VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

Independent Auditors' Report

Consolidated Financial Statements

For the Years Ended
December 31, 2021 and 2020
(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, 2021 and 2020, and the consolidated statements of profit or loss and other comprehensive income, 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 (Board of Deans of the Peruvian 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 Company´s internal control. 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, 2021 and 2020, 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.

Other matters

7. 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, Mazuelos y Asociados S. Civil de R.L.

Countersigned by:

______________________(Partner)
Karla Velásquez Alva
CPC Registration No. 21595

March 2, 2022

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2021 AND 2020
(In thousands of U.S. dollars (US$000))

	Notes	2021 US$000	2020 US$000
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	6	231,187	114,646
Trade accounts receivable (net)	8	43,806	28,781
Other accounts receivable (net)	9	55,971	89,033
Other financial assets	10	-	223
Inventories (net)	11	59,824	60,961
Total current assets		390,788	293,644
NON-CURRENT ASSETS:			
Other accounts receivable	9	17,445	9,477
Financial investments and investments in associates	7	187,751	195,346
Inventories (net)	11	6,642	7,077
Property, plant and equipment (net)	12	756,519	772,063
Right-of-use assets (net)	13	4,385	4,285
Mining concessions, exploration and development costs and other intangibles (net)	14	801,983	790,553
Total non-current assets		1,774,725	1,778,801
TOTAL		2,165,513	2,072,445

	Notes	2021 US$000	2020 US$000
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Bank overdrafts		1,168	10,070
Financial obligations	15	451,144	36,682
Trade accounts payable	16	229,693	222,640
Other accounts payable	17	70,688	56,283
Other financial liabilities	10	2,241	15,107
Total current liabilities		754,934	340,782
NON-CURRENT LIABILITIES:			
Financial obligations	15	485,311	888,615
Other accounts payable	17	6,400	9,600
Provisions	18	262,370	229,250
Deferred income tax	27 (a)	199,831	187,277
Total non-current liabilities		953,912	1,314,742
Total liabilities		1,708,846	1,655,524
EQUITY:			
Share capital	19 (a)	1,134,300	1,134,300
Higher value in acquisition of treasury shares	19 (b)	(173,234)	(173,231)
Treasury shares	19 (c)	(60,934)	(60,930)
Legal reserve	19 (d)	10,695	11,755
Other comprehensive income	19 (e)	(9,504)	(9,265)
Retained earnings		(444,656)	(485,708)
Total equity		456,667	416,921
TOTAL		2,165,513	2,072,445

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, 2021 AND 2020
(In thousands of U.S. dollars (US$000))

	Notes	2021 US$000	2020 US$000
Revenue	20	937,399	535,469
Cost of sales	21	(656,031)	(513,266)
Gross profit		281,368	22,203
Administrative expenses	22	(57,680)	(40,752)
Selling expenses	23	(21,125)	(15,435)
Other income	24	42,505	46,783
Other expenses	24	(79,472)	(97,223)
Impairment loss of long-lived assets	25	(13,397)	(10,659)
Operating profit (loss)		152,199	(95,083)
Financial income	26	3,179	1,820
Financial expenses	26	(61,591)	(56,473)
Profit (loss) before income tax		93,787	(149,736)
Income tax	27	(53,913)	(706)
Net profit (loss) for the year		39,874	(150,442)
Weighted average of the number of outstanding shares (in thousands)	28	3,857,594	3,857,598
Basic and diluted earnings (loss) per share	28	0.010	(0.039)

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 INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(In thousands of U.S. dollars (US$000))

	2021 US$000	2020 US$000
Net profit (loss) for the year	39,874	(150,442)
OTHER COMPREHENSIVE INCOME:		
Items that can be subsequently reclassified to profit or loss:		
Unrealized (loss) profit of investments in equity instruments	(7,630)	2,445
Unrealized profit (loss) of derivative financial instruments	7,290	(7,192)
Deferred income tax	100	1,400
Total other comprehensive income that can be subsequently reclassified to profit or loss	(239)	(3,347)
Total comprehensive income, net of income tax	39,635	(153,789)

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, 2021 AND 2020
(In thousands of U.S. dollars (US$000))

	Share capital US$000 Note 19 (a)	Treasury shares US$000 Note 19 (d)	Legal reserve US$000 Note 19 (d)	Higher value in acquisition of treasury shares US$000 Note 19 (c)	Other comprehensive income US$000 Note 19 (e)	Retained earnings US$000	Total equity US$000
Balance as of January 1, 2020	1,134,300	(60,926)	11,755	(173,217)	(5,918)	(335,265)	570,729
Comprehensive income							
Net loss for the year	-	-	-	-	-	(150,442)	(150,442)
Other comprehensive income for the year	-	-	-	-	(3,347)	-	(3,347)
Total comprehensive income for the year	-	-	-	-	(3,347)	(150,442)	(153,789)
Adjustments	-	(4)	-	(14)	-	(1)	(19)
Balance as of December 31, 2020	1,134,300	(60,930)	11,755	(173,231)	(9,265)	(485,708)	416,921
Comprehensive income							
Net profit for the year	-	-	-	-	-	39,874	39,874
Other comprehensive income for the year	-	-	-	-	(239)	-	(239)
Liquidation of subsidiary	-	-	-	-	-	116	116
Other adjustments	-	(4)	(1,060)	(3)	-	1,062	(5)
Total comprehensive income for the year	-	(4)	(1,060)	(3)	(239)	41,052	39,746
Balance as of December 31, 2021	1,134,300	(60,934)	10,695	(173,234)	(9,504)	(444,656)	456,667

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, 2021 AND 2020
(In thousands of U.S. dollars (US$000))

	2021 US$000	2020 US$000
OPERATING ACTIVITIES:		
Collection from:		
Sale of goods	1,055,522	618,526
Refund of tax credits	36,477	24,648
Payments to/for:		
Suppliers and third parties	(603,750)	(380,532)
Employees	(93,125)	(91,795)
Income tax	(2,946)	(6,065)
Royalties	(12,743)	(5,853)
Cash (paid) received from hedges, net	(13,448)	11,871
Net cash and cash equivalents provided by operating activities	365,987	170,800
INVESTMENT ACTIVITIES:		
Collection from:		
Other cash collections related to the investment activity	732	-
Payments for:		
Purchase of property, plant and equipment	(94,094)	(62,382)
Increase of exploration and development costs, and intangible assets	(80,476)	(55,032)
Net cash and cash equivalents used in investment activities	(173,838)	(117,414)
FINANCING ACTIVITIES:		
Proceeds from:		
Financial obligations	469,106	419,947
Payments for:		
Financial obligations	(483,328)	(309,051)
Overdrafts and other financial liabilities	(14,287)	(47,936)
Premium for bond repurchase	(4,967)	-
Interests	(42,132)	(37,922)
Net cash and cash equivalents (used in) provided by financing activities	(75,608)	25,038
NET INCREASE IN CASH AND CASH EQUIVALENTS	116,541	78,424
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	114,646	33,828
	231,187	112,252
TRANSFER OF CASH AND CASH EQUIVALENTS CLASSIFIED AS HELD FOR SALE	-	2,394
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	231,187	114,646

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.

1. INCORPORATION, 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 located in Switzerland, hereinafter the Parent, owner of 63% of common class A voting shares and an economic interest of 23%, excluding treasury shares.

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

Total common class A voting shares and class B non-voting shares comprising the capital stock of the Company are listed in the Lima Stock Exchange.

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 the 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 sales 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 National Interconnected Electrical System (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, 2021 have been approved by the Company’s Management on February 15, 2022 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, 2020 were approved by the Shareholders’ Meeting held on March 31, 2021.

(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 2021	2020	Domicile
	%	%	
Mining exploration and operation:			
Compañía Minera Chungar S.A.C.	100.00	100.00	Peru
Óxidos de Pasco S.A.C.	100.00	100.00	Peru
Empresa Administradora Cerro S.A.C.	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
Electric power generation:			
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
Investments in general:			
Roquel Global S.A.C.	100.00	100.00	Peru
Remediadora Ambiental S.A.C.	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.

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 company has two mining units, Animon and Alpamarca, located in the department of Pasco and is engaged in the exploration, development, and operation of mineral deposits, basically with zinc, copper, and lead contents. This company has 226 mining concessions with an indefinite term. Relevant obligations and commitments related to the concession are mentioned in Note 32.

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 these plants have a production less than 500KW, as established in the Electrical Concessions Law. Based on the estimate of reserves and resources, the Company's Management has considered a useful life of mine until 2036.

Óxidos de Pasco S.A.C.

This entity is now engaged in the treatment of oxidized minerals at a leach pad. This subsidiary has one beneficiation concession with an indefinite term. Based on the estimate of reserves and resources, the Company's Management has considered a useful life of mine until 2028.

Empresa Administradora Cerro S.A.C.

This company is engaged in the exploration, development, and operation of mineral deposits, basically with zinc and lead contents. Currently, the Subsidiary processes stockpiles since its mining operations have stopped. This company develops its activities in its mining unit Cerro. This company has 35 mining concessions with an indefinite term. Relevant obligations and commitments related to the concession are mentioned in Note 32. Based on the estimate of reserves and resources, the Company's Management has considered a useful life of mine until 2027.

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

This company does not perform operations since 2015 because Management decided to redirect its mining activities in other Subsidiaries of the Company. As from 2019, Management decided to conduct explorations to reconsider the potential of its deposit and then develop and operate it provided it is viable and profitable; otherwise, it will enter into a simple reorganization process in the short term and will be absorbed by an operating subsidiary of the Company in order to search for synergies for the development of its projects. This company has 5 mining concessions with an indefinite term. Relevant obligations and commitments related to the concession are mentioned in Note 32.

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

These companies were incorporated for the exploration, development and operation of mineral deposits and their main activity is the exploration of their mining concessions through the financing of the Company and Subsidiaries. No activities have been developed in 2021 and 2020.

The Company's Management is reevaluating potential projects or the possibility 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 32.

(c.2) Electric power generation

Hidroeléctrica Huanchor S.A.C.

This company is mainly engaged in the sale of energy through the operation and maintenance of electric transmission system generation plants. For this, the company has the hydroelectric power plant of Huanchor of 19.632 MW and a 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 Rio Baños S.A.C.

This company is mainly engaged in the sale of energy through the operation and maintenance of the hydroelectric power plant of Rucuy 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 issues in the penstock and the transmission line. The hydroelectric power plant of Rucuy resumed its operations in the first semester of 2019. This subsidiary has a definite electrical concession.

Compañía Hidroeléctrica Tingo S.A.

This company is engaged in the operation and maintenance of gen-sets and electrical energy transmission systems. It has the hydroelectric power plant of Tingo of 1.25 MW and 82 km of transmission lines of 22.9 and 50 kv. This subsidiary has a definite electrical concession.

(c.3) Investments in general

Roquel Global S.A.C.

This company is engaged in real estate development to perform port and logistics activities in relation to the Chancay Port. This company performed municipal procedures for the award of acquired land in 2019 (sanitation stage), which are still in progress.

Remediadora Ambiental S.A.C.

This company is engaged in environmental consultancy, environmental studies, and acquisition of properties. Its operations have been suspended.

