

Minsur S.A.

Notes to the separate interim financial statements (unaudited)

As of December 31, 2016

1. Company's Background and Business Activities

(a) Identification -

Minsur S.A. (hereinafter, the "Company") was incorporated in Peru in October 1977. The Company's activities are regulated by the General Mining Law. The Company is a subsidiary of Inversiones Breca S.A., a company domiciled in Peru, owner of 99.99% of the shares representing its capital stock and 6.31% of its investment shares. The registered address of the company is Jirón Giovanni Batista Lorenzo Bernini 149, Interior 501 A, San Borja, Lima, Peru.

(b) Business Activity -

The Company's primary business activity is the production and trading of tin metal obtained from extracting ore from San Rafael Mine, located in the Puno region, and the production and trading of gold obtained from Pucamarca Mine, located in the Tacna region.

Through its subsidiary, Latin American Mining S.A., the Company has investments in Mineração Taboca S.A. and subsidiary (which operate a tin mine and a smelting plant in Brazil), in Inversiones Cordillera del Sur Ltda. and subsidiaries (holding of shares of a business group engaged primarily in producing and trading cement in Chile) and in Minera Andes del Sur S.P.A (a Chilean company dedicated to mining exploration). As explained in note 11, investment in Inversiones Cordillera del Sur Ltda. is accounted for as an investment in affiliate.

On the other hand, through its subsidiary Cumbres Andinas S.A., the company holds investments in Minera Sillustani S.A.C., Compañía Minera Barbastro S.A.C., and Marcobre S.A.C., mining sector companies at the stage of ore resource exploration and assessment and pre-feasibility studies (Marcobre). As of December 31, 2015 it recognized, from Mina Justa de Marcobre S.A.C project, an impairment loss amounting to US\$374,698,000, net of deferred income tax in said subsidiary. This impairment loss reflects the impact of fluctuations in copper price quotes and the changes in the operating model of the project based on the pre-feasibility study underway. Marcobre completed the pre-feasibility project in July 2016 and actually is in feasibility phase.

On 28 September 2016, through its subsidiary Cumbres Andinas SA, the Company acquired the shares held by the Korean KLS Limited in Marcobre, which represented 30% of its capital stock. With this acquisition Minsur achieves control 100% of the shares of Marcobre, head of the Mina Justa project.

2. Bases of Preparation and Accounting Policies

2.1. Bases of Preparation -

The Company's separate interim condensed financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB") in force.

In accordance with the International Financial Reporting Standards (IFRS) in force, there is no obligation to prepare separate financial statements; however, in application of legal norms in Peru, the Company has prepared separate financial statements pursuant to the criteria set out in IAS 27 Separate Financial Statements. These Financial Statements will be made public within the period set out by the Securities Market Superintendence (SMV).

The Separate Financial Statements have been prepared on the basis of the historical cost, save the financial assets at fair value through profit or loss and available-for-sale investments, which are presented at their fair value.

The Separate Financial Statements attached hereto are presented in United States Dollars (US\$), and all figures have been rounded to thousands, except as otherwise noted.

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Preparation of the Separate Financial Statements requires that management use judgement, estimates and assumptions, as detailed in note 3 below.

These separate interim condensed financial statements provide comparative information about the previous period. For a correct interpretation of the separate interim condensed financial statements according to IFRS, these should be read together with the consolidated financial statements.

2.2. Changes in accounting policies and disclosure -

Just as explained in note 2.4, the Company adopted in advance the amended IAS 27, which affected the financial statements issued in previous periods.

2.3. Summary of significant accounting policies -

Following is a description of the significant accounting policies applied by the Company in preparing its separate financial statements:

(a) Cash and cash equivalents -

The cash and cash equivalents heading presented in the separate statement of financial position includes all cash balances, banks and term deposits with a maturity shorter than or equal to three months.

(b) Financial Instruments: Initial recognition and subsequent measurement -

A financial instrument is any agreement that gives rise to a financial asset of an entity and a financial liability or equity instrument of another entity.

(i). Financial Assets -

Recognition and Initial Measurement -

Financial assets are classified, in the initial recognition, as financial assets at fair value through profit or loss, loans and accounts receivable, investments held until maturity, available-for-sale financial assets, or, as derivatives designated as hedging instruments, as appropriate. All financial assets are initially recognized at fair value plus, in the case of financial assets that are not registered at fair value through profit and loss, the transaction costs that are attributable to the acquisition of the financial asset.

