S.A.C.	190	6,638	(6,448)	(18,027)
Hidroeléctrica Huanchor S.A.C.	78,792	46,343	32,449	(1,914)
Empresa de Generación Eléctrica Río Baños S.A.C. (2)	52,078	52,559	(481)	(23,223)
Compañía Hidroeléctrica Tingo S.A. (3)	18,961	2,852	16,109	890
Roquel Global S.A.C.	27,163	5,236	21,927	(25)
Corporación Logística Chancay S.A.C.	685	723	(38)	(31)
Compañía Industrial Limitada de Huacho S.A.	7,575	2,419	5,156	(575)
Unconsolidated entities	101	-	101	-
	<u>1,311,942</u>	<u>775,933</u>	<u>536,009</u>	<u>(73,448)</u>

- (1) Subsidiary of Empresa Minera Paragsha S.A.C. and indirect subsidiary of the Company.
- (2) Subsidiary of Hidroeléctrica Huanchor S.A. and indirect subsidiary of the Company.
- (3) Subsidiary of Compañía Minera Chungar S.A.C. and indirect subsidiary of the Company.

**(d) Other contractual matters**

**(d.1) Subscription and Investment Agreement between Volcan Compañía Minera S.A.A. and Cosco Shipping Ports Limited**

On January 23, 2019, the Company entered into with Cosco Shipping Ports Limited (CSPL) and its subsidiary Cosco Shipping (Chancay) Ports Limited (CSPL SPV), companies of the Peoples' Republic of China, with the participation of Terminales Portuarios Chancay S.A. (now Cosco Shipping Ports Chancay Perú S.A.) (CSPL), subsidiary of the Company until May 13, 2019, a subscription and investment agreement and a shareholders' agreement, under which CSPL, through its subsidiary CSPL SPV, became the shareholder of Cosco Shipping Ports Chancay Perú S.A. with 60% of shares of the capital stock for US\$225,000 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.

On May 13, 2019, the strategic partner was incorporated with an interest of 60% of shares of CSPL through a capital increase. The Company holds and owns the remaining 40% of shares of the capital stock of Cosco Shipping Ports Chancay Perú S.A., thus it became from subsidiary to associate since that date. See Note 7.

The definite completion of the transaction was mainly subject to the approval of the modification of the Environmental Impact Assessment (MEIA), which was obtained on December 22, 2020. That date, pursuant to Director's Resolution No. 00158-2020, the National Service of Environmental Certification for Sustainable Investments (SENACE for its Spanish acronym) approved the modification of the Environmental Impact Assessment (MEIA-d) of the Expansion Project of the Operating Port Area – Stage 1 of the Multi-purpose Port Terminal Chancay. With the approval of the MEIA, CSPL SPV is allowed to make capital contributions in 2021.

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.

The project represents a major infrastructure work and an important opportunity for economic development for the country, since it will be part of China's new connectivity network with the rest of the world, comprised by sea and land lanes.

The following table shows the financial statements as of April 30, 2019 of Cosco Shipping Ports Chancay Perú S.A., closing date of the financial statements which is closed to the contribution date of CSPL of 60% of interest and taking of control (May 13, 2019), so Management considers that there were no significant transactions between both dates:

	<b><u>As of 30.04.2019</u></b>
	<b>US\$000</b>
<b><u>Assets</u></b>	
Cash and cash equivalents	1,024
Other accounts receivable	61
Other long-term accounts receivable	2,455
Property, plant and equipment (net)	102,462
Mining concessions, exploration and development costs and other intangibles (net)	<u>80,295</u>
Total assets	<u><u>186,297</u></u>
<b><u>Liabilities</u></b>	
Trade accounts payable	201
Accounts payable to subsidiaries and affiliates	11,888
Other accounts payable	474
Deferred income tax	<u>42,135</u>
Total liabilities	54,698
<b><u>Equity</u></b>	
Issued capital stock	83,971
Revaluation surplus	30,307
Retained earnings	17,433
Profit or loss for the year	<u>(112)</u>
Total equity	131,599
Total liabilities and equity	<u><u>186,297</u></u>
<b><u>Profit or loss for the year</u></b>	
Administrative expenses	(169)
Exchange difference	20
Income tax expense	<u>37</u>
	<u>(112)</u>

***(d.2) Bond issuance***

At the Shareholders' Meeting held on November 4, 2011, a bond issuance was approved for up to US\$1,100,000 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 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, an 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.

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, 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 with financial covenants was not established for this obligation.

As of December 31, 2020 and 2019, total bond issuance amounted to US\$535,264 since bonds were repurchased for US\$64,736 in 2016. The Company's Management and its legal advisors believe that the Company does not have any noncompliance event derived from the bond issuance agreement.

***(d.3) Guarantee and Administration Trust Agreement entered into with Banco Internacional del Perú S.A.A., hereinafter Interbank***

Interbank (trustee) and Volcan Compañía Minera S.A.A. (trustor) entered into this agreement on August 5, 2013. Pursuant to this agreement, a guarantee and administration trust fund was established, under which the Company transfers the administration of all the cash flows credited in its collection accounts to Interbank under this trust. Commitments derived from this trust agreement are being met and allow ensuring cash flows to address the obligations of the Company and involved Subsidiaries.

***(e) Significant events during the year***

***(e.1) COVID- 19 pandemic***

The ongoing COVID-19 pandemic has caused severe disruptions in the world economy and in the Company and Subsidiaries' operations. In order to contain the spread of COVID-19 in Peru, on March 16, 2020, pursuant to Supreme Decree No. 044-2020, the Peruvian government declared state of emergency, initiating a quarantine protocol in the whole nation. Mandatory social isolation applied to all industries. Only companies in the industry of health, finance and essential goods or services were allowed to continue their operations.

In accordance with these restrictions, the Company and Subsidiaries stopped their operations from March 16 to June 4, when they resumed their operations gradually. In this regard, the COVID-19 pandemic caused an adverse effect on the results of operations and financial position for the year ended December 31, 2020, as opposed to the year ended December 31, 2019 (Note 21), and originated costs for US\$24,647 due to the plant shutdown presented in item "Cost of sales" in the consolidated statement of profit or loss (Note 22). In addition, the implementation of a plan for the surveillance, prevention and control of COVID-19 in the workplace in accordance with the regulations of the Ministry of Energy and Mines, which was registered at the Ministry of Health, increased the costs of the Company and Subsidiaries by US\$10,574.

As a response of this situation, the Peruvian government implemented various economic and public health measures to address the pandemic caused by COVID-19. In particular, economic support has been provided through programs such as "Reactiva Peru". As of December 31, 2020, the Company and some Subsidiaries borrowed US\$13.6 million under such program. Under Reactiva Peru's regulations, the Company and Subsidiaries may not prepay current indebtedness unless using new credit facilities and may not distribute dividends or distribute any profits (with the exception of distributions for employees), during the 36-month term of the financing period. These loans are presented as part of financial obligations in the consolidated statement of financial position (Note 16).

As a result of the economic and business impact of COVID-19, Management revised certain accounting estimates and judgments such as, the impairment estimate of long-term assets, which, in accordance with the revised assumptions, have not had a significant effect on the Company and Subsidiaries' financial position and results of operations (Note 26).

The Company's Management also evaluated main factors that may affect the performance and operations of the business, considering that there is no material uncertainty that may cause substantial doubts about its capacity to continue as going concern. Liquidity risk

management, and the availability of credit lines as well as refinancing plans that allow reversing negative working capital are described in Note 5 (a)(iii).

Since the pandemic is still on, Management is still monitoring the measures taken by the government in order to guarantee the cycle of its operations.

***(e.2) Termination of the purchase agreement of shares of Empresa Administradora Cerro S.A.C., Óxidos de Pasco S.A.C. and Remediadora Ambiental S.A.C. entered into between Volcan Compañía Minera S.A.A. and Cerro de Pasco Resources Inc.***

In November 2019, the Company entered into a purchase agreement with the Canadian company Cerro de Pasco Resources Inc. for the sale of its shares in its Subsidiaries Empresa Administradora Cerro S.A.C., Óxidos de Pasco S.A.C. and Remediadora Ambiental S.A.C. The transaction was subject to the compliance with certain precedent conditions (Note 15).

Cerro de Pasco Resources Inc. is a company listed in the Canadian Securities Exchange with presence in Cerro de Pasco for several years and is owner of the concession "El Metalurgista" at this place. The transaction established a fixed payment of US\$30 million for Óxidos de Pasco S.A.C., a net smelter return (NSR) of 2% of the concessions of Empresa Administradora Cerro S.A.C. and a percentage of future gold (Au) and silver (Ag) sales of the oxide plant during all its operation, among others. In addition, Cerro de Pasco Resources had the obligation to sell to the Company all its concentrates processed in the concessions of Empresa Administradora Cerro S.A.C.

On November 2, 2020, the Company informed the Superintendence of the Securities Market that the term for completing the transaction agreed in the third appendix to the agreement entered into with Cerro de Pasco Resources Inc. expired on October 30, 2020, and the precedent conditions could not be verified; therefore, the agreement was terminated. In this regard, as of December 31, 2020, assets and liabilities are no longer classified as held for sale in the consolidated financial statements due to the sale is considered highly unlikely in the short term, there are no efforts to find a potential buyer and the Company has decided to recover the investment by using those assets. As a result, the Company recorded an impact on consolidated results due to the cancellation of this sale transaction of its Subsidiaries, which is explained in Note 15.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

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

### ***(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), effective as of December 31, 2020 and 2019, as applicable, 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 would be received when selling an asset, or paid when transferring a liability in an organized transaction between market participants 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 IFRS 16), 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, if necessary.

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.

The Company's Management is responsible for the information contained in these consolidated financial statements, which expressly confirms that all principles and criteria established in IFRS issued by the IASB, effective at each year-end, have been applied in their preparation.

### ***(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.

As of December 31, 2020 and 2019, the consolidated financial statements include the consolidated accounts of Volcan Compañía Minera S.A.A. and Subsidiaries disclosed in Note 1(c).

### ***(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.

### ***(d) Foreign currency transactions***

Transactions in currencies other than the U.S. dollar are considered as "foreign currency transactions", and are recognized by applying the exchange rates effective at the date of transactions. At the end of each reporting period, balances of monetary items denominated in foreign currency are translated by applying the exchange rates effective at that date.

Balances of non-monetary items accounted for at fair value, denominated in foreign currency, are translated by applying the exchange rates applicable at the date when fair

value was determined. Balances of non-monetary items recognized in historical cost terms, denominated in foreign currency, are translated by applying the exchange rates effective at the date of transactions.

Exchange differences arising from monetary items are recognized in net profit or loss for the period when arisen.

### **(e) 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:

- (i) it has been acquired principally for the purpose of repurchasing it in the near term; or
- (ii) 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
- (iii) 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:

- (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- (ii) 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
- (iii) 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 the 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 enter into a variety of derivative financial instruments to manage its exposure to rate risks 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. The profit or loss in changes of fair value of these assets is recognized in profit or loss for the year they are incurred 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.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. Derivatives are not offset in the consolidated financial statements unless the Company and Subsidiaries have both a legally enforceable right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

#### **Embedded derivatives**

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Derivatives embedded in hybrid contracts with a financial asset host within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured as either amortized cost or fair value as appropriate.

Derivatives embedded in hybrid contracts with hosts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

If the hybrid contract is a quoted financial liability, instead of separating the embedded derivative, the Company generally designates the whole hybrid contract at fair value through profit or loss.

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realized or settled within 12 months.

#### **Hedge accounting**

The Company and Subsidiaries designate certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. As of December 31, 2020 and 2019, the Company and Subsidiaries hold hedge operations of interest rates (swaps) in order to ensure future flows of payment of loan interests, which are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Company and Subsidiaries document the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company and Subsidiaries document whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationship meets all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company and Subsidiaries actually hedge and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Company and Subsidiaries adjust the hedge ratio of the hedging relationship (i.e. rebalance the hedge) so that it meets the qualifying criteria again.

The Company and Subsidiaries designate the full change in the fair value of a forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving forward contracts.

The Company and Subsidiaries designate only the intrinsic value of option contracts as a hedged item, i.e. excluding the time value of the option. The changes in the fair value of the aligned time value of the option are recognized in other comprehensive income and accumulated in the cost of hedging reserve. If the hedged item is transaction-related, the time value is reclassified to profit or loss when the hedged item affects profit or loss. If the hedged item is time period related, then the amount accumulated in the cost of hedging reserve is reclassified to profit or loss on a rational basis; the Company and Subsidiaries apply straight-line amortization. Those reclassified amounts are recognized in profit or loss in the same line as the hedged item. If the hedged item is a non-financial item, then the amount accumulated in the cost of hedging reserve is removed directly from equity and included in the initial carrying amount of the recognized non-financial item. Furthermore, if the Company and Subsidiaries expect that some or all of the loss accumulated in cost of hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Note 5(c) sets out details of the fair values of the derivative instruments used for hedging purposes.

Movements in the hedging reserve in equity are detailed in Note 20(e).

### ***Fair value hedges***

The fair value change on qualifying hedging instruments is recognized in profit or loss except when the hedging instrument hedges an equity instrument designated at fair value through other comprehensive income in which case it is recognized in other comprehensive income.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at fair value through other comprehensive income, the carrying amount is not adjusted as it is already at fair value, but the hedging gain or loss is recognized in profit or loss instead of other comprehensive income. When the hedged item is an equity instrument designated at fair value through other comprehensive income, the hedging gain or loss remains in other comprehensive income to match that of the hedging instrument.

Where hedging gains or losses are recognized in profit or loss, they are recognized in the same line as the hedged item.

The Company and Subsidiaries discontinue hedge accounting only when the hedging relationship (or a part thereof) cease to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

The effects for fair value change on fair value hedges are presented in the consolidated statement of other comprehensive income.

### ***Cash flow hedges***

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The profit or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the profit and losses previously recognized in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Company and Subsidiaries expect that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Company and Subsidiaries discontinue hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any profit or loss recognized in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the profit or loss accumulated in the cash flow hedge reserve is reclassified immediately to profit or loss.

The effects for fair value change on cash flow hedges are presented in the consolidated statement of other comprehensive income.

### ***(f) 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.

### ***(g) 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, and 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.

## **(h) Property, plant and equipment (net)**

Property, plant and equipment are presented at acquisition cost, less accumulated depreciation and the accumulated amount of impairment losses, except for land with site habilitation, which were presented under the revaluation model before its transfer in 2019 (Note 1(d.1)).

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, plant 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 is determined according to the production of the year over economically recoverable reserves and resources.

#### 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 constructions	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**

### **Mining rights and concessions**

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 as a basis, the proven and probable reserves and a portion of inferred resources.

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. Costs are capitalized as evaluation and exploration assets until the Company has completed a preliminary feasibility study, some resources have become reserves and Management determines the probability that the property turns into a mine. At that time, it is considered that the development stage of the property starts and subsequent evaluation costs are capitalized.

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 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.

In the determination of values in use of their assets, the Company and Subsidiaries review their projections of future revenue streams that consider the following variables: discount rate, projection of prices, resources and reserves, production, costs and expenses.

***(k) Assets classified as held for sale***

Long-term assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Long-term assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

When the Company is committed to a sale plan involving disposal of an investment in an associate or, a portion of an investment in an associate or joint venture, the investment, or the portion of the investment, that will be disposed of is classified as held for sale when the criteria described above are met. The Company then ceases to apply the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or joint venture that has not been classified as held for sale continues to be accounted for using the equity method.

In case of a change in the sale plan or if an asset or disposal group held for sale no longer meet the criteria to be classified as assets or disposal groups, the Company will measure the non-current asset that is no longer classified as held for sale at the lower of: (a) its carrying amount before the asset or disposal group was classified as held for sale, adjusted by any depreciation, amortization or revaluation that had been recognized if the asset or disposal group had not been classified as held for sale, and (b) its recoverable amount at the date of the subsequent decision of not selling it.

In addition, the Company will include any required adjustment to the carrying amount of a non-current asset that is no longer classified as held for sale, within the results of continued operations, in the period when the criteria to classify them as held for sale are no longer met.

### **(l) Investment in associates**

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion of such investment, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current assets held for sale and discontinued operations. Under the equity method, an investment in an associate is recognized initially in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. When the Company's share of losses of an associate exceeds the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Company's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

When the Company reduces its ownership interest in an associate but the Company continues to use the equity method, the Company reclassifies to profit or loss the proportion of the profit or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that profit or loss would be reclassified to the consolidated statement of profit or loss on the disposal of the related assets or liabilities.

When the Company conducts transactions with an associate, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Company's consolidated financial statements only to the extent of interests in the associate that are not related to the Company.

### **(m) Leases**

The Company and Subsidiaries as lessees:

The Company and Subsidiaries recognize right-of-use assets at the commencement date of the lease (that is, the date when the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment loss, and are adjusted for any new measurement of lease liabilities. The cost of right-of-use assets includes lease liabilities recognized, initial direct costs incurred and lease payments made before the commencement date of the lease less any lease incentive received. Unless the Company and Subsidiaries are reasonably certain that they will obtain the ownership of the leased asset at the end of the lease term, assets recognized for right of use are amortized on a straight-line basis over the lease term. Right-of-use assets are subject to impairment.

At the commencement date of the lease, the Company and Subsidiaries recognize lease liabilities at the present value of payments that will be made over the lease term. Lease payments include fixed payments less any lease incentive receivable, variable lease payments that depend on an index or rate, and the amounts expected to be paid as residual value guarantees.

When calculating the present value of lease payments, the Company and Subsidiaries use the incremental borrowing rate at the commencement date of the lease if the interest rate implicit in the lease cannot be readily determined.

After the commencement date, the amount of lease liabilities increases to reflect the accrual of interests and is reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured whether there is a modification, change in the lease term or change in in-substance fixed payments.

The Company and Subsidiaries apply the recognition exemption on properties at a short term (that is, those properties with a lease term of 12 months or less from the commencement date of the lease and that do not contain a lease option). The Company and Subsidiaries also apply the recognition exemption on low-value assets in the lease of office equipment. Payments for short-term leases and low-value assets are recognized as expenses on a straight-line basis over the lease term.

#### ***(n) 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.

#### ***(o) 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.

After initial measurement, the obligation is adjusted to reflect the passing of time and changes in estimated future cash flows underlying the obligation. The provision increase due to the passing of time is recognized as financial expense, while increases and decreases for changes in estimated future cash flows are capitalized and depreciated during the life of the related asset. Actual incurred costs in the settlement of the liability for site restoration are recorded in the provision as long as the provision has been determined by those costs. A profit or loss can be recorded after the settlement of the liability while the asset is depreciated based on proven and probable reserves by applying the units-of-production method. Related depreciation is recognized as expense.

#### ***(p) Financing 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.

Provided the variable rate of loans used to finance a qualifying asset and that are covered by an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognized in other comprehensive income and is reclassified to profit or loss when the qualifying asset affects profit or loss. Provided the fixed rate of loans is used to finance qualifying assets and are covered by an effective hedge of interest rate risk, capitalized costs of loans reflect the interest rate hedge.

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.

**(q) 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 when the control of the sold asset is transferred to the customer. Transfer control indicators include an unconditional obligation payable, 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 and Subsidiaries are 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 a temporary payment based on provisional assays and prices of quoted metals. 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 silver, for which there is a free and active market, such as the London Stock Exchange.

