Volcan Compañía Minera S.A.A. and Subsidiaries

Independent Auditors’ Report

Consolidated Financial Statements

For the Years Ended
December 31, 2022 and 2021

(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

Opinion on the consolidated financial statements

We have audited the accompanying consolidated financial statements of **Volcan Compañía Minera S.A.A. and Subsidiaries** (hereinafter, "the Group"), which comprise the consolidated statements of financial position as of December 31, 2022, and the consolidated statements of profit or loss and the consolidated statements of other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the consolidated financial statements, as well as a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, present fairly, in all material respects, the financial position of the Group as of December 31, 2022, the results of operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) approved by the Junta de Decanos de Colegios de Contadores Públicos del Perú (Board of Deans of the Peruvian Professional Associations of Certified Public Accountants). Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics (IESBA Code), together with the ethical requirements relevant for our audit of the financial statements in Peru, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Impairment of long-term assets

Description of the key audit matter

As indicated in Notes 13, 14 and 15 to the consolidated financial statements, as of December 31, 2022, the Company and Subsidiaries have long-term assets for an amount of US$1,524 million, net of depreciation and impairment. In this regard, in 2022, the Group recorded an impairment of US$185 million and an impairment recovery of US$59 million as a result of its assessment of the recoverable value of those assets. To this effect, Management made significant estimates regarding different factors, such as future mineral prices, proven and probable reserves and inferred resources that determine the net production value, head grades, operating costs, capital expenditures and discount rate. Due to the uncertainty in the estimate, we have identified this matter as a key audit matter.

Audit response to the key audit matter

- We obtained an understanding of the method used as well as the relevant judgments and assumptions used by Management, including the involvement of its specialists for the measurement of reserves and resources, discount rate, and others, and evaluated whether there were relevant changes compared to 2021.

- We tested the design and implementation of Management's relevant review control about the estimate of the value in use and used assumptions and judgments.

- We involved our specialists in valuations and our mining specialists to challenge the method to calculate the forecasted cash flows, the assumptions and information sources used by Management including the sensitivity of those assumptions, in particular, regarding the future selling prices for minerals, estimate of reserves and resources and net production value, recovery and mineral conversion rates in the production process, head grades and discount rate used to determine the value in use.

- We evaluated the appropriateness of the disclosures related to the key assumptions used.

2. Going concern

Description of the key audit matter

As indicated in Note 3, Management prepares the financial statements under the going concern principle based on the judgment that there are no events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. We have identified this matter as a key audit matter since Management's judgment is based on the cash flow forecast that depend on significant assumptions, such as the selling price of the mineral and production costs, within a period of no less than the next 12 months.

Audit response to the key audit matter

- We reviewed the cash flow forecast prepared by Management.

- We evaluated the expected compliance with the financial covenants of the Company and Subsidiaries.

- We reviewed the availability of credit lines with financial entities.

- We evaluated the appropriateness of the disclosures in the financial statements.

3. Liability for asset dismantling and mine closure

Description of the key audit matter

As indicated in Note 33 to the consolidated financial statements, the Group has a provision for US$271 million to restore and rehabilitate the environment affected by its operations and for the dismantling of assets. This provision is regulated by a combination of legislative requirements and policies of the Company and includes significant estimates such as: i) costs for rehabilitation and dismantling activities of assets, ii) the period of time to make future related disbursements, and iii) discount rate.

Audit response to the key audit matter

- We obtained an understanding of how the Group determines the calculation method, identifies the relevant assumptions and data sources, and the need of changes in them.

- We evaluated whether the judgments, significant assumptions, and data to develop the estimate are consistent with the guidelines of the local regulatory entity, and whether the inflation rate and discount rate used in the calculation are aligned with the market.

- We examined the competence, capacity, objectivity, and nature of the work of the internal expert who assisted the Group in the preparation of the estimate.

- We evaluated the appropriateness of the disclosures in the financial statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual report but does not include the financial statements and our auditor’s report thereon. We expect to receive the other information after the date of this audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance of the Company.

Responsibilities of Management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of these 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 and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than a material misstatement resulting from error, as fraud may involve collusion, falsification, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the companies or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance of the Group regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

We also provide those charged with governance of the Group with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance of the Group, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other matters

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 3, 2023

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022 AND 2021
(In thousands of U.S. dollars (US$000))

	Notes	2022 US$000	2021 US$000
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	6	73,600	231,187
Trade accounts receivable (net)	9	28,586	43,806
Other accounts receivable (net)	10	65,389	55,971
Inventories (net)	12	57,093	59,824
Total current assets		224,668	390,788
NON-CURRENT ASSETS:			
Other accounts receivable (net)	10	34,262	17,445
Investment in associate	7	147,801	149,144
Financial investments	8	38,704	38,607
Inventories (net)	12	6,218	6,642
Property, plant and equipment (net)	13	812,912	756,519
Right-of-use assets (net)	14	11,385	4,385
Mining concessions, exploration and development costs and other assets (net)	15	699,938	801,983
Total non-current assets		1,751,220	1,774,725
TOTAL		1,975,888	2,165,513

	Notes	2022 US$000	2021 US$000
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Bank overdrafts		198	1,168
Financial obligations	16	34,697	451,144
Trade accounts payable	17	251,239	229,693
Other accounts payable	18	74,869	70,688
Other financial liabilities	11	-	2,241
Total current liabilities		361,003	754,934
NON-CURRENT LIABILITIES:			
Financial obligations	16	776,771	485,311
Other accounts payable	18	3,200	6,400
Provisions	19	323,284	262,370
Deferred income tax	28 (a)	136,277	199,831
Total non-current liabilities		1,239,532	953,912
Total liabilities		1,600,535	1,708,846
EQUITY:			
Issued capital stock	20 (a)	1,134,300	1,134,300
Higher value in acquisition of treasury shares	20 (b)	(173,234)	(173,234)
Treasury shares	20 (c)	(60,934)	(60,934)
Legal reserve	20 (d)	10,695	10,695
Accumulated other comprehensive income	20 (e)	(9,436)	(9,504)
Accumulated losses		(526,038)	(444,656)
Total equity		375,353	456,667
TOTAL		1,975,888	2,165,513

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, 2022 AND 2021
(In thousands of U.S. dollars (US$000))

	Notes	2022	2021
		US$000	US$000
Net sales	21	951,266	937,399
Cost of sales	22	(762,743)	(656,031)
Gross profit		188,523	281,368
Administrative expenses	23	(69,346)	(57,680)
Selling expenses	24	(24,852)	(21,125)
Other income	25	60,068	42,505
Other expenses	25	(87,465)	(79,472)
Impairment loss of long-term assets	26	(126,069)	(13,397)
Operating (loss) profit		(59,141)	152,199
Financial income	27	14,751	3,179
Financial expenses	27	(57,124)	(61,591)
(Loss) profit before income tax		(101,514)	93,787
Income tax	28	20,132	(53,913)
Net (loss) profit for the year		(81,382)	39,874
Weighted average of the number of outstanding shares (in thousands)	29	3,857,594	3,857,594
Basic and diluted (loss) earnings per share	29	(0.021)	0.010

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, 2022 AND 2021
(In thousands of U.S. dollars (US$000))

	2022 US$000	2021 US$000
Net (loss) profit for the year	(81,382)	39,874
OTHER COMPREHENSIVE INCOME:		
Items that will not be reclassified to profit or loss:		
Unrealized profit (loss) of investments in equity instruments	96	(7,630)
Deferred income tax	(28)	2,251
	68	(5,379)
Items that can be subsequently reclassified to profit or loss:		
Unrealized profit of derivative financial instruments	-	7,290
Deferred income tax	-	(2,150)
Total other comprehensive income that can be subsequently reclassified to profit or loss	-	5,140
Total comprehensive income, net of income tax	(81,314)	39,635

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, 2022 AND 2021
(In thousands of U.S. dollars (US$000))

	Issued capital stock	Higher value in acquisition of treasury shares	Treasury shares	Legal reserve	Accumulated other comprehensive income	Accumulated losses	Total equity
	US$000	US$000	US$000	US$000	US$000	US$000	US$000
	Note 20 (a)	Note 20 (b)	Note 20 (c)	Note 20 (d)	Note 20 (e)		
Balance as of January 1, 2021	1,134,300	(173,231)	(60,930)	11,755	(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)
Total comprehensive income for the year	-	-	-	-	(239)	39,874	39,635
Liquidation of subsidiary	-	-	-	-	-	116	116
Other adjustments	-	(3)	(4)	(1,060)	-	1,062	(5)
Balance as of December 31, 2021	1,134,300	(173,234)	(60,934)	10,695	(9,504)	(444,656)	456,667
Comprehensive income							
Net loss for the year	-	-	-	-	-	(81,382)	(81,382)
Other comprehensive income for the year	-	-	-	-	68	-	68
Total comprehensive income for the year	-	-	-	-	68	(81,382)	(81,314)
Balance as of December 31, 2022	1,134,300	(173,234)	(60,934)	10,695	(9,436)	(526,038)	375,353

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, 2022 AND 2021
(In thousands of U.S. dollars (US$000))

	2022 US$000	2021 US$000
OPERATING ACTIVITIES:		
Collection from:		
Sales	1,097,004	1,055,522
Return of credit balance of exporter and taxes	33,041	36,477
Payments to/for:		
Suppliers and third parties	(722,309)	(603,750)
Employees	(106,815)	(93,125)
Income tax	(19,857)	(2,946)
Royalties	(15,993)	(12,743)
Hedge transactions, net	-	(13,448)
Net cash and cash equivalents provided by operating activities	265,071	365,987
INVESTMENT ACTIVITIES:		
Collection from:		
Other cash collections related to the investment activity	-	732
Payments for:		
Purchase of property, plant and equipment	(129,346)	(94,094)
Increase of exploration and development costs, and other assets	(92,468)	(80,476)
Net cash and cash equivalents used in investment activities	(221,814)	(173,838)
FINANCING ACTIVITIES:		
Collection from:		
Financial obligations	396,955	469,106
Payments for:		
Financial obligations	(542,673)	(483,328)
Overdrafts and other financial liabilities	(971)	(14,287)
Premium for bond repurchase	(3,300)	(4,967)
Interests	(50,855)	(42,132)
Net cash and cash equivalents used in financing activities	(200,844)	(75,608)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(157,587)	116,541
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	231,187	114,646
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	73,600	231,187

Transactions that do not result in cash flows are described in Note 34.

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

1. INCORPORATION, ECONOMIC ACTIVITY, APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS, SUBSIDIARIES, AND OTHER CONTRACTUAL MATTERS

(a) Incorporation and economic activity

Volcan Compañía Minera S.A.A. (hereinafter “the Company”) is a subsidiary of Glencore AG, which is a subsidiary of Glencore Plc., a company domiciled in Switzerland, hereinafter “the Parent”, owner of 63% of 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 Stock Exchange of Lima.

The Company is mainly engaged in the exploration and operation of mining claims and the extraction, concentration, treatment, and commercialization of polymetallic minerals. The economic activity of Subsidiaries is explained in paragraph (c).

The Company and Subsidiaries engaged in the mining sector, operate the mining units of Yauli, Animon, Alpamarca, Cerro and Oxidos in the departments of Cerro de Pasco, Junín, and Lima. The Subsidiaries engaged in the electric power generation business have authorizations and electric power generation concessions for self-consumption in their mining operations of Animon and for sale to third parties through firm power or spot price agreements. Subsidiaries Huanchor and EGERBA engaged in the electric power generation business operate in the department of Lima and are connected to National Interconnected Electrical System (SEIN).

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

The legal address, 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, 2022 have been approved by the Company’s Management on February 15, 2023 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, 2021 were approved by the Shareholders’ Meeting held on March 30, 2022.