Purchase or sale of financial assets that requires delivery of assets within a set period of time as per a rule or convention of the market (conventional purchases or regular sales-way trades) are recognized on the date of the purchase, i.e. the date on which the Company undertakes to buy or sell the asset.

The Company's financial assets include cash and cash equivalents, commercial and diverse accounts receivable, financial investments available-for-sale and financial assets at fair value through profit and loss.

Subsequent Measurement -

For purposes of the subsequent measurement, financial assets are classified in four categories:

- Financial asset at fair value through profit and loss
- Loans and Accounts Receivable
- Investments held until maturity
- Financial investments available-for-sale

Financial asset at fair value through profit and loss -

Financial assets at fair value through profit and loss include financial assets held for negotiation and designated financial assets upon initial recognition as at fair value through profit and loss. Financial assets are classified as held for negotiation if they are purchased

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to be sold or to be repurchased in the short term. Derivatives, including separate embedded derivatives, are also classified as held for negotiation unless designated as effective hedging instruments as defined in IAS 39.

Financial assets at fair value through profit and loss are recorded in the separate statement of financial position at fair value and the net changes in that fair value are presented as financial costs (negative changes) or financial income (positive changes) in the separate profit and loss statement.

The Company has classified certain investments in shares as financial assets at fair value through profit and loss (see note 9).

Embedded derivatives in commercial contracts are treated as separate derivatives and recorded at their fair value if their economic characteristics and associated risks are not closely related to the commercial contracts, and these are not held for trading or designated at fair value through profit and loss. These embedded derivatives are measured at their fair value through profit and loss recognized in results.

Loans and Accounts Receivable -

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments which are not traded in an active market. After initial recognition, these financial assets are subsequently measured at amortized cost using the effective interest method, less any estimate for deterioration. Any loss resulting from impairment of value is recognized in the separate state of results.

This category includes commercial and various accounts receivable. See note 7 for more information on the accounts receivable.

Investments held until maturity -

Non-derivative financial assets with fixed or determined payments and fixed maturities are classified as held to maturity when the Company has the positive intent and ability to hold them until maturity.

As of December 31, 2016 and 2015, the Company does not possess these financial assets.

Financial investments available-for-sale -

Financial investments available-for-sale include investments in equity instruments and debt instruments. Investments in equity instruments classified as available-for-sale are those that are not classified either as held to negotiate, nor as at fair value with changes in results. Debt instruments in this category are those that are intended to be held for indefinite period of time and may be sold in response to liquidity needs or changes in market conditions.

After the initial measurement, financial investments available-for-sale are measured at fair value, and unrealized gains or losses are recognized in other comprehensive results and are credited to the unrealized net gain for financial investments available for sale until the investment is derecognized. Then, the cumulative gain or loss is recognized as an operational profit or loss or, is regarded as impairment of investment value, where the cumulative loss is reclassified from the reserve by updating the financial investments available for sale in the separate profit and loss statement as financial costs. Interests earned from financial investments available-for-sale are calculated using the effective interest rate method.

The Company periodically evaluates whether it still has the capacity to sell its financial investments available for sale in the near future. When, in exceptional circumstances, the Company cannot negotiate these financial assets due to inactive markets, the company

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may choose to reclassify them, if Management has the capacity and intent to negotiate them in the near future until maturity.

As of December 31, 2016 and 2015, the Company has classified equity and debt instruments as financial investments available for sale.

Derecognition of Financial Assets -

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized when:

- The contractual rights to receive cash flows produced by the asset have expired; or
- The Company has transferred the contractual rights over cash flows produced by the asset, or, an obligation has been undertaken to pay a third party said cash flows in full without significant delay, through a transfer agreement (pass-through arrangement), and (a) all the risks and benefits inherent in the ownership of the asset have been substantially transferred; or (b) none of the risks and benefits inherent in the ownership of the asset have been substantially transferred or retained but, the control thereon has been transferred.

When contractual rights to receive the cash flows produced by the asset have been transferred, or, a transfer agreement has been entered into, the Company evaluates whether, and to what extent, the risks and benefits inherent in the ownership of the asset have been maintained. When control thereof has not been transferred or retained, for accounting purposes the Company continues recognizing the transferred asset to the extent that the Company remains committed to the asset. In that case, the Company also recognizes the related liability. The transferred asset and related liability are measured so as to reflect the rights and obligations that the company has maintained.