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. 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 and Subsidiaries 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 in profit or loss when earned.

**(r) 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.

**(s) 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.

**(t) Operating profit**

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

**(u) Income tax**

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

Current income tax

Current income tax calculated corresponds to the tax payable by applying a rate of 29.5% on estimated taxable income, after deducting the profit sharing of employees (8% on estimated taxable income), and is recorded in profit or loss for the year when obtained.

Current income tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company and Subsidiaries' current income tax liability is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognized for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company and Subsidiaries supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred income tax

Deferred income tax is recognized on temporary differences between the carrying amount of assets and liabilities included in the consolidated financial statements and corresponding tax bases used to determine the taxable income, the pertinent rate of these differences, and in this case, the benefits of tax losses to amortize and some tax credits are included. Deferred tax assets or liabilities are generally recognized for all taxable temporary differences. A deferred tax income asset will be recognized for all deductible temporary differences to the extent that it is probable that the Company and Subsidiaries will have future tax profit against which to apply those deductible temporary differences. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company and Subsidiaries are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize those temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized based on rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company and Subsidiaries expect, at the end of the reporting period, to recover or settle the carrying amount of their assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### Current and deferred income tax for the year

Current and deferred income taxes are recognized in profit or loss, except when they relate to items that are not recognized in profit or loss, either in other comprehensive income or directly in equity, respectively. Where current or deferred income tax arises from the initial recognition of a business combination, the tax effect is included in the recognition of the business combination.

#### **(v) 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.

Items previously treated as contingent liabilities will be recognized in the consolidated financial statements in the period when a change in probabilities occurs, that is, when it is determined that an outflow of resources is probable to occur to cover such liability. Items previously treated as contingent assets will be recognized in the consolidated financial statements in the period when it is determined that an inflow of resources is virtually certain to occur.

#### **(w) 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.

#### **(x) Segments**

The Company and Subsidiaries report financial and descriptive information about their reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker (CODM) in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the same basis as it is used internally for evaluating operating segment performance and deciding how to allocate resources to segments.

### **(y) Reclassifications**

Certain amounts of the consolidated financial statements as of December 31, 2019 have been reclassified in order to make them comparable with those of the consolidated financial statements as of December 31, 2020. The nature of these reclassifications, reclassified amounts and affected accounts is presented below:

	<u>2019</u>
	<b>US\$000</b>
<b>Consolidated statement of financial position</b>	
(i) From other accounts payable to other accounts receivable (net)	8,562
(ii) From trade accounts receivable (net) to trade accounts receivable (net)	900
<b>Consolidated statement of profit or loss</b>	
(iii) From other expenses to cost of sales	23,582
(i) To present the credit balance for income tax, net of income tax payable as of December 31, 2019.	
(ii) To present accounts receivable from Trevali Perú S.A.C. as trade accounts receivable from related entities.	
(iii) To present expenses related to the plant shutdown as part of production costs during 2019.	

### **3. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The Company's Management is responsible for the information contained in these consolidated financial statements. To prepare them, certain estimates have been used to quantify some assets, liabilities, revenue, expenses and commitments recorded therein, based on experience and other relevant factors. Final results may differ from those estimates.

These estimates are reviewed on an ongoing basis. Changes in accounting estimates are prospectively recognized by recording the effects of changes in the corresponding profit or loss accounts for the period when corresponding reviews are conducted.

The most important estimates considered for the preparation of the consolidated financial statements of the Company and Subsidiaries refer to:

- Determination of functional currency and record of foreign currency transactions.
- Fair value of financial instruments.
- Valuation of inventories
- Useful life assigned to mining rights, development costs, property, plant and equipment, and intangible assets.
- Determination of mineral reserves and resources.
- Impairment loss of long-term assets.
- Liability for the disposal of assets and mine closure.
- Provisions and estimate for contingencies.
- Revenue recognition.
- Current and deferred income tax and mining taxes.
- Uncertain tax positions.
- Measurement of assets held for sale.

### ***Key sources of uncertainty in estimates***

We present the following basic assumptions regarding the future and other key sources of uncertainty in estimates, at the end of the reporting period, which may imply a significant risk of material adjustments in the carrying amounts of assets and liabilities during the next financial periods.

#### Determination of reserves and mineral resources

The Company and Subsidiaries calculate its mineral reserves and resources based on the guidelines provided by the Australian Standard – JORC Code (Joint Ore Reserves Committee), which establish technical and economic standards and recommendations. The Company has internationally certified employees who, together with specialists from the Parent company, are in charge of the preparation and review of reserves in an annual basis.

Proven and probable reserves and a percentage of inferred resources are used in the calculation of the depreciation and amortization of non-financial assets, which are depreciated by applying the units-of-production method (Notes 2(h) and 2(i)), as well as for the determination of the closure period of mining units and the impairment analysis of non-financial assets.

#### Provision for the disposal of assets and mine closure

The Company and Subsidiaries determine an estimate for the obligations of disposal of assets and closure of their mining units using the discounted cash flow model. In order to develop this model, Management makes certain estimates about the scope and costs for disposal and closure activities, changes in technology and regulations, and other macroeconomic variables considered in the estimate, such as inflation rates and others considered to determine the discount rate. In addition, Management takes into account the best-estimated terms when these disbursements will be made.

The Company and Subsidiaries regularly review future estimated disbursements, disbursement terms and considered discount rates, as indicated in Note 33, and correct the values of the asset and liability prospectively, if necessary.

#### Review of carrying amounts and impairment evaluation

The Company annually reviews whether a permanent asset requires an impairment estimate according to the accounting policy indicated in Note 2(i). This determination requires the use of professional judgment by the Company's Management in order to analyze impairment indicators as well as in the determination of value in use. In this last case, the application of judgment is required for the preparation of future cash flows, including projected future level of operations of the Company, forecast of economic factors that affect its revenues and costs, and the determination of the discount rate to be applied to such flow.

#### Useful life of property, plant and equipment

As described in Note 2(h), the Company and Subsidiaries review the estimated useful life of property, plant and equipment annually. Internal specialists of the operations and maintenance areas are involved in these evaluations in order to determine if the useful life is appropriate for the expected use of its assets. The determination of useful lives requires estimates regarding the expected commercial and technological evolution and different uses of assets. The hypothesis related to the technological environment and its future development imply a significant judgment degree, since the timing and nature of those future technological changes are difficult to predict.

#### Contingencies

The Company and Subsidiaries are subject to transactions or contingent events over which professional judgment is used for estimating the probability of occurrence of future events. The legal situation at the estimate date and the opinion of legal advisors are considered for that purpose (Note 32).

## Taxes

The determination of tax obligations and expenses requires interpretations of applicable tax regulations. The Company and Subsidiaries seek professional tax advice before making any decision on tax matters. Even though Management considers that its estimates are prudent and appropriate, interpretation differences may arise with the tax administration that may affect tax charges in the future.

Recovery of deferred tax assets: An evaluation is required to determine whether deferred tax assets should be recognized in the consolidated statement of financial position. Deferred tax assets require Management to evaluate the probability that the Company and Subsidiaries generate taxable profit in future periods to use deferred tax assets. The estimates of future taxable income are based on forecasts of operating cash flows and the application of tax laws of each jurisdiction. Provided future cash flows and taxable income are significantly different from the estimates, it could affect the capacity of the Company and Subsidiaries to realize net deferred tax assets recorded at the reporting date.

### Uncertain tax positions

The Company and Subsidiaries apply a significant judgment when identifying uncertainties over income tax treatments. In this regard, the Company and Subsidiaries have reviewed the following situations:

- Contentious proceedings
- Implemented tax plans
- Performed corporate reorganizations
- Other situations identified by Management

In the evaluation, Management has considered the following sources to identify potential uncertain tax situations:

- Criteria applied by the tax administration in its reviews
- Opinions of the tax administration in reports or official letters
- Case law of courts in all instances
- SUNAT's guidelines (National Superintendence of Customs and Tax Administration)
- Usual practice in the market

The evaluation has been conducted for all unexpired tax periods, considering for this the provisions of the tax code.

As a result of the examination of each one of the situations mentioned above, Management has identified uncertain tax situations that may affect the determination of income tax under IFRIC 23, mainly those related to the amortization of development costs, which do not have a significant implication on the consolidated financial statements due to their temporary nature.

Management must reevaluate its estimates when there is a change in a circumstance, such as the knowledge of actions followed by the tax administration, formally adopted situations, the case law of courts or the expiry of the statute of limitations.

### Measurement of assets classified as held for sale

As of December 31, 2019, the Company measured its assets classified as held for sale at the lower of carrying amount and fair value less costs to sell.

The fair value estimate included fixed and variable amounts. The fixed portion was based on contractual agreements, and the variable portion was calculated based on the net smelter return in respect with the concessions, and a percentage of future sales over the production during the whole operation.

#### 4. NEW STANDARDS AND INTERPRETATIONS INTERNATIONALLY ISSUED

**(a) New IFRSs, interpretations and amendments to current standards that did not significantly affect reported amounts and their disclosures in current and previous years**

The following standards, interpretations and amendments to current standards were published with mandatory application for accounting periods beginning on or after January 1, 2020, which were not relevant for the operations of the Company:

- **Initial impact of the application of Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)**

In September 2019, the IASB issued the document Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

The amendments also introduce new disclosure requirements to IFRS 7 for hedging relationships that are subject to the exceptions introduced by the amendments to IFRS 9.

These amendments are not relevant for the Company and Subsidiaries since they do not apply hedge accounting to their exposure to interest rate benchmarks.

- **Initial impact of the application of Covid-19-Related Rent Concessions**

In May 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

- (a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) Any reduction in lease payments affects only payments originally due on or before June 30, 2021 (a rent concession meets this condition if it results in reduced lease payments on or before June 30, 2021 and increased lease payments that extend beyond June 30, 2021); and
- (c) There is no substantive change to other terms and conditions of the lease.

In the period, the Company and Subsidiaries have not obtained COVID-19-related rent concessions from lessees.

- **Initial impact of the application of new and amended IFRSs that are effective for years and reporting periods beginning on or after January 1, 2020**

In the present year, the Company and Subsidiaries have applied the amendments and interpretations of IFRSs mentioned below, issued by the International Accounting Standards Board (IASB), which are effective for reporting periods beginning on or after January 1, 2020. The adoption has not had any material impact on the disclosures or amounts of these consolidated financial statements.

*Amendments to References to the Conceptual Framework in IFRS Standards*

The Company and Subsidiaries have adopted the amendments included in *Amendments to References to the Conceptual Framework in IFRS Standards* for the first time this year. The amendments include changes derived from affected standards that now refer to the new *Conceptual Framework*. However, not all amendments update those pronouncements regarding the references and quotes of the framework to refer to the revised *Conceptual Framework*. Some pronouncements are updated only to indicate to what version the frameworks makes reference to (the IASB framework adopted by the IASB in 2001, the IASB framework in 2010 or the new framework reviewed in 2018) or to indicate that the definitions in the standard have not been updated with the new definitions developed in the *revised Conceptual Framework*.

The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32.

*Amendments to IFRS 3 Definition of a business*

These amendments clarify that, as businesses usually have outputs, an output is not required for a series of integrated activities and assets to qualify as a business. To be considered a business, a series of acquired activities and assets should include at least an input and a substantive process that together significantly contribute to the ability to create outputs.

These amendments delete the evaluation of whether market participants are able to replace any input or process and continue with the outputs. An additional guidance is provided to help determining whether a substantive process has been acquired.

These amendments introduce an optional test to identify the concentration of fair value, which allows a simplified assessment of whether a series of acquired activities and assets is not a business if all the fair value of gross assets acquired is substantially concentrated in a single identifiable asset or a group of similar assets.

These amendments apply prospectively to all business combinations or acquisition of assets for which the acquisition date is on or after January 1, 2020.

The Company and Subsidiaries have not entered into business combinations in 2020.

*Amendments to IAS 1 and IAS 8 Definition of Material*

The Company and Subsidiaries have adopted the amendments to IAS 1 and IAS 8 in the present year. The purpose of these amendments is to simplify the definition of materiality contained in IAS 1, facilitating its understanding, and not to modify the underlying concept of materiality in IFRSs. The concept to obscure material information with immaterial information has been included in the new definition.

The limitation for influential materiality for users has been changed from “could influence” to “could be reasonably expected to influence”.

The definition of materiality in IAS 8 has been replaced by a reference to the definition of materiality in IAS 1. Additionally, the IASB modified other standards and the *Conceptual Framework* that contained a definition of materiality or reference to the term materiality to guarantee the consistency.

**(b) New and amended IFRSs that are not effective yet**

At the authorization date of these consolidated financial statements, the Company has not applied the following new and amended IFRSs that have been issued but are not effective yet:

IFRS 17	<i>Insurance Contracts</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i>
Amendments to IFRS 3	<i>Definition of a business</i>
Amendments to IAS 16	<i>Property, Plant and Equipment—Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Annual Improvements to IFRS Standards	<i>First-time Adoption of International Financial Reporting Standards 2018-2020 Cycle, IFRS 9 Financial</i>
Amendments to IFRS 1	<i>Instruments, IFRS 16 Leases and IAS 41 Agriculture</i>

Management does not expect that the adoption of the standards mentioned above have a material impact on the consolidated financial statements of the Company in future periods:

- **IFRS 17 Insurance contracts**

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and replaces IFRS 4 *Insurance contracts*.

IFRS 17 describes a general model, which is modified for insurance contracts with direct participation features and is described as the variable fee approach. The general model is simplified if certain criteria are met when measuring the liability of remaining coverage under the premium allocation approach.

The general model will use the current assumptions to estimate the amount, timing and uncertainty of future cash flows and will explicitly measure the cost of such uncertainty, considering the interest rates of the market and the impact of options and guarantees of insured parties.

This standard is effective for annual periods beginning on or after January 1, 2021, with early application permitted. It is applied retrospectively unless it is not feasible, in which case the modified retrospective approach or the fair value method is used. A draft of changes on IFRS 17 addresses the concerns and difficulties of implementation that were identified after the publication of IFRS 17. One of the main proposed changes was the deferral of the initial application date of IFRS 17 for a year, on reporting periods beginning on or after January 1, 2023.

IFRS 17 should be applied retrospectively unless impractical, in which case, the retrospective approach will be modified or the fair value approach will be applied.

According to the transition requirements, the date of initial application is the beginning of the annual period in which the Company and Subsidiaries apply the standard for the first time, and the transition date is the beginning of the period immediately prior to the date of initial application.

- ***Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, these amendments state that profits or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, profits and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The IASB has not determined the effective date of the amendments yet; however, their early application is permitted. The Company and Subsidiaries' Management anticipates that the application of these amendments may have an impact on the consolidated financial statements of the Company in future periods if those transactions are performed.

- ***Amendments to IAS 1 Classification of Liabilities as Current or Non-current***

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenant are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted.

- ***Amendments to IFRS 3 Definition of a business***

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

- ***Amendments to IAS 16 – Property, Plant and Equipment—Proceeds before Intended Use***

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an

entity recognizes such sales proceeds and related costs in profit or loss. The Company measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the consolidated statement of comprehensive income, the consolidated financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

The amendments are effective for annual periods beginning on or after January 1, 2022, with early application permitted.

- ***Amendments to IAS 37 – Onerous Contracts – Cost of Fulfilling a Contract***

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labor or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the Company first applies the amendments. Comparatives are not restated.

Instead, the entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after January 1, 2022, with early application permitted.

- ***Annual Improvements to IFRS Standards 2018–2020 Cycle***

The Company has adopted the amendments included in the Annual Improvements of IFRS Standards 2018-2020 Cycle for the first time this year. The Annual Improvements include amendments to four standards.

**IFRS 1 First-time Adoption of International Financial Reporting Standards**

The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.

The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted.

**IFRS 9 Financial Instruments**

The amendment clarifies that in applying the “10 per cent” test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted.

#### IFRS 16 Leases

The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

#### IAS 41 Agriculture

The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted.

## 5. FINANCIAL INSTRUMENTS AND RISKS

### (a) Categories of financial instruments

The financial assets and liabilities of the Company and Subsidiaries comprise following:

	<b>2020</b> <b>US\$000</b>	<b>2019</b> <b>US\$000</b>
<b>Financial assets:</b>		
<b>Amortized cost</b>		
Cash and cash equivalents	114,646	33,828
Other accounts receivable (net)	17,483	14,500
	<u>132,129</u>	<u>48,328</u>
<b>Fair value through profit or loss</b>		
Trade accounts receivable (net)	28,781	36,159
Derivatives designated as hedging instruments	-	3,915
Derivatives that are not designated as hedging instruments	223	1,501
	<u>29,004</u>	<u>41,575</u>
<b>Fair value through other comprehensive income</b>		
Financial investments	45,955	43,510
	<u>45,955</u>	<u>43,510</u>
<b>Total</b>	<u>207,088</u>	<u>133,413</u>
<b>Financial liabilities:</b>		
<b>Amortized cost</b>		
Trade accounts payable	222,640	178,175
Other accounts payable	5,933	2,944
Bank overdrafts	10,070	8,448
Bonds	535,264	535,264
Financial obligations	390,530	265,534
	<u>1,164,437</u>	<u>990,365</u>
<b>Fair value through profit or loss</b>		
Derivatives designated as hedging instruments	622	-
Derivatives that are not designated as hedging instruments	7,195	53,308
	<u>7,817</u>	<u>53,308</u>
<b>Fair value through other comprehensive income</b>		
Derivatives designated as hedging instruments	7,290	99
<b>Total</b>	<u>1,179,544</u>	<u>1,043,772</u>

### (b) Financial risks

During the normal course of operations, the Company and Subsidiaries are exposed to several financial risks. The risk management program of the Company and Subsidiaries is mainly focused on financial markets, and seeks to minimize potential adverse effects on the financial performance of the Company and Subsidiaries. The Financial Management Department of the Company and Subsidiaries is in charge of risk management, which identifies, evaluates and covers financial risks.

#### (i) Market risk

##### **Exchange rate risk**

The Company and Subsidiaries perform their sales in U.S. dollars, which allow them to meet their obligations in such currency. The exchange rate risk arises from balances held in soles. In order to mitigate this risk, in 2019, the Company and Subsidiaries used derivative contracts that were not designated as hedging instruments to cover their exposure to exchange rate risk.

As of December 31, 2020 and 2019, the balances of financial assets and liabilities denominated in foreign currency correspond to balances in Peruvian soles and are expressed in U.S. dollars at the closing exchange rates of US\$0.277 and US\$0.302 per S/1.00, respectively, and are summarized below:

	<b>2020</b>	<b>2019</b>
	<b>S/000</b>	<b>S/000</b>
<b>Assets</b>		
Cash and cash equivalents	77,434	49,728
Trade accounts receivable (net)	4,040	1,329
Other accounts receivable (net)	43,405	30,062
	<u>124,879</u>	<u>81,119</u>
Total assets		
<b>Liabilities</b>		
Bank overdrafts	(1,632)	(136)
Financial obligations	(49,235)	(368,885)
Trade accounts payable	(155,095)	(104,709)
Other accounts payable	(17,959)	(7,063)
	<u>(223,921)</u>	<u>(480,793)</u>
Financial obligations with exchange rate derivatives	-	368,885
	<u>(223,921)</u>	<u>(111,908)</u>
Total liabilities		
Net liability	<u>(99,042)</u>	<u>(30,789)</u>

In 2019, financial obligations with exchange rate derivatives corresponded to synthetic loans, whose exchange rate risk is fully mitigated. These loans were fully paid in 2020.