Compañía Industrial Limitada de Huacho S.A.

This company is mainly engaged in real estate activities.

Empresa Minera Paragsha S.A.C.

This company was incorporated for exploration, operation, assignment, and mining usufruct; however, its current 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). This subsidiary 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 that are undergoing a liquidation process. Management believes that the financial statements of unconsolidated entities do not have relevant figures 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, 2021 are summarized below:

	Assets	Liabilities	Equity	Net profit (loss)
	US$000	US$000	US$000	US$000
Compañía Minera Chungar S.A.C.	706,204	414,078	292,126	11,818
Empresa Explotadora de Vinchos Ltda. S.A.C.	83	20,775	(20,692)	(3,486)
Empresa Minera Paragsha S.A.C.	250,143	87,977	162,166	(2,155)
Minera Aurífera Toruna S.A.C. (1)	11	3,097	(3,086)	(1,168)
Minera San Sebastián AMC S.R.L.	31	2,931	(2,900)	(2,401)
Compañía Minera Vichaycocha S.A.C.	122	8,023	(7,901)	(529)
Hidroeléctrica Huanchor S.A.C.	66,987	9,898	57,089	1,409
Empresa de Generación Eléctrica Río Baños S.A.C. (2)	46,864	34,220	12,644	(3,094)
Compañía Hidroeléctrica Tingo S.A. (3)	18,289	1,820	16,469	152
Roquel Global S.A.C.	18,159	1,603	16,556	(9,952)
Compañía Industrial Limitada de Huacho S.A.	6,208	252	5,956	128
Óxidos de Pasco S.A.C.	198,521	29,243	169,278	9,743
Empresa Administradora Cerro S.A.C.	66,281	161,145	(94,864)	(3,799)
Remediadora Ambiental S.A.C.	187	14,660	(14,473)	695
Unconsolidated entities	217	-	217	-
	1,378,307	789,722	588,585	(2,639)

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

	Assets	Liabilities	Equity	Net profit (loss)
	US$000	US$000	US$000	US$000
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	-
	1,412,135	819,276	592,859	(48,422)

(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 suscribed into with Cosco Shipping Ports Limited (CSPL) and its subsidiary Cosco Shipping (Chancay) Ports Limited (CSPL SPV), companies of the People's 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 of the Company at that date (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 September 22, 2020. That date, pursuant to Director's Resolution No. 00158-2020, the National Service of Environmental Certification for Sustainable Investments (SENACE) 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. When the MEIA was approved, CSPL SPV made capital contributions in the first semester of 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 operations of this project are estimated to commence in 2024.

(d.2) Bond issuance

"5.375% Senior Notes Due 2022"

On February 2, 2012, bonds known as "5.375% 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, on February 2, 2022. Interests are paid in semiannual installments since August 2, 2012. Financial compliance covenants were not established for this obligation, but certain limitations and levies were determined, as well as requirements for annual financial information presentation, which are described in Note 15(b).

As of December 31, 2021, the balance of bond issuance amounted to US$410,264 since bonds were repurchased for US$125,000 in February 2021 (as of December 31, 2020, the balance of bond issuance amounted to US$535,264).

On February 2, 2022, capital and interests of "5.375% Senior Notes Due 2022" were fully paid, as further explained in Note 36.

"4.375% Senior Notes Due 2026"

On February 11, 2021, bonds known as "4.375% Senior Notes Due 2026" were issued and placed entirely in the international market for US$475,000 under Rule 144A and Regulation S of the U.S. Securities Act of the United States of America. The Company requested the inclusion of

bonds in the Official List of the Luxembourg Stock Exchange and the admission for negotiation in the Euro MTF of the Luxembourg Stock Exchange.
The bonds maturity is in 5 years, on February 11, 2026, and accrue interests at an annual rate of 4.375%. Interests will be paid in semiannual installments as from August 11, 2021. Financial compliance covenants were not established for this obligation, but certain limitations were determined, as described in Note 15(c).

According to Management, 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, held in several financial entities, 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's 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 a 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, 2020, when they resumed their operations gradually. As of December 31, 2020, costs were incurred for approximately US$24,647 due to the shutdown of the plant presented in item "Cost of sales" in the consolidated statement of profit or loss (Note 21), while this type of costs were not incurred as of December 31, 2021. 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$15,165 in 2021 (US$10,574 in 2020).

As a response to 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 (except for 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 15).

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 according to the assumptions reviewed, have not had a significant effect on the Company and Subsidiaries' financial position and results of its operations in 2021 and 2020 (Note 25). 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 ability to continue as a going concern. Liquidity risk management, and the availability of credit lines and refinancing plans that allow reversing negative working capital are described in Note 5 (a)(iii).

Since the pandemic is not over, Management is still monitoring the measures taken by the government in order to guarantee the cycle of its operations.

(f) 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 compliance with certain previous conditions.

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 from the oxide plant during all its operation, among others. In addition, Cerro de Pasco Resources had the obligation to sell to the Company all the concentrates produced 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; consequently, such agreement was terminated. In this regard, as of December 31, 2020, the Company no longer presented assets and liabilities classified as held for sale in the consolidated financial statements, since the sale is considered highly unlikely in the short term and the Company is not currently identifying a buyer, so the Company decided to recover the investment by using those assets. As a result, the Company recorded the respective impact on the consolidated results due to the cancellation of this sale transaction of those Subsidiaries.

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, 2021 and 2020, 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 (e)).

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 entirely, 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 or 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.

(c) Functional and presentation currency

The Company and Subsidiaries prepare and present their 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 entirely 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.

<u>Amortized cost and effective interest method</u>

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 respective 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 the 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 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 actual noncompliance has occurred.

The 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 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 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.

<u>Financial liabilities measured subsequently at amortized cost</u>

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, and cash flow hedges. As of December 31, 2020, the Company and Subsidiaries held 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 the 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 the 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 19(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 expected hedged 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 of fair value changes on cash flow hedges are presented in the consolidated statement of other comprehensive income.

(f) Cash and cash equivalents

Cash comprises cash in 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 significant risks of changes in value.

(g) Inventories and obsolescence estimate

Concentrates and raw material 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, including 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 (concentrate) and obsolescence or slow turnover (supplies), 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.

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. The 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 estimated impairment loss. The cost of these assets in process includes professional fees and, for qualifying assets, borrowing costs. Those assets are subsequently classified into their category of property, plant, and equipment when the construction or acquisition process has been completed and they are ready for the 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:

	Years
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, evaluation, 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 using the units-of-production method, using the proven and probable reserves as a basis 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 if 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, topographic 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 similarly to development costs.

All capitalized evaluation and exploration costs are monitored to identify impairment indicators. 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 pattern of consumption of future economic benefits embodied in the assets, incorporating the effects of any change in these estimates prospectively, 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 indicator according to the 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 indicator that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If it is not possible to estimate the

recoverable amount of an individual asset, the Company and Subsidiaries estimate the recoverable amount of the cash-generating unit to which the asset belongs. If a reasonable and consistent distribution basis can be identified, corporate assets are also distributed to individual cash-generating units, or otherwise, to the smallest group of cash-generating units for which a reasonable and consistent distribution basis is identified.
The recoverable amount is the higher of fair value less the cost to sell and value in use. Value in use is determined based on future estimated cash flows discounted to their present value, using a discount rate before taxes that reflects current market valuations related to the time value of money and the specific risks of the asset.

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

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

In estimating the value 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) 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.

(l) 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.

(m) 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 an outflow of cash or other economic resources that provide economic benefits will be required 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.

(n) Provision for closure of mining units

The asset and liability for closure of mining units are 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 against the provision as long as the provision had been determined considering 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.

(o) 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 is 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 is 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.

(p) 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 asset sold 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 for 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 is allocated and recognized when these performance obligations are met.

Sale agreements of concentrates, doré 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 at 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 metal 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.

(q) 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.

(r) 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.

(s) Operating profit

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

(t) Income tax

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

Current income tax

Current income tax 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 be payable. The assessment is based on the judgement of tax specialists within the Company and Subsidiaries supported by previous experience in similar matters and, in certain cases, based on an independent tax advisor.

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 when applicable, the benefits of tax losses to use and some tax credits are included. Deferred tax assets or liabilities are generally recognized for all taxable temporary differences. A deferred income tax asset will be recognized for all deductible temporary differences to the extent that it is probable that the Company and Subsidiaries will have future taxable 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 and Subsidiaries intend to settle their current tax assets and liabilities on a net basis.

<u>Current and deferred income tax for the year</u>

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.

(u) Contingent assets and liabilities

Contingent liabilities are recorded in the consolidated financial statements when it is probable that they will be confirmed in the future 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 the 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.

(v) 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 potential diluted common shares, that is, financial instruments or other contracts that allow obtaining common shares, basic and diluted earnings per share are the same.

(w) 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 for which separate financial information is available and 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.

(x) Reclassifications

Certain amounts of the consolidated financial statements as of December 31, 2020 have been reclassified in order to make them comparable with those of the consolidated financial statements as of December 31, 2021. The nature of these reclassifications, reclassified amounts and affected accounts is presented below:

	2020 US$000
Consolidated statement of financial position	
(i) From other accounts receivable to financial obligations	497
Consolidated statement of financial position	
(ii) From other current accounts payable to other non-current accounts payable	9,600

(i) To present the costs associated with "5.375% Senior Notes Due 2020" as part of the financial obligation measured at amortized cost.

(ii) For the correct presentation between the current and non-current portion of advances received from customers.

3. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The Company and Subsidiaries' 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.

<u>Determination of reserves and mineral resources</u>

The Company and Subsidiaries calculate their 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 and Subsidiaries have internationally certified employees who, together with specialists from the Parent, are in charge of the preparation and review of reserves annually.

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.

<u>Provision for the disposal of assets and mine closure</u>

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 32, and correct the values of the asset and liability prospectively, if necessary.

Review of carrying amounts and impairment evaluation

The Company and Subsidiaries annually review whether a permanent asset requires an impairment estimate according to the accounting policy indicated in Note 2(j). This determination requires the use of professional judgment by the Company and Subsidiaries' 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 and Subsidiaries, forecasted economic factors that affect its revenues and costs, and the determination of the discount rate to be applied to such flows.

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 the 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 31).

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 planning
- 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 impact 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 of the production during the whole operation.

In 2020, the Company concluded that it would no longer continue with the sales plan of those assets.

4. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS 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, 2021, which did not affect the records and disclosures of the Company and Subsidiaries:

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

  Stage 2 of the amendments to the interest rate benchmark reform – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Adopting these modifications allows the Company to reflect the effects of the transition from the Interbank Offered Rate (IBOR) to an interest rate benchmark (also known as "risk-free rate" or RFR) without making an impact that could produce information that is not useful for the users of the consolidated financial statements.

- *COVID-19-Related Rent Concessions beyond June 30, 2021 (Amendment to IFRS 16)*

  In March 2021, the IASB issued COVID-19-Related Rent Concessions beyond June 30, 2021 (Amendment to IFRS 16).

  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, 2022 (a rent concession meets this condition if it results in reduced lease payments on or before June 30, 2022 and increased lease payments that extend beyond June 30, 2022); and

  (c) There is no substantive change to other terms and conditions of the lease.