(ii). Impairment of the value of financial assets -

At the end of each reporting period, the Company evaluates whether there is objective evidence that the value of a financial asset or group of financial assets has been impaired. Impairment of a value takes place when one or more events occur after the initial recognition of the asset (the "event causing the loss"), which has an impact on the estimated future cash flows of a financial asset or group of financial assets, and that impact may be reliably estimated. Evidence of impairment of value might include, among others, such indications as debtor or a group of debtors are undergoing significant financial difficulties, breach of, or delayed payment of the debt, capital or interests, the likelihood of filing for bankruptcy, or other form of financial reorganization, or whenever obvious data indicate that there is a measurable decrease in estimated future cash flows, such as adverse changes in the status of delayed payments, or, in the economic conditions that are correlated with breaches

Financial assets measured at amortized cost -

For financial assets measured at amortized cost, the Company first evaluates whether there is value impairment, on an individual basis, for financial assets that are individually significant, or, collectively, for financial assets that are not individually significant. If the Company determines that there is no objective evidence of value impairment for a financial asset evaluated individually, regardless of its significance, the Company will include said asset in a group of financial assets with similar characteristics of credit risk, and will evaluate them collectively to find out whether there is value impairment. Assets that are evaluated individually to determine whether there is value impairment and for which an impairment loss is recognized or continues being recognized, are not included in the evaluation of value impairment collectively.

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The amount of any value impairment loss identified is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding the expected future credit losses, not incurred yet.) The current value of estimated future cash flows is discounted at the effective interest rate of the original financial assets. If a loan accrues a variable interest rate, the discount rate to measure any value impairment loss is the effective current interest rate.

The carrying amount of an asset is reduced by using a devaluation account estimate and the loss is recognized in the separate profit and loss statement. The interest earned (registered as financial income in the separate profit and loss statement) will continue accruing over the carrying amount reduced by applying the interest rate used to discount future cash flows in order to measure value impairment loss. The loans and corresponding estimate are derecognized when there are no realistic expectations of future recovery and all securities that might exist thereon were made effective or transferred to the Company. If, in subsequent years the estimated amount of impairment losses increases or decreases due to an event occurred after the impairment is recognized, the impairment loss previously recognized is incremented or reduced by adjusting the impairment provision. Any amount that would have been derecognized and that is subsequently recovered is recorded as less financial expenditure in the separate profit and loss statement.

Financial investments available-for-sale -

For financial investments available for sale, at the closing of each reporting period, the Company evaluates whether there is objective evidence that the value of an investment or group of investments is impaired.

In the case of equity instruments classified as available-for-sale, the objective evidence must include a significant or extended decrease of the fair value of the investment below its cost. The concept "significant" is evaluated with respect to the original investment cost, and the concept "extended" is evaluated with respect to the period in which the fair value dropped below the original cost. Where there is evidence of value impairment, the cumulative loss measured as the difference between acquisition cost and the current fair value, less any previously recognized impairment loss in the separate profit and loss statement, is removed from other comprehensive results and is recognized in the separate statement of income. Impairment loss on investments in equity instruments classified as available for sale is not reversed through the profit and loss statement. Increases in fair value after having recognized impairment are recognized in other comprehensive incomes.

Determination of what is "significant" or "extended" requires a professional judgement. In this analysis, the Company evaluated, among other factors, the duration of the situations in which the fair value of an investment is below its cost.

In the case of debt instruments classified as financial investments available-for-sale, the evaluation of impairment is performed applying the same criterion used for financial assets carried at amortized cost. However, the amount recorded as impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on said investment previously recognized in the separate profit and loss statement.

Then, interest income is recognized by updating the carrying value of the reduced asset, using the discount rate applied to future cash flows taken in measuring the impairment loss. Interest income is recorded as part of the financial income. If, in the future, the fair value of the debt instrument increases and said increase can be objectively related to an event that took place after the impairment loss was recognized in the separate profit and loss statement, the impairment loss is reversed through the separate profit and loss statement.

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(iii). Financial Liabilities -

Recognition and Initial Measurement -

Financial assets are classified, in the initial recognition as financial assets at fair value through profit or loss, loans and accounts receivable, investments held until maturity, financial assets available-for-sale, or, as derivatives designated as hedging instruments, as appropriate.