The Company and Subsidiaries recorded a net exchange loss for US\$5,640 in 2020 (net gain for US\$1,113 in 2019) (Note 27).

Management considers a sensitivity rate of 5% as reasonable in the assessment of exchange rate risk. A sensitivity analysis is presented in the following table, assuming the devaluation and revaluation of the Peruvian sol (S/), equivalent at the aforementioned rate, exclusively on balances of assets and liabilities reflected above, considering all other variables constant, in the consolidated statement of profit or loss before income tax:

	<b>Changes in exchange rate</b>	<b>Effect on profit or loss before taxes (Debit) credit</b>	
		<b>2020</b>	<b>2019</b>
		<b>US\$000</b>	<b>US\$000</b>
Revaluation	+5%	1,370	465
Devaluation	-5%	(1,370)	(465)

### **Price risk**

The Company and Subsidiaries are exposed to commercial risks arising from changes in mineral market prices. In order to cover the risk arising from the decrease of prices of metals to trade, in 2020, Management entered into derivative contracts that qualify as cash flow hedges at fair value through profit or loss, which were liquidated in 2020 and will still be liquidated in 2021 (Note 30).

As of December 31, 2020 and 2019, if the average sales prices of main metals payable, contained in ore concentrates, increase (or decrease) by 10% and all other variables are held constant, profit or loss after taxes of the Company and Subsidiaries would change, as shown below:

	<b>Effect on loss before income tax (Debit) Credit</b>
	<b>US\$000</b>
<b>Zinc concentrate</b>	
<b>2020:</b>	
Increase in the international price of zinc	23,732
Decrease in the international price of zinc	(23,732)
<b>2019:</b>	
Increase in the international price of zinc	42,125
Decrease in the international price of zinc	(42,125)
<b>Lead concentrate</b>	
<b>2020:</b>	
Increase in the international price of lead	14,758
Decrease in the international price of lead	(14,758)
<b>2019:</b>	
Increase in the international price of lead	16,563
Decrease in the international price of lead	(16,563)
<b>Copper concentrate</b>	
<b>2020:</b>	
Increase in the international price of copper	3,925
Decrease in the international price of copper	(3,925)
<b>2019:</b>	
Increase in the international price of copper	3,673
Decrease in the international price of copper	(3,673)
<b>Silver concentrate</b>	
<b>2020:</b>	
Increase in the international price of silver	3,102
Decrease in the international price of silver	(3,102)
<b>2019:</b>	
Increase in the international price of silver	3,928
Decrease in the international price of silver	(3,928)

For the control and follow-up of hedges, Management approved the "Policy for Hedging Metal Prices", which is executed and monitored together with the Policy for Financial Risk Management. In addition, Management has a Hedging Committee, whose objective is to mitigate the risks associated with the variations and volatility of prices of metals it produces.

As of December 31, 2020 and 2019, the fair value of embedded derivatives contained in commercial agreements corresponds to a gain of US\$1,088 and a loss of US\$4,204, respectively.

### **Interest rate risk**

The Company and Subsidiaries have significant assets, which are held in well-known financial entities and accrue interests at current rates in the market. Operating income and cash flows of the Company and Subsidiaries are independent from changes in interest rates in the market.

The interest rate risk is addressed by Management of the Company and Subsidiaries through a policy that establishes obtaining loans at fixed and variable interest rates.

As of December 31, 2020 and 2019, the Company has a loan from Citibank at a variable interest rate, for which it has acquired interest rate hedges (Note 30(b)). In addition, Management considers that the risk of fluctuations in the fair value of interest rates is not significant since the interest rates of its financing agreements are not significantly different from the market interest rates for similar financial instruments.

### **(ii) Credit risk**

The credit risk of the Company and Subsidiaries arises from the inability of debtors to meet their obligations. For this reason, Management establishes conservative credit policies and constantly evaluates the conditions of the market where their debtors operate, for which Management uses risk rating reports for commercial and credit operations.

The table below presents an analysis of financial assets (excluding cash and cash equivalents and financial investments) of the Company and Subsidiaries classified according to their maturity:

	2020			2019		
	Overdue US\$000	To be due US\$000	Total US\$000	Overdue US\$000	To be due US\$000	Total US\$000
Trade accounts receivable (net)	808	27,973	28,781	479	35,680	36,159
Other accounts receivable (net)	-	17,483	17,483	-	14,500	14,500
Other financial assets	-	223	223	-	5,416	5,416
	808	45,679	46,487	479	55,596	56,075

Trade accounts receivable are denominated in U.S. dollars and expire on the issue date of the payment receipt. Such amounts are effective in the following days of maturity. The sales of the Company and Subsidiaries are performed to local and foreign customers. As of December 31, 2020, the Company has a portfolio of 24 customers (27 customers as of December 31, 2019). The three most important customers of the Company and Subsidiaries represented 65% of total sales (53% of total sales in 2019). The Company's Management evaluates the debts that are estimated to be collected as variation to determine the required provision for doubtful accounts.

### **(iii) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and having the possibility to be engaged and/or have engaged certain financing operations through adequate credit sources.

As of December 31, 2020 and 2019, the Company and Subsidiaries present a negative working capital for US\$56,738 and US\$212,030, respectively. In this regard, Management has a credit capacity that allows having access to credit lines in first-class financial entities to meet their obligations, from which the amount of US\$164,500 has not been used yet. In addition, Management has considered the issue of international debt of US\$475 million, and will subject a capital increase for US\$400 million to the approval of the Shareholders' Meeting in order to optimize the capital structure and reduce the financial burden. Management considers that these measures will allow the Company to have sufficient cash flows to manage its financial obligations appropriately.

The financial assets used to manage the liquidity risk are classified according to their maturity in less than one year. The table below presents an analysis of the financial liabilities of the Company and Subsidiaries classified according to their maturity (including interests to be paid at those maturities) at the date of the consolidated statement of financial position:

	<b>Less than 1 year US\$000</b>	<b>Between 1 and 2 years US\$000</b>	<b>Between 2 and 10 years US\$000</b>	<b>Total US\$000</b>
<b>As of December 31, 2020:</b>				
Bank overdrafts	10,070	-	-	10,070
Financial obligations	81,459	596,348	299,725	977,532
Trade accounts payable	222,640	-	-	222,640
Other accounts payable	5,933	-	-	5,933
Other financial liabilities	15,107	-	-	15,107
<b>Total</b>	<b>335,209</b>	<b>596,348</b>	<b>299,725</b>	<b>1,231,282</b>
<b>As of December 31, 2019:</b>				
Bank overdrafts	8,448	-	-	8,448
Financial obligations	260,368	61,608	561,334	883,310
Trade accounts payable	178,175	-	-	178,175
Other accounts payable	2,944	-	-	2,944
Other financial liabilities	53,407	-	-	53,407
<b>Total</b>	<b>503,342</b>	<b>61,608</b>	<b>561,334</b>	<b>1,126,284</b>

#### **(iv) Capital risk management**

The objective is to safeguard the ability of the Company and Subsidiaries to continue as going concern in order to generate returns to shareholders and benefits to other interest groups, and maintain an optimal capital structure to reduce capital cost.

Management handles its capital structure and makes adjustments to deal with changes in the economic conditions of the market. In order to maintain or adjust the capital structure, the Company can adjust the payment of dividends to its shareholders, return capital to its shareholders or issue new shares. No changes were made to the objectives, policies or procedures in 2020 and 2019.

The leverage ratio was as follows:

	<b>2020 US\$000</b>	<b>2019 US\$000</b>
Financial obligations	925,794	800,798
Cash and cash equivalents	(114,646)	(33,828)
<b>Total net debt</b>	<b>811,148</b>	<b>766,970</b>
<b>Total equity</b>	<b>416,921</b>	<b>570,729</b>
<b>Net debt ratio</b>	<b>1.95</b>	<b>1.34</b>

#### **(c) Fair value of financial instruments**

For purposes of the consolidated financial statements, 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.

**Fair value of financial assets and liabilities of the Company that are not measured at fair value (but fair value disclosures are required)**

Management considers that the carrying amounts of financial assets and liabilities recognized in the consolidated financial statements are similar to their fair value. The fair value of bonds issued in the international market (Note 16(b)) is classified as Level 1 since quoted prices are available. The fair value of these bonds amount to US\$543,523 as of December 31, 2020 (US\$560,437 as of December 31, 2019).

**Fair value of financial assets and liabilities of the Company that are measured at fair value on a constant basis**

As of December 31, 2020 and 2019, the financial instruments measured at fair value after initial recognition refer to trade accounts receivable, financial investments and derivative financial instruments.

The following table shows the financial instruments measured at fair value on a constant basis, classified per level:

	<u>2020</u> US\$000	<u>2019</u> US\$000
<b>Financial assets</b>		
<b>Level 1</b>		
Investments in equity instruments (a)	45,955	43,510
<b>Level 2</b>		
Trade accounts receivable (b)	28,781	36,159
Derivatives that are not designated as hedging instruments	223	1,501
Derivatives designated as hedging instruments	-	3,915
	<u>29,004</u>	<u>41,575</u>
<b>Financial liabilities</b>		
<b>Level 2</b>		
Derivatives that are not designated as hedging instruments	7,195	53,308
Derivatives designated as hedging instruments	7,912	99
	<u>15,107</u>	<u>53,407</u>

- (a) Financial investments (Note 7) correspond to the investment in Cementos Polpaico S.A., which is listed on the Chile Stock Exchange; for this reason, it has been classified as Level 1.
- (b) Trade accounts receivable, designated at fair value through profit or loss, comprise the changes in the value of provisional liquidations, which are adjusted at market value based on future estimates of metal prices at the date of the consolidated financial statements. The measurement of fair value is classified as Level 2 since these measurements derive from international quotation prices in force included in Level 1.

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	<u>2020</u>	<u>2019</u>
	<u>US\$000</u>	<u>US\$000</u>
Petty cash and cash in banks (a) (d)	83,669	33,017
Term deposits (b)	10,007	-
Mutual funds (c)	20,039	-
Other funds	<u>931</u>	<u>811</u>
	<u>114,646</u>	<u>33,828</u>

- (a) Petty cash and cash in banks mainly comprise checking accounts denominated in soles and U.S. dollars, which are held in local banks, are freely available and accrue interests at market rates.
- (b) Term deposits mature in 3 months and accrue interests at an annual effective rate of 0.5%.
- (c) Mutual funds comprise funds held in Scotiabank, which are invested in debt instruments that can be redeemed by the Company as required.
- (d) The Company presents amounts for US\$13,118 and US\$9,856 as of December 31, 2020 and 2019 as part of cash and cash equivalents, which correspond to cash deposited in Banco de la Nación for the payment of taxes. In addition, amounts withheld by the Tax Administration are presented in this item for US\$1,127 as of December 31, 2020 (US\$4,171 as of December 31, 2019).

## 7. FINANCIAL INVESTMENTS AND INVESTMENTS IN ASSOCIATE

Financial investments and investments in associate comprise the following:

Company	Class	Number of shares	Interest in net equity		Face value	Carrying amount	
			As of December 31,			As of December 31,	
			2020	2019		2020	2019
			%	%		US\$000	US\$000
<b>Associate:</b>							
Cosco Shipping Ports Chancay Perú S.A. (a)	Common	279,408,127	40	40	1 Sol	149,110	150,000
<b>Financial investments at fair value:</b>							
Cemento Polpaico S.A. (b)	Common	4,056,643	22.7	22.7	8,040 Chilean pesos	45,955	43,510
<b>Other investments:</b>							
Other companies	Common	-	-	-	-	281	284
						<u>195,346</u>	<u>193,794</u>

- (a) Cosco Shipping Ports Chancay Perú S.A. is engaged in port activities and its objective is the development, construction, implementation, commissioning and operation of a multi-purpose port at the Chancay bay, located in the northern area of Lima. It is estimated that operations will commence in 2022.

As explained in Note 1(d.1) to the accompanying consolidated financial statements, in May 2019, as a result of the subscription and investment agreement entered into between the Company and Cosco Shipping Ports Limited, the Company derecognized its investment in the subsidiary at the date of control loss and recognized the fair value of its interest of 40% in the capital of such entity (US\$150,000). The impact on consolidated profit or loss amounted to US\$18,288. See Note 25.

As of December 31, 2020 and 2019, this investment in associate has been measured using the equity method (Note 2(l)).

- (b) Cementos Polpaico S.A. is engaged in the production and commercialization of cement and lime. As of December 31, 2020, the quotation amounted to 8,040 Chilean pesos per share, equivalent to US\$11.328 (8,040 Chilean pesos per share, equivalent to US\$10.726 as of December 31, 2019). Those shares are listed on the Chile Stock Exchange.

## 8. TRADE ACCOUNTS RECEIVABLE (NET)

Trade accounts receivable (net) comprise the following:

	<u>2020</u>	<u>2019</u>
	<u>US\$000</u>	<u>US\$000</u>
<b>From third parties</b>		
Invoices	32,160	41,060
Impairment estimate for accounts receivable	(19,775)	(17,601)
Embedded derivatives	950	(533)
Sales adjustments	<u>1,668</u>	<u>(1,360)</u>
	<u>15,003</u>	<u>21,566</u>
<b>From related entities</b>		
Invoices	11,958	19,212
Trade advances	611	-
Embedded derivatives	138	(3,671)
Sales adjustments	<u>1,071</u>	<u>(948)</u>
	<u>13,778</u>	<u>14,593</u>
<b>Total</b>	<u>28,781</u>	<u>36,159</u>

Accounts receivable have current maturity, do not accrue interests and do not have specific guarantees. Overdue and to be due accounts are expected to be collected in the first quarter of the following year. An analysis of accounts receivable classified according to overdue and to be due balances is shown in Note 5(b)(ii).

The main customers of the Company and Subsidiaries are renowned in the international market, have good credit history and do not have financial issues at year-end.

As of December 31, 2020, the Company and Subsidiaries performed sales to the following related entities: Glencore Perú S.A.C. and Glencore Lima Trading S.A.C. for US\$149,003 and US\$37,799, respectively (Glencore Perú S.A.C., Glencore Lima Trading S.A.C. and Glencore International AG for US\$283,105, US\$61,395 and US\$66 as of December 31, 2019, respectively).

As of December 31, 2019 and pursuant to the commercial agreement entered into with Cerro de Pasco Resources Inc. in November 2019, the balances of subsidiary Óxidos de Pasco S.A.C. were reclassified to assets classified as held for sale, which included an impairment provision for US\$2,279. These amounts were presented again in 2020 as part of the balance of trade accounts receivable since the commercial agreement did not materialize (Note 15).

Management believes that the estimate for doubtful accounts is sufficient to cover the non-compliance risk at the date of the consolidated statement of financial position.

## 9. OTHER ACCOUNTS RECEIVABLE (NET)

Other accounts receivable (net) comprise the following:

	<u>2020</u> <u>US\$000</u>	<u>2019</u> <u>US\$000</u>
Value added tax credit (a)	74,992	40,352
Credit balance for income tax and temporary tax on net assets (b)	32,262	27,687
Loans granted to third parties (c)	10,055	11,821
Accounts receivable from contractors	9,088	5,263
Advances granted to third parties and prepaid expenses	5,072	6,196
Advances granted to contractors	1,291	3,143
Public works for taxes, in process (d)	2,062	2,565
Loans granted to employees	1,033	1,483
Other minor items	1,391	1,574
	<u>137,246</u>	<u>100,084</u>
Impairment estimate for other accounts receivable (e)	<u>(55,722)</u>	<u>(41,250)</u>
Subtotal	<u>81,524</u>	<u>58,834</u>
<u>Amortized cost:</u>		
Loans granted to third parties (c)	1,320	2,153
Insurance compensation	3,866	3,866
Accounts receivable from contractors	1,302	-
Taxes to recover	9,477	7,378
Other minor items	1,518	1,103
Subtotal	<u>17,483</u>	<u>14,500</u>
Total	<u>99,007</u>	<u>73,334</u>
Non-current portion	<u>9,477</u>	<u>7,990</u>
Current portion	<u>89,530</u>	<u>65,344</u>

- (a) As of December 31, 2020, this item includes an amount of US\$36,540, which corresponds to tax credit derived from subsidiaries that do not operate and that is not expected to be recovered; therefore, an impairment estimate has been established for such amount.
- (b) As of December 31, 2020, this item corresponds to the payments on account of income tax for US\$13,087, tax credit for US\$8,748 and payments for the temporary tax on net assets for US\$11,477, which will be requested as from 2021 (as of December 31, 2019, this item corresponded to the payments on account of income tax for US\$25,387, tax credit for US\$9,554 and payments for the temporary tax on net assets for US\$1,308, which were requested as from 2020).
- (c) Loans granted to third parties accrue interests at market rates and are considered to have a current maturity. The Company and Subsidiaries have considered provisioning the amount of US\$10,055 as doubtful account according to the assessment of uncollectibility risk.
- (d) This item corresponds to payments made for public works, for which the "Regional and Local Public Investment – Public Treasury" certificates (CIPRL in Spanish) have not been obtained yet. These certificates would allow the payment of the amount invested by the Company for the execution of investment projects. In 2020, the Company obtained all CIPRL certificates of the Project "Improvement and extension of commercialization services of the municipal supply market of the district of Chancay – Huaral - Lima", with code SNIP No. 108499, pursuant to Law 29230 of Works for Taxes, whose approximate financing amount is US\$21,990.

- (e) As of December 31, 2020, this item mainly corresponds to the impairment provision for tax credit for value-added tax for US\$36,540 and loans receivable for US\$10,055. As of December 31, 2019, this item mainly corresponded to the impairment provision for value-added tax credit for US\$24,133 and loans receivable for US\$11,821.

Management of the Company and Subsidiaries believes that the impairment estimate for other accounts receivable is sufficient to cover the non-compliance risk at the date of the consolidated statement of financial position.

## 10. OTHER FINANCIAL ASSETS AND LIABILITIES

Other financial assets and liabilities comprise the following:

### **Financial assets:**

	<u>2020</u> US\$000	<u>2019</u> US\$000
<b>Derivative financial instruments:</b>		
Derivatives that are not designated as hedging instruments	223	1,501
Derivatives designated as hedging instruments (Note 30 (a) and (b)) (b)	-	3,915
	<u>223</u>	<u>5,416</u>

### **Financial liabilities:**

	<u>2020</u> US\$000	<u>2019</u> US\$000
<b>Derivative financial instruments:</b>		
Derivatives that are not designated as hedging instruments (a)	7,195	53,308
Derivatives designated as hedging instruments (Note 30(b)) (b)	7,912	99
	<u>15,107</u>	<u>53,407</u>
Non-current portion	-	-
Current portion	<u>15,107</u>	<u>53,407</u>

- (a) As of December 31, 2019, the Company entered into prepaid swaps for commodities, which represented an advance payment by a financial entity, equivalent to the price for the quantity agreed upon in those agreements. These agreements have current spot prices at each liquidation date.
- (b) Agreements with derivative financial instruments were negotiated with several international financial entities, such as J. Aron & Co., Macquarie Bank Limited, JP Morgan and Natixis.