(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 2022	2021	Location
	%	%	
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
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
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, Animón and Alpamarca, located in the department of Pasco and is engaged in the exploration, development, and operation of mineral deposits, basically with zinc, copper, and lead contents. This company has 226 mining concessions with an indefinite term. Relevant obligations and commitments related to the concession are mentioned in Note 33.

In addition, the Subsidiary has 10 hydroelectric power plants, from which 9 are located in Huaral and 1 in Cerro de Pasco. Six of these plants have a concession (4 indefinite and 2 definite) and 4 plants do not have a concession nor a permit since this plant has a production less than 500KW, as established in the Electrical Concessions Law.

Based on the estimate of reserves and resources, the Company’s Management has considered a useful life of mine until 2045.

Óxidos de Pasco S.A.C.

This entity is currently engaged in the treatment of oxidized minerals at a leach pad. This subsidiary has a 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 2051.

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 in its mining unit Cerro since its mining operations have stopped. This company has 35 mining concessions with an indefinite term. Relevant obligations and commitments related to the concession are mentioned in Note 33. Based on the estimate of reserves and resources, the Company's Management has considered a useful life of mine until 2035.

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

This company was incorporated for the exploration, development and operation of mineral deposits and its main activity was the exploration of its mining concessions through the financing of the Company and Subsidiaries. No activities have been developed in 2022 and 2021.

The Company's Management is reevaluating potential projects or the option of a simple reorganization in order to search for synergies for the development of its projects. The Subsidiary has 5 mining concessions with an indefinite term. Relevant obligations and commitments related to the concession are mentioned in Note 33.

Minera Aurífera Toruna S.A.C.

This company was incorporated for the exploration, development and operation of mineral deposits and its main activity was the exploration of its mining concessions through the financing of the Company and Subsidiaries. No activities have been developed in 2022 and 2021.

The Company's Management is reevaluating potential projects or the option of a simple reorganization in order to search for synergies for the development of its projects. The Subsidiary has 7 mining concessions with an indefinite term. Relevant obligations and commitments related to the concession are mentioned in Note 33.

(c.2) Electric power generation

Hidroeléctrica Huanchor S.A.C.

This company is mainly engaged in the sale of energy through the operation and maintenance of electric transmission system generation plants. For this, this company has the hydroelectric power plant of Huanchor of 19.768 MW and mini hydroelectric power plant of Tamboraque of 1.3 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 20.27 MW, located in the district of Pacaraos, province of Huaral, department of Lima. This plant stopped its operations since March 2017 as a consequence 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 in order 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.

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 main activity now is the purchase and sale of investments in equity instruments. This subsidiary has shares of the Company and Cementos Polpaico S.A. (Note 8). 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 certain Subsidiaries since they 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, 2022 are summarized below:

	Assets US$000	Liabilities US$000	Equity US$000	Net profit (loss) US$000
Compañía Minera Chungar S.A.C.	698,580	475,791	222,789	(48,819)
Empresa Explotadora de Vinchos Ltda. S.A.C.	78	23,587	(23,508)	(4,000)
Empresa Minera Paragsha S.A.C.	132,851	47,441	85,410	(5,939)
Minera Aurífera Toruna S.A.C. (1)	11	3,558	(3,547)	(460)
Hidroeléctrica Huanchor S.A.C.	65,528	5,565	59,963	2,874
Empresa de Generación Eléctrica Río Baños S.A.C. (2)	45,950	32,417	13,533	889
Compañía Hidroeléctrica Tingo S.A. (3)	18,924	1,557	17,367	898
Roquel Global S.A.C.	18,328	1,669	16,659	(946)
Compañía Industrial Limitada de Huacho S.A.	6,420	133	6,288	423
Óxidos de Pasco S.A.C.	242,095	31,138	210,953	56,986
Empresa Administradora Cerro S.A.C.	70,066	171,705	(101,638)	(6,774)
Unconsolidated entities	23	-	23	-
	1,298,855	794,561	504,293	(4,869)

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. (4)	31	2,931	(2,900)	(2,401)
Compañía Minera Vichaycocha S.A.C. (4)	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. (4)	187	14,660	(14,473)	695
Unconsolidated entities	217	-	217	-
	1,378,307	789,722	588,585	(2,639)

(1) Subsidiary of Empresa Minera Paragsha S.A.C. and indirect subsidiary of the Company.
(2) Subsidiary of Hidroeléctrica Huanchor S.A. and indirect subsidiary of the Company.
(3) Subsidiary of Compañía Minera Chungar S.A.C. and indirect subsidiary of the Company.
(4) Subsidiaries absorbed due to merger in 2022.

(d) Merger

On November 30, 2022, the Shareholders' Meeting of Compañía Minera Chungar S.A.C. and Oxidos de Pasco S.A.C. approved the merger by absorption of Minera San Sebastian AMC S.R.L. and Compañía Minera Vichaycocha S.A.C., and Remediadora Ambiental S.A.C., respectively.

The effective date of the merger was December 1, 2022. The merger was performed at the carrying amount of merged companies as of November 30, 2022.

The equity block absorbed by Compañía Minera Chungar S.A.C. comprises the following:

	Compañía Minera Vichaycocha S.A.C.	Minera San Sebastián AMC S.R.L.
	As of 11.30.22	As of 11.30.22
	US$000	US$000
Asset		
Current asset		
Cash and cash equivalents	16	3
Other accounts receivable	28	28
Inventory, net	-	4
Total current asset	44	36
Total asset	44	36
Liability		
Current liability		
Trade accounts payable	153	152
Accounts payable to subsidiaries and affiliates	133	61
Other accounts payable	2,011	32
Total current liability	2,297	244
Non-current liability		
Provision for contingencies	76	-
Provision for closing of mining units and communities	5,664	5,360
Total non-current liability	5,740	5,360
Total liability	8,037	5,604
Net value of equity block absorbed by Compañía Minera Chungar S.A.C	(7,994)	(5,568)

The equity block absorbed by Oxidos de Pasco S.A.C. comprises the following:

	Remediadora Ambiental S.A.C. As of 11.30.22
	US$000
ASSET	
CURRENT ASSETS:	
Cash and cash equivalents	2
Other accounts receivable	330
Total current asset	332
TOTAL ASSET	332
LIABILITY	
CURRENT LIABILITY:	
Accounts payable to subsidiaries and affiliates	15,639
Total current liability	15,639
TOTAL LIABILITY	15,639
Net value of equity block absorbed by Óxidos de Pasco S.A.C.	(15,307)

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

(d.1) Mining exploration and operation

Minera San Sebastian AMC S.R.L. and Compañía Minera Vichaycocha S.A.C.

Their main activity was the exploration of its mining concessions (4 of Minera San Sebastian AMC S.R.L. and 204 of Compañía Minera Vichaycocha S.A.C.) through the financing of the Company and Subsidiaries. No activities have been developed in 2022 and 2021.

(d.2) Investments in general

Remediadora Ambiental S.A.C.

This company was engaged in environmental consulting, environmental study, and property acquisition activities. Its activities have been suspended.

(e) Other contractual matters

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

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

S.A. with 60% of shares of the capital stock for US$225,000 at the closing date, which is subject to the verification of the compliance with the Antitrust Law, provided by the international authorities of Ukraine and China.

On May 13, 2019, the strategic partner was incorporated with an interest of 60% of shares of CSPL though 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 the agreed 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.

(e.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 as from 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 16(b).

As of December 31, 2021, total bond issuance amounted to US$410,264 since bonds were repurchased for US$125,000 in February 2021.

Capital and interests of "*5.375% Senior Notes Due 2022*" were fully paid on February 2, 2022.

"4.375% Senior Notes Due 2026"

On February 11, 2021, bonds known as "*4.375% Senior Notes Due 2026*" were issued and placed in their entirety 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.

These bonds mature 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 16(c).

The instruments issued by the Company were partially repurchased on June 21, 2022 for up to US$110,000 by using the Company's available cash. A profit of US$6,600 was obtained from this transaction due to the discount obtained at the face value of the repurchased debt.

According to Management, the Company does not have any noncompliance event derived from the bond issuance agreement.

(e.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.

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, 2022 and 2021, 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 Standard 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.

Historical cost is generally based on fair value of the consideration given for asset exchange.

Fair value is the price that would be received when selling an asset or paid when transferring a liability in an orderly 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 and Subsidiaries consider 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.

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

(b) Consolidation principles

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

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

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

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

(c) Functional and presentation currency

The Company and each Subsidiary 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 in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

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

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

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

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

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

<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 pertinent financial instrument.

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

For all other long-term 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 of default may occur since initial recognition instead of the evidence that the credit of a financial asset is impaired at the presentation date of the report, or an actual noncompliance has occurred.

The duration of expected credit losses during the life of the credit represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month expected credit losses during the life of the credit represents the portion of the 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.

<u>Financial liabilities at fair value through profit or loss</u>

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

A financial liability is classified as held for trading if:

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

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

(i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
(ii) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Company and Subsidiaries' documented risk management or investment strategy, and information about the Company and Subsidiaries is provided internally on that basis; or
(iii) it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at fair value through profit or loss.

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

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

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

Financial liabilities measured subsequently at amortized cost

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

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

Derecognition of financial liabilities

The Company and Subsidiaries derecognize financial liabilities when, and only when, the Company and Subsidiaries' obligations are transferred, settled, 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, 2021, the Company and Subsidiaries held hedge operations of interest rates (swaps) in order to ensure future flows of payment of loan interests, which are recognized 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 and Subsidiaries actually use to hedge that quantity of hedged item.

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

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

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

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

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

Fair value hedges

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

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

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

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

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

Cash flow hedges

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

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

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

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

(f) Cash and cash equivalents

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

(g) Inventories and obsolescence estimate

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, include the cost of transferring inventories to their current location and conditions. The cost of concentrates and supplies is determined by applying the weighted average cost method, and the cost of inventories in transit is determined by applying the specific cost method. Net realizable value is the sales price estimated in the normal course of business, less the estimated costs to place inventories in sale conditions and perform their sale. Due to the reductions of the carrying amount of inventories to their net realizable value (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. Main components of major equipment are recorded independently and are depreciated according to their useful life. Profit or loss arising from the sale or disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset, which is recognized in profit or loss for the period when the sale is considered performed.

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

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The profit or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

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 following 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 and Subsidiaries have 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 from the beginning of production following the units-of-production method based on proven and probable reserves and a portion of inferred resources they are related to.

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

Development costs

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

Development costs are amortized as described above for exploration costs.

Intangibles

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

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

(j) Review of impairment of long-term assets

The Company and Subsidiaries regularly review the carrying amounts of their tangible and intangible assets to determine whether there is any indicator that those assets have suffered an impairment loss. If such indicator 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.

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

In the determination of values in use of their assets, the Company and Subsidiaries review their projections of future revenue streams that consider the following variables: discount rate, forecasted 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 for changes after the acquisition for the Company's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Company's share of losses of an associate or joint venture exceeds the Company's interest in that associate or joint venture, 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 the Company and Subsidiaries will have to dispose of resources that provide economic benefits in order to settle the obligation, and a reliable estimate of the obligation amount can be made.

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

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

(n) Provision for closure of mining units

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

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

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

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

If short-term excess funds derived from the specific loan are available, earnings provided by temporary investment are also capitalized and deducted from the total debt cost. If funds used to finance a project are part of the general debt, the capitalized amount is calculated by applying the weighted average rate of the general debt of the Company and Subsidiaries during the period. All other debt costs are recognized in the consolidated statement of comprehensive income in the period when incurred.