All financial liabilities are initially recognized at fair value and in the case of accounts payable and financial obligations, net of costs directly attributable to the transaction.

The financial liabilities of the Company include trade and diverse accounts payable, financial obligations and embedded derivatives through the sale of ore.

Subsequent Measurement -

Subsequent measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit and loss -

Financial liabilities at fair value through profit and loss include financial liabilities held for negotiation, derivatives and designated financial liabilities upon initial recognition as at fair value through profit and loss.

As of December 31, 2016, the Company has no financial liabilities classified at fair value through profit and loss.

Debts and loans -

This is the most significant category for the Company. After initial recognition, financial obligations are measured at amortized cost using the effective interest rate method. Profit and loss is recognized in the profit and loss statement when liabilities are derecognized, and also through the amortization process of the effective interest rate.

Amortized cost is calculated by taking into account any discount or premium in the acquisition and the commissions or costs that are an integral part of the effective interest rate. Amortization of the effective interest rate is recognized as financial cost in the profit and loss statement.

Commercial and diverse accounts payable and financial obligations are included in this category. See notes 14 and 15 for more information.

Derecognition of accounts -

A financial liability is derecognized when the specified obligation in the appropriate contract has been paid or cancelled, or has expired. When an existing financial liability is replaced by another from the same lender under substantially different terms, or, the terms of an existing liability are substantially modified, such change or modification is treated as derecognition of the original liability and the recognition of a new liability. The difference in the relevant carrying amounts is recognized in the statement of income.

(iv). Offsetting of Financial instrument -

Financial assets and financial liabilities are offset so that the net amount is reported on the statement of financial position, if there is a current legally enforceable right to offset the recognized amounts, and if there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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(v) Measurement of Fair Value -

The fair value is the price that would be received from selling an asset or that would be paid to transfer a liability in an orderly transaction between participants in a market on the date of measurement. Measurement at fair value is based on the assumption that the transaction to sell the asset or transfer the liability takes place, either:

- In the main market for the asset or liability, or
- In the absence of a main market, in the most advantageous market available to the Company for the asset or liability.

For purposes of disclosure of the fair value, the Company has certain classes of assets and liabilities on the basis of the nature, characteristics and risks of the assets and liabilities and the level of the hierarchy of fair value as explained above.

(c) Derivative Instruments -

Embedded Derivatives -

Tin sale by the company is based on trading agreements, according to which a provisional value is allocated to the sales based on current listed tin price, which is then settled on the basis of future ore contributions. The adjustment of said sales by the closing of the period for filing financial statements is considered as an embedded derivative that needs to be separated from the main contract. The market price is taken from the London Metal Exchange on the reporting date of the financial statements, which is applied to open positions according to the trading agreements at the closing of the period. The embedded derivative does not qualify as hedging instrument; therefore, any changes in fair value are recorded as an adjustment to net sales.

Derivative financial instruments

The Company uses hedge accounting for transactions that meet the criteria established for this purpose. At the start of a hedging relationship, the Company designates and formally documents the hedging relationship to which you want to apply hedge accounting, as well as the objective of risk management and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the fair value of the hedging instrument to offset the exposure to changes in fair value of the hedged item. It is expected that such hedges are highly effective in achieving offsetting exposure to changes in fair value, and the same are evaluated on an ongoing basis to determine that have actually been highly effective throughout the periods for which reports and for which they were designated.

As of December 31, 2016, the Company has contracted a derivative instruments in the form of zero cost collar ("Short Collar") to hedge the risk associated with the trading of commodity prices of gold and tin. These instruments qualifying as cash flow hedges. See note 31 (b).

For cash flow hedges that qualify as such, the effective portion of gain or loss on the hedging instrument is initially recognized in the Statement of Changes in Equity under the heading Unrealized result.

(d) Transactions in foreign currency -

The Company's Separate Financial Statements are presented in US Dollars, which is the Company's functional and presentation currency.

Transactions and Balances -

Transactions in foreign currency (currency other than U.S. Dollars) are initially recorded by the Company at the exchange rates prevailing at the transaction date, published by the Superintendencia of Banking, Insurance and AFP. Monetary assets and liabilities denominated in foreign currency are translated to the functional currency using the current exchange rate prevailing at the reporting period closing date. All disputes arising out of settling or converting

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these monetary items, are recorded in the statement of income. Non-monetary items, registered in terms of historical cost, are converted to functional currency using the exchange rates prevailing at the date of the original transaction.