## 11. INVENTORIES (NET)

Inventories (net) comprise the following:

	<u>2020</u> <u>US\$000</u>	<u>2019</u> <u>US\$000</u>
Concentrates (b)	14,209	6,461
Mineral (b)	12,293	5,730
Pyrite stockpiles	7,077	-
Sundry supplies	47,858	31,455
Inventories in transit	<u>100</u>	<u>68</u>
	81,537	43,714
Impairment estimate (a)	<u>(13,499)</u>	<u>(7,005)</u>
Total	<u>68,038</u>	<u>36,709</u>
Non-current portion	<u>7,077</u>	<u>-</u>
Current portion	<u>60,961</u>	<u>36,709</u>

- (a) In 2020, according to the assessment conducted with the involvement of operating areas, the estimate was updated mainly due to the obsolescence of spare parts and supplies for US\$1,495.
- (b) In 2019, pursuant to the commercial agreement entered into with Cerro de Pasco Resources Inc., the balances held by subsidiaries Empresa Administradora Cerro S.A.C. and Óxidos de Pasco S.A.C. were reclassified to assets classified as held for sale for US\$29,829 (Note 15). In 2020, the balances held by those subsidiaries are shown in Inventories.

Management believes that the impairment estimate for spare parts and supplies is sufficient to cover the risk of loss at the date of the consolidated statement of financial position.

## 12. PROPERTY, PLANT AND EQUIPMENT (NET)

The movement in the cost and accumulated depreciation of property, plant and equipment, net, was as follows:

	<b>Balance as of January 1, 2020</b>	<b>Additions</b>	<b>Sales and/or disposals</b>	<b>Transfers</b>	<b>Impairment estimate</b>	<b>Reclassifications from assets held for sale</b>	<b>Balance as of December 31, 2020</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
<b>Cost of:</b>							
Land	31,353	145	-	-	-	-	31,498
Buildings and other constructions	747,170	227	-	20,990	(8,020)	180,334	940,701
Environmental management program infrastructure	11,773	-	-	-	-	10,508	22,281
Machinery and equipment	167,681	10,596	(591)	1,014	-	107,231	285,931
Vehicles	4,223	46	(42)	-	-	6,945	11,172
Furniture and fixtures and computer equipment	12,780	510	-	-	(20)	1,995	15,265
Sundry equipment	355,816	13,830	(102)	678	(698)	110,235	479,759
Units in transit	3,724	6,066	(45)	(678)	(5)	264	9,326
Works in progress (a)	53,661	30,152	-	(22,004)	(1,665)	3,590	63,734
	<u>1,388,181</u>	<u>61,572</u>	<u>(780)</u>	<u>-</u>	<u>(10,408)</u>	<u>421,102</u>	<u>1,859,667</u>
<b>Accumulated depreciation of:</b>							
Buildings and other constructions	289,689	58,701	-	-	-	80,490	428,880
Environmental management program infrastructure	11,773	-	-	-	-	10,508	22,281
Machinery and equipment	137,415	7,469	(531)	-	-	105,294	249,647
Vehicles	3,587	215	(23)	-	-	6,945	10,724
Furniture and fixtures and computer equipment	9,086	953	-	-	-	1,825	11,864
Sundry equipment	259,841	18,103	(74)	-	-	86,338	364,208
	<u>711,391</u>	<u>85,441</u>	<u>(628)</u>	<u>-</u>	<u>-</u>	<u>291,400</u>	<u>1,087,604</u>
Net value	<u>676,790</u>						<u>772,063</u>

	<b>Balance as of January 1, 2019</b>	<b>Additions</b>	<b>Sales and/or disposals</b>	<b>Transfers</b>	<b>Corporate derecognition</b>	<b>Impairment estimate</b>	<b>Assets held for sale</b>	<b>Balance as of December 31, 2019</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
<b>Cost of:</b>								
Land	97,750	2,163	-	33,199	(101,759)	-	-	31,353
Buildings and other constructions	926,968	7,794	-	48,955	(618)	(19,613)	(216,316)	747,170
Environmental management program infrastructure	22,293	-	(12)	-	-	-	(10,508)	11,773
Machinery and equipment	279,381	7,593	(14,267)	2,078	(20)	-	(107,084)	167,681
Vehicles	11,174	189	(44)	-	(151)	-	(6,945)	4,223
Furniture and fixtures and computer equipment	14,401	434	-	-	(130)	-	(1,925)	12,780
Sundry equipment	450,131	16,964	(79)	(1,078)	(21)	-	(110,101)	355,816
Units in transit	312	4,000	-	(573)	-	-	(15)	3,724
Works in progress (a)	59,408	38,721	(2,528)	(35,614)	-	-	(6,326)	53,661
	<u>1,861,818</u>	<u>77,858</u>	<u>(16,930)</u>	<u>46,967</u>	<u>(102,699)</u>	<u>(19,613)</u>	<u>(459,220)</u>	<u>1,388,181</u>
<b>Accumulated depreciation of:</b>								
Buildings and other constructions	276,541	80,764	-	-	(35)	-	(67,581)	289,689
Environmental management program infrastructure	22,277	4	-	-	-	-	(10,508)	11,773
Machinery and equipment	245,470	8,130	(11,213)	-	(6)	-	(104,966)	137,415
Vehicles	10,391	254	(10)	-	(103)	-	(6,945)	3,587
Furniture and fixtures and computer equipment	10,018	951	-	-	(85)	-	(1,798)	9,086
Sundry equipment	318,916	23,353	(61)	-	(7)	-	(82,360)	259,841
	<u>883,613</u>	<u>113,456</u>	<u>(11,284)</u>	<u>-</u>	<u>(236)</u>	<u>-</u>	<u>(274,158)</u>	<u>711,391</u>
Net value	<u>978,205</u>							<u>676,790</u>

- (a) As of December 31, 2020, the projects that are part of item works in progress mainly belong to the Company for US\$34,922 and Subsidiary Compañía Minera Chungar S.A.C. for US\$24,311 (US\$37,076 and US\$15,276 as of December 31, 2019, respectively), as detailed below:

**Volcan Compañía Minera S.A.A.**

	<b>2020</b> <b>US\$000</b>	<b>2019</b> <b>US\$000</b>
Growth of tailings facility Rumichaca Level 4227	8,450	5,391
Growth of tailings facility Andaychagua Level 4410	2,677	2,100
Pumping system rp 616 Level 1220 to 1120	2,402	2,318
Landfill - tailings facility Andaychagua Alto	2,389	694
Growth of tailings facility Rumichaca Level 4224	2,286	2,125
Pumping system Level 1120 to 1020	1,932	1,929
Tailings facility - filter Gavilán - Carahuacra	1,378	-
Growth of tailings facility Rumichaca Level 4270	1,344	1,313
Purchase of houses San José - non-deductible	1,121	-
Emergency spillway - Relavera Rumichaca	1,076	395
Concrete-filled pipes Andaychagua	573	295
Drainage and sudrainage system in tailings facilities	568	568
Pumping system Level 1300 to 1200	471	276
Construction of spillways M.Tunel plant	320	129
Water drainage Tunel Victoria	275	275
Other minor projects	7,660	19,269
	<b>34,922</b>	<b>37,077</b>

**Subsidiary Compañía Minera Chungar S.A.C.**

	<b>2020</b> <b>US\$000</b>	<b>2019</b> <b>US\$000</b>
Growth of tailings facility Alparmarca Level 4684	5,936	2,453
Filtered tailings availability system	5,664	216
New tailings facility Animon Quimacocha	3,795	2,631
Pumping system Islay mine Level 210	1,578	1,002
Romina project - General infrastructure	1,040	1,040
Pumping system Islay - chamber 6	530	530
Stationary pumping chamber Level 4050 Rm	475	118
Stationary pumping chamber Level 4000 rp Animon	429	216
Camp implementation Animon	414	-
Pumping system - two stages - third railway	360	360
Structure reinforcement Pique Timmers-installation	355	-
New pumping system - Montenegro line	324	324
Industrial water treatment system Level 400	234	203
Mine water treatment system at 1200 l/s	222	144
Fire system for engine control center	198	198
Reinforcement ssee Animon	195	115
Ssee N° 17 - Stationary pumping system Islay	192	-
Shotcrete equipment workshop - shotcrete animon	178	178
Pumping system Islay mine Level 270 370 420 535	177	175
Other minor projects	2,015	5,370
	<b>24,311</b>	<b>15,276</b>

As of December 31, 2020 and 2019, other Subsidiaries have projects in progress for US\$4,500 and US\$1,308, respectively.

The projects mentioned above are estimated to be completed between 2021 and 2022.

- (b) The annual charge for depreciation has been distributed as follows:

	<b>2020</b>	<b>2019</b>
	<b>US\$000</b>	<b>US\$000</b>
Cost of sales (Note 22)	97,189	108,232
Administrative expenses (Note 23)	860	1,193
Selling expenses (Note 24)	80	44
Other expenses (Note 25)	4,554	3,987
Total	<u>102,683</u>	<u>113,456</u>

- (c) As of December 31, 2020, buildings, machinery and equipment include assets under finance leases with a carrying amount of US\$15,577 and US\$18,231, respectively (US\$16,186 and US\$10,416 as of December 31, 2019).
- (d) In 2019, assets held for sale correspond to the transfer of the assets of subsidiaries Empresa Administradora Cerro S.A.C., Óxidos de Pasco S.A.C. and Remediadora Ambiental S.A. to such item.
- (e) In 2020, the reclassification from assets held for sale includes the balance of net assets as of November 30 that was reclassified to this item due to the termination of the agreement entered into with the Canadian company Cerro de Pasco Resources Inc. (Note 15). As a result of this transaction, the Company recognized the related depreciation of those assets as of November 30, 2020 for US\$17,242 in the consolidated statements of profit or loss in the items "Cost of sale" (Note 22) for US\$15,659 and "Other expenses" (Note 25) for US\$1,583.
- (f) The Company and Subsidiaries contracted insurance policies on their main assets according to the policies established by Management.

### 13. RIGHT-OF-USE ASSETS (NET)

- (a) Right-of-use assets correspond to the following:

	<b>Balance as of January 1, 2020</b>	<b>Additions</b>	<b>Adjustments for new measurement of the lease liability</b>	<b>Impairment estimate</b>	<b>Assets held for sale</b>	<b>Balance as of December 31, 2020</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
<b>Cost of:</b>						
Operating machinery	36,065	472	(3,215)	-	-	33,322
Vehicles	4,911	926	(446)	(24)	394	5,761
Properties	81	244	(81)	-	-	244
	<u>41,057</u>	<u>1,642</u>	<u>(3,742)</u>	<u>(24)</u>	<u>394</u>	<u>39,327</u>
<b>Depreciation of:</b>						
Operating machinery	16,195	13,656	-	-	-	29,851
Vehicles	2,382	2,486	-	-	230	5,098
Properties	17	76	-	-	-	93
	<u>18,594</u>	<u>16,218</u>	<u>-</u>	<u>-</u>	<u>230</u>	<u>35,042</u>
Net value	<u>22,463</u>					<u>4,285</u>

The annual charge for depreciation of right-of-use assets has been distributed as follows:

	<b>2020</b>	<b>2019</b>
	<b>US\$000</b>	<b>US\$000</b>
Cost of sales (Note 22)	15,350	18,302
Administrative expenses (Note 23)	868	522
Total	<u>16,218</u>	<u>18,824</u>

#### 14. MINING CONCESSIONS, EXPLORATION AND DEVELOPMENT COSTS AND OTHER INTANGIBLES (NET)

The movement in the cost and accumulated amortization of mining concessions, exploration and development costs, closure of mining units and other intangibles, net, was as follows:

	Balance as of January 1, 2020 US\$000	Additions US\$000	Value adjustment US\$000	Impairment estimate US\$000 (Note 26)	Reclassifications from assets held for sale US\$000	Balance as of December 31, 2020 US\$000
<b>Cost of:</b>						
Mining concessions	220,135	-	-	-	51,867	272,002
Exploration costs	268,471	9,187	-	(227)	7,988	285,419
Development costs (a)	724,847	41,105	-	-	75,128	841,080
Closure of mining units	127,039	-	4,431	-	5,343	136,813
Community rights	18,490	-	(48)	-	-	18,442
Other intangibles	17,468	393	-	-	548	18,409
	<u>1,376,450</u>	<u>50,685</u>	<u>4,383</u>	<u>(227)</u>	<u>140,874</u>	<u>1,572,165</u>
<b>Amortization of:</b>						
Mining concessions	144,449	3,956	-	-	51,867	200,272
Exploration costs	108,604	8,522	-	-	7,934	125,060
Development costs (a)	281,692	25,612	-	-	75,128	382,432
Closure of mining units	48,384	6,230	-	-	3,505	58,119
Community rights	1,451	973	-	-	-	2,424
Other intangibles	11,748	1,058	-	-	499	13,305
	<u>596,328</u>	<u>46,351</u>	<u>-</u>	<u>-</u>	<u>138,933</u>	<u>781,612</u>
Net cost	<u>780,122</u>					<u>790,553</u>

	<b>Balance as of January 1, 2019</b>	<b>Additions</b>	<b>Transfers and/or reclassifications</b>	<b>Corporate derecognition</b>	<b>Value adjustment</b>	<b>Impairment recovery</b>	<b>Assets held for sale</b>	<b>Balance as of December 31, 2019</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000 (Note 26)</b>	<b>US\$000</b>	<b>US\$000</b>
<b>Cost of:</b>								
Mining concessions	268,688	3,314	-	-	-	-	(51,867)	220,135
Exploration costs	247,997	28,472	-	-	-	-	(7,998)	268,471
Development costs (a)	708,302	73,984	(17,911)	-	-	35,600	(75,128)	724,847
Closure of mining units	140,083	-	-	-	(7,701)	-	(5,343)	127,039
Community rights	-	-	17,911	-	579	-	-	18,490
Other intangibles	140,954	4,345	(46,968)	(80,295)	-	-	(568)	17,468
	<u>1,506,024</u>	<u>110,115</u>	<u>(46,968)</u>	<u>(80,295)</u>	<u>(7,122)</u>	<u>35,600</u>	<u>(140,904)</u>	<u>1,376,450</u>
<b>Amortization of:</b>								
Mining concessions	190,769	5,547	-	-	-	-	(51,867)	144,449
Exploration costs	104,385	12,153	-	-	-	-	(7,934)	108,604
Development costs (a)	319,561	37,259	-	-	-	-	(75,128)	281,692
Closure of mining units	40,055	11,596	-	-	-	-	(3,267)	48,384
Community rights	-	1,451	-	-	-	-	-	1,451
Other intangibles	11,187	1,054	-	-	-	-	(493)	11,748
	<u>665,957</u>	<u>69,060</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(138,689)</u>	<u>596,328</u>
Net cost	<u>840,067</u>							<u>780,122</u>

(a) Development costs:

The movement and structure of this item is presented below:

	Balance as of January 1, 2020 US\$000	Additions US\$000	Assets held for sale US\$000 (Note 15)	Balance as of December 31, 2020 US\$000
<b>Cost of:</b>				
Yauli	488,104	26,075	-	514,179
Cerro de Pasco	-	-	75,128	75,128
Animon	230,485	15,030	-	245,515
Vinchos	6,258	-	-	6,258
	<u>724,847</u>	<u>41,105</u>	<u>75,128</u>	<u>841,080</u>
<b>Accumulated amortization of:</b>				
Yauli	184,251	16,794	-	201,045
Cerro de Pasco	-	-	75,128	75,128
Animon	91,183	8,818	-	100,001
Vinchos	6,258	-	-	6,258
	<u>281,692</u>	<u>25,612</u>	<u>75,128</u>	<u>382,432</u>
Net cost	<u>443,155</u>			<u>458,648</u>

	Balance as of January 1, 2019 US\$000	Additions US\$000	Transfers US\$000	Impairment recovery US\$000 (Note 26)	Assets held for sale US\$000 (Note 15)	Balance as of December 31, 2019 US\$000
<b>Cost of:</b>						
Yauli	404,325	48,179	-	35,600	-	488,104
Cerro de Pasco	75,128	-	-	-	(75,128)	-
Animon	204,680	25,805	-	-	-	230,485
Paragsha and Subsidiaries	-	-	-	-	-	-
Vinchos	6,258	-	-	-	-	6,258
Rights granted by communities	17,911	-	(17,911)	-	-	-
	<u>708,302</u>	<u>73,984</u>	<u>(17,911)</u>	<u>35,600</u>	<u>(75,128)</u>	<u>724,847</u>
<b>Accumulated amortization of:</b>						
Yauli	157,834	26,417	-	-	-	184,251
Cerro de Pasco	75,128	-	-	-	(75,128)	-
Animon	80,341	10,842	-	-	-	91,183
Paragsha and Subsidiaries	-	-	-	-	-	-
Vinchos	6,258	-	-	-	-	6,258
	<u>319,561</u>	<u>37,259</u>	<u>-</u>	<u>-</u>	<u>(75,128)</u>	<u>281,692</u>
Net cost	<u>388,741</u>					<u>443,155</u>

(b) The annual charge for amortization has been distributed as follows:

	2020 US\$000	2019 US\$000
Cost of sales (Note 22)	45,108	67,954
Administrative expenses (Note 23)	1,225	622
Other expenses (Note 25)	262	484
Total	<u>46,595</u>	<u>69,060</u>

(c) In 2020, the reclassification from assets held for sale includes the balance of net assets as of November 30 that was reclassified to this item due to the termination of the agreement entered into with the Canadian company Cerro de Pasco Resources Inc. (Note 15). As a result of this transaction, the Company recognized the related amortization of those assets as of November 30, 2020 for US\$244 in the consolidated statement of profit or loss in the items "Cost of sale" (Note 22) for US\$232 and "Other expenses" (Note 25) for US\$12.

## 15. ASSETS AND LIABILITIES HELD FOR SALE

In November 2019, the Company entered into an agreement with the Canadian company Cerro de Pasco Resources Inc. for the sale of its shares in its Subsidiaries Empresa Administradora Cerro S.A.C., Óxidos de Pasco S.A.C. and Remediadora Ambiental S.A.C. (Note 1(e.2)).

Due to this transaction, as of December 31, 2019, the assets and liabilities related to these Subsidiaries were presented as assets and liabilities held for sale. At that date, the Company estimated that the fair value less the costs to sell of these Subsidiaries was US\$130,502. Such value represented the fair value that had been determined according to the consideration established in the share purchase agreement (Note 1(e.2)).

As of November 30, 2020, the Share Purchase Agreement entered into the Company and Cerro de Pasco Resources Inc. did not materialize. Consequently, the Company determined that: a) the probability of selling those Subsidiaries in the short term was not feasible, b) no actions would be performed to find a buyer, and c) the investment would be recovered by using those assets rather than through their sale.

According to IFRS 5 "Non-current assets held for sale and discontinued operations", at that date, the assets and liabilities previously classified as held for sale in 2019 were reclassified to their pertinent accounts in the consolidated statements of financial position.