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

Sale agreements of concentrates, Dore bars and others generally provide a temporary payment based on provisional assays and prices of quoted metals. The final liquidation is based on the results of final assays and prices of metals applicable in specific quotation periods, which tend to range between a month after the shipment and up to three months after the shipment arrives to the agree-upon place and is based on the average prices of metals in the market. For this purpose, the transaction price can be measured reliably for those products, such as zinc, lead, copper, and silver, for which there is a free and active market, such as the London Stock Exchange.

Since these agreements will be settled in the future based on international quotations of contents payable to be finally agreed upon, these agreements are treated as embedded derivatives, and as of the closing of the year, are adjusted due to significant changes in international quotations to reflect them at their fair value. Definite adjustments that result from final liquidations are recorded in the period when issued, generally when the seller and buyer exchange weights and contents payable, and establish the quotation term, according to conditions previously agreed upon in the pertinent sale agreements.

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

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

(iii) Other revenue is recognized in profit or loss when earned.

(q) Recognition of costs and expenses

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

(t) Income tax

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

<u>Current income tax</u>

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

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

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

<u>Deferred income tax</u>

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

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

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

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

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

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

Current and deferred income tax for the year

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

(u) Contingent assets and liabilities

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

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

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

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

(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 about which separate financial information is available that is evaluated regularly by the chief operating decision maker (CODM) in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the same basis as it is used internally for evaluating operating segment performance and deciding how to allocate resources to segments.

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.
- Going concern.

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 assets dismantling and mine closure</u>

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

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

<u>Review of carrying amounts and impairment evaluation</u>

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 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 cash flow forecast, including projected level of operations of the Company and Subsidiaries, forecast of economic factors that affect its income and costs, and the determination of the discount rate to be applied to such flows.

<u>Useful life of property, plant, and equipment</u>

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

Contingencies

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

Taxes

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

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

Uncertain tax positions

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

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

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

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

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

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

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

Going concern

Management prepares its consolidated financial statements under the going concern principle based on the judgment that there are no events or conditions that can contribute material uncertainties about the Company and Subsidiaries' capacity to continue as a going concern. In this sense, Management has projections of cash flows provided mainly by its operating activities, which allow addressing its obligations for at least during the next twelve months. Management also has credit lines for US$181 million, from which US$55 million is immediately available and US$126 million is subject to the negotiation of certain terms with financial entities without modifying the amount. These cash flows depend on significant judgments and assumptions, such as the selling price of the mineral, production costs, among others.

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, 2022, which did not affect the records and disclosures of 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.

- *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 statement of comprehensive income, the 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.

- *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 component of equity, as appropriate, at the date of initial application.

- *Annual Improvements to IFRS Standards 2018–2021*. Effective for annual periods beginning on or after January 1, 2022, with early application permitted.

  The Annual Improvements include amendments to four standards.

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

  The amendment provides additional relief for a subsidiary that adopts them 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 the exemption in D16(a) of IFRS 1.

  IFRS 9 *Financial Instruments*

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

IFRS 16 *Leases*

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 for taxes when measuring the fair value of a biological asset using a present value technique.

(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.

  IFRS 17 should be applied retrospectively unless it is not feasible, in which case the modified retrospective approach or the fair value method is used.

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

  Management considers that these amendments are 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.

The IASB has not determined the effective date of the amendments yet; however, the early application is permitted.

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

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

Management considers that these amendments would 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 in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of 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 also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events, or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The IASB has also developed guidance and examples to explain and demonstrate the application of the “four-step materiality process” described in IFRS Practice Statement 2.

The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or 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 amendments replace the definition of a “change in accounting estimates” 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 has deleted the 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, with earlier application 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 introduce 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 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.

The amendments apply 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 component 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 will 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 the following:

	2022 US$000	2021 US$000
Financial assets:		
Cash and cash equivalents	73,600	231,187
Amortized cost		
Other accounts receivable (net)	31,094	8,172
Fair value through profit or loss		
Trade accounts receivable (net)	28,586	43,806
Fair value through other comprehensive income		
Financial investments	38,422	38,325
Total	171,702	321,490
Financial liabilities:		
Amortized cost		
Bank overdrafts	198	1,168
Financial obligations	811,468	936,455
Trade accounts payable	251,239	229,693
Other accounts payable	12,854	14,859
	1,075,759	1,182,175
Fair value through profit or loss		
Derivatives that are not designated as hedging instruments	-	2,241
	-	2,241
Total	1,075,759	1,184,416

(b) Financial risks

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

(i) Market risk

Exchange rate risk

The Company and Subsidiaries perform their sales in U.S. dollars, which allow them to meet their obligations in such currency. The exchange rate risk mainly arises from balances held in soles.

As of December 31, 2022 and 2021, 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$0.262 and US$0.251 per S/1.00, respectively, and are summarized below:

	2022	2021
	S/000	S/000
Assets		
Cash and cash equivalents	82,586	57,395
Trade accounts receivable (net)	6,844	3,723
Other accounts receivable (net)	131,782	76,810
Total assets	221,212	137,928
Liabilities		
Bank overdrafts	(276)	(862)
Financial obligations	(10,555)	(30,572)
Trade accounts payable	(148,741)	(149,780)
Other accounts payable	(33,360)	(31,390)
Total liabilities	(192,932)	(212,604)
Net asset (liability)	28,280	(74,676)

In 2022, the Company and Subsidiaries recorded a net exchange profit for US$70,991 and net exchange loss for US$70,993 (net exchange profit for US$861,364 and net exchange loss for US$859,323 in 2021) (Note 27).

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 2022	2021
		US$000	US$000
Revaluation	+5%	(371)	936
Devaluation	-5%	371	(936)

Price risk

The Company and Subsidiaries are exposed to commercial risks arising from changes in mineral market prices. In order to cover the risk arising from the decrease of prices of metals, Management will hire derivative financial instruments.

As of December 31, 2022 and 2021, 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	
2022:	
Increase in the international price of zinc	56,438
Decrease in the international price of zinc	(56,438)
2021:	
Increase in the international price of zinc	48,846
Decrease in the international price of zinc	(48,846)

	Effect on profit (loss) before income tax (Debit) Credit US$000
Lead concentrate	
2022:	
Increase in the international price of lead	17,878
Decrease in the international price of lead	(17,878)
2021:	
Increase in the international price of lead	20,975
Decrease in the international price of lead	(20,975)

	Effect on profit (loss) before income tax (Debit) Credit US$000
Copper concentrate	
2022:	
Increase in the international price of copper	5,308
Decrease in the international price of copper	(5,308)
2021:	
Increase in the international price of copper	6,622
Decrease in the international price of copper	(6,622)

	Effect on profit (loss) before income tax (Debit) Credit US$000
Silver concentrate	
2022:	
Increase in the international price of silver	5,770
Decrease in the international price of silver	(5,770)
2021:	
Increase in the international price of silver	8,018
Decrease in the international price of silver	(8,018)

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

As of December 31, 2022 and 2021, the fair value of embedded derivatives contained in commercial agreements amounts to a loss of US$112 and a profit of US$3,308, respectively.

Interest rate risk

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

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:

	2022			2021		
	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)	-	28,586	28,586	6	43,800	43,806
Other accounts receivable (net)	-	31,094	31,094	-	8,172	8,172
	-	59,680	59,680	6	51,972	51,978

Trade accounts receivable are denominated in U.S. dollars and expire on the issue date of the payment receipt. Such amounts are effective in the following days of maturity. The sales of the Company and Subsidiaries are performed to local and foreign customers, with whom they have commercial agreements. As of December 31, 2022, the Company has a portfolio of 25 customers (22 customers as of December 31, 2021). The three most important customers of the Company and Subsidiaries represented 67% of total sales (63% of total sales in 2021). 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, 2022 and 2021, the Company and Subsidiaries present a negative working capital for US$136,335 and US$364,146, respectively. The improvement in working capital was due to the payment of US$410,264 made on February 2, 2022, corresponding to the payment of the balance of *"5.375% Senior Notes Due 2022"*, which allowed improving the Company's debt profile and its liquidity in the short and medium term.

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$181,093 has not been used yet. In addition, Management generates cash flows from significant operating activities (US$265,071 in 2022 and US$365,987 in 2021).

Management considers that these measures will allow the Company and Subsidiaries using 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	Less than 1 year US$000	Between 1 and 2 years US$000	Between 2 and 10 years US$000	Total US$000
As of December 31, 2022:				
Cash and cash equivalents	73,600	-	-	73,600
Other accounts receivable (net)	31,094	-	-	31,094
Trade accounts receivable (net)	28,586	-	-	28,586
Financial investments	-	-	38,422	38,422
Total	133,280	-	38,422	171,702
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
	283,165	-	38,325	321,490

Financial liabilities	Less than 1 year US$000	Between 1 and 2 years US$000	Between 2 and 10 years US$000	Total US$000
As of December 31, 2022:				
Bank overdrafts	198	-	-	198
Financial obligations	84,010	62,580	815,436	962,026
Trade accounts payable	251,239	-	-	251,239
Other accounts payable	12,854	-	-	12,854
Total	348,301	62,580	815,436	1,226,317
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

(iv) Capital management risk

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 2022 and 2021.

The leverage ratio was as follows:

	2022 US$000	2021 US$000
Financial obligations	811,468	936,455
Cash and cash equivalents	(73,600)	(231,187)
Total net debt	737,868	705,268
Total equity	375,353	456,667
Net debt ratio	1.97	1.54

(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, including the long-term loan that accrues equivalent interests at current market rates. The fair value of bonds issued in the international market (Note 16(b)) is classified as Level 1 since quoted prices are available. The fair value of these bonds amount to US$316,860 as of December 31, 2022 (US$870,320 as of December 31, 2021).

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, 2022 and 2021, 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:

	2022 US$000	2021 US$000
Financial assets		
Level 1		
Investments in equity instruments (a)	38,422	38,325
Level 2		
Trade accounts receivable (b)	28,586	43,806
	28,586	43,806
Financial liabilities		
Level 2		
Derivates that are not designated as hedging instruments	-	2,241
	-	2,241

(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 comprise the following:

	2022 US$000	2021 US$000
Petty cash and cash in banks (a) (d)	72,318	184,675
Term deposits (b)	-	25,031
Mutual funds (c)	-	20,158
Other funds	1,282	1,323
	73,600	231,187

(a) Petty cash and cash in banks mainly comprise checking accounts denominated in soles and U.S. dollars, which are held in local banks, are freely available and accrue interests at market rates. Checking accounts include trust accounts that were constituted to meet the commitments derived from financial obligations (Notes 1(e.3) and 16), which are also of freely availability.

(b) Term deposits held as of December 31, 2021 matured in 3 months and accrued interests at an annual effective rate ranging between 0.65% and 0.96%.

(c) Mutual funds held as of December 31, 2021 comprised funds held in Scotiabank, which were invested in debt instruments and could be redeemed by the Company. These funds were redeemed in July 2022 and accrued interests for US$6 thousand.

(d) The Company and Subsidiaries present amounts for US$16,037 and US$10,641 as of December 31, 2022 and 2021 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$1,322 as of December 31, 2022 (US$1,382 as of December 31, 2021).

7. INVESTMENT IN ASSOCIATE

The investment in associate comprises the following:

Company	Class	Number of shares	Interest in equity As of December 31, 2022	2021	Face value	Carrying amount As of December 31, 2022	2021
			%	%		US$000	US$000
Cosco Shipping Ports Chancay Perú S.A.	Common	410,653,252	40	40	1 Sol	147,801	149,144

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 2022, the number of shares increased by 98,433,844 through the capitalization of capital premium in the associate (the number of shares increased by 32,811,281 in 2021) in favor of the Company.