(e) Inventories -

Inventories should be measured at the lower of, cost or net realisable value. The inventory carrying costs incurred to bring it to its present location and condition are computed as follows:

Materials and Supplies -

- Purchase price using the weighted average method.

Finished products, products in-process and stockpiles -

- The cost of direct materials and supplies, services provided by third parties, direct labor and a percentage of indirect costs, excluding financing costs and the exchange rate differences.

Inventories receivable -

- Purchasing Cost.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and necessary estimated costs to accomplish the sale.

The provision (reversal) for loss in the net realizable value or obsolescence of supplies is calculated on the basis of a specific analysis conducted on an annual basis by Management and is charged (paid) to results in the year in which the need for the provision is determined (reversal).

(f) Investment in Subsidiaries -

Subsidiaries are entities over which the Company has control. Control is achieved when the Company is exposed, or has the right to variable yields from its participation in the investee entity and has the capacity to affect these yields through its power in the investee. Specifically, the investor controls an investee if and only if it has: (i) power over the investee entity (i.e., there are the rights granting it the present capacity of conducting the relevant activities thereof), (ii) exposure or right to variable yields from its participation in the investee entity, and (iii) the capacity to use its power over the investee entity to affect its yield. Investments in Subsidiaries are initially recognized at cost, and their later measurement is through changes in the Company's participation in the results of the subsidiaries. The profit and loss statement reflects the Company's participation in the results of the operations of the subsidiaries. Profit and loss resulting from common transactions is eliminated in proportion to the participation held in the affiliates.

The Company's and subsidiaries' reporting dates are identical and the accounting policies of the subsidiaries are consistent with the ones used by the Company for similar transactions and events.

After applying the equity participation method, the Company determines whether it is necessary to recognize an additional loss for impairment of investments in subsidiaries. The Company identifies at each date of the statement of financial position if there is objective evidence that the investment in subsidiaries has lost value. If this were the case, the Company calculates the amount of impairment as the difference between the fair value of investment in the subsidiary and the carrying value and recognizes the loss in the separate profit and loss statement.

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(g) Investment in Affiliates -

An affiliate is an entity over which the Company has significant influence. Significant influence is the power to participate in decision-making on the financial and operating policies of the affiliate, but without exercising control over these policies. The Company's investments in its affiliates are recorded using the equity participation method. The highest value paid in the acquisition of an affiliate is included in the book value of the investment, and is not amortized or individually subjected to impairment testing of its value.

The Company determines if it is necessary to recognize an impairment loss of investment in affiliates at each reporting date. Where applicable, the Company calculates the amount of impairment as the difference between the fair value of the investment and the acquisition cost and recognizes the loss in the separate profit and loss statement.

(h) Property, plant and equipment -

Property, plant and equipment is presented at cost, net of accumulated depreciation and any accumulated impairment losses, if any. This cost includes the cost of replacing a portion of the property, plant or equipment and financing costs for long-term construction projects if the recognition criteria are met. The current value of the expected cost of dismantling the asset and rehabilitating the site where it is located is presented in this heading. The value of a leasing contract is also included under this heading. When replacement of significant parts of Property, plant and equipment is required, the Company recognizes these parts as individual assets with specific useful lives and depreciates the same. Also, when a major inspection is conducted, its cost is recognized in the book value of the plant and equipment as replacement if the recognition criteria are met. All other maintenance and repair costs are recognized in results, as incurred.

The current value of the estimated cost for dismantling an asset after completion of its period of use is included in the estimated cost to the extent that the requirements to recognize the relevant provision are met. For more information on the provision recorded for dismantling, see 2.3 (n).

Depreciation -

Units-of-production method

Depreciation of assets directly related to mine operations is calculated using the units-of-production method, which is based on economically recoverable reserves of each mine.

Straight-line Method

Depreciation of assets with shorter economic life than the useful life of the mine, or that are related to administrative work, is computed through the Straight-line Method on the basis of an estimated useful life of the asset. The estimated useful lives are the following:

	Years
Buildings and constructions in the San Rafael Mining Unit	Between 2 and 4
Buildings and constructions in the Pucamarca Mining Unit	Between 3 and 5
Buildings and constructions in the Pisco Smelting Plant	Between 4 and 29
Machinery and equipment	Between 1 and 6
Transport units	Between 3 and 6
Furniture and fixtures	Between 2 and 7
Communication and security equipment	Between 2 and 10

The residual value, useful lives and depreciation method of Property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Derecognition of Assets -

A Property, plant and equipment item, and any significant component initially recognized is derecognized after disposal or when no future economic benefit is expected from their use or disposal. Gain or loss resulting from derecognizing the asset (calculated as the difference

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between the net income from disposal and the book value of the asset) is included in the profit and loss statement when the asset is derecognized.