(b) New IFRSs and interpretations issued applicable after the presentation date of the consolidated financial statements

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

- *IFRS 17 Insurance contracts.* Effective for annual periods beginning on or after January 1, 2023.

  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.

Management considers that this standard is not applicable to the Company and Subsidiaries since they do not perform this type of operations.

- *Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.* The IASB has not determined the effective date of the amendments yet; however, their early application is permitted.

  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.

  Management considers that these amendments are not applicable to the Company and Subsidiaries since they do not perform this type of operations.

- *Amendments to IAS 1 – Classification of Liabilities as Current or Non-current.* Effective for annual periods beginning on or after January 1, 2023, with early application permitted.

  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 exist 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.

  Management considers that these amendments would not have an impact on the Company and Subsidiaries.

- *Amendments to IFRS 3 – Reference to the Conceptual Framework.* Effective for annual periods beginning on or after January 1, 2022.

  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.

Management considers that these amendments will not have an impact on the Company and Subsidiaries.

- *Amendments to IAS 16 – Property, Plant and Equipment - Proceeds before Intended Use.* Effective for annual periods beginning on or after January 1, 2022, with early application permitted.

  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 entity 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 consolidated financial statements in which the Company and Subsidiaries first apply the amendments.

  The Company 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.

  Management considers that these amendments will not have an impact on the Company and Subsidiaries.

- *Amendments to IAS 37 – Onerous Contracts - Cost of Fulfilling a Contract.* Effective for annual periods beginning on or after January 1, 2022, with early application permitted.

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

  Management considers that these amendments will not have an impact on the Company and Subsidiaries.

- *Annual Improvements to IFRS Standards 2018–2020*. Effective for annual periods beginning on or after January 1, 2022, with early application permitted.

  The Annual Improvements include amendments to four standards.

  <u>IFRS 1 *First-time Adoption of International Financial Reporting Standards*</u>

  The amendment provides additional relief for a subsidiary that adopts IFRS for the first time after its parent regarding the accounting for cumulative translation differences. As a result of the amendments, a subsidiary applies paragraph D16(a) of IFRS 1 and chooses to measure the cumulative effects of the translation of foreign operations at carrying amount, which is included in the consolidated financial statements of the parent based on the parent's date of transition to IFRS, if there were no adjustments for consolidation procedures and the effects of business combination in which the parent acquired the subsidiary. A similar choice is available for an associate or joint venture that applies for the exemption in D16(a) of IFRS 1.

  <u>IFRS 9 *Financial Instruments*</u>

  The amendment clarifies that in applying the "10 percent" 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.

  <u>IFRS 16 *Leases*</u>

  The amendment removes the illustration of the reimbursement of leasehold improvements.

IAS 41 *Agriculture*

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

Management considers that these amendments will not have an impact on the Company and Subsidiaries.

- *Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgments – Disclosure of Accounting Policies*

  The amendments change the requirements of IAS 1 regarding the disclosure of accounting policies. The amendments replace the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

  The supporting paragraphs in IAS 1 are amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial.

  To support the amendments, the IASB has added guidance and examples to explain and show the application of its "four-step materiality process" as described in IFRS Practice Statement 2 Making Materiality Judgments.

  The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. They are applied prospectively. The amendments to IFRS Practice Statement 2 do not have an effective date nor transition requirements.

  Management is evaluating the possible impact that these amendments may have on the Company and Subsidiaries.

- *Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates*

  The definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

  The definition of a change in accounting estimates was deleted. However, the IASB retained the concept of changes in accounting estimates in the standard with the following clarifications:

  - A change in accounting estimate that results from new information or new developments is not the correction of an error.

  - The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

The IASB added two examples (Examples 4-5) to the Guidance on implementing IAS 8, which accompanies the standard. The IASB deleted one example (Example 3) as it could cause confusion in light of the amendments.

The amendments are effective for annual periods beginning on or after January 1, 2023, to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period. Earlier application is permitted.

Management is evaluating the possible impact that these amendments may have on the Company and Subsidiaries.

- *Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments provided a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 Leases at the commencement date of a lease.

Following the amendments to IAS 12, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria.

The IASB also adds an illustrative example to IAS 12 that explains how the amendments are applied.

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period, an entity recognizes:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with:
  - Right-of-use assets and lease liabilities.
  - Decommissioning, restoration and similar liabilities and the corresponding amounts recognized as part of the cost of the related asset.

- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other components of equity, as appropriate) at that date.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted.

Management is evaluating the possible impact that these amendments may have on the Company and Subsidiaries.

5. FINANCIAL INSTRUMENTS AND RISKS

(a) *Categories of financial instruments*

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

	2021 US$000	2020 US$000
Financial assets:		
Amortized cost		
Cash and cash equivalents	231,187	114,646
Other accounts receivable (net)	8,172	8,006
	239,359	122,652
Fair value through profit or loss		
Trade accounts receivable (net)	43,806	28,781
Derivatives that are not designated as hedging instruments	-	223
	43,806	29,004
Fair value through other comprehensive income		
Financial investments	38,325	45,955
	38,325	45,955
Total	321,490	197,611
Financial liabilities:		
Amortized cost		
Bank overdrafts	1,168	10,070
Financial obligations	936,455	925,297
Trade accounts payable	229,693	222,640
Other accounts payable	14,859	5,933
	1,182,175	1,163,940
Fair value through profit or loss		
Derivatives designated as hedging instruments	-	622
Derivatives that are not designated as hedging instruments	2,241	7,195
	2,241	7,817
Fair value through other comprehensive income		
Derivatives designated as hedging instruments	-	7,290
Total	1,184,416	1,179,047

(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. Financial Management 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 mainly arises from balances held in Peruvian soles.

As of December 31, 2021 and 2020, 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$0.251 and US$0.277 per S/1.00, respectively, and are summarized below:

	2021	2020
	S/000	S/000
Assets		
Cash and cash equivalents	57,395	77,434
Trade accounts receivable (net)	3,723	4,040
Other accounts receivable (net)	76,810	43,405
Total assets	137,928	124,879
Liabilities		
Bank overdrafts	(862)	(1,632)
Financial obligations	(30,572)	(49,235)
Trade accounts payable	(149,780)	(155,095)
Other accounts payable	(31,390)	(17,959)
Total liabilities	(212,604)	(223,921)
Net liability	(74,676)	(99,042)

The Company and Subsidiaries recorded a net exchange profit for US$2,041 in 2021 (net loss for US$5,640 in 2020) (Note 26).

Management considers a sensitivity rate of 5% as reasonable in the assessment of exchange rate risk. A sensitivity analysis 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 other constant variables in the consolidated statement of profit or loss before income tax, is presented in the following table:

	Changes in exchange rate	Effect on profit or loss before taxes (Debit) credit	
		2021	2020
		US$000	US$000
Revaluation	+5%	936	1,370
Devaluation	-5%	(936)	(1,370)

Price risk

The Company and Subsidiaries are exposed to commercial risks arising from changes in metal market prices. In order to cover the risk arising from the decrease of prices of metals, Management contracts derivative financial instruments. 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 2021 (Note 29).

As of December 31, 2021 and 2020, 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:

	Effect on profit (loss) before income tax (Debit) Credit
	US$000
Zinc concentrate	
2021:	
Increase in the international price of zinc	48,846
Decrease in the international price of zinc	(48,846)
2020:	
Increase in the international price of zinc	23,732
Decrease in the international price of zinc	(23,732)
Lead concentrate	
2021:	
Increase in the international price of lead	20,975
Decrease in the international price of lead	(20,975)
2020:	
Increase in the international price of lead	14,758
Decrease in the international price of lead	(14,758)

	Effect on profit (loss) before income tax
	US$000
Copper concentrate	
2021:	
Increase in the international price of copper	6,622
Decrease in the international price of copper	(6,622)
2020:	
Increase in the international price of copper	3,925
Decrease in the international price of copper	(3,925)

	income tax (Debit) Credit
	US$000
Silver concentrate	
2021:	
Increase in the international price of silver	8,018
Decrease in the international price of silver	(8,018)
2020:	
Increase in the international price of silver	3,102
Decrease in the international price of silver	(3,102)

For the control and monitoring 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, 2021 and 2020, the fair value of embedded derivatives contained in commercial agreements amounts to a profit of US$3,308 and US$1,088, 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, the Company had a loan from Citibank at a variable interest rate, for which it acquired interest rate hedges (Note 29(b)). This loan was paid in February 2021, and all hedges held were settled.

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:

	2021			2020		
	Overdue	To be due	Total	Overdue	To be due	Total
	US$000	US$000	US$000	US$000	US$000	US$000
Trade accounts receivable (net)	6	43,800	43,806	808	27,973	28,781
Other accounts receivable (net)	-	8,172	8,172	-	17,483	17,483
Other financial assets	-	-	-	-	223	223
	6	51,972	51,978	808	45,679	46,487

Trade accounts receivable are denominated in U.S. dollars and matures 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, 2021, the Company has a portfolio of 22 customers (24 customers as of December 31, 2020). The three most important customers of the Company and Subsidiaries represented 63% of total sales (65% of total sales in 2020). The Company's Management considers the credit history of its customers and their payment capacity and evaluates the debts that are estimated to be collected as variation to determine the required provision for doubtful accounts. Management concludes that a provision for doubtful accounts is not required.

(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, 2021 and 2020, the Company and Subsidiaries present a negative working capital for US$364,146 and US$47,138, 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$199,343 has not been used yet. In addition, Management generates cash flows from significant operating activities (US$365,987 in 2021 and US$170,800 in 2020) and, as of December 31, 2021, management was negotiating a new loan and other financing alternatives in order to restructure its obligations in the short term. This loan was obtained in January 2022 (Note 36).

Management considers that these measures will allow the Company and Subsidiaries have sufficient cash flows to manage their financial obligations appropriately.

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:

Financial assets	year	Between 1 and 2 years	Between 2 and 10 years	Total
	US$000	US$000	US$000	US$000
As of December 31, 2021:				
Cash and cash equivalents	231,187	-	-	231,187
Other accounts receivable (net)	8,172	-	-	8,172
Trade accounts receivable (net)	43,806	-	-	43,806
Financial investments	-	-	38,325	38,325
Total	283,165	-	38,325	321,490
As of December 31, 2020:				
Cash and cash equivalents	114,646	-	-	114,646
Other accounts receivable (net)	8,006	-	-	8,006
Trade accounts receivable (net)	28,781	-	-	28,781
Derivatives that are not designated as hedging instruments	223	-	-	223
Financial investments	-	-	45,955	45,955
Total	151,656	-	45,955	197,611

Financial liabilities	Less than 1 year	Between 1 and 2 years	Between 2 and 10 years	Total
	US$000	US$000	US$000	US$000
As of December 31, 2021:				
Bank overdrafts	1,168	-	-	1,168
Financial obligations	474,722	32,184	518,180	1,025,086
Trade accounts payable	229,693	-	-	229,693
Other accounts payable	14,859	-	-	14,859
Other financial liabilities	2,241	-	-	2,241
Total	722,683	32,184	518,180	1,273,047
As of December 31, 2020:				
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
Total	335,209	596,348	299,725	1,231,282

(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 2021 and 2020.