As of December 31, 2022 and 2021, this investment in associate has been measured using the equity method (Note 2(k)).

8. FINANCIAL INVESTMENTS

Financial investments comprise the following:

Company	Class	Number of shares	Interest in equity As of December 31, 2022	Interest in equity As of December 31, 2021	Face value	Carrying amount As of December 31, 2022	Carrying amount As of December 31, 2021
			%	%		US$000	US$000
Financial investments at fair value:							
Cemento Polpaico S.A.	Common	4,056,643	22.7	22.7	8,040 Chilean pesos	38,422	38,325
Other investments:							
Other companies	Common	-		-	-	282	282
						38,704	38,607

Cementos Polpaico S.A. is engaged in the production and commercialization of cement and lime. As of December 31, 2022, the quotation was 8,040 Chilean pesos per share, equivalent to US$9.471 (8,040 Chilean pesos per share, equivalent to US$9.447 as of December 31, 2021). Those shares are listed on the Chile Stock Exchange.

9. TRADE ACCOUNTS RECEIVABLE (NET)

Trade accounts receivable (net) comprise the following:

	2022	2021
	US$000	US$000
From third parties		
Invoices	35,583	37,957
Impairment estimate for accounts receivable	(19,539)	(19,775)
Embedded derivatives	1,226	2,934
Sales adjustments	1,921	3,083
	19,191	24,199
From related entities		
Invoices	9,662	14,995
Impairment estimate for accounts receivable	-	2,720
Embedded derivatives	(1,338)	374
Sales adjustments	1,071	1,518
	9,395	19,607
Total	28,586	43,806

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.

In 2022, the Company and Subsidiaries performed sales to the following related entities: Glencore Perú S.A.C. and Glencore Lima Trading S.A.C. for US$302,106 and US$79,349, respectively (Glencore Perú S.A.C. and Glencore Lima Trading S.A.C. for US$282,420 and US$89,464 in 2021, respectively).

The impairment estimate for accounts receivable according to the assessment of expected credit losses 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.

10. OTHER ACCOUNTS RECEIVABLE (NET)

Other accounts receivable (net) comprise the following:

	2022 US$000	2021 US$000
Value added tax credit (a)	59,254	54,959
Recoverable taxes	32,790	17,481
Credit balance for income tax and temporary tax on net assets (b)	10,727	13,954
Prepaid expenses	5,031	5,371
Advances granted to contractors and suppliers	3,624	2,700
Public works for taxes, in process (d)	2,455	1,330
Loans granted to employees	271	479
Other minor items	300	1,255
	114,452	97,529
Impairment estimate for other accounts receivable (e)	(26,806)	(32,246)
Subtotal	87,646	65,283
Amortized cost:		
Loans granted to third parties (c)	10,596	10,732
Accounts receivable from contractors and others	14,493	11,170
Insurance indemnity	3,866	3,866
Other minor items	2,139	1,375
	31,094	27,143
Impairment estimate for other accounts receivable (e)	(19,089)	(19,010)
Subtotal	12,005	8,133
Total	99,651	73,416
Non-current portion	34,262	17,445
Current portion	65,389	55,971

(a) As of December 31, 2022, this item includes an amount of US$26,806 (US$32,246 as of December 31, 2021), which corresponds to tax credit that is not expected to be recovered; therefore, an impairment estimate has been established for such amount.

(b) As of December 31, 2022, this item corresponds to the balance for payments on account of income tax for US$6,970 and payments for the temporary tax on net assets for US$3,757, which will be requested as from 2023 (as of December 31, 2021, this item corresponded to the balance for payments on account of income tax for US$1,835, tax credits for US$3,400 and payments for the temporary tax on net assets for US$8,719, which were requested as from 2022 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 constituting an amount of US$10,060 as doubtful account according to the assessment of uncollectibility risk.

(d) This item corresponds to payments made for public works, for which the “Regional and Local Public Investment – Public Treasury” certificates (CIPRL for its Spanish acronym) 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 2022, the Company started the execution of the projects “Improvement and extension of sports services of the Municipal Sports Center at Av. 1° de Mayo, district of Chancay – province of Huaral – department of Lima”, with code CUI No. 2466179, and “Improvement of integral management of municipal solid waste in the district of Huayllay – province of Pasco – department of Pasco”, with code CUI No. 2511013, for which, pursuant to Law 29230 of Works for Taxes, the CIPRL will be requested in 2023 for US$2,455 (this was requested in 2022 for US$1,130).

(e) As of December 31, 2022, this item mainly corresponds to the impairment provision for value-added tax credit for US$26,806 and loans receivable for US$10,060. As of December 31, 2021, this item mainly corresponded to the impairment provision for value-added tax credit for US$32,246 and loans receivable for US$10,034.

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.

11. OTHER FINANCIAL LIABILITIES

Other financial liabilities comprise the following:

	2022 US$000	2021 US$000
Derivative financial instruments:		
Derivates that are not designated as hedging instruments (a)	-	2,241

(a) As of December 31, 2021, this item corresponds to pending invoices for the settlement of derivative financial instruments.

12. INVENTORIES (NET)

Inventories (net) comprise the following:

	2022 US$000	2021 US$000
Concentrates (a)	11,036	11,383
Mineral (a)	13,547	19,610
Pyrite stockpiles	6,218	6,642
Sundry supplies	49,271	45,821
Inventories in transit	1,018	43
	81,090	83,499
Impairment estimate (b)	(17,779)	(17,033)
Total	63,311	66,466
Non-current portion	6,218	6,642
Current portion	57,093	59,824

(a) According to the sales commitments, the concentrate held as of December 31, 2022 will be sold, and the mineral will be exploited in 2023.

(b) In 2022, the impairment estimate increased by US$746 as a result of the assessment of obsolescence and slow turnover of spare parts and supplies for US$618 and the analysis of the net realizable value of concentrates for US$502, net of a recovery of US$189 and a write-off due to the destruction of supplies for US$185. Management believes that the obsolescence estimate covers the risk of loss at the date of the consolidated statement of financial position.

13. 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, 2022	Additions	Sales and/or disposals	Transfers	Impairment estimate	Balance as of December 31, 2022
	US$000	US$000	US$000	US$000	US$000	US$000
Cost of:						
Land	23,537	382	-	-	-	23,919
Buildings and other constructions	976,667	7,500	-	36,375	58,455	1,078,997
Environmental management program infrastructure	22,281	-	(22,022)	-	-	259
Machinery and equipment	300,338	16,323	(123,646)	619	(143)	193,491
Vehicles	11,561	310	(8,371)	-	-	3,500
Furniture and fixtures and computer equipment	16,030	592	(6,137)	-	-	10,485
Sundry equipment	497,908	28,071	(126,454)	1,574	(1,747)	399,352
Units in transit	1,602	1,288	-	(1,189)	(81)	1,620
Works in progress (a)	79,696	75,028	(150)	(37,607)	(12,563)	104,404
	1,929,620	129,494	(286,780)	(228)	43,921	1,816,027
Accumulated depreciation of:						
Buildings and other constructions	491,692	72,476	-	-	-	564,168
Environmental management program infrastructure	22,281	-	(22,022)	-	-	259
Machinery and equipment	248,315	13,414	(121,669)	-	-	140,060
Vehicles	10,920	211	(8,330)	-	-	2,801
Furniture and fixtures and computer equipment	12,913	1,031	(6,137)	-	-	7,807
Sundry equipment	386,980	24,321	(123,281)	-	-	288,020
	1,173,101	111,453	(281,439)	-	-	1,003,115
Net value	756,519					812,912

	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

(a) As of December 31, 2022, the projects that are part of the works in progress mainly belong to Volcan Compañía Minera S.A.A. for US$65,988 and Subsidiary Compañía Minera Chungar S.A.C. for US$30,638 (US$42,032 and US$30,806 as of December 31, 2021, respectively), as detailed below:

Volcan Compañía Minera S.A.A.

	2022 US$000	2021 US$000
Growth of tailings facility Rumichaca Level 4230 et. IV A	10,810	7,184
Growth of tailings facility Rumichaca Level 4231	3,415	-
Purchase and installation of cell Rcs-100 Victoria plant	2,794	-
Tailings facility - filter Gavilán - Carahuacra	2,467	1,964
Growth of tailings facility Andaychagua Level 4412	2,441	2,033
New filtered tailings facility level 4412	2,382	2,382
Construction of housing modules Andaychagua	1,601	1,058
Purchase of houses San José	1,543	1,137
Water supply channel - Andaychagua river	1,420	-
Dosing and mixing plant - Im. SC	1,413	-
Pumping system Level 1300 to 1200	1,400	-
New radio coverage system Tetra - installation	1,399	-
Electrical system San Cristobal 5010 Kv - 1012 Mva	1,346	-
Concrete-filled pipes Andaychagua	1,209	-
Other minor projects	30,348	26,274
	65,988	42,032

Subsidiary Compañía Minera Chungar S.A.C.

	2022 US$000	2021 US$000
Elevation of dam of tailings facility Et.V-4688	9,693	2,461
New tailings facility Animon Quimacocha	6,168	5,331
Romina project - General infrastructure	1,820	1,040
Rinconada tailings facility	1,172	-
Transmission line Yanahuin Romina	1,097	-
Reinforcement of Electrical Substation Animon	1,083	-
Construction of Cacray camp	1,078	-
Filtered tailings availability system	-	13,494
Other minor projects	8,527	8,480
	30,638	30,806

As of December 31, 2022 and 2021, other Subsidiaries have projects in progress for US$7,778 and US$6,858, respectively.

The projects held as of December 31, 2022 are estimated to be completed between 2023 and 2024.

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

	2022 US$000	2021 US$000
Cost of sales (Note 22)	107,864	92,025
Administrative expenses (Note 23)	229	810
Selling expenses (Note 24)	96	91
Other expenses (Note 25)	3,264	3,741
Total	111,453	96,667

(c) As of December 31, 2022, buildings, machinery, and equipment include assets under finance leases with a carrying amount of US$14,359 and US$37,669, respectively (US$14,968 and US$30,366 as of December 31, 2021).

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

(e) As of December 31, 2022, the cost of property, plant and equipment is presented net of accumulated impairment of US$345,181, distributed in items of buildings and constructions for US$273,354, machinery and equipment and sundry equipment for US$47,231, and others for US$24,596 (as of December 31, 2021, it 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).

In 2022, as part of the impairment assessment, Management of Óxidos de Pasco S.A.C. determined an impairment recovery for US$58,800 as a result of a higher volume of its resources, which was attributed to buildings and other constructions (Note 26).