- (i) Leasing -
Determination of whether an agreement is, or contains, a finance lease is based on the essence of the agreement as of the date of execution, be it that fulfilment of the agreement depend on the use of a specific asset or that the agreement grants the right of use of the asset, even if said a right is not explicitly expressed in the agreement.

A lease is classified on the start date as a financial lease or an operating lease.

A lease transferring to the Company substantially all the risks and benefits inherent in the ownership, is classified as financial lease.

Financial leasing -

Financial leases transferring to the Company substantially all the risks and benefits inherent in the ownership of the leased asset are capitalized on the start date of the lease at fair value of the leased property or, if the amount were lower, the current value of minimum lease payments. Lease payments are apportioned between finance charges and the reduction of the liability for lease so as to achieve a constant interest rate over the remaining balance of the liability. Finance charges are recognized in the financial costs of the separate profit and loss statement.

A leased asset is depreciated over its useful life. However, if there is no reasonable assurance that the Company will gain ownership at the end of the lease period, the asset will be depreciated over the estimated useful life of the asset or the term of the lease, whichever is shorter.

Operating Lease:

The operating lease payments are recognized as operating expenses in the separate profit and loss statement on the basis of linear depreciation over the term of the lease.

- (j) Mining Concessions -
Mining concessions represent the Company's ownership right of exploration and exploitation of the mining properties that contain the acquired ore reserves and resources. Mining concessions are presented at cost and depreciated from the beginning of the production stage applying the units-of-production method, using as basis the proven and probable reserves with which they relate. Should the Company abandon such concessions, the associated costs are punished in the separate profit and loss statement.

At the end of each year, the Company assesses each mining unit to find indications that the value of the mining concession has deteriorated. In which case, the Company makes an estimate of the recoverable amount of the asset.

Mining concessions are presented under the heading "Intangible Assets, net" in the separate profit and loss statement.

- (k) Costs of exploration, mine development and stripping -

Exploration Costs -

Exploration costs are charged to expenditures as incurred. These costs mainly include fuels and materials used, costs of topographic surveying, drilling costs and payments made to contractors.

Exploration and assessment activities include:

- Search and analysis of historical data of explorations.
- Enhancing exploratory data through geological studies.

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- Drilling and exploration sampling.
- Determination and evaluation of the volumes and grades of resources.
- Topographic transport and infrastructure requirements.
- Financial and market studies.

Development Cost -

If Company determines that a mining property might be economically viable, -that is, if the existence of proven and probable reserves is determined-, the costs incurred to develop the property, including the additional costs to delineate the ore body and remove the impurities therein contained, are capitalized as development costs in the "cost of Development" item. These costs are amortized applying the units-of-production method using as basis the proven and probable reserves.

Development activities include:

- Engineering and Metallurgical Surveys.
- Drilling and other costs required to delineate an ore body.
- Removal of the initial stripping related to an ore body.

The development costs needed to maintain production are charged to production cost as incurred.

Cost of removing burrow (stripping costs) -

As part of its mining operations, the Company incurs stripping costs during the development and production stages. Stripping costs incurred at the mine development stage, by the start of the production phase (development stripping), are capitalized as development costs and subsequently depreciated taking into account the useful life of the mine using the units-of-production method. Capitalization of development stripping costs ceases when the mine starts production.

Development stripping costs may be related to inventory production or to better access to the ore to be exploited in the future. Costs related to inventory production are recorded as part of the inventory production cost. Costs that allow access to the ore to be exploited in the future are recognized as non-current assets (stripping costs) provided the following conditions are in place:

- It is likely that future economic benefits will arise;
- Components may be identified in the deposit which access will be improved; and
- The costs associated with the improved access can be reliably measured.

To identify components in a deposit, the Company works closely with the operations area staff to analyse mine plans. Typically, a deposit has several components, although identification of the components may vary from mine to mine for different reasons.

Basically, the development stripping costs incurred by the Company relate to inventory production and not to better access to the ore to be exploited in the future.