The assets and liabilities that comprise the operations classified as held for sale as of November 30, 2020 and December 31, 2019 were the following:

	<u>2020</u> <u>US\$000</u>	<u>2019</u> <u>US\$000</u>
Cash and cash equivalents	17,700	2,394
Trade accounts receivable (net)	3,134	4,268
Other accounts receivable (net)	27,253	48,714
Inventory (net)	17,597	29,829
Other accounts receivable	656	715
Other financial assets	380	-
Investments in shares, net	1	-
Property, plant and equipment (net)	129,771	185,486
Mining concessions, explorations and development costs and other intangibles (net)	1,941	2,215
Deferred income tax (net)	<u>35,160</u>	<u>28,365</u>
Total assets classified as held for sale	<u>233,593</u>	<u>301,986</u>
Bank overdrafts	680	1,628
Trade accounts payable	28,883	28,136
Other accounts payable	8,587	6,116
Other financial liabilities	168	-
Financial obligations	4,406	459
Deferred income tax (net)	94,316	83,628
Provision for contingencies	6,496	7,161
Provision for mine closure and communities	<u>39,762</u>	<u>44,356</u>
Total liabilities related to assets classified as held for sale	<u>183,298</u>	<u>171,484</u>

According to IFRS 5, the Company measured its non-current assets that no longer were classified as held for sale, at the lower of:

- (a) its carrying amount before the assets were classified as held for sale, adjusted by any depreciation, amortization or revaluation that had been recognized if the assets had not been classified as held for sale, and

(b) its recoverable amount at the date of the subsequent decision of not selling it.

Consequently, the Company recorded an impact on consolidated results for US\$66,514 (Note 1(e.2)), composed of:

- Depreciation and amortization expense recorded as of November 30, 2020 for US\$17,581 (Notes 12(f) and 14(c)).
- Other expenses for US\$58,394 (Note 25) that comprise the impairment of long-term assets for US\$40,146, other accounts receivable for US\$16,811, and inventories, mine closure and communities for US\$1,437.
- Income tax profit for US\$9,461.

## 16. FINANCIAL OBLIGATIONS

The movement and structure of this item is presented below:

	Original amount		Interest rate (%)	Maturity	Total	
	S/	US\$000			2020 US\$000	2019 US\$000
<b>Loans (a):</b>						
Scotiabank Perú S.A.A.	-	10,000	2.85	Nov-22	4,169	6,168
Banco Internacional del Perú S.A.	-	10,000	2.85	Dec-22	4,169	6,168
Citibank N.A. New York	-	70,000	3.84	Jan-22	30,625	39,375
Scotiabank Perú S.A.A.	368,885	-	1.65	Oct-20	-	110,000
Banco de Credito del Perú	-	60,000	1.60	Oct-20	-	60,000
Banco Internacional del Perú-Interbank	10,000	-	1.09	Apr-23	2,766	-
Banco Internacional del Perú-Interbank	10,000	-	1.09	Apr-23	2,766	-
Banco Internacional del Perú-Interbank	3,270	-	0.99	Dec-22	905	-
Banco Internacional del Perú-Interbank	10,000	-	1.16	Dec-22	2,766	-
Banco Internacional del Perú-Interbank	6,300	-	1.48	Jul-23	1,743	-
Scotiabank Perú S.A.A.	2,300	-	1.15	Dec-22	636	-
Scotiabank Perú S.A.A.	5,100	-	1.30	Dec-22	1,410	-
Scotiabank Perú S.A.A.	2,265	-	1.15	Dec-22	626	-
					<u>52,581</u>	<u>221,711</u>
<b>Bonds:</b>						
Negotiated bonds (b)	-	600,000	5.375	Feb-22	535,264	535,264
					<u>535,264</u>	<u>535,264</u>
<b>Syndicated loan (c)</b>						
	-	300,000	-	Feb-22	297,474	-
					<u>297,474</u>	<u>-</u>
<b>Lease liability with third parties</b>						
Lease liability	-	-	-	-	11,406	23,246
					<u>11,406</u>	<u>23,246</u>
<b>Lease liability with financial entities</b>						
Banco Internacional del Perú-Interbank	-	-	Between 2.19 and 4.45	Between May-20 and Dec-23	6,297	1,339
Scotiabank Perú S.A.A.	-	-	Between 2.04 and 3.83	Between Apr-20 and Nov-24	8,195	5,435
					<u>14,492</u>	<u>6,774</u>
<b>Interests payable</b>						
					<u>14,577</u>	<u>13,803</u>
Total financial obligations					<u>925,794</u>	<u>800,798</u>
Non-current portion					<u>888,615</u>	<u>576,322</u>
Current portion					<u>37,179</u>	<u>224,476</u>

- (a) This item corresponds to medium-term loans obtained from Citibank, Interbank and Scotiabank (Scotiabank, Banco de Crédito del Perú, Citibank and Interbank as of December 31, 2019) for working capital and acquisition of machinery.

### **Financial covenants**

As of December 31, 2020, the Company and Subsidiaries have financial covenants in connection with medium-term loan agreements entered into with Citibank, Scotiabank and Interbank. For this, the Company and Subsidiaries should submit to each one of the financial entities, a communication of the calculation of the following ratios at the closing of the quarterly consolidated financial information of the Company :

- Leverage (financial debt / EBITDA): the ratio should be less than 3.75.
- Interest hedge (EBITDA / financial expenses): the ratio should be higher than 5.00.

As of December 31, 2020, the result of the leverage ratio is 5.48 (3.12 as of December 31, 2019) and the result of the interest hedge ratio is 3.62 (5.80 as of December 31, 2019).

The compliance with ratios established by Citibank and Scotiabank was exempted in 2020. In case of Interbank, a conditional exemption was obtained with adjusted ratios; however, actual ratios were not in compliance with adjusted ratios as of December 31, 2020. In this regard, the extension of the exemption was required from Interbank. Management believes that, considering the perspective of prices, best-expected production levels for 2021 and the recent announcement of the capital contribution proposal of shareholders, it is expected to receive the approval from Interbank without inconveniences, so the Company has not considered to present the debt that would be enforceable as short term.

- (b) Negotiated bonds known as "Senior Notes Due 2022" were issued on February 2, 2012 and placed in its entirety in the international market for US\$600,000, at an annual rate of 5.375%, maturing in 10 years. Interests are being paid in semiannual installments from August 2, 2012 to February 2, 2022. The issue document of these bonds does not establish the compliance with financial covenants.
- (c) On August 13, 2020, the Company signed an agreement for a syndicated loan managed by Banco Santander S.A. and The Bank of Nova Scotia for an amount of US\$300 million with a maturity of 18 months in order to refinance short-term obligations, from which US\$175,000 of the loan has a rate equal to LIBOR 3M + markup and the remaining balance at fixed rates.

The loan is secured by the Company and the following related entities: Empresa Administradora Cerro S.A.C. Óxidos de Pasco S.A.C. and Compañía Minera Chungar S.A.C. (the guarantors). The agreement establishes that the Company and guarantors will ensure that they together represent no less than 90% of the consolidated EBITDA (the term EBITDA is defined in the contract). In the event that the aforementioned subsidiaries do not cover said percentage or are sold, other subsidiaries of the Company will become guarantors until said percentage is reached. In addition, the agreement has established the following financial covenants:

- Consolidated total debt to EBITDA ratio: the consolidated debt to EBITDA ratio, measured as of the last day of each fiscal quarter described below, should be greater than: (i) Q1-2021: 4.85; (ii) Q2-2021: 4.60; (iii) Q3-2021: 4.35; and (iv) Q4-2021 and thereafter: 4.10.
- Consolidated interest coverage ratio: the consolidated interest coverage ratio, measured as of the last day of each fiscal quarter should be less than 2.00.

- (d) The debt amortization schedule at face value as of December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
	<u>US\$000</u>	<u>US\$000</u>
2020	-	260,368
2021	81,459	61,608
2022	596,348	561,334
2023	299,489	-
2024	236	-
	<u>977,532</u>	<u>883,310</u>
Total	<u>977,532</u>	<u>883,310</u>

- (e) As of December 31, 2020 and 2019, the reconciliation of cash flows to financial obligations are shown below:

	<u>2020</u>	<u>2019</u>
	<u>US\$000</u>	<u>US\$000</u>
<b>Movements related to cash flows</b>		
Increase for obtaining bank loans	122,473	290,000
Increase for obtaining syndicated loans	297,474	-
Payment of short-term loans from banks	(291,601)	(311,468)
Payment of leases with financial entities	(3,107)	(4,975)
Payment of interests on loans	(37,922)	(39,479)
Payment of leases with third parties	(14,343)	(19,928)
	<u>72,974</u>	<u>(85,850)</u>
Total	<u>72,974</u>	<u>(85,850)</u>
<b>Movements not related to cash flows</b>		
Increase for obtaining finance leases	10,822	8,742
Interests on loans	38,697	36,379
Lease liabilities with third parties - Rebilling	-	1,924
Lease liabilities with third parties	2,503	43,174
	<u>124,996</u>	<u>4,369</u>
<b>Increase of financial obligations during the year</b>	<u>124,996</u>	<u>4,369</u>
<b>Financial obligations at the beginning of the year</b>	<u>800,798</u>	<u>796,429</u>
<b>Financial obligations at the end of the year</b>	<u>925,794</u>	<u>800,798</u>

- (f) Guarantees

The Company has the following guarantees received from its Subsidiaries in order to secure the full compliance with its pertinent obligations:

Compañía Minera Chungar S.A.C.

- For the credit agreement entered into with Citibank for US\$70,000.
- For the international issuance of bonds under Rule 144A and Regulation S of the United States Securities Act of 1933.
- For syndicated loan for US\$300,000.

Empresa Administradora Cerro S.A.C.

- For the international issuance of bonds under Rule 144A and Regulation S of the United States Securities Act of 1933.
- For syndicated loan for US\$300,000.

Óxidos de Pasco S.A.C.

- For the international issuance of bonds under Rule 144A and Regulation S of the United States Securities Act of 1933.
- For syndicated loan for US\$300,000.

## 17. TRADE ACCOUNTS PAYABLE

Trade accounts payable comprise the following:

	<u>2020</u>	<u>2019</u>
	<u>US\$000</u>	<u>US\$000</u>
Invoices payable (a)	149,720	111,564
Invoices pending to be received (b)	59,751	53,489
Guarantee funds	<u>13,169</u>	<u>13,122</u>
Total	<u>222,640</u>	<u>178,175</u>

- (a) Trade accounts payable mainly arise from the acquisition of materials and supplies for the execution of activities of the Company and Subsidiaries and are mainly denominated in U.S. dollars and soles, have current maturity, do not accrue interests and no guarantees have been granted for these obligations. As of December 31, 2020, balances payable are effective and within the payment terms established by the Company, which range between 30 and 90 days in 2020 (30 and 60 days in 2019).
- (b) Invoices pending to be received correspond to the estimated record of consumption of goods and services of December, for which, at the date of the consolidated financial statements, the payment receipts issued by their pertinent suppliers have not been received.
- (c) As of December 31, 2020, the Company and Subsidiaries hold obligations for US\$48,718 (US\$21,606 as of December 31, 2019), which are related to invoices that the suppliers have granted to financial entities. Those obligations do not accrue interests and have the original maturity that was agreed upon with suppliers.

## 18. OTHER ACCOUNTS PAYABLE

Other accounts payable comprise the following:

	<u>2020</u> <u>US\$000</u>	<u>2019</u> <u>US\$000</u>
<b>To third parties</b>		
Contribution to OEFA	12,403	19,267
Advances from customers	12,000	-
Salaries and profit sharing - employees (a)	10,442	11,330
Value added tax deductions	7,269	4,487
Income tax	3,266	315
Mining taxes	2,147	1,877
Other accounts payable - IFRIC 23	2,259	1,748
Income tax withheld from employees	739	982
Salaries and bonuses - Board of directors	595	2,407
Contributions to EsSalud	497	450
Contributions to pension fund administrators	457	425
Legal withholdings	450	434
Contributions to the National Pension Fund	239	193
Value-added tax - Withholdings	101	58
Mining retirement fund	16	142
Purchase of properties - "El Corral" land	-	752
Other minor items	415	96
	<u>53,295</u>	<u>44,963</u>
<u>Amortized cost:</u>		
Dividends	1,011	1,091
Other minor items	4,922	1,853
	<u>5,933</u>	<u>2,944</u>
Total	<u>59,228</u>	<u>47,907</u>
<b>To related entities</b>		
Salaries and bonuses - Board of directors	6,536	7,159
Sundry items	119	416
	<u>6,655</u>	<u>7,575</u>
Total	<u>65,883</u>	<u>55,482</u>

- (a) As of December 31, 2020 and 2019, this item mainly includes vacations and profit-sharing of employees for US\$6,481 and US\$1,521, respectively (US\$5,816 and US\$2,539 for vacations and profit-sharing of employees in 2019, respectively).

## 19. PROVISIONS

Provisions comprise the following:

	<u>2020</u> <u>US\$000</u>	<u>2019</u> <u>US\$000</u>
Provisions for lawsuits (a)	27,596	20,273
Mine closure (Note 33)	176,514	133,564
Agreements with communities (b)	19,924	18,760
Other provisions	5,216	6,492
Total	<u>229,250</u>	<u>179,089</u>

(a) The movement of provisions for lawsuits is presented below:

	<u>US\$000</u>
<b>Balance as of January 1, 2019</b>	21,888
Provision for the year (Note 25)	5,627
Reversal (Note 25)	(80)
Transfer to liabilities related to assets classified as held for sale	<u>(7,162)</u>
<b>Balance as of December 31, 2019</b>	<u>20,273</u>
Provision for the year (Note 25)	2,800
Reversal (Note 25)	(2,639)
Transfer from liabilities related to assets classified as held for sale	<u>7,162</u>
<b>Balance as of December 31, 2020</b>	<u>27,596</u>

(b) As of December 31, 2020, the nominal value of the provision for obligations with communities is US\$21,550 (US\$21,886 as of December 31, 2019), which has been discounted using the annual risk-free rate of 1.6% (1.8% in 2019), resulting in a net value of US\$19,924 (US\$18,760 as of December 31, 2019).

## 20. EQUITY

### (a) Issued capital stock

The issued capital stock of the Company is represented by 1,633,414,553 class A voting shares, and 2,443,157,622 class B non-voting shares with a right of preferred dividend allocation, which is not cumulative. All common shares are duly subscribed and paid and have a face value of S/0.87 per share.

The preferred right to participate in the allocation of dividends in cash consists in receiving an additional payment for dividends of 5% per share, only on the amount of each dividend in cash paid to each common class A share. This right is not cumulative if the Shareholders' Meeting does not declare nor pay dividends in cash in any period.

Both common class A and B shares, listed on the Lima Stock Exchange, are actively negotiated in the stock market. As of December 31, 2020, their quotation was S/3.30 and S/0.52 per share, respectively (S/3.49 and S/0.445 per share, respectively, as of December 31, 2019). As of December 31, 2020, the negotiation frequency of class A shares was 4.76% and 100% for class B shares (3.57% for class A shares and 100% for class B shares as of December 31, 2019).

The equity interest structure as of December 31, 2020 and 2019 is as follows:

<u>Individual interest percentage in issued capital stock</u>	<u>Number of shareholders</u>		<u>Total interest percentage</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u> %	<u>2019</u> %
Less than 0.20	7,950	8,008	17.49	17.29
From 0.20 to 1.00	20	24	8.8	10.57
From 1.01 to 5.00	17	12	51.18	38.52
From 5.01 to 10.00	1	3	5.74	16.83
From 10.01 to 20.00	<u>1</u>	<u>1</u>	<u>16.79</u>	<u>16.79</u>
	<u>7,989</u>	<u>8,048</u>	<u>100</u>	<u>100</u>

### (b) Treasury shares

This item corresponds to shares of the Company acquired by Subsidiaries. From total shares, 182,970,350 common class A shares and 12,234,901 class B shares are owned by subsidiary Empresa Minera Paragsha S.A.C., 23,442,345 common class A shares are owned by subsidiary Compañía Minera Chungar S.A.C., and 306,283 common class A shares are owned by subsidiary Compañía Industrial Limitada de Huacho S.A.

**(c) Legal reserve**

Pursuant to the General Law of Corporations, the legal reserve is established by transferring a minimum of 10% of net profit from each period, after deducting accumulated losses, until it achieves an amount equivalent to the fifth part of capital. In the absence of undistributed profit or freely available reserves, the legal reserve shall be applied to offset losses, and must be replaced. The legal reserve can be capitalized, but shall also be replaced.

**(d) Higher value in acquisition of treasury shares**

This item corresponds to the result obtained from the purchase and ownership of treasury shares, which are credited or debited into this account.

**(e) Unrealized earnings**

This item corresponds to unrealized profit (loss) of derivative financial instruments designated as hedging instruments (Note 10). This unrealized profit or loss derives from the fact that the price of commodities was agreed upon at a value higher or lower than their liquidation value, as applicable, and at a profit or loss for the effect of the fair value of the investment in equity instruments (Note 7).

**21. NET SALES**

During 2020 and 2019, revenue mainly includes sales of zinc, lead, silver and copper concentrates, as follows:

	<b>2020</b>	<b>2019</b>
	<b>US\$000</b>	<b>US\$000</b>
<b>Net sales per concentrate:</b>		
Zinc	237,321	421,247
Lead	147,575	165,626
Silver bars	63,113	75,520
Silver	31,019	39,277
Copper	39,247	36,732
Silver scrap	1,725	56
	<hr/>	<hr/>
	520,000	738,458
<b>Profit (loss) in:</b>		
Financial instruments	4,402	7,476
Embedded derivatives (Note 30(c))	5,201	(1,068)
Ajustment of open provisional liquidations	5,255	(1,288)
Delivery of concentrate according to agreed sales	611	-
	<hr/>	<hr/>
Total	535,469	743,578

The net sales of concentrates to customers per geographical area are presented below (without including the valuation effect of the embedded derivative and unrealized profit of hedging instruments):

	<b>2020</b>	<b>2019</b>
	<b>US\$000</b>	<b>US\$000</b>
Peru	345,662	534,069
Europe	127,877	63,535
Asia	41,079	126,412
America	5,382	14,442
	<hr/>	<hr/>
	520,000	738,458

As indicated in Note 1(e.1), the COVID-19 pandemic caused an adverse impact on the operations and results of the Company and Subsidiaries. Regarding the temporary shutdown of operations in 2020, Management estimated lower production of the Company of 67

thousands MT of zinc, 4.2 million ounces of silver and 17 thousand MT of lead, equivalent to US\$161 million of lower sales.

**(a) Sales concentration**

In 2020, the three most important customers represented 65% of total sales (80% of total sales in 2019). As of December 31, 2020, 30% of accounts receivable are related to these customers (53% as of December 31, 2019). The concentrates of the Company and Subsidiaries are sold to renowned companies in the country and abroad.

**(b) Sales commitments**

As of December 31, 2020, the Company and Subsidiaries hold commitments with related entities and third parties for sales of zinc, lead and copper concentrates for 1,044,177 WMT, 95,241 WMT and 3,866 WMT until 2025, for an approximate amount of US\$840,686, US\$229,531 and US\$17,651, respectively (1,002,268 WMT, 47,552 WMT and 14,070 WMT, respectively, as of December 31, 2019, for an approximate amount of US\$728,448, US\$79,359 and US\$50,095).