The leverage ratio was as follows:

	2021 US$000	2020 US$000
Financial obligations	936,455	925,794
Cash and cash equivalents	(231,187)	(114,646)
Total net debt	705,268	811,148
Total equity	456,667	416,921
Net debt ratio	1.54	1.95

(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 15(b)) is classified as Level 1 since quoted prices are available. The fair value of these bonds amount to US$870,320 as of December 31, 2021 (US$543,523 as of December 31, 2020).

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

As of December 31, 2021 and 2020, 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:

	2021 US$000	2020 US$000
Financial assets		
Level 1		
Investments in equity instruments (a)	38,325	45,955
Level 2		
Trade accounts receivable (b)	43,806	28,781
Derivates that are not designated as hedging instruments	-	223
	43,806	29,004
Financial liabilities		
Level 2		
Derivates that are not designated as hedging instruments	2,241	7,195
Derivates designated as hedging instruments	-	7,912
	2,241	15,107

(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.

(c) No transfers have been made between levels during the year.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	2021 US$000	2020 US$000
Cash on hand and cash in banks (a) (d)	184,675	83,669
Term deposits (b)	25,031	10,007
Mutual funds (c)	20,158	20,039
Other funds	1,323	931
	231,187	114,646

(a) Cash on hand 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. Checking accounts include trust accounts that were constituted to meet the commitments derived from financial obligations (Notes 1(d.3) and 15), which are also freely available.

(b) Term deposits mature in 3 months and accrue interests at an annual effective rate ranging between 0.65% and 0.96%.

(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 and Subsidiaries present amounts for US$10,641 and US$13,118 as of December 31, 2021 and 2020 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$1,382 as of December 31, 2021 (US$1,127 as of December 31, 2020).

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 As of December 31, 2021		Face value		Carrying amount As of December 31, 2021	
			2021	2020			2021	2020
			%	%			US$000	US$000
Associate:								
Cosco Shipping Ports Chancay Perú S.A. (a)	Common	312,219,408	40	40	1	Sol	149,144	149,110
Financial investments at fair value:								
Cementos Polpaico S.A. (b)	Common	4,056,643	22.7	22.7	8,040	Chilean pesos	38,325	45,955
Other investments:								
Other companies	Common	-		-	-		282	281
							187,751	195,346

(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 to commence operations in 2024.

In April 2021, the increase of capital was agreed through the capitalization of capital premium distributed in 32,811,281 (shares) in favor of the Company.

As of December 31, 2021 and 2020, this investment in associate has been measured using the equity method (Note 2(k)).

(b) Cementos Polpaico S.A. is engaged in the production and commercialization of cement and lime. As of December 31, 2021, the quotation amounted to 8,040 Chilean pesos per share, equivalent to US$9.447 (8,040 Chilean pesos per share, equivalent to US$11.328 as of December 31, 2020). Those shares are listed on the Chile Stock Exchange.

8. TRADE ACCOUNTS RECEIVABLE (NET)

Trade accounts receivable (net) consist of:

	2021	2020
	US$000	US$000
From third parties		
Invoices	37,957	32,160
Impairment estimate for accounts receivable	(19,775)	(19,775)
Embedded derivatives	2,934	950
Sales adjustments	3,083	1,668
	24,199	15,003
From related entities		
Invoices	14,995	11,958
Estimate for sales adjustments in advances	2,720	611
Embedded derivatives	374	138
Sales adjustments	1,518	1,071
	19,607	13,778
Total	43,806	28,781

Accounts receivable have current maturity, do not accrue interests and do not have specific guarantees. These 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, 2021, the Company and Subsidiaries performed sales transactions with the following related entities: Glencore Perú S.A.C. and Glencore Lima Trading S.A.C. for US$282,420 and US$89,464, respectively (US$149,003 and US$37,799 as of December 31, 2020, respectively).

The provision for doubtful accounts is mainly related to a customer that is undergoing a liquidation process and comes from 2008. Management of the Company and Subsidiaries believe 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) consist of:

	2021 US$000	2020 US$000
Tax credit for value-added tax (a)	54,959	74,992
Recoverable taxes	17,481	9,477
Credit balance for income tax and temporary tax on net assets (b)	13,954	32,262
Loans granted to third parties (c)	10,034	10,055
Accounts receivable from contractors	8,937	9,088
Prepaid expenses	5,371	5,072
Advances granted to contractors and suppliers	2,700	1,291
Public works for taxes, in process (d)	1,330	2,062
Loans granted to employees	479	1,033
Other minor items	1,255	894
	116,500	146,226
Impairment estimate for other accounts receivable (e)	(51,256)	(55,722)
Subtotal	65,244	90,504
Amortized cost:		
Loans granted to third parties (c)	698	1,320
Insurance compensation	3,866	3,866
Accounts receivable from contractors	2,233	1,302
Other minor items	1,375	1,518
Subtotal	8,172	8,006
Total	73,416	98,510
Non-current portion	17,445	9,477
Current portion	55,971	89,033

(a) As of December 31, 2021, this item includes an amount of US$32,246, 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, 2021, this item corresponds to payments on account of income tax for US$1,835, tax credit for US$3,400 and payments for the temporary tax on net assets for US$8,719, which will be requested as from 2022 (as of December 31, 2020, this item corresponded to 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 were requested as from 2021 and are being recovered).

(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 recording an amount of US$10,034 as an allowance for doubtful accounts 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 2021, the Company obtained all

CIPRL certificates of the Project "Improvement and extension of the distribution system of drinking water, sewage and wastewater treatment of the district of Huayllay – Pasco – Pasco", with code SNIP No. 193392, pursuant to Law 29230 of Works for Taxes, for "project settlement" for US$632.

(e) As of December 31, 2021, this item mainly corresponds to the impairment provision for value-added tax credit for US$32,246 and loans receivable for US$10,034. As of December 31, 2020, this item mainly corresponded to the impairment provision for value-added tax credit for US$36,540 and loans receivable for US$10,055.

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:

	2021	2020
	US$000	US$000
Derivative financial instruments:		
Derivates that are not designated as hedging instruments	-	223
	-	223

Financial liabilities:

	2021	2020
	US$000	US$000
Derivative financial instruments:		
Derivates that are not designated as hedging instruments (a)	2,241	7,195
Derivates designated as hedging instruments (Note 29(b)) (b)	-	7,912
	2,241	15,107

(a) This item corresponds to pending invoices for the settlement of derivative financial instruments.

(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, and were fully settled in 2021.

11. INVENTORIES (NET)

Inventories (net) consist of:

	2021	2020
	US$000	US$000
Concentrates (a)	11,383	14,209
Mineral (a)	19,610	12,293
Pyrite stockpiles	6,642	7,077
Sundry supplies	45,821	47,858
Inventories in transit	44	100
	83,500	81,537
Impairment estimate (b)	(17,033)	(13,499)
Total	66,466	68,038
Non-current portion	6,642	7,077
Current portion	59,824	60,961

(a) According to the sales commitments, Management considers that the concentrate held as of December 31, 2021 will be sold in the first quarter, and the mineral will be exploited in 2022.

(b) In 2021, the operating areas updated the impairment estimate mainly for obsolescence and slow turnover of spare parts and supplies and determined an additional provision for US$4,060. Management believes that the obsolescence estimate covers 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:

	Balance as of January 1, 2021	Additions	Sales and/or disposals	Transfers	Impairment estimate	Balance as of December 31, 2021
	US$000	US$000	US$000	US$000	US$000	US$000
Cost of:						
Land	31,498	-	(7,961)	-	-	23,537
Buildings and other constructions	940,701	2,290	-	33,676	-	976,667
Environmental management program infrastructure	22,281	-	-	-	-	22,281
Machinery and equipment	285,931	19,312	(11,975)	7,070	-	300,338
Vehicles	11,172	389	-	-	-	11,561
Furniture and fixtures and computer equipment	15,265	696	(3)	131	(59)	16,030
Sundry equipment	479,759	23,487	(946)	195	(4,587)	497,908
Units in transit	9,326	-	(646)	(7,078)	-	1,602
Works in progress (a)	63,734	56,820	(118)	(34,000)	(6,740)	79,696
	1,859,667	102,994	(21,649)	(6)	(11,386)	1,929,620
Accumulated depreciation of:						
Buildings and other constructions	428,880	62,812	-	-	-	491,692
Environmental management program infrastructure	22,281	-	-	-	-	22,281
Machinery and equipment	249,647	9,641	(10,973)	-	-	248,315
Vehicles	10,724	196	-	-	-	10,920
Furniture and fixtures and computer equipment	11,864	1,052	(3)	-	-	12,913
Sundry equipment	364,208	22,966	(194)	-	-	386,980
	1,087,604	96,667	(11,170)	-	-	1,173,101
Net value	772,063					756,519

	Balance as of January 1, 2020	Additions	Sales and/or disposals	Transfers	Impairment estimate	Reclassifications of assets held for sale	Balance as of December 31, 2020
	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Cost of:							
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
	1,388,181	61,572	(780)	-	(10,408)	421,102	1,859,667
Accumulated depreciation of:							
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
	711,391	85,441	(628)	-	-	291,400	1,087,604
Net value	676,790						772,063

(a) As of December 31, 2021, works in progress comprise projects that mainly belong to the Company for US$42,032 and Subsidiary Compañía Minera Chungar S.A.C. for US$30,806 (US$34,922 and US$24,311 as of December 31, 2020, respectively), as detailed below:

Volcan Compañía Minera S.A.A.

	2021 US$000	2020 US$000
Growth of tailings facility Rumichaca Level 4230 et. IV A	7,184	-
Pumping system rp 616 Level 1220 to 1120	2,515	2,402
Purchase and installation of cell Rcs-100 Victoria plant	2,382	-
Growth of tailings facility Andaychagua Level 4412	2,033	-
Tailings facility - filter Gavilán - Carahuacra	1,964	1,378
New filtered tailings facility level 4412	1,889	-
Purchase of houses San José	1,137	1,121
Construction of housing modules Andaychagua	1,058	-
Radio system Tetra Mina Sc	1,046	-
Growth of tailings facility Rumichaca Level 4227	-	8,450
Growth of tailings facility Andaychagua Level 4410	-	2,677
Spillway - tailings facility Andaychagua Alto	-	2,389
Growth of tailings facility Rumichaca Level 4224	-	2,286
Pumping system Level 1120 to 1020	-	1,932
Growth of tailings facility Rumichaca Level 4270	-	1,344
Emergency spillway - tailings facility Rumichaca	-	1,076
Other minor projects	20,824	9,867
	42,032	34,922

Subsidiary Compañía Minera Chungar S.A.C.

	2021 US$000	2020 US$000
Filtered tailings availability system	13,494	5,664
New tailings facility Animon Quimacocha	5,331	3,795
Elevation of dam of tailings facility Et.V-4688	2,461	-
Romina project - General infrastructure	1,040	1,040
Growth of tailings facility Alpamarca Level 4684	-	5,936
Pumping system Islay mine Level 210	-	1,578
Other minor projects	8,480	6,298
	30,806	24,311

As of December 31, 2021 and 2020, other Subsidiaries have projects in progress for US$6,858 and US$4,500, respectively.

The projects mentioned above are estimated to be completed between 2022 and 2023.