- (l) Land Usufruct -
Relates to payments for right of use of adjoining lands to the Company's mines needed for its operation, and are recorded at cost. These costs are amortized applying the straight-line method based on the term of the agreements (about 10 to 15 years).
- (m) Impairment of Financial Assets -
At the closing of each reporting period, the Company evaluates whether there is indication that an asset might be impaired in value. In which case or, if an annual impairment test in the value of an asset is required, the Company estimates the recoverable amount of that asset. The recoverable amount of an asset is the higher value between the fair value less sale costs, either

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of an asset or a cash-generating unit, and its value in use, and it is determined for an individual asset, unless the asset does not produce cash flows that are substantially independent of those of the other assets or groups of assets. When the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, the asset is considered impaired and its value is reduced to its recoverable amount.

In evaluating the value in use of an asset, the estimated cash flows are discounted at their present value applying a pre-tax discount rate reflecting the current market assessments on the time value of money and the specific risks to the asset. In determining the fair value less sale costs, recent market transactions are taken into account, if any. If this type of transaction may not be identified, a suitable pricing model is applied.

The fair value for mining assets is generally determined according to the current value of future cash flows arising from the continued use of the asset, which include such estimates as the cost of future expansion plans, using assumptions that a third person might take into account. Cash flows are discounted at their current value applying a discount rate reflecting the current market assessment of the time value of money and the specific risks to the asset or cash-generating unit.

The Company has assessed the operations for each mine as cash-generating units, considering the operation of each mining unit independently.

Value impairment losses corresponding to ongoing operations including inventory impairment, are recognized in the separate profit and loss statement in the expenditure categories consistent with the role of the impaired asset.

For assets in general, at the closing of each reporting period, an evaluation is carried out on the existence of an indication that the value impairment loss previously recognized no longer exist or have decreased. In which case, the Company makes an estimate of the recoverable amount of the asset or cash-generating unit. A previously recognized value impairment loss is only reverted if there is a change in the assumptions used to determine the recoverable amount of the asset since the last time a value impairment loss of that asset was recognized. Reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or the amount in books that would have been determined, net of accumulated depreciation, if no loss would have been recognized as value impairment loss in previous years. Such reversal is recognized in the separate profit and loss statement.

(n) Provisions -
General -

A provision is recognized when the Company has a current obligation (legal or implied) resulting from a past event, it is likely that disbursement of resources be needed to settle the same, and a reliable estimate can be made of the amount of the obligation. If the effect of time value of money is material, provisions are discounted using a pre-tax rate reflecting, as appropriate, the specific risks of the liability. When discounted, the increase in the provision by the passage of time is recognized as a financial cost.

Provision for closure of mines -

The Company records the current value of the estimated costs of the legal and implicit obligations required to restore the operating facilities in the period in which the obligation is incurred. Mine closure costs are presented at the current value of the expected costs to settle the obligation, using estimated cash flows, and are recognized as integral part of the cost of each particular asset. Cash flows are discounted at risk-free market rate before tax. Earned discount is recorded as expenditure as incurred and is recognized in the profit and loss statement as financial cost. Estimated future costs of mine closure are reviewed annually and

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adjusted, as appropriate, on an annual basis. Changes in the estimated future costs or discount rate applied are added to the cost of the related asset or deducted therefrom.

In the case of mines already closed, changes in the estimated costs are recognized immediately in the separate profit and loss statement.

Environmental Costs and Liabilities -

Environmental costs related to current or future income are recorded as expense or capitalized, as appropriate. Expenditures related to an existing condition caused by past operations, and which do not contribute to current or future income are recognized as expense.

Environmental liability costs are recorded when remediation is likely to occur and the associated costs can be reliably estimated. Typically, recognition of these provisions correlates with the commitment of a formal action plan or, if earlier, with the dismantling or closure of inactive units.

The amount recognized is the best estimate of the expenditure required. If the liability is not settled for several years, the recognized amount is the current value of future estimated expenditures.

(o) Revenue Recognition -

Revenue is recognized to the extent that it is probable that the economic benefits will flow into the Company and the revenue can be reliably measured regardless of when the collection takes place. Revenue is measured at the fair value of the consideration received or receivable taking into account the payment agreements contractually defined and excluding duties and taxes. The following specific criteria must be met for revenue to be recognized:

Sale of metals -

Tin and gold sales are recorded when the Company has delivered the product at the place agreed to by client, client has accepted the product, and collection of the relevant accounts receivable are reasonably guaranteed.