As of December 31, 2020 and from that date on, there are no commitments for the sale of Dore bars. As of December 31, 2019, the Company and Subsidiaries held commitments for the sale of Dore bars for 3,428,442 oz. for US\$69,597.

**22. COST OF SALES**

For the years ended December 31, cost of sales comprises the following:

	<b>2020</b>	<b>2019</b>
	<b>US\$000</b>	<b>US\$000</b>
Beginning balance of concentrates (Note 11)	11,214	15,347
Beginning balance of minerals (Note 11)	11,319	11,814
Services provided by third parties, energy and others	176,171	216,623
Consumption of supplies	82,165	111,185
Depreciation (Note 12 (b))	74,415	105,200
Depreciation of right-of-use assets (Note 13)	15,350	18,302
Labor	56,733	70,576
Amortization (Note 14 (b))	42,387	66,534
Purchase of minerals and concentrates	-	1,016
Others	3,026	2,339
Ending balance of concentrates (Note 11)	(14,209)	(11,214)
Ending balance of minerals (Note 11)	<u>(12,293)</u>	<u>(11,319)</u>
Cost of plant shutdown	41,493	19,130
Depreciation of plant shutdown (Note 12 (b))	22,774	3,032
Amortization of plant shutdown (Note 14 (b))	<u>2,721</u>	<u>1,420</u>
Total	<u>513,266</u>	<u>619,985</u>

### 23. ADMINISTRATIVE EXPENSES

For the years ended December 31, administrative expenses comprise the following:

	<u>2020</u> <u>US\$000</u>	<u>2019</u> <u>US\$000</u>
Personnel charges	14,485	19,291
Mails, telecommunications and other minor items	6,571	7,401
Services provided by contractors	39	7,328
Professional fees	6,641	6,835
Insurance	3,875	3,383
Leases	913	2,618
Personnel services	1,984	1,999
Operating rights - Penalties	800	1,930
Indemnities	909	1,649
Samples, analysis and supervision	237	1,378
Communications and information technology	1,045	1,265
Depreciation (Note 12 (b))	860	1,193
Salaries and bonuses of the Board of Directors	300	861
Amortization (Note 14 (b))	1,225	622
Depreciation of right-of-use assets (Note 13)	868	522
Total	<u>40,752</u>	<u>58,275</u>

### 24. SELLING EXPENSES

For the years ended December 31, selling expenses comprise the following:

	<u>2020</u> <u>US\$000</u>	<u>2019</u> <u>US\$000</u>
Freight	9,583	14,047
Services for the sale of concentrates	2,232	3,442
Sundry services	1,164	1,855
Services provided by contractors	602	1,171
Personnel expenses	851	904
Samples, analysis and supervision	627	789
Shipment expenses	86	419
Services provided by third parties	52	283
Leases	158	202
Depreciation (Note 12(b))	80	44
Impairment estimate for accounts receivable (Note 8)	-	43
Total	<u>15,435</u>	<u>23,199</u>

## 25. OTHER INCOME AND EXPENSES

For the years ended December 31, other income comprises the following:

	<u>2020</u>	<u>2019</u>
	US\$000	US\$000
<b>Other income:</b>		
Profit from fair value adjustment of investment in Cosco Shipping Ports Chancay Perú S.A.	-	18,288
Income from the sale of sundry supplies	6,810	11,130
Income from the sale of energy to third parties	12,750	10,701
Income from treatment services of minerals and others	8,107	10,417
Impairment recovery of minerals	5,449	-
Interests for returns of claims	-	4,736
Disposal of fixed assets	124	1,371
Insurance compensation	566	785
Effect for the update of the present value of the provision for mine closure and communities	-	630
Reversal of provision for lawsuits (Note 19)	2,639	80
Income from reversal of impairment of other accounts receivable	1,739	-
Others	8,723	8,702
	<u>46,907</u>	<u>66,840</u>
Total	46,907	66,840

For the years ended December 31, other expenses comprise the following:

	<u>2020</u>	<u>2019</u>
	US\$000	US\$000
<b>Other expenses:</b>		
Impairment of other accounts receivable (a)	(1,310)	(26,270)
Cost of sales of sundry supplies	(5,941)	(10,405)
Sundry non-deductible expenses	(2,968)	(8,843)
Depreciation (Note 12(a))	(4,554)	(3,987)
Cost of sales of energy	(6,936)	(6,396)
Cost of disposal of fixed assets	(151)	(5,635)
Provision for lawsuits (Note 19)	(2,800)	(5,627)
Consultancy for sale of TPCH (Cosco Shipping Ports Chancay Perú S.A.)	-	(4,903)
Obsolescence of supplies (Note 11)	(1,495)	(4,476)
Contribution for regulation OEFA and OSINERMINING	(1,319)	(3,935)
Adjustment of mine closure and communities	(2,232)	(2,484)
Cost of treatment service of minerals and others	(1,175)	(2,461)
Loss for valuation of investment in associate under the equity method	(890)	-
Amortization (Note 14 (b))	(262)	(484)
Operating rights - Penalties	(402)	(1,520)
Shortfall of supplies	(39)	(1,366)
Tax administrative penalties	(342)	(1,344)
Loss for stopping the classification of assets held for sale (Note 15)	(58,393)	-
Others	(6,138)	(6,205)
	<u>(97,347)</u>	<u>(96,341)</u>
Total	(97,347)	(96,341)

## 26. IMPAIRMENT OF NON-FINANCIAL ASSETS

In accordance with International Financial Reporting Standard 36 Impairment of non-financial assets, the Company and Subsidiaries updated their assessment of the recoverable value of long-term assets.

In 2020, as part of the impairment assessment of certain cash-generating units (CGU), the Company's Management determined a loss for the impairment estimate in Empresa Explotadora de Vinchos Ltda. S.A.C. for US\$8, Empresa Administradora Cerro S.A.C. for US\$2,631, and an adjustment to the impairment estimate in Compañía Minera Chungar S.A.C. for US\$8,020, with an impact on deferred income tax for US\$2,366.

In 2019, as a consequence of an adjustment to the discount rate, Management determined a reversal of the impairment estimate for US\$35,600 with an impact on deferred tax for US\$10,502. On the other hand, in the assessment of other cash-generating units (CGU), Management determined a loss for the impairment estimate in constructions and buildings of Egerba and Huanchor for US\$14,505 and US\$5,108, respectively, with an impact on deferred income tax for US\$4,279 and US\$1,507, respectively.

	2020		2019		Total US\$000
	Impairment estimate US\$000	Total US\$000	Impairment recovery US\$000	Impairment estimate US\$000	
<b>Cash-generating units:</b>					
Volcan	-	-	35,600	-	35,600
Chungar	(8,020)	(8,020)	-	-	-
Cerro	(2,631)	(2,631)	-	-	-
Vinchos	(8)	(8)	-	-	-
Vichaycocha	-	-	-	-	-
Huanchor	-	-	-	(5,108)	(5,108)
Egerba	-	-	-	(14,505)	(14,505)
Total	<u>(10,659)</u>	<u>(10,659)</u>	<u>35,600</u>	<u>(19,613)</u>	<u>15,987</u>
<b>Recorded in:</b>					
Property, plant and equipment (net) (Note 12)	(10,408)	(10,408)	-	(19,613)	(19,613)
Right-of-use assets (net) (Note 13)	(24)	(24)	-	-	-
Mining concessions, exploration and development costs and other intangibles (net) (Note 14)	<u>(227)</u>	<u>(227)</u>	<u>35,600</u>	<u>-</u>	<u>35,600</u>
Total	<u>(10,659)</u>	<u>(10,659)</u>	<u>35,600</u>	<u>(19,613)</u>	<u>15,987</u>

The impairment estimate was determined by the Company and Subsidiaries considering the value in use of each cash-generating unit (CGU). For the calculation of the value in use, flows were projected during the life of mine of each CGU. The nominal discount rate used, after taxes, was 5.5% and 6.4% as of December 31, 2020 and 2019, respectively. The Company and Subsidiaries' mining units are aligned to the life of the mine, which ranges from 2022 to 2038.

Management believes that the impairment estimate for non-financial assets is sufficient to cover the impairment risk appropriately at the date of the consolidated statement of financial position. In addition, Management considers that there would be no significant changes on the discount rate that may increase the impairment loss.

## 27. FINANCIAL INCOME AND EXPENSES

For the years ended December 31, financial income and expenses comprise the following:

	2020 US\$000	2019 US\$000
<b>Financial income</b>		
Exchange difference gain	-	1,113
Interests on loans	531	607
Dividends	1,084	-
Other financial income	<u>205</u>	<u>122</u>
Total	<u>1,820</u>	<u>1,842</u>
<b>Financial expenses</b>		
Exchange difference loss	(5,640)	-
Interests on issued bonds	(30,206)	(30,206)
Interests and expenses of financial obligations (a)	(10,072)	(8,905)
Effect for the update of the present value of mine closure (Note 33)	(3,123)	(3,598)
Interests on lease liabilities	(2,375)	(1,924)
Effect for the update of the present value of communities	(377)	(404)
Commissions and other expenses	<u>(4,680)</u>	<u>(3,349)</u>
Total	<u>(56,473)</u>	<u>(48,386)</u>

(a) As of December 31, 2020, this item includes prepaid swap expenses for US\$1,073 (US\$1,691 in 2019).

## 28. INCOME TAX

Income tax expenses shown in the consolidated statements of profit or loss comprise the following:

	<u>2020</u> <u>US\$000</u>	<u>2019</u> <u>US\$000</u>
<b>Income tax</b>		
Current	(4,474)	187
Deferred (a)	<u>9,575</u>	<u>(43,812)</u>
	5,101	(43,625)
Special mining tax (b)	(1,067)	(6,926)
Mining royalties (b)	(4,740)	(1,709)
Contribution to the mining retirement fund (c)	<u>-</u>	<u>(129)</u>
Total	<u>(706)</u>	<u>(52,389)</u>

- (a) The Company and Subsidiaries recognize the effects of temporary differences between the accounting basis and the tax basis. Regarding the deferred asset resulting from assets classified as held for sale (Notes 1(g) and 15) as of December 31, 2019, Management considered to not recognize it since the precedent conditions that are outside the control of the Company could not be met. Income tax is presented in the following table, according to the items that generated it:

			Additions (deductions)		Disposal or Cosco Shipping Ports Chancay Perú S.A.			Additions (deductions)		Balance as of December 31, 2020 US\$000
	Balance as of January 1, 2019 US\$000	Statement of profit or loss US\$000	Statement of changes in equity US\$000	Transfer of assets/ liabilities held for sale US\$000		Balance as of December 31, 2019 US\$000	Statement of profit or loss US\$000	Statement of changes in equity US\$000	Transfer of assets/ liabilities held for sale US\$000	
<b>Deferred asset</b>										
Depreciation expenses of property, plant and equipment (net)	44,064	3,410.00	-	(22,845)	-	24,629	18,642	-	22,845	66,116
Amortization expenses of mining rights and concessions, exploration, development and stripping costs	57	(3)	-	-	-	54	(2)	-	-	52
Provision for the closure of mining units	53,423	(16,706)	-	(679)	-	36,038	1,573	-	679	38,290
Lease liability	-	6,903.00	-	(53)	-	6,850	(3,574)	-	53	3,329
Fair value of derivative financial instruments	2,361	(2,123)	218	-	-	456	161	2,121	-	2,738
Provision for litigation	7,781	(251)	-	(162)	-	7,368	82	-	162	7,612
Obsolescence estimate for inventories	1,944	336	-	(356)	-	1,924	262	-	356	2,542
Recoverable tax loss	8,172	(7,199)	-	-	(973)	-	38,195	-	-	38,195
Embedded derivatives and sales adjustments	-	1,858	-	-	-	1,858	(1,858)	-	-	-
Effect for translation of tax benefits into U.S. dollars	2,581	1,625	-	(4,206)	-	-	(4,161)	-	4,206	45
Fair value of shares of Cementos Polpaico S.A.	2,847	-	2,727	-	-	5,574	-	(721)	-	4,853
Provision for community agreements	6,436	(1,427)	-	-	-	5,009	(429)	-	-	4,580
Compensable labor costs	-	-	-	-	-	-	1,298	-	-	1,298
Vacations payable	1,612	10	-	(50)	-	1,572	(89)	-	50	1,533
Provision for doubtful accounts	1,250	(1,158)	-	-	-	92	-	-	-	92
Others	2,622	(1,682)	-	(14)	-	926	111	-	14	1,051
<b>Total</b>	<b>135,150</b>	<b>(16,407)</b>	<b>2,945</b>	<b>(28,365)</b>	<b>(973)</b>	<b>92,350</b>	<b>50,211</b>	<b>1,400</b>	<b>28,365</b>	<b>172,326</b>
<b>Deferred liability</b>										
Use of amortization benefits of mining rights and concessions, exploration, development and stripping costs	(227,455)	(20,299)	-	60,449	-	(187,305)	(11,676)	-	(60,449)	(259,430)
Use of depreciation benefits of property, plant and equipment (net)	(12,423)	(355)	-	10,095	794	(1,889)	(4,874)	-	(10,095)	(16,858)
Effect for translation of tax benefits into U.S. dollars	(46,951)	10,844	-	10,850	-	(25,257)	(24,407)	-	(10,850)	(60,514)
Fair value of derivative financial instruments	(596)	(1,317)	-	-	-	(1,913)	1,899	-	-	(14)
Valuation of stockpiles	(2,287)	91	-	2,196	-	-	108	-	(2,196)	(2,088)
Fair value adjustment of investment in associate	-	(5,395)	-	-	-	(5,395)	263	-	-	(5,132)
Insurance compensation	(2,025)	-	-	-	-	(2,025)	-	-	-	(2,025)
Embedded derivatives	-	(38)	-	38	-	-	(296)	-	(38)	(334)
Revaluation surplus and profit in beneficial terms for business combination TPCCH (now Cosco Shipping Ports Chancay Perú S.A.)	(42,351)	-	-	-	42,351	-	-	-	-	-
Sales adjustments	(113)	113	-	-	-	-	(738)	-	-	(738)
Capitalization of expenses for syndicated loan	-	-	-	-	-	-	(745)	-	-	(745)
Capitalization of expenses for bond issuance	(416)	134	-	-	-	(282)	135	-	-	(147)
Others	(90)	(11,183)	-	-	-	(11,273)	(305)	-	-	(11,578)
<b>Total</b>	<b>(334,707)</b>	<b>(27,405)</b>	<b>-</b>	<b>83,628</b>	<b>43,145</b>	<b>(235,339)</b>	<b>(40,636)</b>	<b>-</b>	<b>(83,628)</b>	<b>(359,603)</b>
<b>Net asset (liability)</b>	<b>(199,557)</b>	<b>(43,812)</b>	<b>2,945</b>	<b>55,263</b>	<b>42,172</b>	<b>(142,989)</b>	<b>9,575</b>	<b>1,400</b>	<b>(55,263)</b>	<b>(187,277)</b>

Management believes that there is a reasonable certainty that the recoverability of the deferred income tax asset related to the tax loss of the Company and its Subsidiary Chungar recorded for US\$32,080 and US\$6,115, respectively, will occur as from 2021 through the generation of future taxable income, considering the option selected by the Company for offsetting losses and the business plan. For other subsidiaries that have tax losses, deferred income tax assets estimated in US\$72,261 were not recognized (US\$63,896 as of December 31, 2019) since there was no certainty about the recoverability of such deferred income tax asset.

(b) Mining royalties and special mining tax

On September 28, 2011, pursuant to Law No. 29788, the Law of the Mining Royalty (Law No. 28258) was modified and established that all companies that do not have an established regime will use the operating profit as a basis for the calculation of mining royalties. Tax rates range between 1% and 12%, depending on the operating margin. In no case, royalties shall be less than 1% of quarterly sales. The paid amount qualifies as a deductible expense for the calculation of income tax. Mining companies are required to submit a quarterly tax return and make payments in local currency in the last 12 working days of the second month after the month when the quarter ends.

In addition, the Special Mining Tax is created pursuant to Law No. 29789. The tax is imposed on the operating profit and is not applicable to companies that have entered into a tax stability agreement with the Peruvian government.

(c) Contribution to the mining retirement fund (FCJMMS for its Spanish acronym)

This contribution corresponds to the 0.5% of annual income generated by mining, metallurgical, and iron and steel companies, before taxes, to provide a complementary payment, in addition to retirement, disability and survival pensions of mining, metallurgical and iron and steel employees, pursuant to Law No. 29741, which is applicable since 2012.

The resources of FCJMMS (Complementary Mining, Metallurgical and Iron and Steel Retirement Fund) will be managed by the FCR (Consolidated Fund of Social Security Reserves), created by Legislative Decree No. 817, Social Security Regime Law under the responsibility of the Peruvian government.

SUNAT manages the contributions to FCJMMS, which will be transferred to the FCR to be part of the FCJMMS. The requesting parties collect these contributions at the Service Center of the Social Security Administration (ONP, for its acronym in Spanish).

## **Tax situation**

### **(i) Current tax framework**

The Company and Subsidiaries are subject to the Peruvian tax regime. The income tax rate applicable to companies for 2020 is 29.5%.

The last paragraph of article 52-A of the Income Tax Law (hereinafter ITL) establishes that the companies that distribute to domiciled natural entities dividends and any other form of profit distribution referred to in paragraph i) of article 24° of the ITL are imposed with a rate of 5%.

Article 54° establishes that natural entities that are not domiciled in the country will be subject to the withholding of 5% of their income from Peruvian source, such as dividends and other forms of profit distribution, except those indicated in paragraph f) of article 10° of the ITL.

Paragraph e) of article 56° establishes that the tax on legal entities that are not domiciled in the country will be determined by applying a rate of 5% when dividends are distributed and other forms of profit distribution received from legal entities.

However, any amount or payment in kind resulting in taxable third-category income that represents an indirect disposal of income that is not susceptible to subsequent tax control,

including amounts charged to undeclared expenses and income (alleged dividends), is subject to the income tax rate of 5% assumed by the entity in 2020.

Management of the Company and Subsidiaries believes that, as a result of the application of these standards, no significant contingencies will arise for the Company and Subsidiaries as of December 31, 2020.

**(ii) Open years to tax review**

The Tax Administration is authorized to review, and if applicable, correct the income tax determined by the Company and Subsidiaries in the last four years, counted from January 1 of the year following the year when the pertinent income tax return was submitted (open years to tax review). Income tax returns from 2016 to 2020 and value-added tax for the periods from December 2016 to December 2020 are subject to review by the Tax Administration.