14. 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, 2022	Additions	Disposals	Impairment estimate	Balance as of December 31, 2022
	US$000	US$000	US$000	US$000	US$000
Cost of:					
Operating machinery	33,321	7,570	(30,636)	-	10,255
Vehicles	10,688	7,316	(6,801)	(800)	10,403
Properties	244	-	(74)	-	170
	44,253	14,886	(37,511)	(800)	20,828
Depreciation of:					
Operating machinery	32,589	732	(30,636)	-	2,685
Vehicles	7,144	6,318	(6,801)	-	6,661
Properties	135	36	(74)	-	97
	39,868	7,086	(37,511)	-	9,443
Net value	4,385				11,385

	Balance as of January 1, 2021	Additions	Adjustments for new measurement of the lease liability	Impairment estimate	Balance as of December 31, 2021
	US$000	US$000	US$000	US$000	US$000
Cost of:					
Operating machinery	33,322	-	-	-	33,321
Vehicles	5,761	4,325	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

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

	2022	2021
	US$000	US$000
Cost of sales (Note 22)	5,952	4,058
Administrative expenses (Note 23)	1,134	768
Total	7,086	4,826

15. MINING CONCESSIONS, EXPLORATION AND DEVELOPMENT COSTS AND OTHER ASSETS (NET)

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

	Balance as of January 1, 2022	Additions	Disposals	Transfers	Change in estimate	Impairment estimate	Balance as of December 31, 2022
	US$000	US$000	US$000	US$000	US$000 (Note 33)	US$000 (Note 26)	US$000
Cost of:							
Mining concessions	272,001	-	-	-	-	-	272,001
Exploration costs	303,626	14,076	-	-	-	(5,155)	312,547
Development costs (a)	904,488	90,087	-	-	-	(164,000)	830,575
Closure of mining units	154,019	-	-	-	63,576	-	217,595
Community rights	24,384	-	-	-	261	-	24,645
Other intangibles	17,822	5,173	(8,170)	228	-	(35)	15,018
	1,676,340	109,336	(8,170)	228	63,837	(169,190)	1,672,381
Amortization of:							
Mining concessions	206,140	5,701	-	-	-	-	211,841
Exploration costs	143,301	20,084	-	-	-	-	163,385
Development costs (a)	439,511	63,104	-	-	-	-	502,615
Closure of mining units	67,153	13,575	-	-	-	-	80,728
Community rights	3,964	2,850	-	-	-	-	6,814
Other intangibles	14,288	941	(8,169)	-	-	-	7,060
	874,357	106,255	(8,169)	-	-	-	972,443
Net value	801,983						699,938

	Balance as of January 1, 2021	Additions	Disposals / Transfers	Change in estimate	Impairment estimate	Balance as of December 31, 2021
	US$000	US$000	US$000	US$000 (Note 33)	US$000 (Note 26)	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

(a) Development costs:

The movement and structure of this item is presented below:

	Balance as of January 1, 2022	Additions	Impairment estimate	Balance as of December 31, 2022
	US$000	US$000	US$000	US$000
Cost of:				
Yauli	561,228	67,129	(164,000)	464,357
Cerro de Pasco	75,128	-	-	75,128
Animon	261,874	22,958	-	284,832
Vinchos	6,258	-	-	6,258
	904,488	90,087	(164,000)	830,575
Accumulated amortization of:				
Yauli	241,609	37,568	-	279,177
Cerro de Pasco	75,128	-	-	75,128
Animon	116,516	25,536	-	142,052
Vinchos	6,258	-	-	6,258
	439,511	63,104	-	502,615
Net cost	464,977			327,960

	Balance as of January 1, 2021	Additions	Balance as of December 31, 2021
	US$000	US$000	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

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

	2022	2021
	US$000	US$000
Cost of sales (Note 22)	105,043	91,431
Administrative expenses (Note 23)	409	1,123
Other expenses (Note 25)	803	191
Total	106,255	92,745

(c) As of December 31, 2022, the cost of mining concessions, exploration and development costs and other intangibles is presented net of accumulated impairment of US$636,331, distributed in items of mining concessions for US$45,984, exploration costs for US$233,821, development costs for US$304,981, and other intangibles for US$51,546 (as of December 31, 2021, it 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).

In 2022, as part of the impairment assessment of certain cash-generating units (CGUs), the Company's Management determined an estimate of impairment loss for US$169,190, distributed in items of exploration costs for US$5,155, development costs for US$164,000 and other assets (intangibles) for US$35 (Note 25).

16. FINANCIAL OBLIGATIONS

The movement and structure of this item is presented below:

	Original amount		Interest rate (%)	Maturity	Total	
	S/	US$000			2022	2021
					US$000	US$000
Loans (a):						
Scotiabank Perú S.A.A.	-	10,000	2.85	Nov-22	-	2,114
Banco Internacional del Perú S.A.	-	10,000	2.85	Dec-22	-	2,114
Banco Internacional del Perú-Interbank	10,000	-	1.09	Apr-23	552	1,781
Banco Internacional del Perú-Interbank	3,270	-	0.99	May-23	180	581
Banco Internacional del Perú-Interbank	10,000	-	1.16	May-23	440	1,781
Banco Internacional del Perú-Interbank	6,300	-	1.48	Jul-23	556	1,319
Scotiabank Perú S.A.A.	2,300	-	1.15	Sep-23	228	505
Scotiabank Perú S.A.A.	5,100	-	1.30	Oct-23	562	1,173
Scotiabank Perú S.A.A.	2,265	-	1.15	Oct-23	249	521
					2,767	11,889
Bonds:						
Negotiated bonds (b)	-	600,000	5.375	Feb-22	-	410,264
Negotiated bonds (c)	-	475,000	4.375	Feb-26	365,000	475,000
Adjustment for amortized cost (issue costs)					(3,398)	(5,894)
					361,602	879,370
Syndicated loan (e)	-	400,000	-	Jan-26	400,000	-
Adjustment for amortized cost (issue costs)					(3,045)	-
					396,955	-
Lease liability with third parties						
Lease liability	-	-	-	-	10,972	2,494
					10,972	2,494
Lease liability with financial entities						
Banco Internacional del Perú-Interbank	-	-	Between 2.19 and 4.45	Between May-20 and Dec-23	6,370	9,385
Scotiabank Perú S.A.A.	-	-	Between 2.04 and 3.83	Between Apr-20 and Nov-24	20,204	15,123
					26,574	24,508
Interests payable					12,598	18,194
Total financial obligations					811,468	936,455
Non-current portion					776,771	485,311
Current portion					34,697	451,144

(a) As of December 31, 2022, this item corresponds to short-term loans obtained from Interbank and Scotiabank (Scotiabank, Citibank and Interbank as of December 31, 2021) for working capital and acquisition of machinery. The loans from Interbank and Scotiabank do not require the compliance with financial ratios, but they do maintain restrictions for certain subsidiaries such as the distribution of dividends, while the loans are held effective.

As of December 31, 2021, the loan held with Citibank required the compliance with financial ratios. For each quarterly closing, the Company submitted a communication reporting the calculation of the following ratios on the consolidated financial information:

- 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 was 2.37 and the interest hedge ratio was 7.31.

(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(e.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.

The Company paid the whole loan for US$421,289, including interests, in February 2022.

(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 remaining balance of funds received was used for operation-related expenses.

The instruments issued by the Company were partially repurchased on June 21, 2022 for up to US$110,000 by using the Company's available cash. A profit of US$6,600 was obtained from this transaction due to the discount obtained at the face value of the repurchased debt.

(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$300,000 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 2022.

(e) On December 29, 2021, the Company signed an agreement for a syndicated loan managed by Citigroup Global Markets Inc. and Banco Santander S.A. for US$400,000 with a maturity of 48 months and a grace period of 24 months.

The loan was disbursed on January 25, 2022.

60% of the loan will be amortized with 7 quarterly installments and a final installment of 40%. The interest rate of this loan is variable, equivalent to LIBOR (3m) plus a markup calculated based on the credit rating of the company. The applicable markup is 325 bps as of December 31, 2022.

The lenders of this loan are the following entities: Banco Santander, S.A.; Citibank, N.A; Bank of Nova Scotia; Banco Internacional del Peru S.A.A.; Banco Interamericano de Finanzas; Banco de Crédito e Inversiones, S.A.; Banco Latinoamericano de Comercio Exterior, S.A.; Bancaribe Curacao Bank N.V.; Banco de Crédito del Perú; Natixix, New York Branch and Banco de Occidente Panamá, S.A.

This loan is secured by the Company and the following related entities:

Compañía Minera Chungar S.A.C., Óxidos de Pasco S.A.C. and Empresa Administradora Cerro S.A.C. (the guarantors). The agreement establishes that the Company and guarantors together shall 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 covenant:

- 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 less than: (i) 4.25 – 2022-2023; (ii) 4.00 – 2024; (iii) and thereafter 3.75.

As of December 31, 2022, the debt to EBITDA ratio is 2.70.

The funds of the operation were fully destined to the payment of *"5,375% Senior Notes Due 2022"*, issued on February 2, 2012.

(f) The debt amortization schedule at face value as of December 31, 2022 and 2021 is as follows:

	2022 US$000	2021 US$000
2022	-	474,722
2023	84,010	32,184
2024	62,580	25,683
2025	52,885	21,043
2026	762,551	471,453
Total	962,026	1,025,085

(g) As of December 31, 2022 and 2021, the reconciliation of cash flows to financial obligations are shown below:

	2022 US$000	2021 US$000
Movements related to cash flows		
Funds from syndicated loans	400,000	-
Payment of syndicated loans	-	(297,664)
Issuance costs – syndicated loan	(3,045)	-
Payment of short-term loans from banks	(9,937)	(39,912)
Bond issue	-	475,000
Bond payment	(410,264)	-
Issuance costs – bonds	-	(5,894)
Bond purchase, net	(110,000)	(125,000)
Payment of leases with financial entities	(15,788)	(8,142)
Payment of interests on loans	(48,195)	(42,132)
Payment of leases with third parties	(6,584)	(12,610)
Total	(203,813)	(56,354)
Movements not related to cash flows		
Obtaining finance leases	17,855	17,664
Interests on loans	42,593	45,749
Exchange difference - financial obligations	982	(723)
Accrual of issuance costs - bonds	2,496	-
Lease liabilities with third parties	14,900	4,325
(Decrease) increase of financial obligations during the year	(124,987)	10,661
Financial obligations at the beginning of the year	936,455	925,794
Financial obligations at the end of the year	811,468	936,455

(h) 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.

17. TRADE ACCOUNTS PAYABLE

Trade accounts payable comprise the following:

	2022	2021
	US$000	US$000
Invoices payable (a) (b)	160,074	143,186
Invoices receivable (c)	76,292	73,457
Guarantee funds	14,873	13,050
Total	251,239	229,693

(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, 2022, balances payable are effective and within the payment terms established by the Company and Subsidiaries, which range between 30 and 90 days in 2022.

(b) As of December 31, 2022, the Company and Subsidiaries hold obligations for US$52,174 (US$40,205 as of December 31, 2021), 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 receivable 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.

18. OTHER ACCOUNTS PAYABLE

Other accounts payable comprise the following:

	2022 US$000	2021 US$000
Short term		
To third parties		
Salaries and profit-sharing of employees (a)	27,128	19,010
Deduction of value-added tax	8,620	8,389
Income tax	6,562	8,603
Advances from customers	3,200	3,200
Mining taxes	2,725	3,961
Provisions under IFRIC 23	465	857
Contribution to OEFA	203	279
Other minor items	4,329	4,025
	53,232	48,324
Amortized cost:		
Provision for water use/treatment/discharge	5,520	6,377
Provision for operating rights and penalties	5,310	4,708
Other minor items	2,024	2,861
	12,854	13,946
	66,086	62,270
To related entities		
Salaries and bonuses of the Board of Directors	7,573	6,802
Dividends	951	913
Sundry items	259	703
	8,783	8,418
Total	74,869	70,688
Long term		
Advances from customers	3,200	6,400
	3,200	6,400

(a) As of December 31, 2022, this item mainly includes vacations, profit-sharing, and performance bonus of employees for US$12,031, US$7,741 and US$5,176, respectively (US$5,539, US$6,175 and US$3,659 for vacations, profit-sharing, and performance bonus of employees, respectively, in 2021).

19. PROVISIONS

Provisions comprise the following:

	2022 US$000	2021 US$000
Provisions for lawsuits (a)	25,422	25,970
Mine closure (Note 33)	270,714	207,693
Agreements with communities (b)	22,180	23,943
Other provisions	4,968	4,764
Total	323,284	262,370

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

	US$000
Balance as of January 1, 2021	27,596
Provision for the year (Note 25)	1,114
Reversal (Note 25)	(2,740)
Balance as of December 31, 2021	25,970
Provision for the year (Note 25)	4,419
Reversal (Note 25)	(4,967)
Balance as of December 31, 2022	25,422

(b) As of December 31, 2022, the nominal value of the provision for obligations with communities is US$23,706 (US$25,487 as of December 31, 2021), which has been determined using the annual discount rate of 1.25% (1.5% in 2021), resulting in a net value of US$22,180 (US$23,943 as of December 31, 2021).