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

	2021 US$000	2020 US$000
Cost of sales (Note 21)	92,025	97,189
Administrative expenses (Note 22)	810	860
Selling expenses (Note 23)	91	80
Other expenses (Note 24)	3,741	4,554
Total	96,667	102,683

(c) As of December 31, 2021, buildings, machinery, and equipment include assets under finance leases with a carrying amount of US$14,968 and US$30,366, respectively (US$15,577 and US$18,231 as of December 31, 2020).

(d) The Company and Subsidiaries hired insurance policies on their main assets according to the policies established by Management.

(e) As of December 31, 2021, the cost of property, plant and equipment is presented net of accumulated impairment of US$388,302, distributed in items of buildings and constructions for US$332,374, machinery and equipment and sundry equipment for US$43,626, and others for US$12,302 (as of December 31, 2020, it is presented net of accumulated impairment of US$376,720, distributed in items of buildings and constructions for US$332,249, machinery and equipment and sundry equipment for US$39,038 and others for US$5,433).

13. RIGHT-OF-USE ASSETS (NET)

The movement in the cost and accumulated depreciation of right-of-use assets, net, was as follows:

	Balance as of January 1, 2021	Additions	Adjustments for measurement of the lease	Impairment estimate	Assets held for sale	Balance as of December 31, 2021
	US$000	US$000	US$000	US$000	US$000	US$000
Cost of:						
Operating machinery	33,322	(1)	-	-		33,321
Vehicles	5,761	4,326	797	(196)		10,688
Properties	244	-	-	-		244
	39,327	4,325	797	(196)	-	44,253
Depreciation of:						
Operating machinery	29,851	2,738	-	-		32,589
Vehicles	5,098	2,046	-	-		7,144
Properties	93	42	-	-		135
	35,042	4,826	-	-	-	39,868
Net value	4,285					4,385

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

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

	2021	2020
	US$000	US$000
Cost of sales (Note 21)	4,058	15,350
Administrative expenses (Note 22)	768	868
Total	4,826	16,218

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, 2021 US$000	Additions US$000	Disposals / Transfers US$000	Value adjustment US$000	Impairment estimate US$000 (Note 26)	Balance as of December 31, 2021 US$000
Cost of:						
Mining concessions	272,002	-	(1)	-	-	272,001
Exploration costs	285,419	20,014	-	-	(1,807)	303,626
Development costs (a)	841,080	63,408	-	-	-	904,488
Closure of mining units	136,813	-	-	17,206	-	154,019
Community rights	18,442	-	-	5,942	-	24,384
Other intangibles	18,409	340	(920)	-	(7)	17,822
	1,572,165	83,762	(921)	23,148	(1,814)	1,676,340
Amortization of:						
Mining concessions	200,272	5,868	-	-	-	206,140
Exploration costs	125,060	18,241	-	-	-	143,301
Development costs (a)	382,432	57,079	-	-	-	439,511
Closure of mining units	58,119	9,034	-	-	-	67,153
Community rights	2,424	1,540	-	-	-	3,964
Other intangibles	13,305	983	-	-	-	14,288
	781,612	92,745	-	-	-	874,357
Net value	790,553					801,983

	Balance as of January 1, 2020	Additions	Value adjustment	Impairment estimate	Reclassifications of assets held for sale	Balance as of December 31, 2020
	US$000	US$000	US$000	US$000 (Nota 26)	US$000	US$000
Cost of:						
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
	1,376,450	50,685	4,383	(227)	140,874	1,572,165
Amortization of:						
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
	596,328	46,351	-	-	138,933	781,612
Net value	780,122					790,553

(a) Development costs:

The movement and structure of this item is presented below:

	Balance as of January 1, 2021 US$000	Additions US$000	Balance as of December 31, 2021 US$000
Cost of:			
Yauli	514,179	47,049	561,228
Cerro de Pasco	75,128	-	75,128
Animon	245,515	16,359	261,874
Vinchos	6,258	-	6,258
	841,080	63,408	904,488
Accumulated amortization of:			
Yauli	201,045	40,564	241,609
Cerro de Pasco	75,128	-	75,128
Animon	100,001	16,515	116,516
Vinchos	6,258	-	6,258
	382,432	57,079	439,511
Net cost	458,648		464,977

	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
Cost of:				
Yauli	488,104	26,075	-	514,179
Cerro de Pasco	-	-	75,128	75,128
Animon	230,485	15,030	-	245,515
Paragsha and Subsidiaries	-	-	-	-
Vinchos	6,258	-	-	6,258
	724,847	41,105	75,128	841,080
Accumulated amortization of:				
Yauli	184,251	16,794	-	201,045
Cerro de Pasco	-	-	75,128	75,128
Animon	91,183	8,818	-	100,001
Paragsha and Subsidiaries	-	-	-	-
Vinchos	6,258	-	-	6,258
	281,692	25,612	75,128	382,432
Net cost	443,155			458,648

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

	2021 US$000	2020 US$000
Cost of sales (Note 21)	91,431	45,108
Administrative expenses (Note 22)	1,123	1,225
Other expenses (Note 24)	191	262
Total	92,745	46,595

(c) As of December 31, 2021, the cost of mining concessions, exploration and development costs and other intangibles is presented net of accumulated impairment of US$467,141, distributed in items of mining concessions for US$45,984, exploration costs for US$228,666, development costs for US$140,980, and other intangibles for US$51,511 (as of December 31, 2020, it is presented net of accumulated impairment of US$465,326, distributed in items of mining concessions for US$45,984, exploration costs for US$226,859, development costs for US$140,980, and other intangibles for US$51,503).

15. FINANCIAL OBLIGATIONS

The movement and composition of this item is presented below:

	Original amount		Interest rate (%)	Maturity	Total	
	S/	US$000			2021	2020
					US$000	US$000
Loans (a):						
Scotiabank Perú S.A.A.	-	10,000	2.85	Nov-22	2,114	4,169
Banco Internacional del Perú S.A.	-	10,000	2.85	Dec-22	2,114	4,169
Citibank N.A. New York	-	70,000	3.84	Jan-22	-	30,625
Banco Internacional del Perú-Interbank	10,000	-	1.09	Apr-23	1,781	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	581	905
Banco Internacional del Perú-Interbank	10,000	-	1.16	Dec-22	1,781	2,766
Banco Internacional del Perú-Interbank	6,300	-	1.48	Jul-23	1,319	1,743
Scotiabank Perú S.A.A.	2,300	-	1.15	Dec-22	505	636
Scotiabank Perú S.A.A.	5,100	-	1.30	Dec-22	1,173	1,410
Scotiabank Perú S.A.A.	2,265	-	1.15	Dec-22	521	626
					11,889	52,581
Bonds:						
Negotiated bonds (b)	-	600,000	5.375	Feb-22	410,264	535,264
Negotiated bonds (c)	-	475,000	4.375	Feb-26	475,000	-
Adjustment for amortized cost (issuance costs)					(5,894)	(497)
					879,370	534,767
Syndicated loan (d)	-	300,000	-	Feb-22	-	297,474
					-	297,474
Lease liability with third parties						
Lease liability	-	-	-	-	2,494	11,406
					2,494	11,406
Lease liability with financial entities						
Banco Internacional del Perú-Interbank	-	-	Between 2.19 and 4.45	Between May-20 and Dec-23	9,385	6,297
Scotiabank Perú S.A.A.	-	-	Between 2.04 and 3.83	Between Apr-20 and Nov-24	15,123	8,195
					24,508	14,492
Interests payable					18,194	14,577
Total financial obligations					936,455	925,297
Non-current portion					485,311	888,615
Current portion					451,144	36,682

(a) This item corresponds to medium-term loans obtained from Interbank and Scotiabank (Citibank, Interbank and Scotiabank as of December 31, 2020) for working capital and acquisition of machinery.

Financial covenants

As of December 31, 2021, the Company and Subsidiaries have financial covenants in compliance with medium-term loan agreements entered into with Citibank, Scotiabank and Interbank. In this regard, the Company and Subsidiaries should submit a communication of the calculation of the following ratios on the consolidated financial information of the Company to each one of the financial entities at the closing of interim quarterly periods:

- 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, 2021, the leverage ratio is 2.37 (5.48 as of December 31, 2020) and the interest hedge ratio is 7.31 (3.62 as of December 31, 2020).

The compliance with ratios by Citibank and Scotiabank was exempted in 2020. In case of Interbank, a conditional exemption was obtained with adjusted ratios; however, the ratios were not met as of December 31, 2020. In this regard, the extension of the exemption was required from Interbank, which was granted by the bank in the first quarter of 2021.

(b) Negotiated bonds known as "5.375% Senior Notes Due 2022" were issued on February 2, 2012 and placed in their 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 as from August 2, 2012. The issue document of these bonds does not establish the compliance with financial covenants (Note 1(d.2)); however, it establishes certain limitations and levies on guarantees of other debts with the Company and Subsidiaries' properties, sale prohibitions with subsequent lease, and annual financial information presentation requirements.

(c) Negotiated bonds known as "4.375% Senior Notes Due 2026" were issued on February 11, 2021 and placed in their entirety in the international market for US$475,000, at an annual coupon rate of 4.375%, maturing in 5 years. Interests will be paid in semiannual installments from August 11, 2021 to February 11, 2026. The issue document of these bonds does not establish the compliance with financial covenants; however, it establishes certain limitations, such as incurring additional debts, for the Company as well as for Subsidiaries considered restricted, if when acquiring such debt, the consolidated fixed hedge rate of the Company and Subsidiaries is less than 2.0. This document also establishes limitations for the sale of assets, among others.

Funds were received on February 11, 2021 and in that month, the Company did the following:

(i) Partial purchase of "5.375% Senior Notes Due 2022" for US$125,000.
(ii) Payment of syndicated loan for US$303,000, including accrued interests.
(iii) Payment of other medium-term credits for US$34,000.
(iv) The balance of funds received was used for operation-related expenses.

(d) 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 US$300 million with a maturity of 18 months, from which US$175,000 of the loan has a rate equal to LIBOR 3M + markup and the 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, the 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.

The Company paid the whole loan for US$303,000, including interests, in February 2021.

(e) The debt amortization schedule at face value as of December 31, 2021 and 2020 is as follows:

	2021	2020
	US$000	US$000
2021	-	81,459
2022	474,722	596,348
2023	32,184	299,489
2024	25,683	236
2025	21,043	-
2026	471,453	-
Total	1,025,085	977,532

(f) As of December 31, 2021 and 2020, the reconciliation of cash flows to financial obligations are shown below:

	2021 US$000	2020 US$000
Movements related to cash flows		
Proceeds from bank loans	-	122,473
(Payment for) proceeds from syndicated loan	(297,664)	297,474
Payment of short-term loans from banks	(39,912)	(291,601)
Bonds issuance	475,000	-
Issuance cost - bonds	(5,894)	-
Repurchase of bonds	(125,000)	-
Payment of leases with financial entities	(8,142)	(3,107)
Payment of interests on loans	(42,132)	(37,922)
Payment of leases with third parties	(12,610)	(14,343)
Total	(56,354)	72,974
Movements not related to cash flows		
Obtaining finance leases	17,664	10,822
Interests on loans	45,749	38,697
Exchange difference - financial obligations	(724)	-
Lease liabilities with third parties	4,325	2,503
Increase of financial obligations during the year	10,660	124,996
Financial obligations at the beginning of the year	925,794	800,798
Financial obligations at the end of the year	936,454	925,794

(g) Guarantees

The Company has guarantees received from its Subsidiaries Compañía Minera Chungar S.A.C., Empresa Administradora Cerro S.A.C. and Óxidos de Pasco S.A.C. in order to secure the full compliance with pertinent obligations for the international issuance of bonds under Rule 144A and Regulation S of the United States Securities Act of 1933.