<b>Entity</b>	<b>Open years to review by the Tax Administration - VAT</b>
Volcan Compañía Minera S.A.A.	2016 - 2020
Empresa Administradora Cerro S.A.C.	2016
Compañía Minera Chungar S.A.C.	2016 - 2020
Empresa Explotadora de Vinchos Ltda. S.A.C.	2016 - 2020
Empresa Minera Paragsha S.A.C.	2016 - 2020
Empresa Administradora Cerro S.A.C.	2016 - 2020
Minera San Sebastián AMC S.R.L.	2016 - 2020
Compañía Minera Vichaycocha S.A.C.	2016 - 2020
Hidroeléctrica Huanchor S.A.C.	2016 - 2020
Empresa de Generación Eléctrica Río Baños S.A.C.	2016 - 2020
Compañía Hidroeléctrica Tingo S.A.	2016 - 2020
Óxidos de Pasco S.A.C.	2016 - 2020
Roquel Global S.A.C.	2017 - 2020
Cía. Industrial Ltda. Huacho S.A.	2016 - 2020
Corporación Logística Chancay S.A.C.	2017 - 2020

<b>Entity</b>	<b>Open years to review by the Tax Administration - Income tax</b>
Volcan Compañía Minera S.A.A.	2015 - 2020
Empresa Administradora Cerro S.A.C.	2016
Compañía Minera Chungar S.A.C.	2016 - 2020
Empresa Explotadora de Vinchos Ltda. S.A.C.	2016 - 2020
Empresa Minera Paragsha S.A.C.	2016 - 2020
Empresa Administradora Cerro S.A.C.	2016 - 2020
Minera San Sebastián AMC S.R.L.	2016 - 2020
Compañía Minera Vichaycocha S.A.C.	2016 - 2020
Hidroeléctrica Huanchor S.A.C.	2016 - 2020
Empresa de Generación Eléctrica Río Baños S.A.C.	2016 - 2020
Compañía Hidroeléctrica Tingo S.A.	2016 - 2020
Óxidos de Pasco S.A.C.	2016 - 2020
Roquel Global S.A.C.	2017 - 2020
Cía. Industrial Ltda. Huacho S.A.	2016 - 2020
Corporación Logística Chancay S.A.C.	2017 - 2020

Since certain differences may arise from the interpretation that the Tax Administration has on regulations applicable to the Company and Subsidiaries, it is not possible to determine to date whether additional tax liabilities will arise or not from the reviews to be conducted. Any additional tax, charge and interest, if incurred, will be recognized in profit or loss for the year when such criteria differences with the Tax Administration are resolved. However, Management of the Company and Subsidiaries believes that no material liabilities will arise as a result of potential reviews.

**(iii) Transfer pricing**

The following new standards have been established:

- Comparable uncontrolled price (CUP) for commodities: It is confirmed that, for import or export of commodities, the market value will be provided by quotation (it was established before for operations with intermediaries or from, through or to tax havens). The detail of this standard is included in the regulations.

- New formal obligations: The Transfer Pricing Technical Study is no longer submitted and new tax returns are included:

<b>Tax return</b>	<b>Minimum annual income</b>	<b>Assumption</b>	<b>Details</b>	<b>Effective from</b>
Local report	S/9,890,000 (US\$2,997,000)	Operations with related entities	Transactions that give rise to taxable income or deductible expense	2018
Master report	S/86,000,000 (US\$26,000,000)	Taxpayers that are part of a Group	Organizational structure, description of the business, transfer pricing policies, financial and tax position	2018
Report per country	Not applicable	Taxpayers that are part of a Multinational Group	Global revenue distribution, paid taxes and activities of each entity of the multinational group	2019

The Company and Subsidiaries have submitted the local report, master report and report per country for 2019 to the Tax Administration and are now preparing the pertinent reports for 2020.

Based on the analysis of operations of the Company and Subsidiaries, Management and its legal advisors consider that no significant liabilities will arise for the consolidated financial statements as of December 31, 2020 and 2019, in relation to transfer pricing.

**(iv) Reconciliation of effective income tax rate with tax rate**

During 2020 and 2019, the effective income tax rate is different from the tax rate. The nature of this difference is due to certain items related to taxable profit, whose effects are summarized below:

	<b>2020</b>		<b>2019</b>	
	<b>Amount</b> <b>US\$000</b>	<b>Percentage</b> <b>%</b>	<b>Amount</b> <b>US\$000</b>	<b>Percentage</b> <b>%</b>
<b>Loss before income tax</b>	<b>(149,736)</b>	<b>100.00</b>	<b>(17,939)</b>	<b>100.00</b>
Income tax as per tax rate	(44,172)	29.50	(5,292)	29.50
Unrecognized deferred tax for tax losses	8,223	(5.49)	8,507	(47.42)
Adjustment of income tax from previous years	11,856	(7.92)	26,112	(145.56)
Impairment of non-recoverable non-financial assets	-	-	18,776	(104.67)
Translation effect of non-financial assets	28,569	(19.08)	(12,469)	69.51
Tax effects on non-deductible expenses and other minor items	(9,577)	6.40	7,991	(44.55)
Mining taxes	5,807	(3.88)	8,764	(48.85)
<b>Income tax expense and tax rate applicable to profit as per records</b>	<b>706</b>	<b>(0.47)</b>	<b>52,389</b>	<b>(292.04)</b>

**(v) Income tax payable**

The Company and Subsidiaries have a credit balance with the Tax Administration for US\$3,266 as of December 31, 2020 (US\$315 as of December 31, 2019) (Note 18).

**(vi) Significant changes to income tax regime in Peru**

After December 31, 2020, no significant changes have been made to the income tax regime in Peru, which may affect these consolidated financial statements. The standards and interpretations effective as of December 31, 2020 have been considered by Management when preparing these consolidated financial statements.

Following, the main amendments that will be applicable as from 2021:

#### Extension of the effective term of exemptions of Article 19 of the Income Tax Law

Pursuant to Law No. 31106, the effective term of exemptions established in Article 19 of the Income Tax Law has been extended until December 31, 2023.

#### Deductibility of interests according to EBITDA

Pursuant to Legislative Decree No. 1424, until December 31, 2020, the undercapitalization standard was applied for the calculation of income tax, for which only the interests on debts that do not exceed the coefficient of 3:1 of net equity of companies were deductible. The limit of 30% of EBITDA from the previous year will be applied as from 2021, in which the excess of interests is carried forward for the following four years.

By virtue of Supreme Decree No. 432-2020-EF, it has been determined that taxpayers that are incorporated or commence their activities in the year will consider the EBITDA of such year to calculate deductible financial expenses.

#### Special depreciation regime and modification of depreciation terms

Pursuant to Legislative Decree No. 1488, a special depreciation regime was created exceptionally and temporarily for taxpayers of the general income tax regime. In addition, this decree modified the depreciation terms by increasing the depreciation percentages for certain goods, in order to promote private investment and provide more liquidity due to the current economic situation for the effects of COVID-19.

For example, buildings and constructions intended exclusively for the taxable activity, which would have been acquired or built as from 2020 and with a construction progress of at least 80% at the closing of 2022, can be depreciated as from 2021 at an annual rate of 20%. The depreciation percentage in the general regime is 5%.

Properties, for example, machinery and equipment, as well as data processing equipment acquired during 2020 and 2021 can be depreciated as from 2021 at a rate of 20% and 50%, respectively, instead of 10% and 25% established in the general regime.

By virtue of Law No. 31107, Legislative Decree No. 1488 was modified in order to indicate that it is an optional regime for buildings and constructions. If taxpayers decide to depreciate buildings and constructions or their subsequent costs applying an annual depreciation rate of 20%, may apply such percentage until their total depreciation, except in the last year. The option indicated above should be exercised when the income tax return is submitted and cannot be changed.

#### Factoring companies

By virtue of Emergency Decree No. 013-2020, the standards established in the income tax law for the deduction of interests on debts by financial entities now apply to factoring companies.

#### Tax benefits that will still be applied in 2021 and 2022

- Exemption of capital gain for the transfer of securities in the Stock Market.
- The treatment of income tax applicable to transfer for the contribution of real estate to FIRBI and the withholding rate applicable to income from leases or assignment in use of real estate attributed for those funds.
- The additional deduction for expenses of scientific research, technological development and technological innovation projects of 50%, 75% or 115%, depending on whether the expenses are incurred directly by the taxpayer or through research centers domiciled in the country or not. The additional deduction cannot exceed the annual limit of 500 UIT in each case.

### Temporary tax on net assets (ITAN)

Law No. 31104 established exceptionally that ITAN corresponding to taxable year 2020 will be refunded in no later than 30 business days after the request is submitted. Once such period expires, the applicant may consider its request as approved. In this case, under its responsibility, SUNAT will refund this amount through a deposit in an account.

By virtue of Supreme Decree No. 417-2020-EF, the regulatory standard concerning the income tax credit and the accreditation of advance payments of income tax was modified, so the amount actually paid for ITAN can be used as credit for advance payments of income tax of tax periods from March to December of the taxable year for which ITAN was paid.

### Financial information that financial companies must provide to SUNAT for the fight against tax evasion

Supreme Decree No. 430-2020-EF and its appendix have approved the regulatory standard concerning the financial information that financial companies should provide to SUNAT in order to fight against tax evasion. This way, those companies should report to SUNAT every month about all accounts in the national financial system that have amounts equal to or higher than S/10,000.00.

### **(vii) Tax losses**

In accordance with Legislative Decree No. 945 and as established by Law No. 27513, tax loss carryforwards may be applied under one of the following options:

- (a) Offsetting total net third category loss from Peruvian source recorded in one taxable year, assigning this amount every year until its depletion, to net third category income to be obtained in the four immediately subsequent years, calculated as from the following year of its generation. The amount that is not offset once this period of time has passed will not be offset in subsequent years.
- (b) Offsetting total net third category loss from Peruvian source recorded in one taxable year, assigning this amount every year until its depletion, to 50% of net third category income to be obtained in immediately subsequent years.

Management of the Company and Subsidiaries Chungar, Cerro and Oxidos selected option (b) and other subsidiaries selected option (a) to offset tax losses, which consists in offsetting total net loss by assigning this amount every year until its depletion, to 50% of third category net income to be obtained in immediately subsequent years.

## **29. BASIC AND DILUTED EARNINGS PER SHARE**

Earnings per share are calculated dividing consolidated net profit attributable to common shareholders by the weighted-average of number of common shares outstanding at the date of the consolidated statement of financial position.

As of December 31, 2020 and 2019, diluted earnings per common share have not been calculated since there are no diluting common or investment shares, such as financial instruments and other contracts that give the right to obtain common or investment shares, so it is the same as basic earnings per share.

	<u>2020</u> <u>US\$000</u>	<u>2019</u> <u>US\$000</u>
Net loss	(150,442)	(70,328)
Average common shares - thousands of units	3,857,598	3,857,618
Net loss for the year for basic and diluted earnings per share	(0.039)	(0.018)

### 30. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

The Company and Subsidiaries use derivative instruments to reduce market risks to which they are exposed. Risks mainly refer to the effects of changes in the prices of traded metals, which vary constantly.

#### (a) Hedging operations of mineral prices

In 2020, the Company and Subsidiaries entered into price swaps contracts to ensure future flows provided by its sales, as well as treatment expenses that are subject to escalators that increase them in upward price scenarios. Critical terms of hedging operations have been negotiated with agents so they match the terms negotiated in related commercial agreements.

As of December 31, 2020 and 2019, the Company had the following hedging operations in force (Note 10):

#### As of December 31, 2020:

Metal	Total volume FMT/OZ	Period	Fair value US\$000
Zinc	31,740	January 2021 - December 2021	(6,415)
Total			(6,415)

#### As of December 31, 2019:

Metal	Total volume FMT/OZ	Period	Fair value US\$000
Zinc	18,437	January 2020 - March 2020	3,915
Total			3,915

#### (b) Interest rate hedge operations

In 2017, the Company and Subsidiaries entered into an interest rate swap contract to ensure future flows for payment of interests, whose amounts and maturity match the terms negotiated in the related loan.

As of December 31, 2020 and 2019, the Company had the following hedging operations payable in force (Note 10):

#### As of December 31, 2020:

Detail	Amount	Period	Fair value US\$000
Loan - Citibank N.A. New York	70,000	January 2017 - January 2022	(1,497)
Total			(1,497)

#### As of December 31, 2019:

Detail	Amount	Period	Fair value US\$000
Loan - Citibank N.A. New York	70,000	January 2017 - January 2022	(99)
Total			(99)

Cash flow and fair value hedges in force as of December 31, 2020 and 2019 were evaluated by the Company's Management as highly effective. Effectiveness has been measured by the flow compensation method since the Company's Management considers that this method best reflects the objective of risk management in relation to hedging.

**(c) Embedded derivative for changes in mineral price quotations in concentrate sale agreements**

As of December 31, 2020 and 2019, the provisional liquidations in metric tons (MT) of zinc, lead and copper, and ounces (Oz.) of silver held at those dates, their final liquidation periods and the fair value of embedded derivatives, are shown below:

**As of December 31, 2020:**

Concentrate	Quantity DMT/OZ	Quotation period	Fair value US\$000
<b>Receivable</b>			
Zinc	21,229	January 2021 - February 2021	28
Lead	3,349	January 2021 - February 2021	431
Copper	860	January 2021 - February 2021	284
Silver	947	January 2021	345
Total			<u>1,088</u>

**As of December 31, 2019:**

Concentrate	Quantity DMT/OZ	Quotation period	Fair value US\$000
<b>Receivable</b>			
Zinc	101,262	January 2020	183
Lead	102,505	January - March 2020	381
Copper	9,509	January 2020	158
Silver	24,522	January - March 2020	17
Total			<u>739</u>
<b>Payable</b>			
Zinc	233,355	January - May 2020	<u>(4,943)</u>
Total (net)			<u>(4,204)</u>

As of December 31, 2020 and 2019, fair values of embedded derivatives generated a gain of US\$5,201 and a loss of US\$1,068, respectively, and are shown in item "Net sales" of the consolidated statement of profit or loss (Note 21). Future mineral price quotations of the dates when open positions as of December 31, 2020 and 2019 are expected to be liquidated are obtained from the publications of the London Metal Exchange.

### 31. INFORMATION PER BUSINESS SEGMENT

The Company organizes its activities in six business segments: Volcan, Chungar, Cerro, Oxidos, investments, energy and other non-reportable segments.

The contributions of each business segment mainly derive from the net margin resulting from the production and sale of zinc, lead, copper or bulk concentrates, the production and sale of Dore bars, revenue from dividends received from investments in equity instruments, revenue from the lease of properties, and the sale of energy and power.

- Volcan: production and sale of concentrates produced in mining unit of Yauli, which comprises mines San Cristobal, Carahuacra, Andaychagua and Ticlio, Carahuacra Norte open pit and Victoria, Andaychagua and Mahr Tunel concentration plants.
- Chungar: production and sale of concentrates produced in mining units of Chungar and Alpamarca. Chungar comprises mines Animon and Islay and the Animon concentration plant. Alpamarca comprises Alpamarca open pit, mine Rio Pallanga and Alpamarca plant.
- Cerro: production and sale of concentrates produced in mining unit of Cerro, which comprises polymetallic stockpiles and San Expedito and Paragsha concentration plants.
- Oxidos: treatment of oxidized minerals in mining unit of Oxidos, which comprises oxide stockpiles, oxides in site, pyrite stockpiles and the Oxidos leach pad.
- Investments: include operations of its Subsidiary Empresa Minera Paragsha S.A.C.
- Energy: includes operations in hydroelectric power plants Huanchor, Tingo and Rucuy.
- Others: include operations of port, non-operating and other subsidiaries.

Data of interest per business segment as of December 31, 2020 and 2019 is presented in the tables below:

**As of December 31, 2020:**

	<b>Volcan</b>	<b>Chungar</b>	<b>Cerro</b>	<b>Óxidos</b>	<b>Investment</b>	<b>Energy</b>	<b>Others</b>	<b>Elimination</b>	<b>Total</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>adjustments</b>	<b>US\$000</b>
								<b>US\$000</b>	<b>US\$000</b>
Total assets	2,259,714	728,332	53,133	198,294	256,421	139,382	35,247	(1,597,582)	2,072,942
Total liabilities	1,267,956	447,917	144,197	38,759	85,942	51,646	49,765	(430,161)	1,656,021
Sales	262,641	191,353	39,941	64,990	-	13,136	-	(36,592)	535,469
Gross profit	7,806	11,277	(7,588)	8,128	-	4,176	-	(1,596)	22,203
Operating expenses	(56,437)	(33,330)	(12,684)	(5,498)	(927)	(4,206)	(4,647)	(46,464)	(164,193)
Other operating income	46,752	6,291	14,599	621	146	2,902	2,654	(27,058)	46,907
Operating profit (loss)	(4,413)	(15,762)	(5,673)	(2,118)	(781)	2,872	(6,083)	(63,125)	(95,083)
Net loss for the year	(38,895)	(16,607)	(13,555)	(4,992)	(329)	(2,447)	(10,492)	(63,125)	(150,442)
<b>Detail of sales</b>									
Local sales	221,459	115,893	31,415	-	-	13,136	-	(36,241)	345,662
International sales	31,990	69,383	8,127	64,838	-	-	-	-	174,338
Embedded derivatives, fair value of provisional liquidation and liquidated financial instruments	9,192	6,077	399	152	-	-	-	(351)	15,469
	262,641	191,353	39,941	64,990	-	13,136	-	(36,592)	535,469

**As of December 31, 2019:**

	<b>Volcan</b>	<b>Chungar</b>	<b>Cerro</b>	<b>Óxidos</b>	<b>Investment</b>	<b>Energy</b>	<b>Others</b>	<b>Elimination</b>	<b>Total</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>adjustments</b>	<b>US\$000</b>
								<b>US\$000</b>	<b>US\$000</b>
Total assets	2,256,785	850,616	78,807	260,620	270,589	148,344	42,658	(1,747,818)	2,160,601
Total liabilities	1,222,579	549,735	156,316	96,093	85,662	110,190	52,197	(682,900)	1,589,872
Sales	390,379	260,462	50,890	75,576	-	11,393	-	(45,122)	743,578
Gross profit (loss)	64,816	57,140	10,268	11,927	-	4,197	-	(1,173)	147,175
Operating expenses	(283,346)	(52,141)	(57,317)	(25,255)	(5,948)	(24,371)	(43,975)	271,343	(221,010)
Other operating income	129,220	10,178	12,935	2,490	10	3,785	1,587	(57,765)	102,440
Operating profit (loss)	89,310	(15,177)	34,114	10,838	5,938	(17,505)	76,283	(155,196)	28,605
Net profit (loss) for the year	(138,111)	(7,820)	(50,993)	(10,289)	(10,999)	(34,173)	(42,047)	224,104	(70,328)
<b><u>Detail of sales</u></b>									
Local sales	329,828	202,492	35,566	-	-	11,393	-	(45,209)	534,070
International sales	56,895	56,384	15,534	75,576	-	-	-	-	204,389
Embedded derivatives, fair value of provisional liquidation and liquidated financial instruments	3,656	1,586	(210)	-	-	-	-	87	5,119
	390,379	260,462	50,890	75,576	-	11,393	-	(45,122)	743,578

## **32. COMMITMENTS AND CONTINGENCIES**

### **(a) Contingencies**

Based on the opinion of their external and internal legal advisors, the Company and Subsidiaries' Management has reviewed all tax, labor, civil, administrative and other proceedings, and has determined and recorded a provision for probable contingencies for US\$27,596, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2020 (US\$20,273 as of December 31, 2019). The Company's Management and its legal advisors believe that this provision covers probable contingencies sufficiently.

In relation to possible contingencies, external and internal legal advisors of the Company and Subsidiaries determined an amount of US\$38,352 (US\$39,695 as of December 31, 2019), which corresponds to several proceedings addressed by the Company.