20. EQUITY

(a) Issued capital stock

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

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

Both common class A and B shares, listed on the Lima Stock Exchange, are actively negotiated in the stock market. As of December 31, 2022, their quotation was S/1.50 and S/0.51 per share, respectively (S/3.25 and S/0.60 per share, respectively, as of December 31, 2021). As of December 31, 2022, the negotiation frequency of class A shares was 20% and 100% for class B shares (5% for class A shares and 95% for class B shares as of December 31, 2021).

The equity interest structure as of December 31, 2022 and 2021 is as follows:

Individual interest percentage in issued capital stock	Number of shareholders		Total interest percentage	
	2022	2021	2022	2021
			%	%
Less than 0.20	7,669	7,389	12.03	13.00
From 0.20 to 1.00	18	16	8.08	7.96
From 1.01 to 5.00	18	16	52.69	45.00
From 5.01 to 10.00	2	3	10.41	17.25
From 10.01 to 20.00	1	1	16.79	16.79
	7,708	7,425	100.00	100.00

(b) Higher value in acquisition of treasury shares

This item corresponds to the result 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, and must be replaced. The legal reserve can be capitalized but shall also be replaced.

(e) Accumulated other comprehensive income

This item includes the unrealized profit (loss) of derivative financial instruments designated as hedging instruments. 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. It also includes the profit or loss for the effect of the fair value of the investment in equity instruments (Note 8).

21. NET SALES

During 2022 and 2021, revenue mainly includes sales of zinc, lead, silver, and copper concentrates, as follows:

	2022	2021
	US$000	US$000
Net sales per concentrate:		
Zinc	564,379	488,459
Lead	178,782	209,746
Silver bars	105,075	100,349
Silver	57,696	80,179
Copper	53,084	66,223
Silver slag	-	(114)
	959,016	944,842
Profit (loss) in:		
Execution of financial instruments	-	(13,636)
Embedded derivatives (Note 29 (a))	(3,420)	2,220
Ajustment of open provisional liquidations	(1,610)	1,863
Estimate of committed sales	(2,720)	2,110
Total	951,266	937,399

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):

	2022 US$000	2021 US$000
Peru	734,132	685,411
Europe	96,651	207,714
Asia	122,925	39,549
America	5,308	12,168
	959,016	944,842

(a) Sales concentration

In 2022, the three most important customers represented 67% of total sales (63% of total sales in 2021). As of December 31, 2022, 28% of accounts receivable is related to these customers (35% as of December 31, 2021). The concentrates of the Company and Subsidiaries are sold to renowned companies in the country and abroad, with whom commercial agreements are executed.

(b) Sales commitments

As of December 31, 2022, the Company and Subsidiaries hold commitments with related entities and third parties for sales of zinc, lead, and copper concentrates for 698,730 WMT, 92,653 WMT and 8,700 WMT until 2026, for an approximate amount of US$800,594, US$191,372 and US$41,365, respectively (903,438 WMT, 116,816 WMT and 800 WMT, respectively, as of December 31, 2021, for an approximate amount of US$877,939, US$313,866 and US$3,713).

As of December 31, 2022, the Company and Subsidiaries hold commitments for the sale of Dore bars for 3,570,000 oz. for US$91,286. As of December 31, 2021, the Company and Subsidiaries held commitments for the sale of Dore bars for 155,329 oz. for US$3,568.

22. COST OF SALES

Cost of sales comprises the following:

	2022	2021
	US$000	US$000
Beginning balance of concentrates (Note 12)	11,383	14,209
Beginning balance of minerals (Note 12)	19,610	12,293
Services provided by third parties, energy and others	284,316	250,051
Consumption of supplies	135,266	118,169
Depreciation (Note 13 (b))	106,245	88,788
Depreciation of right-of-use assets (Note 14)	5,952	4,058
Labor	87,178	75,657
Amortization (Note 15 (b))	104,267	90,736
Others	-	2,580
Ending balance of concentrates (Note 12)	(11,036)	(11,383)
Ending balance of minerals (Note 12)	(13,547)	(19,610)
Subtotal	729,634	625,548
Cost of plant shutdown	30,714	26,551
Depreciation of plant shutdown (Note 13 (b))	1,619	3,237
Amortization of plant shutdown (Note 15 (b))	776	695
Total	762,743	656,031

23. ADMINISTRATIVE EXPENSES

Administrative expenses comprise the following:

	2022	2021
	US$000	US$000
Personnel charges	17,566	20,648
Professional fees	14,981	7,945
Services provided by contractors	9,537	3,941
Mails, telecommunications and other minor items	7,098	5,719
Insurance	4,210	4,309
Communications and information technology	2,507	1,322
Operating rights - Penalties	2,490	2,670
Personnel services	2,230	1,976
Leases	1,744	1,338
Depreciation of right-of-use assets (Note 13)	1,134	768
Amortization (Note 14 (b))	409	1,123
Depreciation (Note 12 (b))	229	810
Others	5,211	5,111
Total	69,346	57,680

24. SELLING EXPENSES

Selling expenses comprise the following:

	2022 US$000	2021 US$000
Freight	17,521	14,829
Services for the sale of concentrates	1,571	2,093
Sundry services	1,005	798
Services provided by contractors	1,022	682
Personnel expenses	1,417	788
Samples, analysis and supervision	966	760
Shipment expenses	292	296
Services provided by third parties	765	683
Leases	197	105
Depreciation (Note 13(b))	96	91
Total	24,852	21,125

25. OTHER INCOME AND EXPENSES

Other income comprises the following:

	2022 US$000	2021 US$000
Other income:		
Income from the sale of energy to third parties	16,384	14,152
Income from the sale of sundry supplies	12,459	8,834
Income from recovery of impairment of other accounts receivable	8,384	1,711
Income from services provided to third parties	7,265	7,009
Reversal of provision for lawsuits (Note 18)	4,967	2,740
Disposal of fixed assets	2,375	-
Recovery of impairment of supplies (Note 11)	189	899
Recovery of provision for OEFA and OSINERGMIN	-	1,485
Others	8,045	5,675
Total	60,068	42,505

Other expenses comprise the following:

	2022 US$000	2021 US$000
Other expenses:		
Cost of sales of sundry supplies	(12,832)	(8,490)
Services provided by contractors	(12,013)	(2,426)
Cost of sales of energy	(9,227)	(7,822)
Professional fees	(6,321)	(987)
Compensation	(5,839)	(1,266)
Expense for mine closure and communities	(2,052)	(18,132)
Derecognition of property, plant and equipment	(5,340)	(1,630)
Provision for lawsuits (Note 19)	(4,419)	(1,114)
Tax administrative penalties	(3,814)	(1,228)
Leases	(3,321)	(1,256)
Depreciation (Note 13 (b))	(3,264)	(3,741)
Non-deductible sundry expenses	(2,887)	(9,084)
Contribution for regulation OEFA and OSINERMING	(2,421)	(2,353)
Cost of services provided to third parties	(1,428)	(1,133)
Loss for valuation of investment in associate under the equity method	(1,343)	-
Impairment of other accounts receivable (a)	(1,213)	(899)
Impairment estimate for supplies (Note 12)	(1,120)	(4,433)
Loss for disposal of property, plant and equipment	-	(766)
Amortization (Note 15 (b))	(803)	(191)
Write-off of capitalized interests	-	(6,802)
Others	(7,808)	(5,719)
Total	(87,465)	(79,472)

26. IMPAIRMENT OF NON-FINANCIAL ASSETS

By applying International Accounting Standard 36 “Impairment of non-financial assets”, the Company and Subsidiaries updated their assessment of the recoverable value of long-term assets.

In 2022, as part of the impairment assessment of certain cash-generating units (CGU), the Company’s Management determined an impairment loss of US$184,824, distributed in Empresa Administradora Cerro S.A.C. for US$20,824, Volcan Compañía Minera S.A.A. for US$164,000, and Empresa Explotadora de Vinchos Ltda. S.A.C. for US$45. They also recognized a recovery corresponding to the impairment estimate in Óxidos de Pasco S.A.C. for US$58,800.

The impairment in Volcan Compañía Minera S.A.A. resulted from lower volumes of resources and the increase of the discount rate, assumptions used in the determination of its cash flows. Such amount was fully allocated to the item Development costs.

The recovery in Óxidos de Pasco S.A.C. resulted from higher volumes of resources. This amount was allocated to the item Buildings and constructions.

In 2021, as part of the impairment assessment of certain cash-generating units (CGU), the Company’s Management determined an impairment loss in Empresa Administradora Cerro S.A.C. for US$13,397.

	2022		2021	
	Impairment estimate	Total	Impairment estimate	Total
	US$000	US$000	US$000	US$000
Cash-generating units:				
Volcan	(164,000)	(164,000)	-	-
Cerro	(20,824)	(20,824)	(13,397)	(13,397)
Óxidos	58,800	58,800	-	-
Vinchos	(45)	(45)	-	-
Total	(126,069)	(126,069)	(13,397)	(13,397)
Recorded in:				
Property, plant and equipment (net) (Note 12)	43,921	43,921	(11,387)	(11,387)
Exploration costs (Note 14)	(5,155)	(5,155)	(1,807)	(1,807)
Mining concessions, development costs and other intangibles (net) (Note 14)	(164,035)	(164,035)	(7)	(7)
Right-of-use assets (net) (Note 13)	(800)	(800)	(196)	(196)
Total	(126,069)	(126,069)	(13,397)	(13,397)

For the calculation of the value in use, flows were projected during the life of mine of each CGU. The discount rate used, for flows after taxes, was 9.35% and 5.8% as of December 31, 2022 and 2021, respectively. The period considered is consistent with the life of mine of the Company and Subsidiaries' mining units, which ranges from 2023 to 2045.

The impairment estimate is highly sensitive to several factors such as the price of minerals, proven and probable reserves and inferred resources, head grades and discount rate. A change in the perspectives of these assumptions may give rise to additional significant impairments/reversals. Level 3 valuation techniques were used in the determination of the discounted value for both periods.