16. TRADE ACCOUNTS PAYABLE

Trade accounts payable consist of:

	2021 US$000	2020 US$000
Invoices payable (a) (b)	143,186	149,720
Invoices pending to receive (c)	73,457	59,751
Guarantee funds	13,050	13,169
Total	229,693	222,640

(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, 2021, balances payable are effective and within the payment terms established by the Company and Subsidiaries, which range between 30 and 90 days in 2021 (30 and 90 days in 2020).

(b) As of December 31, 2021, the Company and Subsidiaries hold obligations for US$40,205 (US$48,718 as of December 31, 2020), 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.

(c) Invoices pending to receive correspond to the estimated record of consumption of goods and services, for which, at the date of the consolidated financial statements, the payment receipts issued by their pertinent suppliers have not been received.

17. OTHER ACCOUNTS PAYABLE

Other accounts payable consist of:

	2021	2020
	US$000	US$000
Short term		
To third parties		
Salaries and profit-sharing of employees (a)	19,010	10,442
Income tax	8,603	3,266
Deduction of value-added tax	8,389	7,269
Mining taxes	3,961	2,147
Advances from customers	3,200	2,400
Other accounts payable under IFRIC 23	857	2,259
Contribution to OEFA	279	12,403
Other minor items	4,025	3,509
	48,324	43,695
Amortized cost:		
Provision for water use/treatment/discharge	6,377	525
Provision for operating rights and penalties	4,708	1,994
Dividends	913	1,011
Other minor items	2,861	2,404
	14,859	5,933
	63,183	49,628
To related entities		
Salaries and bonuses of the Board of Directors	6,802	6,536
Sundry items	703	119
	7,505	6,655
Total	70,688	56,283
Long term		
Advances from customers	6,400	9,600
	6,400	9,600

(a) As of December 31, 2021, this item mainly includes vacations, profit-sharing, and performance bonus of employees for US$5,539, US$6,175 and US$3,659, respectively (US$6,481 and US$1,521 for vacations and profit-sharing of employees in 2020, respectively).

18. PROVISIONS

Provisions consist of:

	2021 US$000	2020 US$000
Provisions for lawsuits (a)	25,970	27,596
Mine closure (Note 32)	207,693	176,514
Agreements with communities (b)	23,943	19,924
Other provisions	4,764	5,216
Total	262,370	229,250

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

	US$000
Balance as of January 1, 2020	20,273
Provision for the year (Note 24)	2,800
Reversal (Note 24)	(2,639)
Transfer of liabilities held for sale	7,162
Balance as of December 31, 2020	27,596
Provision for the year (Note 24)	1,114
Reversal (Note 24)	(2,740)
Balance as of December 31, 2021	25,970

(b) As of December 31, 2021, the nominal value of the provision for commitments with communities is US$25,487 (US$21,550 as of December 31, 2020), which has been discounted using the annual risk-free rate of 1.5% (1.6% in 2020), resulting in a net value of US$23,943 (US$19,924 as of December 31, 2020).

19. EQUITY

(a) Share capital

The share capital 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 distribution, 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, 2021, their quotation was S/3.25 and S/0.60 per share, respectively (S/3.30 and S/0.52 per share, respectively, as of December 31, 2020). As of December 31, 2021, the negotiation frequency of class A shares was 5% and 95% for class B shares (4.76% for class A shares and 100% for class B shares as of December 31, 2020).

The equity interest structure as of December 31, 2021 and 2020 is as follows:

Individual interest percentage in issued capital stock	Number of shareholders		Total interest percentage	
	2021	2020	2021	2020
			%	%
Less than 0.20	7,389	7,950	13.00	17.49
From 0.20 to 1.00	16	20	7.96	8.80
From 1.01 to 5.00	16	17	45.00	51.18
From 5.01 to 10.00	3	1	17.25	5.74
From 10.01 to 20.00	1	1	16.79	16.79
	7,425	7,989	100.00	100.00

(b) Higher value in acquisition of treasury shares

This item corresponds to the results obtained from the purchase of treasury shares, which are credited or debited in this account.

(c) Treasury shares

This item corresponds to shares of the Company acquired by Subsidiaries. From total shares, 182,994,435 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.

(d) Legal reserve

Pursuant to the General Business Law, 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 but must be replaced. The legal reserve can be capitalized but shall also be replaced.

(e) Other Comprehensive Income

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).

20. REVENUE

During 2021 and 2020, revenue mainly includes sales of zinc, lead, silver, and copper concentrates, as follows:

	2021	2020
	US$000	US$000
Net sales per concentrate:		
Zinc	488,459	237,321
Lead	209,746	147,575
Silver bars	100,349	63,113
Silver	80,179	31,019
Copper	66,223	39,247
Silver slag	(114)	1,725
	944,842	520,000
Profit (loss) in:		
Execution of financial instruments	(13,636)	4,402
Embedded derivatives (Note 29(c))	2,220	5,201
Ajustment of open provisional liquidations	1,863	5,255
Estimate of committed sales	2,110	611
Total	937,399	535,469

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):

	2021	2020
	US$000	US$000
Peru	685,411	345,662
Europe	207,714	127,877
Asia	39,549	41,079
America	12,168	5,382
	944,842	520,000

(a) Sales concentration

In 2021, the three most important customers represented 63% of total sales (65% of total sales in 2020). As of December 31, 2021, 35% of accounts receivable is related to these customers (30% as of December 31, 2020). The concentrates of the Company and Subsidiaries are sold to well-known companies in the country and abroad.

(b) Sales commitments

As of December 31, 2021, the Company and Subsidiaries hold commitments with related entities and third parties for sales of zinc, lead, and copper concentrates for 903,438 WMT, 116,816 WMT and 800 WMT until 2026, for an approximate amount of US$877,939, US$313,866 and US$3,713, respectively (1,044,177 WMT, 95,241 WMT and 3,866 WMT, respectively, as of December 31, 2020, for an approximate amount of US$840,686, US$229,531 and US$17,651).

As of December 31, 2021, the Company and Subsidiaries hold commitments for the sale of Dore bars for 155,329 oz. for US$3,568. As of December 31, 2020, there were no commitments for the sale of Dore bars.

21. COST OF SALES

Cost of sales comprises the following:

	2021 US$000	2020 US$000
Beginning balance of concentrates (Note 11)	14,209	11,214
Beginning balance of minerals (Note 11)	12,293	11,319
Services provided by third parties, energy and others	250,051	176,171
Consumption of supplies	118,169	82,165
Depreciation (Note 12 (b))	88,788	74,415
Depreciation of right-of-use assets (Note 13)	4,058	15,350
Labor	75,657	56,733
Amortization (Note 14 (b))	90,736	42,387
Others	2,580	3,026
Ending balance of concentrates (Note 11)	(11,383)	(14,209)
Ending balance of minerals (Note 11)	(19,610)	(12,293)
Cost of plant shutdown	26,551	41,493
Depreciation of plant shutdown (Note 12 (b))	3,237	22,774
Amortization of plant shutdown (Note 14 (b))	695	2,721
Total	656,031	513,266

22. ADMINISTRATIVE EXPENSES

Administrative expenses comprise the following:

	2021 US$000	2020 US$000
Personnel charges	20,648	14,485
Mails, telecommunications and other minor items	7,282	6,399
Services provided by contractors	3,941	39
Professional fees	7,945	6,641
Insurance	4,309	3,875
Leases	1,338	913
Personnel services	1,976	1,984
Operating rights - Penalties	2,670	800
Indemnities	1,996	909
Communications and information technology	1,322	1,045
Depreciation (Note 12 (b))	810	860
Salaries and bonuses of the Board of Directors	342	300
Amortization (Note 14 (b))	1,123	1,225
Depreciation of right-of-use assets (Note 13)	768	868
Others	1,210	409
Total	57,680	40,752

23. SELLING EXPENSES

Selling expenses comprise the following:

	2021 US$000	2020 US$000
Freight	14,829	9,583
Services for the sale of concentrates	2,093	2,232
Sundry services	798	1,164
Services provided by contractors	682	602
Personnel expenses	788	851
Samples, analysis and supervision	760	627
Shipment expenses	296	86
Services provided by third parties	683	52
Leases	105	158
Depreciation (Note 12(b))	91	80
Total	21,125	15,435

24. OTHER INCOME AND EXPENSES

Other income comprises the following:

	2021 US$000	2020 US$000
Other income:		
Income from the sale of sundry supplies	8,834	6,810
Income from the sale of energy to third parties	14,152	12,750
Income from treatment services of minerals and others	7,009	8,107
Impairment recovery of minerals	261	5,449
Insurance compensation	-	566
Recovery of provision for OEFA and OSINERGMIN	1,485	-
Effect for the update of the present value of the provision for mine closure and communities	311	-
Reversal of provision for lawsuits (Note 18)	2,740	2,639
Gain on valuation of investment in associate using the equity method	35	-
Reversal of impairment estimate of other accounts receivable	1,711	1,739
Others	5,967	8,723
Total	42,505	46,783

Other expenses comprise the following:

	2021	2020
	US$000	US$000
Other expenses:		
Impairment of other accounts receivable (a)	(899)	(1,310)
Cost of sales of sundry supplies	(8,490)	(5,941)
Sundry non-deductible expenses	(9,084)	(2,968)
Depreciation (Note 12(b))	(3,741)	(4,554)
Cost of sales of energy	(7,822)	(6,936)
Obsolescence of supplies (Note 11)	(4,060)	(1,495)
Contribution for regulation OEFA and OSINERMING	(2,353)	(1,319)
Adjustment of mine closure and communities	(18,132)	(2,232)
Cost of treatment service of minerals and others	(1,133)	(1,175)
Provision for lawsuits (Note 18)	(1,114)	(2,800)
Loss for disposal of property, plant and equipment	(766)	(27)
Loss for valuation of investment in associate under the equity method	-	(890)
Amortization (Note 14 (b))	(191)	(262)
Tax administrative penalties	(1,228)	(342)
Loss for ceasing the classification of assets held for sale	-	(58,393)
Write-off of capitalized interests	(6,802)	-
Derecognition of property, plant and equipment	(1,630)	-
Services provided by contractors	(2,426)	-
Compensation	(1,266)	-
Others	(8,335)	(6,579)
Total	(79,472)	(97,223)

25. IMPAIRMENT OF NON-FINANCIAL ASSETS

By applying 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 2021, 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 Administradora Cerro S.A.C. for US$13,397.

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.