The detail of contingencies of the Company and Subsidiaries are summarized below:

#### **(a.1) Volcan Compañía Minera S.A.A.**

Based on the opinion of its external and internal legal advisors, the Company's Management has reviewed all tax, labor, civil, administrative and other proceedings, and has determined and recorded a provision for probable contingencies for US\$16,459, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2020 (US\$15,683 as of December 31, 2019). The Company's Management and its legal advisors believe that this provision covers probable contingencies sufficiently.

In relation to possible contingencies, external and internal legal advisors of the Company determined an amount of US\$25,208 (US\$31,399 as of December 31, 2019), which corresponds to several proceedings addressed by the Company.

#### **Civil and labor proceedings**

As of December 31, 2020, certain labors lawsuits have been filed against the Company for US\$7,201 (US\$7,391 as of December 31, 2019), which have been classified as probable and are presented in item "Provisions" of the consolidated statement of financial position. Contingencies classified as possible amount to US\$11,535 (US\$16,600 as of December 31, 2019) for compensations for occupational disease, refund of social benefits, payment of profit sharing, reinstatement of employees and others.

#### **Tax proceedings**

As of December 31, 2020 and 2019, the Company has not yet resolved some administrative proceedings with the National Superintendence of Tax Administration (SUNAT) and the Tax Court for certain tax determination resolutions, fine and interest resolutions.

Tax determination resolutions, fine and interest resolutions correspond to criteria differences in the determination of tax bases for the settlement of third-category income tax and value-added tax from 1998 to 2014, and according to the National Superintendence of Tax Administration (SUNAT), to the omitted payment of taxes.

The Company's Management considers that these proceedings represent a probable contingency of US\$3,750, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2020 (US\$4,440 as of December 31, 2019).

In addition, other tax proceedings were classified as possible, which include expenses disallowed by the National Superintendence of Tax Administration (SUNAT) for not complying with the causality principle or for not having the pertinent support, among other related concepts. These possible contingencies amount to US\$13,554 as of December 31, 2020 (US\$14,599 as of December 31, 2019).

### ***Sanctioning administrative proceedings and contentious-administrative actions***

The Company has not yet resolved certain environmental, safety, occupational health and labor safety proceedings with the following regulatory entities: National Water Authority - Local Water Authorities, Employment and Work Promotion Ministry (National Superintendence of Labor Supervision), Ministry of Energy and Mines, Ministry of Production, Supervisory Entity of Investment in Energy and Mining (OSINERGMIN) and the Environmental Supervision and Evaluation Entity (OEFA) for alleged breach of several environmental standards and the provisions of the Safety and Occupational Health Regulations, at a level of probable contingencies presented in item "Provisions" of the consolidated statement of financial position for US\$5,508 (US\$3,852 as of December 31, 2019), and possible contingencies for US\$119 as of December 31, 2020 (US\$200 as of December 31, 2019).

Based on a legal and factual basis, the Company's Management and its legal advisors believe that no additional significant liabilities will arise for the Company from the final resolution of all these proceedings.

#### ***(a.2) Compañía Minera Chugar S.A.C. (Chungar)***

Based on the opinion of its external and internal legal advisors, Management has reviewed all tax, labor, civil, administrative and other proceedings, and has determined and established a provision for probable contingencies for US\$3,372, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2020 (US\$3,802 as of December 31, 2019). Management and its legal advisors believe that this provision covers probable contingencies sufficiently.

In relation to possible contingencies, external legal advisors determined an amount of US\$11,466 as of December 31, 2020 (US\$3,506 as of December 31, 2019), which corresponds to several proceedings addressed by the Subsidiary.

#### ***Civil and labor proceedings***

As of December 31, 2020, certain labor lawsuits have been filed against Chungar for US\$596 (US\$759 as of December 31, 2019), which have been classified as probable and are presented in item "Provisions" of the consolidated statement of financial position. Contingencies classified as possible amount to US\$4,678 (there were no contingencies classified as possible as of December 31, 2019) for payment of compensations for damages for occupational disease, refund of social benefits, and others under appeal and/or judgment process.

#### ***Tax proceedings***

As of December 31, 2020 and 2019, Chungar has not yet resolved some administrative proceedings with the National Superintendence of Tax Administration (SUNAT) and the Tax Court for certain tax determination resolutions, fine and interest resolutions.

Tax determination resolutions, fine and interest resolutions mainly correspond to criteria differences in the determination of tax bases for the settlement of third-category income tax and value-added tax from 2001 to 2005 and from 2012 to 2015, and according to the National Superintendence of Tax Administration (SUNAT), to the omitted payment of taxes. To this date, these proceedings have been contested at an administrative level as a claim to the National Superintendence of Tax Administration (SUNAT) and an appeal to the Tax Court, as well at a legal level before the Judiciary.

In addition, the Subsidiary has some tax administrative proceedings that were classified as probable contingencies and are presented in item "Provisions" of the consolidated statement of financial position for US\$349 as of December 31, 2020 (US\$509 as of December 31, 2019).

Finally, there are other contingencies that have derived from concept discrepancies with the Tax Administration and have been classified as possible for US\$6,467 as of December 31, 2020 (US\$3,506 as of December 31, 2019).

### ***Sanctioning administrative proceedings and contentious-administrative actions***

The Subsidiary has not yet resolved certain environmental, safety, occupational health and labor safety proceedings with the following regulatory entities: National Water Authority - Local Water Authorities, Employment and Work Promotion Ministry (National Superintendence of Labor Supervision), Ministry of Energy and Mines, Ministry of Production, OSINERGMIN and OEFA for alleged breach of several environmental standards and safety and occupational health regulations, at a level of probable contingencies for US\$2,427, presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2020 (US\$2,534 as of December 31, 2019).

Contingencies classified as possible amount to US\$321 (there were no contingencies classified as possible as of December 31, 2019).

#### ***(a.3) Empresa Administradora Cerro S.A.C.***

Based on the opinion of its external and internal legal advisors, Management has reviewed all tax, labor, civil, administrative and other proceedings, and has determined and established a provision for probable contingencies for US\$5,475, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2020 (US\$6,615 as of December 31, 2019). Management and its legal advisors believe that this provision covers probable contingencies sufficiently.

In relation to possible contingencies, external legal advisors determined an amount of US\$984 (US\$4,052 as of December 31, 2019), which corresponds to several proceedings addressed by the Subsidiary.

#### ***Labor proceedings***

As of December 31, 2020, certain labors lawsuits have been filed against the Subsidiary for US\$2,869 (US\$3,397 as of December 31, 2019), which have been classified as probable and are presented in item "Provisions" of the consolidated statement of financial position. Contingencies classified as possible amount to US\$907 (US\$3,600 as of December 31, 2019) for payment of compensations for damages for occupational disease, refund of social benefits, payment of production bonus, and others under appeal and/or judgment process.

#### ***Tax proceedings***

As of December 31, 2020 and 2019, the Subsidiary has not yet resolved some administrative proceedings with the National Superintendence of Tax Administration (SUNAT) and the Tax Court for certain tax determination resolutions, fine and interest resolutions.

Tax determination resolutions, fine and interest resolutions correspond to the omitted payment of taxes according to the National Superintendence of Tax Administration (SUNAT), as well as criteria differences in the determination of tax bases for the settlement of third-category income tax. To this date, these proceedings have been contested at an administrative level.

In addition, the Subsidiary has some tax administrative proceedings that were classified as probable contingencies and are presented in item "Provisions" of the consolidated statement of financial position for US\$1,015 as of December 31, 2020 (US\$1,109 as of December 31, 2019).

Contingencies classified as possible amount to US\$27 (there were no contingencies classified as possible as of December 31, 2019).

### ***Sanctioning administrative proceedings and contentious-administrative actions***

The Subsidiary has not yet resolved certain environmental, safety, occupational health and labor safety proceedings with the following regulatory entities: National Water

Authority - Local Water Authorities, Employment and Work Promotion Ministry (National Superintendence of Labor Supervision), Ministry of Energy and Mines, Ministry of Production, OSINERGMIN and OEFA for alleged breach of several environmental standards and the provisions of the Safety and Occupational Health Regulations, at a level of probable contingencies for US\$1,591, presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2020 (US\$2,108 as of December 31, 2019) and contingencies classified as possible for US\$50 (US\$452 as of December 31, 2019).

In 2019, pursuant to the commercial agreement entered into with Cerro de Pasco Resources Inc. and in compliance with IFRS 5 Non-current assets held for sale and discontinued operations, accumulated balances recorded for the provision for contingencies of the company were reclassified as liabilities directly associated with assets classified as held for sale (Note 15).

***(a.4) Empresa Explotadora de Vinchos Ltda. S.A.C.***

Based on the opinion of its external and internal legal advisors, Management has reviewed all tax, labor, civil, administrative and other proceedings, and has determined and established a provision for probable contingencies for US\$914, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2020 (US\$626 as of December 31, 2019) and contingencies classified as possible for US\$694 (US\$738 as of December 31, 2019). Management and its legal advisors believe that this provision covers probable contingencies sufficiently.

***Tax proceedings***

As of December 31, 2020, some tax proceedings have been filed against the Company, which include expenses disallowed by the National Superintendence of Tax Administration (SUNAT), classified as possible for US\$694 (US\$738 as of December 31, 2019).

***(a.5) Hidroeléctrica Huanchor S.A.C.***

Based on the opinion of its external and internal legal advisors, Management has reviewed all tax, labor, civil, administrative and other proceedings, and has determined and established a provision for probable contingencies for US\$114, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2020 (US\$122 as of December 31, 2019). Management and its legal advisors believe that this provision covers probable contingencies sufficiently.

***(a.6) Óxidos de Pasco S.A.C.***

***Sanctioning administrative proceedings and contentious-administrative actions***

The Subsidiary has not yet resolved certain environmental and safety proceedings with the following regulatory entities: OSINERGMIN and OEFA for alleged breach of several environmental standards and the provisions of the Safety and Occupational Health Regulations, at a level of probable contingencies for US\$1,031, presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2020.

In 2019, pursuant to the commercial agreement entered into with Cerro de Pasco Resources Inc. and in compliance with IFRS 5 Non-current assets held for sale and discontinued operations, accumulated balances recorded for the provision for contingencies of the company were reclassified as liabilities directly associated with assets classified as held for sale (Note 15).

**(a.7) Compañía Minera Vichaycocha S.A.C.**

**Sanctioning administrative proceedings and contentious-administrative actions**

The Subsidiary has not yet resolved certain environmental proceedings with OSINERGMIN for alleged breach of several standards, at a level of probable contingencies for US\$227, presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2020.

**(b) Guarantees**

The Company and Subsidiaries have letters of guarantee with financial entities in favor of the following entities. These letters expired in January 2021 and were renewed for one additional year until 2022:

- General Mining Board of the MEM that guarantees the compliance with the applicable Mine Closure Plans of the Company and Subsidiaries for US\$90,677 (US\$86,256 in 2019).
- National Superintendence of Tax Administration (SUNAT) for US\$33,831 to guarantee debts and obligations held with the Tax Administration, maturing in 2020 (US\$34,498 in 2019).
- Third parties that guarantee the compliance with payments for the provision of services for US\$2,395 (US\$1,081 in 2019).

**33. ENVIRONMENTAL OBLIGATIONS**

**Provision for the closure of mining units**

The Congress of the Republic of Peru issued Law No. 28090 on October 14, 2003. The purpose of this Law is to regulate the obligations and procedures to be followed by mining owners for the preparation, presentation and implementation of Mine Closure Plans, as well as the constitution of pertinent environmental guarantees, which ensure the compliance with investments, according to environmental protection, preservation and restoration principles. The Regulations of Law No. 28090 were published on August 16, 2005.

In 2020 and 2019, the Company and Subsidiaries submitted the updates of the Mine Closure Plan of their main mining units to the Ministry of Energy and Mines, and are expecting to receive the pertinent approvals of plans of certain mining units.

As of December 31, 2020, the Company and Subsidiaries recognized a liability of US\$176,514 for all their mining units (US\$133,564 as of December 31, 2019), in relation to their obligations for future mine closure:

	<b>2020</b>	<b>2019</b>
	<b>US\$000</b>	<b>US\$000</b>
<b>Mining unit</b>		
Cerro de Pasco	35,386	-
Óxidos	2,381	-
Chungar	37,009	35,559
Carahuacra	30,647	29,963
San Cristóbal	27,858	27,187
Andaychagua	15,503	15,428
Alpamarca	12,368	10,269
Vinchos	7,598	7,523
Ticlio	4,029	3,756
Vichaycocha	2,828	3,503
Toruna	554	35
San Sebastian	353	341
Total (Note 19)	<u>176,514</u>	<u>133,564</u>

The movement of the provision for the closure of mining units and exploration projects is presented below:

	<b>US\$000</b>
<b>Balance as of January 1, 2019</b>	<b>183,697</b>
Changes in estimates	(7,701)
Changes in estimates - Cerro and Óxidos	(3,760)
Update of present value of provision (Note 27)	3,598
Payments	(5,013)
Transfer of assets/liabilities held for sale (IFRS 5) (Note 15)	<u>(37,257)</u>
<b>Balance as of December 31, 2019</b>	<b>133,564</b>
Changes in estimates	5,168
Update of present value of provision (Note 27)	3,123
Payments	(3,108)
Transfer of assets/liabilities held for sale (IFRS 5) (Note 15)	<u>37,767</u>
<b>Balance as of December 31, 2020</b>	<b>176,514</b>

The provision for the closure of mining units represents the present value of closure costs that are expected to be incurred between 2020 and 2051. For 2020, the discount rate used for the calculation of the present value is 1.6% (1.8% in 2019). Changes in estimates consider changes in the rate, the inclusion of new units to the closure plan, the modification of budgets and elimination of contingency costs. The estimate of costs for the closure of mining units is based on the study prepared by an independent advisor, which complies with current environmental regulations. The provision for the closure of mining units mainly corresponds to activities that should be performed for the restoration of the mining unit and areas affected by mining activities. Main works to be performed are earthmoving works, revegetation works and disassembly of plants. Closure budgets are regularly reviewed to take into account any significant change in conducted studies. However, closure costs of the mining unit will depend on market prices of required closure works that will reflect future economic conditions.

In addition, the time when disbursements will be made will depend on the useful life of the mine, which will be based on the reserves and resources of the mining units.

As of December 31, 2020, the nominal value of the provision for the closure of mining units is US\$189,873, which has been discounted using the annual risk-free rate of 1.6%, resulting in a net present value of US\$176,514 (nominal value of US\$146,948 as of December 31, 2019, using an annual risk-free rate of 1.8%, resulting in a net present value of US\$133,564). The Company and Subsidiaries consider that this liability is sufficient to comply with environmental protection laws in force. approved by the Ministry of Energy and Mines.

### **34. REMUNERATIONS PAID TO KEY PERSONNEL**

The remuneration of the key personnel of the Company and Subsidiaries for the years ended December 31, 2020 and 2019 amounted to US\$8,816 and US\$11,646, respectively, and corresponds to salaries, benefits and social charges, bonuses and extraordinary allowances.

### **35. NON-MONETARY TRANSACTIONS AND STATEMENT OF CASH FLOWS**

Transactions that have not resulted in cash flows were the following:

#### **2020**

- Adjustment of the present value of the provision for the closure of mining units for US\$4,632.
- Adjustment of the present value of the liability with communities for US\$427.
- Assets acquired under finance leases for US\$10,833.
- Acquisition of property, plant and equipment, which have not been paid yet, for US\$26,265.

- Reclassification from assets classified as held for sale to property, plant and equipment for US\$129,771, and to mining concessions, exploration and development costs, and other intangibles, which have not been paid yet, for US\$1,941.
- Acquisition of mining concessions, exploration and development costs and other intangibles, which have not been paid yet, for US\$17,852.

## 2019

- Adjustment of the present value of the provision for the closure of mining units for US\$7,701.
- Adjustment of the present value of the liability with communities for US\$18,758.
- Derecognition of Cosco Shipping Ports Chancay Perú S.A. for US\$131,599.
- Assets acquired under finance leases for US\$8,742.
- Acquisition of property, plant and equipment, which have not been paid yet, for US\$30,481.
- Acquisition of mining concessions, exploration and development costs and other intangibles, which have not been paid yet, for US\$28,071.

## 36. LEASES

### *The Company as lessee*

Operating leases are related to leases of minor machinery and equipment for up to 3 years. The Company and Subsidiaries do not have operating lease agreements that contain clauses for the review of market rentals. The Company and Subsidiaries do not have the option to purchase leased assets at the expiry date of lease terms.

Payments recognized for this concept were US\$25,094 and US\$30,595 in 2020 and 2019, respectively. The commitments for operating leases are shown below:

	<u>2020</u> <u>US\$000</u>	<u>2019</u> <u>US\$000</u>
1 year or less	13,722	15,022
More than 1 to 3 years	<u>8,209</u>	<u>6,719</u>
	<u>21,930</u>	<u>21,741</u>

The carrying amount of right-of-use assets and liabilities recognized and the movements generated in the year are presented in Note 13 and Note 16, respectively.

In addition, the analysis of lease liabilities below is presented in Note 16:

	<u>2020</u> <u>US\$000</u>
Year 2021	9,804
Year 2022	1,720
Year 2023	<u>218</u>
	<u>11,742</u>
Less: Unaccrued interests	<u>(336)</u>
	<u>11,406</u>
Maturity:	
Long term	1,806
Short term	<u>9,600</u>
	<u>11,406</u>

### 37. SUBSEQUENT EVENTS

We are not aware of any subsequent event that has occurred between the closing date and authorization date of these consolidated financial statements, which may significantly affect them, except for the following:

- On January 19, 2021, the Board of Directors unanimously approved to propose at the Shareholders' Meeting: a) an issuance of bonds for up to US\$535 million and the preparation of a partial or total buyback offer of existing bonds maturing in 2022, and b) a capital increase up to the amount in soles equivalent to US\$400 million through new monetary contributions to be made in the third quarter of 2021.
  - Pursuant to Supreme Decree No. 008-2021, on January 27, 2021, the Peruvian government extended the national state of emergency for 28 days, from February 1 to 28, 2021, and established restrictions to address the pandemic (COVID-19). Commercial activities were not restricted. On February 27, 2021, Supreme Decree No. 036-2021 established lifting the quarantine in Metropolitan Lima, Callao and other provinces at extreme alert risk.
  - On February 1, 2021, the Shareholders' Meeting unanimously approved the issuance of obligations for up to US\$535 million or its equivalent in soles, to be placed in the international and/or local market, in order to finance a significant portion of the current debt. It also approved the preparation of a buyback offer of existing bonds known as "5.375% Senior Notes Due 2022" for up to US\$535 million.
  - On February 5, 2021, the Company informed the Superintendence of Securities Market (SMV) about the issuance of US\$475 million at an annual coupon rate of 4.375% with a settlement date on February 11, 2021 and maturity date on February 11, 2026. The Company requested the incorporation of bonds in the Official List of the Luxembourg Stock Exchange and the admission to trading in the Euro MTF Market of the Luxembourg Stock Exchange.
  - On February 17, 2021, the Company (i) partially repaid senior notes maturing in 2022 for US\$125 million, (ii) fully repaid the syndicated loan for US\$303 million, including accrued interests, and (iii) repaid other medium-term loans for US\$34 million. Remaining balance of funds received from the new issuance of bonds was destined for expenses related to the operation for US\$13 million.
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