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

27. FINANCIAL INCOME AND EXPENSES

Financial income and expenses comprise the following:

	2022 US$000	2021 US$000
Financial income		
Net exchange difference gain	-	2,041
Income from purchase of bonds, net of early tender premium	6,600	-
Interests on loans	5,107	675
Dividends	2,302	-
Other financial income	742	463
Total	14,751	3,179
Financial expenses		
Net exchange difference loss	(2)	-
Interests on issued bonds	(21,058)	(43,317)
Interests on syndicated loans	(20,811)	(1,526)
Interests and expenses of financial obligations	(3,811)	(2,071)
Financial costs for purchase of bonds	(1,546)	(4,688)
Effect for the update of the present value of mine closure (Note 33)	(3,092)	(2,846)
Amortized cost of bonds	(1,965)	(1,051)
Interests on lease liabilities	(850)	(984)
Commissions and other expenses	(3,989)	(5,108)
Total	(57,124)	(61,591)

28. INCOME TAX

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

	2022 US$000	2021 US$000
Income tax		
Current	(29,499)	(26,539)
Deferred (a)	63,583	(12,662)
	34,084	(39,201)
Special mining tax (b)	(4,450)	(5,565)
Mining royalties (b)	(9,098)	(8,833)
Contribution to the mining retirement fund (c)	(404)	(314)
Total	20,132	(53,913)

(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, 2021 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	Statement of profit or loss US$000	Other comprehensive income US$000	Balance as of December 31, 2022 US$000
Deferred assets								
Depreciation expenses of property, plant and equipment (net)	66,116	1,988	-	-	68,104	(15,893)	-	52,211
Amortization expenses of mining rights and concessions, exploration, development and stripping costs	52	(2)	-	-	50	(2)	-	48
Provision for the closure of mining units	38,290	4,556	-	-	42,846	19,707	-	62,553
Lease liability	3,329	(2,620)	-	-	709	2,338	-	3,047
Fair value of derivative financial instruments	2,738	74	(2,151)	-	661	(661)	-	-
Provision for contingencies	7,612	(508)	-	-	7,104	324	-	7,428
Obsolescence estimate for inventories	2,542	886	-	-	3,428	266	-	3,694
Recoverable tax loss	38,195	(10,357)	-	-	27,838	(5,804)	-	22,034
Embedded derivatives and sales adjustments	-	-	-	-	-	119	-	119
Effect for translation of tax benefits into U.S. dollars	45	(45)	-	-	-	-	-	-
Fair value of shares of Cementos Polpaico S.A.	4,853	-	2,251	-	7,104	-	(29)	7,075
Provision for community agreements	4,580	1,047	-	-	5,627	151	-	5,778
Pending vacations payable	1,533	179	-	-	1,712	100	-	1,812
Provision for doubtful accounts	92	(42)	-	-	50	-	-	50
Undercapitalization - interests	-	4,647	-	-	4,647	216	-	4,863
Others	2,349	77	-	-	2,426	138	-	2,564
Total	172,326	(120)	100	-	172,306	999	(29)	173,276
Deferred liabilities								
Use of amortization benefits of mining rights and concessions, exploration, development and stripping costs	(259,430)	5,638	-	-	(253,792)	36,623	-	(217,169)
Use of depreciation benefits of property, plant and equipment (net)	(16,858)	(4,214)	-	-	(21,072)	(2,275)	-	(23,347)
Effect for translation of tax benefits into U.S. dollars	(60,514)	(18,625)	-	-	(79,139)	21,715	-	(57,424)
Fair value of derivative financial instruments	(14)	14	-	-	-	-	-	-
Valuation of stockpiles	(2,088)	129	-	-	(1,959)	125	-	(1,834)
Adjustment at fair value of investments in associates	(5,132)	(11)	-	-	(5,143)	396	-	(4,747)
Insurance compensation	(2,025)	-	-	-	(2,025)	-	-	(2,025)
Embedded derivatives	(334)	(642)	-	-	(976)	871	-	(105)
Sales adjustments	(738)	(619)	-	-	(1,357)	475	-	(882)
Amortized cost of financial obligations	(892)	(881)			(1,773)	(127)		(1,900)
Others	(11,578)	6,669	-	8	(4,901)	4,781	-	(120)
Total	(359,603)	(12,542)	-	8	(372,137)	62,584	-	(309,553)
Net asset (liability)	(187,277)	(12,662)	100	8	(199,831)	63,583	(29)	(136,277)

Management believes that there is a reasonable certainty about the recoverability of the deferred income tax asset related to the tax loss of the Company and its Subsidiary Compañía Minera Chungar S.A.C. for US$10,302 and US$11,732, respectively, considering the option selected by the Company and the subsidiary for offsetting losses and the business plan. In 2022, the Company recovered US$14,220, and in case of subsidiary Compañía Minera Chungar S.A., an increase of tax loss was recorded for US$8,416.

As of December 31, 2021, the deferred income tax asset related to the tax loss of the Company and its subsidiary Compañía Minera Chungar S.A.C. amounts to US$24,522 and US$3,316, respectively.

For other subsidiaries that have tax losses, no deferred income tax assets for US$56,181 were recognized (US$66,226 as of December 31, 2021) since there was no certainty about the recoverability of such deferred income tax asset.

(b) Mining royalties and special mining tax

On September 28, 2011, pursuant to Law No. 29788, the Law of the Mining Royalty (Law No. 28258) was modified and established that all companies that do not have an established regime will 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 FCJMMS (Complementary Mining, Metallurgical and Iron and Steel Fund) will be managed by the FCR (Consolidated Fund of Social Security Reserves), created by Legislative Decree No. 817, Social Security Regime Law under the responsibility of the Peruvian government.

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

Tax situation

(i) Current tax framework

The Company and Subsidiaries are subject to the Peruvian tax regime. The income tax rate applicable to companies for 2022 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 2022.

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, 2022.

(ii) Open years to tax review

The Tax Administration is authorized to review, and if applicable, correct the income tax determined by the Company and Subsidiaries in the last four years, counted from January 1 of the year following the year when the pertinent income tax return was submitted (open years to tax review).

Income tax returns from 2018 to 2022 and value-added tax for the periods from December 2018 to December 2022 of the Company and Subsidiaries are subject to review by the Tax Administration. In addition, the income tax return of the Company for 2017 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 (in thousands)	Assumption	Details	Effective from
Local report	S/10,580 (US$2,654)	Operations with related entities	Transactions that give rise to taxable income or deductible expense	2018
Master report	S/92,000 (US$23,078)	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 transfer pricing, local report, master report and report per country for 2021 to the Tax Administration and are now preparing the pertinent reports for 2022.

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, 2022 and 2021, in relation to transfer pricing.

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

During 2022 and 2021, the effective income tax rate is different from the tax rate. The nature of this difference is due to certain items related to taxable profit, whose effects are summarized below:

	2022		2021	
	Amount	Percentage	Amount	Percentage
	US$000	%	US$000	%
(Loss) profit before income tax	(101,514)	100.00	93,787	100.00
Income tax as per tax rate	(29,946)	29.50	27,667	29.50
Unrecognized deferred tax for tax losses	1,258	(1.24)	3,822	4.08
Adjustment of income tax from previous years	-	-	(12,940)	(13.80)
Translation effect of non-financial assets	(3,536)	3.48	21,862	23.31
Tax effects on non-deductible expenses and other minor items	(1,860)	1.83	(1,210)	(1.29)
Mining taxes	13,952	(13.74)	14,712	15.69
Income tax expense and tax rate applicable to profit as per records	(20,132)	19.83	53,913	57.48

(v) Income tax payable

The Company and Subsidiaries have a credit balance with the Tax Administration for US$6,562 as of December 31, 2022 (US$8,603 as of December 31, 2021) (Note 18).

(vi) Significant changes to income tax in Peru

After December 31, 2022, 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, 2022 have been considered by Management when preparing these consolidated financial statements.

Below we present the main amendments that will be applicable as from 2023:

- Law 31652 establishes a special accelerated depreciation regime for buildings and constructions, as well as for hybrid and electric vehicles. In case of buildings and constructions, the depreciation rate will be 33.3% provided the construction starts in 2023 and is completed at least by 80% at the closing of 2024. In case of vehicles, the depreciation rate will be 50% if acquired in 2023 and 2024.

- Pursuant to Law 31650, the tax benefits for real estate taxpayers to FIRBI (Investment Fund in Real Estate Income) have been extended until December 31, 2026: (i) taxation at a 5% rate for leases for natural persons; and (ii) deferral of payment of taxes derived from the contribution of real estate to those funds.

- Pursuant to Law 31662, the exemption of shares and other securities registered and traded in the Stock Exchange has been extended until December 31, 2023, but only for natural persons with a quantitative limit of the benefit of 100 UIT (tax units) every year. As from January 1, 2023, domiciled and non-domiciled legal entities are not included in the exemption, as well as investment funds, trusts and, in general, entities of any kind incorporated outside Peru.

- Law 31659 extended until December 31, 2025 the additional deduction for expenses of scientific research, technological development, and technological innovation projects by 60%, 90% or 140%, 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.

- Pursuant to Law 31666, benefits are established for natural or legal entities that perform aquaculture activities, maintaining the application of differentiated rates for income tax and depreciation of 20% for infrastructure goods, among others.

(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 Compañía Minera Chungar S.A.C., Empresa Administradora Cerro S.A.C. and Óxidos de Pasco S.A.C. selected option (b) and other subsidiaries selected option (a) to offset tax losses.

29. BASIC AND DILUTED LOSS (EARNINGS) 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, 2022 and 2021, 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.

	2022 US$000	2021 US$000
Net (loss) profit	(81,382)	39,874
Average common shares - thousands of units	3,857,594	3,857,594
Net basic and diluted (loss) profit per share for the year	(0.021)	0.010

30. DERIVATIVE FINANCIAL INSTRUMENTS

Until 2021, the Company and Subsidiaries used 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) Embedded derivative for the variation of quotations in concentrate sale agreements

As of December 31, 2022 and 2021, 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, 2022:

	Quantity DMT/OZ	Quotation period	Fair value US$000
Receivable			
Zinc	76,494	December 2022 - March 2023	(2,602)
Lead	12,976	August 2022 - January 2023	1,327
Copper	988	January 2023	93
Silver	3,609	January 2023 - February 2023	1,070
Total - Note 9			(112)

As of December 31, 2021:

	Quantity DMT/OZ	Quotation period	Fair value 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 - Note 9			3,308

As of December 31, 2022 and 2021, fair values of embedded derivatives caused a profit of US$3,420 and US$2,220, respectively, and are shown in item “Net sales” of the consolidated statement of profit or loss (Note 21). Future quotations of the dates when open positions as of December 31, 2022 and 2021 are expected to be liquidated are obtained from the publications of the London Metal Exchange.

31. INFORMATION PER BUSINESS SEGMENT

The Company organizes its activities in six business segments: Volcan, Chungar, Cerro, Óxidos, 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 concentration plants.

- Chungar: production and sale of concentrates produced in mining units of Chungar and Alpamarca. Chungar comprises mines Animón and Islay and the Animón concentration plant. Alpamarca comprises Alpamarca open pit, mine Rio Pallanga and Alpamarca plant.

- Cerro: production and sale of concentrates produced in mining unit of Cerro, which comprises polymetallic stockpiles and San Expedito and Paragsha concentration plants.

- Óxidos: treatment of oxidized minerals in mining unit of Óxidos , which comprises oxide stockpiles, oxides in site, pyrite stockpiles and the Óxidos 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, 2022 and 2021 is presented in the tables below:

As of December 31, 2022:

	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	2,238,277	698,580	70,066	234,068	132,851	129,267	24,836	(1,552,057)	1,975,888
Total liabilities	1,277,134	475,791	171,705	23,111	47,441	38,404	28,946	(461,997)	1,600,535
Sales	554,513	238,292	104,225	105,075	-	16,384	461	(67,684)	951,266
Gross profit	163,844	(30,567)	28,307	22,525	-	7,156	461	(3,203)	188,523
Operating expenses	(266,935)	(46,218)	(45,164)	(7,754)	(1,629)	(6,161)	(5,696)	71,825	(307,732)
Other operating income	32,121	21,257	12,627	59,947	169	3,973	522	(70,548)	60,068
Operating profit (loss)	(70,970)	(55,528)	(4,230)	74,718	(1,460)	4,969	(4,714)	(1,926)	(59,141)
Profit (loss) before income tax	(89,612)	(75,623)	(3,323)	77,616	(5,937)	5,217	(5,235)	(4,617)	(101,514)
Net profit (loss) for the year	(72,546)	(48,819)	(6,774)	56,986	(5,939)	4,661	(4,984)	(3,967)	(81,382)
<u>Detail of sales</u>									
Local sales	503,867	200,365	80,252	96,651	-	16,384	461	(68,286)	829,694
International sales	55,542	41,215	23,973	8,424	-	-	-	-	129,154
Embedded derivative, estimate of committed sales, adjustment of open provisional liquidations and execution of financial instruments	(4,896)	(3,288)	-	-	-	-	-	602	(7,582)
	554,513	238,292	104,225	105,075	-	16,384	461	(67,684)	951,266

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	(81,841)	(35,231)	(28,045)	(7,127)	(2,086)	(5,046)	(3,070)	(9,228)	(171,674)
Other operating income	29,332	9,443	11,485	1,266	9	2,840	736	(12,606)	42,505
Operating profit (loss)	124,329	22,103	6,134	24,071	(2,077)	3,062	(30,148)	4,725	152,199
Profit (loss) before income tax	61,480	28,399	6,324	21,845	(2,148)	2,420	(29,258)	4,725	93,787
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 provisional 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

32. COMMITMENTS AND CONTINGENCIES

(a) Contingencies

Based on the opinion of their external and internal legal advisors, the Company and Subsidiaries' Management has reviewed all tax, labor, civil, administrative, and other proceedings, and has determined and established a provision for probable contingencies for US$25,422, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2022 (US$25,970 as of December 31, 2021). The Company and Subsidiaries' Management and their legal advisors believe that this provision covers probable contingencies sufficiently.