	2021		2020	
	Impairment estimate	Total	Impairment estimate	Total
	US$000	US$000	US$000	US$000
Cash-generating units:				
Chungar	-	-	(8,020)	(8,020)
Cerro	(13,397)	(13,397)	(2,631)	(2,631)
Vinchos	-	-	(8)	(8)
Total	(13,397)	(13,397)	(10,659)	(10,659)
Recorded in:				
Property, plant and equipment (net) (Note 12)	(11,386)	(11,386)	(10,408)	(10,408)
Mining concessions, exploration and development costs and other intangibles (net) (Note 14)	(1,815)	(1,815)	(227)	(227)
Right-of-use assets (net) (Note 13)	(196)	(196)	(24)	(24)
Total	(13,397)	(13,397)	(10,659)	(10,659)

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, before taxes, was 5.8% and 5.5% as of December 31, 2021 and 2020, respectively. The Company and Subsidiaries' mining units are aligned to the life of the mine, which ranges from 2022 to 2038.

Management of the Company and Subsidiaries believes that the balance of the impairment estimate for non-financial assets is sufficient to adequately cover the impairment risk at the date of the consolidated statement of financial position. In addition, Management considers that there would not be significant changes to the discount rate that may increase the impairment loss.

26. FINANCIAL INCOME AND EXPENSES

Financial income and expenses comprise the following:

	2021 US$000	2020 US$000
Financial income		
Gain on exchange difference	2,041	-
Interests on loans	675	531
Dividends	-	1,084
Other financial income	463	205
Total	3,179	1,820
Financial expenses		
Loss on exchange difference	-	(5,640)
Interests on issued bonds	(43,317)	(30,206)
Interests and expenses of financial obligations	(3,597)	(10,072)
Effect for the changes in present value of mine closure (Note 32)	(2,846)	(3,123)
Interests on lease liabilities	(984)	(2,375)
Financial costs for repurchase of bonds	(4,688)	-
Amortized cost of bonds	(1,051)	-
Effect for the update of the present value of communities	(315)	(377)
Commissions and other expenses	(4,793)	(4,680)
Total	(61,591)	(56,473)

27. INCOME TAX

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

	2021 US$000	2020 US$000
Income tax		
Current	(26,539)	(4,474)
Deferred (a)	(12,662)	9,575
	(39,201)	5,101
Special mining tax (b)	(5,565)	(1,067)
Mining royalties (b)	(8,833)	(4,740)
Contribution to the mining retirement fund (c)	(314)	-
Total	(53,913)	(706)

(a) The Company and Subsidiaries recognize the effects of temporary differences between the accounting basis and the tax basis. Income tax is presented in the following table, according to the items that generated it.

		Additions (deductions)					Additions (deductions)		
	Balance as of January 1, 2020 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, 2020 US$000	Statement of profit or loss US$000	Other comprehensive income US$000	Others US$000	Balance as of December 31, 2021 US$000
Deferred asset									
Depreciation expenses of property, plant and equipment (net)	24,629	18,642	-	22,845	66,116	1,988	-	-	68,104
Amortization expenses of mining rights and concessions, exploration, development and stripping costs	54	(2)	-	-	52	(2)	-	-	50
Provision for the closure of mining units	36,038	1,573	-	679	38,290	4,556	-	-	42,846
Lease liability	6,850	(3,574)	-	53	3,329	(2,620)	-	-	709
Fair value of derivative financial instruments	456	161	2,121	-	2,738	74	(2,151)	-	661
Provision for contingencies	7,368	82	-	162	7,612	(508)	-	-	7,104
Obsolescence estimate for inventories	1,924	262	-	356	2,542	886	-	-	3,428
Recoverable tax loss	-	38,195	-	-	38,195	(10,357)	-	-	27,838
Embedded derivatives and sales adjustments	1,858	(1,858)	-	-	-	-	-	-	-
Effect for translation of tax benefits into U.S. dollars	-	(4,161)	-	4,206	45	(45)	-	-	-
Fair value of shares of Cementos Polpaico S.A.	5,574	-	(721)	-	4,853		2,251	-	7,104
Provision for community agreements	5,009	(429)	-	-	4,580	1,047	-	-	5,627
Overtime compensable	-	1,298	-	-	1,298	(1,298)	-	-	-
Outstanding vacations	1,572	(89)	-	50	1,533	179	-	-	1,712
Provision for doubtful accounts	92	-	-	-	92	(42)	-	-	50
Undercapitalization - interests	-	-	-	-	-	4,647	-	-	4,647
Others	926	111	-	14	1,051	1,375	-	-	2,426
Total	92,350	50,211	1,400	28,365	172,326	(120)	100	-	172,306
Deferred liability									
Use of amortization benefits of mining rights and concessions, exploration, development and stripping costs	(187,305)	(11,676)	-	(60,449)	(259,430)	5,638	-	-	(253,792)
Use of depreciation benefitis of property, plant and equipment (net)	(1,889)	(4,874)	-	(10,095)	(16,858)	(4,214)	-	-	(21,072)
Effect for translation of tax benefits into U.S. dollars	(25,257)	(24,407)	-	(10,850)	(60,514)	(18,625)	-	-	(79,139)
Fair value of derivative financial instruments	(1,913)	1,899	-	-	(14)	14	-	-	-
Valuation of stockpiles	-	108	-	(2,196)	(2,088)	129	-	-	(1,959)
Fair value of investments in equity instruments	(5,395)	263	-	-	(5,132)	(11)	-	-	(5,143)
Insurance compensation	(2,025)	-	-	-	(2,025)	-	-	-	(2,025)
Embedded derivatives	-	(296)	-	(38)	(334)	(642)	-	-	(976)
Sales adjustments	-	(738)	-	-	(738)	(619)	-	-	(1,357)
Syndicated loan	-	(745)	-	-	(745)	711	-	-	(34)
Capitalization of expenses for bond issuance	(282)	135	-	-	(147)	(1,592)	-	-	(1,739)
Others	(11,273)	(305)	-	-	(11,578)	6,669	-	8	(4,901)
Total	(235,339)	(40,636)	-	(83,628)	(359,603)	(12,542)	-	8	(372,137)
Net asset (liability)	(142,989)	9,575	1,400	(55,263)	(187,277)	(12,662)	100	8	(199,831)

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$24,522 and US$3,316, respectively, will occur as from 2022 through the generation of future tax flows, considering the type of option selected by the Company for offsetting losses and the business plan. An amount of US$10,357 was recovered in 2021.

The Company has not recognized the deferred income tax related to tax losses generated by the certain subsidiaries for US$66,226 (US$72,261 as of December 31, 2020) because there is 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 take 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 quantity is classified as an accepted deduction 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

This item corresponds to the contribution of 0.5% of annual income of 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 Complementary Mining, Metallurgical and Iron and Steel Fund (FCJMMS for its Spanish acronym) 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 Spanish acronym).

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 2021 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 from the 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 2021.

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, 2021.

(ii) Open years for 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 2017 to 2021 and value-added tax for the periods from December 2017 to December 2021 of the Company and Subsidiaries will be reviewed by the Tax Administration, except Subsidiary Roquel Global S.A.C., whose income tax and value-added tax returns for 2017 are closed. In addition, the income tax return of the Company for 2016 is also subject to review.

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 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:

Tax return	Minimum annual income	Assumption	Details	Effective from
Local report	S/9,300,000 (US$2,700,000)	Operations with related entities	Transactions that give rise to taxable income or deductible expense	2018
Master report	S/81,000,000 (US$23,800,000)	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 2020 to the Tax Administration and are now preparing the pertinent reports for 2021.

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, 2021 and 2020, in relation to transfer pricing.

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

During 2021 and 2020, the effective income tax rate is different from the legal tax rate. The nature of this difference is due to certain items related to taxable profit, whose effects are summarized below:

	2021		2020	
	Amount	Percentage	Amount	Percentage
	US$000	%	US$000	%
Profit (loss) before income tax	93,787	100.00	(149,736)	100.00
Income tax as per tax rate	27,667	29.50	(44,172)	29.50
Unrecognized deferred tax for tax losses	3,822	4.08	8,223	(5.49)
Adjustment of income tax from previous years	(12,940)	(13.80)	11,856	(7.92)
Translation effect of non-financial assets	21,862	23.31	28,569	(19.08)
Tax effects on non-deductible expenses and other minor items	(1,210)	(1.29)	(9,577)	6.40
Mining taxes	14,712	15.69	5,807	(3.88)
Income tax expense and tax rate applicable to profit as per records	53,913	57.48	706	(0.47)

(v) Income tax payable

The Company and Subsidiaries have a credit balance with the Tax Administration for US$8,603 as of December 31, 2021 (US$3,266 as of December 31, 2020) (Note 17).

(vi) Significant changes to income tax in Peru

After December 31, 2021, 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, 2021 have been considered by Management when preparing these consolidated financial statements.

Below we present the main amendments that will be applicable as from 2021:

<u>Deductibility of interests according to EBITDA</u>

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. 402-2021-EF, published on December 30, 2021, it has been established that, exceptionally, in order to determine the EBITDA corresponding to 2020 that will be applied to calculate the restriction of taxable period 2021, after offsetting losses, the amount of deducted interests to establish net income should be added to such net income, besides the amount of the pertinent depreciation and amortization, and the income from taxable interests should be deducted in such period.

<u>Tax benefits that will still be applied in 2022</u>

- 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.

<u>Tax stability agreements</u>

Pursuant to Legislative Decree No. 1516, it has been established that the companies receiving investments that enter into tax stability agreements by virtue of Legislative Decrees 662 and 757 will increase the corporate income tax rate that is in force at the execution date of the agreement by 2 percentage points.

(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.

28. BASIC AND DILUTED LOSS PER SHARE

Earnings or loss 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, 2021 and 2020, diluted earnings or loss 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.

	2021	2020
	US$000	US$000
Net profit (loss)	39,874	(150,442)
Average common shares - thousands of units	3,857,594	3,857,598
Net basic and diluted earnings (loss) per share for the year	0.010	(0.039)

29. 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 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, the Company had the following hedging operations in force (Note 10), which were settled in 2021:

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

(b) Interest rate hedge operations

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

As of December 31, 2020, 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)

Cash flow and fair value hedges in force as of December 31, 2020 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. This loan was paid in February 2021.

(c) Embedded derivative for the variation of quotations in concentrate sale agreements

As of December 31, 2021 and 2020, 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, 2021:

	Quantity	Quotation period	Fair value
	DMT/OZ		US$000
Receivable			
Zinc	37,824	January 2022 - March 2022	3,379
Lead	14,208	January 2022 - February 2022	(206)
Copper	1,932	January 2022 - February 2022	(126)
Silver	1,562	January 2022 - February 2022	261
Total			3,308

As of December 31, 2020:

	Quantity	Quotation period	Fair value
	DMT/OZ		US$000
Receivable			
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			1,088

As of December 31, 2021 and 2020, fair values of embedded derivatives caused a profit of US$2,220 and US$5,201, respectively, and are shown in item "Net sales" of the consolidated statement of profit or loss (Note 20). Future quotations of the dates when open positions as of December 31, 2021 and 2020 are expected to be liquidated are obtained from the publications of the London Metal Exchange.

30. 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 of 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 concentrator plants.