In relation to possible contingencies, external and internal legal advisors of the Company and Subsidiaries determined an amount of US$54,859 (US$47,438 as of December 31, 2021), 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$14,402, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2022 (US$15,737 as of December 31, 2021). The Company's Management and its legal advisors believe that this provision covers probable contingencies sufficiently.

In relation to possible contingencies, external and internal legal advisors of the Company determined an amount of US$35,585 (US$40,128 as of December 31, 2021), which corresponds to several proceedings addressed by the Company.

Civil and labor proceedings

As of December 31, 2022, certain civil and labor lawsuits have been filed against the Company for US$6,759 (US$6,201 as of December 31, 2021), 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$14,195 (US$11,467 as of December 31, 2021) for compensations for occupational disease, refund of social benefits, payment of profit sharing, reinstatement of employees and others.

Tax proceedings

As of December 31, 2022, 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, mainly corresponding to criteria differences in the determination of tax bases for the settlement of third-category income tax and value-added tax of 2007, 2009 and 2013.

As of December 31, 2022 and 2021, other tax proceedings were classified as possible, which include expenses disallowed by the National Superintendence of Tax Administration (SUNAT) for not complying with the criteria of the Tax Administration to amortize the development expenses, among other related concepts. These possible contingencies amount to US$8,763 (US$28,346 as of December 31, 2021).

Sanctioning administrative proceedings and contentious-administrative actions

The Company has not yet resolved certain environmental, safety, occupational health and labor safety proceedings with the following regulatory entities: National Water Authority - Local Water Authorities, Employment and Work Promotion Ministry (National Superintendence of Labor Supervision), Ministry of Energy and Mines, Ministry of Production, Supervisory Entity of Investment in Energy and Mining (OSINERGMIN) and the Environmental Supervision and Evaluation Entity (OEFA) for alleged breach of several environmental standards and the provisions of the Safety and Occupational Health Regulations, at a level of probable contingencies presented in item “Provisions” of the consolidated statement of financial position for US$7,643 (US$6,282 as of December 31, 2021), and possible contingencies for US$12,627 as of December 31, 2022 (US$315 as of December 31, 2021).

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 Chungar 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$5,568, which is presented in item “Provisions” of the consolidated statement of financial position as of December 31, 2022 (US$3,280 as of December 31, 2021). 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$15,181 as of December 31, 2022 (US$2,965 as of December 31, 2021), which corresponds to several proceedings addressed by the Subsidiary.

Civil and labor proceedings

As of December 31, 2022, certain labors lawsuits have been filed against Chungar for US$645 (US$491 as of December 31, 2021), 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$657 (US$537 as of December 31, 2022) 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, 2022, 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 of 2004 and 2017, 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, have been appealed to the Tax Court, and have been contested at a legal level before the Judiciary.

Finally, there are other contingencies that have derived from concept discrepancies with the Tax Administration and have been classified as possible for US$13,819 as of December 31, 2022 (US$2,423 as of December 31, 2021).

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$4,923, presented in item “Provisions” of the consolidated statement of financial position as of December 31, 2022 (US$2,526 as of December 31, 2021).

Contingencies classified as possible amount to US$705 (US$6 as of December 31, 2021).

(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$4,375, which is presented in item “Provisions” of the consolidated statement of financial position as of December 31, 2022 (US$4,974 as of December 31, 2021). 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$1,651 (US$2,634 as of December 31, 2021), which corresponds to several proceedings addressed by the Subsidiary.

Civil and labor proceedings

As of December 31, 2022, certain labors lawsuits have been filed against the Subsidiary for US$2,295 (US$2,412 as of December 31, 2021), 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$1,617 (US$254 as of December 31, 2021) 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, 2022 and 2021, the Subsidiary has not yet resolved some administrative proceedings with the National Superintendence of Tax Administration (SUNAT), the Tax Court and local governments 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$669 as of December 31, 2022 (US$920 as of December 31, 2021).

Contingencies classified as possible amount to US$19 (US$2,315 as of December 31, 2021).

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$1,411, presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2022 (US$1,642 as of December 31, 2021) and contingencies classified as possible for US$15 (US$65 as of December 31, 2021).

(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$536, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2022 (US$1,039 as of December 31, 2021) and contingencies classified as possible for US$2,294 (US$1,711 as of December 31, 2021). Management and its legal advisors believe that this provision covers probable contingencies sufficiently.

Labor proceedings

As of December 31, 2022, certain labors lawsuits have been filed against the subsidiary for US$8 (US$10 as of December 31, 2021), 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, 2022, 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$2,294 (US$1,711 as of December 31, 2021).

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$528, presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2022 (US$1,029 as of December 31, 2021).

(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. The subsidiary does not have any probable or possible contingencies as of December 31, 2022.

(a.6) Óxidos de Pasco 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$523, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2022 (US$570 as of December 31, 2021). 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$145, which corresponds to several proceedings addressed by the Subsidiary.

Tax proceedings

As of December 31, 2022, 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$80 as of December 31, 2022.

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$502, presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2022 (US$570 as of December 31, 2021), and contingencies classified as possible for US$65 as of December 31, 2022.

Labor proceedings

As of December 31, 2022, certain labors lawsuits have been filed against this Subsidiary for US$21, which have been classified as probable and are presented in item "Provisions" of the consolidated statement of financial position.

(a.7) Generación Eléctrica Rio Baños S.A.C.

Sanctioning administrative proceedings and contentious-administrative actions

The Subsidiary has not yet resolved certain environmental proceedings with OEFA for alleged breach of several standards, at a level of probable contingencies for US$17, presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2022.

(b) Guarantees

The Company and Subsidiaries have letters of guarantee with financial entities in favor of the following entities. These letters expired in January 2023 and were renewed until December 2024:

- General Mining Board of the MEM that guarantees the compliance with the applicable Mine Closure Plans of the Company and Subsidiaries for US$106,868 (US$98,995 in 2021).

- National Superintendence of Tax Administration (SUNAT) for US$3,414 to guarantee debts and obligations held with the Tax Administration, maturing in 2023 (US$2,666 in 2021).

- Third parties that guarantee the compliance with payments for the provision of services and/or others for US$6,889 (US$5,899 in 2021).

33. ENVIRONMENTAL OBLIGATIONS

Provision for the closure of mining units

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

In 2022 and 2021, the Company and Subsidiaries submitted the updates of the Mine Closure Plan of their main mining units to the Ministry of Energy and Mines and are expecting to receive the pertinent approvals of certain mining units.

As of December 31, 2022, the Company and Subsidiaries recognized a liability of US$270,714 for all their mining units (US$207,693 as of December 31, 2021), in relation to their obligations for future mine closure:

	2022	2021
	US$000	US$000
Mining units		
Cerro de Pasco	35,386	34,558
Óxidos	2,637	2,471
Chungar	52,571	46,253
Carahuacra	76,604	61,709
Andaychagua	38,469	17,499
Alpamarca	22,576	13,364
Vinchos	21,469	19,256
Ticlio	11,238	3,943
Vichaycocha	3,400	4,865
Toruna	1,816	1,643
San Sebastian	4,548	2,132
Total (Note 18)	270,714	207,693

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

	US$000
Balance as of January 1, 2021	176,514
Changes in estimates (Note 14)	17,206
Other expenses (Note 25)	15,842
Increase for update of present value of provision (Note 27)	2,846
Disbursements	(4,715)
Balance as of December 31, 2021	207,693
Changes in estimates (Note 14)	63,576
Other expenses (Note 25)	4,765
Increase for update of present value of provision (Note 27)	3,092
Disbursements	(8,412)
Balance as of December 31, 2022	270,714

The provision for the closure of mining units represents the present value of closure costs that are expected to be incurred between 2023 and 2051.

Changes in estimates consider the change in the rate, the modification of budgets and the deletion 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, as well as the quality requirements and standards shared by the parent. The provision for the closure of mining units mainly corresponds to activities that should be performed for the restoration of the mining unit and areas affected by mining activities. Main works to be performed are earthmoving works, revegetation works and disassembly of plants.

This estimate is highly sensitive to changes in different variables such as the discount rate and period. However, closure budgets are regularly reviewed to take into account any significant change in conducted studies.

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

As of December 31, 2022, the nominal value of the provision for the closure of mining units is US$297,552, which has been determined using the annual discount rate of 1.25%, resulting in a net present value of US$270,714 (nominal value of US$222,731 as of December 31, 2021, using an annual discount rate of 1.5%, resulting in a net present value of US$207,693). The Company and Subsidiaries consider that this liability is sufficient to comply with environmental protection laws in force approved by the Ministry of Energy and Mines.

34. REMUNERATIONS PAID TO KEY PERSONNEL

The remuneration of the key personnel of the Company and Subsidiaries for the years ended December 31, 2022 and 2021 amounted to US$8,991 and US$10,913, respectively, and corresponds to salaries, profit sharing, benefits and social charges, bonuses and extraordinary allowances.

35. NON-MONETARY TRANSACTIONS AND STATEMENT OF CASH FLOWS

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

2022

- Adjustment of the present value of the provision for the closure of mining units for US$68,242.
- Adjustment of the present value of the liability with communities for US$311.
- Assets acquired under finance leases for US$31,894.
- Acquisition of property, plant, and equipment, which have not been paid yet, for US$41,179.
- Acquisition of mining concessions, development costs and other intangibles, which have not been paid yet, for US$26,881.
- Acquisition of exploration costs, which have not been paid yet, for US$4,852.

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 finance 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, development costs and other intangibles, which have not been paid yet, for US$26,532.

36. LEASES

The Company as lessee

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 expiry date of lease terms.

Payments recognized for this concept were US$47,215 and US$36,018 in 2022 and 2021, respectively. The commitments for leases are shown below according to their expiry date:

	2022	2021
	US$000	US$000
1 year or less	21,645	13,692
More than 1 to 3 years	13,078	13,527
	34,723	27,219

The carrying amount of right-of-use assets and liabilities recognized and the movements generated in the year are presented in Note 14 and Note 16, respectively.

37. SUBSEQUENT EVENTS

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

- On February 15, 2023, the Company notified the Superintendence of the Securities Market about a letter received from its controlling shareholder Glencore International AG, which indicates that, as part of its preliminary financial results, in the fourth quarter of 2022, it has started to consider the potential disposal of all its interest in the capital stock of Volcan Compañía Minera S.A.A., which is equivalent to 23.3% of such capital.

- On February 15, 2023, the Company informed the Superintendence of the Securities Market that the negotiation of common class "A" and class "B" shares was suspended; however, it was reactivated that same day.