- Chungar: production and sale of concentrates produced in mining units of Chungar and Alpamarca. Chungar comprises mines Animon and Islay and the Animon concentrator 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, 2021 and 2020 is presented in the tables below:

As of December 31, 2021:

	Volcan	Chungar	Cerro	Óxidos	Investment	Energy	Others	Adjustments	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Total assets	2,327,083	706,204	66,281	198,521	250,143	132,140	24,801	(1,539,660)	2,165,513
Total liabilities	1,293,387	414,078	161,145	29,243	87,977	45,938	51,341	(374,263)	1,708,846
Sales	522,837	264,425	85,584	100,235	-	14,152	457	(50,291)	937,399
Gross profit	176,838	47,892	22,693	29,933	-	5,269	457	(1,714)	281,368
Operating expenses	(81,982)	(35,231)	(28,045)	(7,127)	(2,086)	(5,046)	(3,070)	(10,193)	(172,780)
Other operating income	29,473	9,443	11,485	1,266	9	2,840	736	(11,641)	43,611
Operating profit (loss)	124,329	22,103	6,134	24,071	(2,077)	3,062	(30,148)	4,725	152,199
Net profit (loss) for the year	38,317	11,818	(3,799)	9,743	(2,155)	(1,533)	(16,713)	4,196	39,874
Detail of sales									
Local sales	461,832	205,100	53,641	-	-	14,152	457	(49,770)	685,412
International sales	67,481	60,710	31,005	100,235	-	-	-	-	259,431
Embedded derivative, estimate of committed sales, adjustment of open temporary liquidations and execution of financial instruments	(6,475)	(1,385)	938	-	-	-	-	(522)	(7,444)
	522,838	264,425	85,584	100,235	-	14,152	457	(50,292)	937,399

As of December 31, 2020:

	Volcan	Chungar	Cerro	Óxidos	Investment	Energy	Others	Adjustments	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Total assets	2,259,217	728,332	53,133	198,294	256,421	139,382	35,247	(1,597,582)	2,072,445
Total liabilities	1,267,459	447,917	144,197	38,759	85,942	51,646	49,765	(430,161)	1,655,524
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)
<u>Detail of sales</u>									
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 derivative, adjustment of open temporary liquidations and execution of 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

31. 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 established a provision for probable contingencies for US$25,970, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2021 (US$27,596 as of December 31, 2020). The Company's Management and its legal advisors believe that this provision sufficiently covers probable contingencies.

In relation to possible contingencies, external and internal legal advisors of the Company and Subsidiaries determined an amount of US$47,438 (US$38,352 as of December 31, 2020), 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 established a provision for probable contingencies for US$15,737, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2021 (US$16,459 as of December 31, 2020). The Company's Management and its legal advisors believe that this provision sufficiently covers probable contingencies.

In relation to possible contingencies, external and internal legal advisors of the Company determined an amount of US$40,128 (US$25,208 as of December 31, 2020), which corresponds to several proceedings addressed by the Company.

Civil and labor proceedings

As of December 31, 2021, certain civil and labor lawsuits have been filed against the Company for US$6,201 (US$7,201 as of December 31, 2020), 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$11,467 (US$11,535 as of December 31, 2020) for compensations for occupational disease, refund of social benefits, payment of profit sharing, reinstatement of employees and others.

Tax proceedings

As of December 31, 2021 and 2020, 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 2015, 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$3,254, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2021 (US$3,750 as of December 31, 2020).

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$28,346 as of December 31, 2021 (US$13,554 as of December 31, 2020).

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 for its Spanish acronym) and the Environmental Supervision and Evaluation Entity (OEFA for its Spanish acronym) 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$6,282 (US$5,508 as of December 31, 2020), and possible contingencies for US$315 as of December 31, 2021 (US$119 as of December 31, 2020).

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$3,280, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2021 (US$3,372 as of December 31, 2020). Management and its legal advisors believe that this provision sufficiently covers probable contingencies.

In relation to possible contingencies, external legal advisors determined an amount of US$2,65 as of December 31, 2021 (US$11,466 as of December 31, 2020), which corresponds to several proceedings addressed by the Subsidiary.

Civil and labor proceedings

As of December 31, 2021, certain labors lawsuits have been filed against Chungar for US$491 (US$596 as of December 31, 2020), 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$537 (US$4,678 as of December 31, 2021) 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, 2021 and 2020, 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.

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$63 as of December 31, 2021 (US$349 as of December 31, 2020).

Finally, there are other contingencies that have derived from concept discrepancies with the Tax Administration and have been classified as possible for US$2,423 as of December 31, 2021 (US$6,467 as of December 31, 2020).

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$2,526, presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2021 (US$2,427 as of December 31, 2020).

Contingencies classified as possible amount to US$6 (US$321 as of December 31, 2020).

(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$4,974, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2021 (US$5,475 as of December 31, 2020). 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$2,634 (US$984 as of December 31, 2020), which corresponds to several proceedings addressed by the Subsidiary.

Civil and labor proceedings

As of December 31, 2021, certain labors lawsuits have been filed against the Subsidiary for US$2,412 (US$2,869 as of December 31, 2020), which have been classified as probable and are presented in item "Provisions" of the consolidated statement of financial position.

Civil and labor contingencies classified as possible amount to US$254 (US$907 as of December 31, 2020) 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, 2021 and 2020, 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$920 as of December 31, 2021 (US$1,015 as of December 31, 2020).

Contingencies classified as possible amount to US$2,315 (US$27 as of December 31, 2020).

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$1,642, presented in item “Provisions” of the consolidated statement of financial position as of December 31, 2021 (US$1,591 as of December 31, 2020) and contingencies classified as possible for US$65 (US$50 as of December 31, 2020).

(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$1,039, which is presented in item “Provisions” of the consolidated statement of financial position as of December 31, 2021 (US$914 as of December 31, 2020) and contingencies classified as possible for US$1,711 (US$694 as of December 31, 2020). Management and its legal advisors believe that this provision covers probable contingencies sufficiently.

Labor proceedings

As of December 31, 2021, certain labors lawsuits have been filed against Vinchos for US$10 (US$30 as of December 31, 2020), which have been classified as probable and are presented in item "Provisions" of the consolidated statement of financial position.

Tax proceedings

As of December 31, 2021, some tax proceedings have been filed against the Subsidiary, which include expenses disallowed by the National Superintendence of Tax Administration (SUNAT), classified as possible for US$1,711 (US$694 as of December 31, 2020).

Sanctioning administrative proceedings and contentious-administrative actions

The Subsidiary has not yet resolved certain environmental proceedings with the following regulatory entities: National Water Authority - Local Water Authorities, 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$1,029, presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2021 (US$884 as of December 31, 2020).

(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$98, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2021 (US$114 as of December 31, 2020). Management and its legal advisors believe that this provision sufficiently covers probable contingencies.

(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$570, presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2021 (US$1,031 as of December 31, 2020).

Labor proceedings

As of December 31, 2021, certain labors lawsuits have been filed against this Subsidiary for US$14, which have been classified as probable and are presented in item "Provisions" of the consolidated statement of financial position.

(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$258, presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2021 (US$227 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 2022 and were renewed for one additional year until 2023:

- General Mining Board of the MEM that guarantees the compliance with the applicable Mine Closure Plans of the Company and Subsidiaries for US$98,995 (US$90,677 in 2020).

- National Superintendence of Tax Administration (SUNAT) for US$2,666 to guarantee debts and obligations held with the Tax Administration, maturing in 2022 (US$33,831 in 2020).

- Third parties that guarantee the compliance with payments for the provision of services for US$5,899 (US$2,395 in 2020).

32. 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 2021 and 2020, 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 for certain mining units.

As of December 31, 2021, the Company and Subsidiaries recognized a liability of US$207,693 for all their mining units (US$176,514 as of December 31, 2020), in relation to their obligations for future closure:

	2021	2020
	US$000	US$000
Mining unit		
Cerro de Pasco	34,558	35,386
Óxidos	2,471	2,381
Chungar	46,253	37,009
Carahuacra	34,249	30,647
San Cristóbal	27,460	27,858
Andaychagua	17,499	15,503
Alpamarca	13,364	12,368
Vinchos	19,256	7,598
Ticlio	3,943	4,029
Vichaycocha	4,865	2,828
Toruna	1,643	554
San Sebastian	2,132	353
Total (Note 18)	207,693	176,514

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

	US$000
Balance as of January 1, 2020	133,564
Changes in estimates	5,168
Increase for update of present value of provision (Note 26)	3,123
Payments	(3,108)
Transfer of assets/liabilities held for sale (IFRS 5)	37,767
Balance as of December 31, 2020	176,514
Changes in estimates	33,048
Increase for update of present value of provision (Note 26)	2,846
Payments	(4,715)
Balance as of December 31, 2021	207,693

The provision for the closure of mining units represents the present value of closure costs that are expected to be incurred between 2022 and 2051.

Changes in estimates consider the change in the rate, the inclusion of new units to the closure plan, the modification of budgets and the elimination of contingent 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 dismantling 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, 2021, the nominal value of the provision for the closure of mining units is US$222,731, which has been discounted using the annual risk-free rate of 1.5%, resulting in a net present value of US$207,693 (nominal value of US$189,873 as of December 31, 2020, using an annual risk-free rate of 1.6%, resulting in a net present value of US$176,514). 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.

33. REMUNERATIONS PAID TO KEY PERSONNEL

The remuneration of the key personnel of the Company and Subsidiaries for the years ended December 31, 2021 and 2020 amounted to US$10,913 and US$8,816, respectively, and corresponds to salaries, profit sharing, benefits and social charges, bonuses and extraordinary allowances.

34. NON-MONETARY TRANSACTIONS AND STATEMENT OF CASH FLOWS

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

2021

- Adjustment of the present value of the provision for the closure of mining units for US$34,256.
- Adjustment of the present value of the liability with communities for US$6,713.
- Assets acquired under leases for US$17,666.
- Acquisition of property, plant, and equipment, which have not been paid yet, for US$41,181.
- Acquisition of mining concessions, exploration and development costs and other intangibles, which have not been paid yet, for US$26,532.

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 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.

35. 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 buy leased assets at the maturity date of lease terms.

Payments recognized for this concept were US$36,018 and US$25,094 in 2021 and 2020, respectively. The commitments for operating leases are shown below according to their maturity date:

	2021	2020
	US$000	US$000
1 year or less	13,692	13,722
More than 1 to 3 years	13,527	8,209
	27,219	21,930

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 15, respectively.

36. 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 event that is relevant for disclosure:

- On January 25, 2022, Volcan Compañía Minera S.A.A. received the amount of US$400,000 corresponding to the syndicated loan subscribed on December 29, 2021, for 4 years, with the following entities: Banco Santander, S.A., Citibank, N.A., acting through its international bank service, Citibank, N.A., Bank of Nova Scotia, Banco Internacional del Peru S.A.A., Banco Interamericano de Finanzas, Banco de Credito e Inversiones, S.A., Banco Latinoamericano de Comercio Exterior, S.A., Bancaribe Curacao Bank N.V., Banco de Credito del Peru, and Banco de Occidente Panama, S.A. The interest rate of such loan is variable, equivalent to LIBOR (3m) plus a markup calculated on the credit rating of the Company.

  The funds of this loan were fully used to comply with the obligations within the framework of existing bonds known as “5.375% Senior Notes Due 2022”, maturing in February 2022.