Rental Income -

Revenues from rental properties are recognized as earned and the contractual terms and conditions relating thereto are met.

Interests Income -

As to all financial instruments measured at amortized cost, interest revenue is recorded applying the effective interest rate method. The effective interest rate is the rate that accurately discounts future payments or collections estimated throughout the life of the financial instrument or a shorter period, as appropriate, at book value of the financial asset or liability. The financial revenue is presented separately in the separate profit and loss statement.

(p) Financing Costs -

Financing costs directly attributable to the acquisition, construction, or production of a qualifying asset are capitalized and added to the cost of the project until the assets are considered substantially ready to be used as planned, that is, when they are capable of generating commercial production. All other borrowing costs are recognized in the separate profit and loss statement in the period in which they are incurred. Financing costs include interests and other costs incurred by the Company for securing financing.

When the funds used to finance a project are part of general financing, the capitalized amount is calculated using the weighted average of the applicable rates to the relevant general financings of the Company during the period. All other financing costs are recognized in the separate profit and loss statement in the period in which they are incurred.

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(q) Tax -

Current Income Tax -

Current income tax assets and liabilities are recognized in the amounts that are expected to be recovered from or paid to the tax authority. Tax rates and tax rules used to compute these amounts are the ones in force or whose approval procedure is nearing completion, at the closing of each reporting period, corresponding to Peru, a country where the Company operates and generates profits subject to the tax.

Current income tax related to items that are recognized directly in equity, is also recognized in equity and not in the separate profit and loss statement. Management periodically assesses the positions taken in the tax returns with regard to the situations in which the tax rules are subject to interpretation, and establishes provisions where appropriate.

Deferred Income Tax -

Deferred income tax is recognized applying the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts at the closing of each reporting period.

Deferred tax liability is recognized for all temporary tax differences, except for those related to investments in subsidiaries and affiliates, if and when the reversal opportunity may be controlled, and it is probable that they are not reversed in the foreseeable future.

Deferred tax asset is recognised for all deductible temporary differences, and for the future compensation of unused tax credit and tax loss carryforward, to the extent that it is anticipated that they can be utilised against available future taxable profits to offset such deductible temporary differences, and/or the tax credit or tax loss carryforward may be used. Significant judgement is required by Management in determining the amount of deferred assets which may be recognized based on the probable date of recovery and the level of future taxable income, as well as of future tax planning strategies.

The carrying amount of the deferred tax asset is checked at the closing of each reporting period and is reduced to the extent that the existence of sufficient future taxable income is no longer probable to allow these deferred tax assets to be wholly or partially used. Unrecognized deferred tax asset is rechecked at the closing of each reporting period and is recognized to the extent that the existence of future taxable income becomes probable to allow recovering such previously unrecognized deferred tax assets.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the period in which the asset is realized or the liability paid for, on the basis of the tax rates and tax rules that were adopted at the closing of each reporting period, or whose approval procedure is about to be completed by that date.

Deferred income tax related to items recognized outside profit and loss is also recognized outside profit and loss. These headings are recognized in correlation with the underlying transactions to which they relate, either in other comprehensive results or directly in the net equity.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set-off current tax assets against current tax liabilities, and if deferred income tax is levied by the same tax authority and in the same tax jurisdiction.

Mining Royalties and Special Mining Tax in Peru -

Mining royalties and the special mining tax are computed in accordance with IAS 12 "Income Tax", as they have the characteristics of an income tax. That is, they are levied by the Government and are based on net expense income after adjusting temporary differences,

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instead of being calculated on the basis of the quantity produced or at a percentage of the income. The legal standards and rates used to calculate the amounts payable are those in effect on the date of the separate statement of financial position.

Consequently, payments made to the Government on account of Mining Royalty and Special Mining Tax are within the scope of IAS 12 and, therefore, are treated as income tax. Both, the Mining Royalty and Special Mining Tax produce deferred assets or liabilities which must be measured using the average rates that are expected to be applied to operating profits in the quarters in which the Company expects them to reverse the temporary differences.

Sales Tax -

Revenues from ordinary activities, expenditures, and assets are recognized excluding the amount of any sales tax (value added tax), except:

- (i). When the sales tax incurred in an acquisition of an asset or in the provision of services is not recoverable from the Tax Authority, in which case said tax is recognized as part of the acquisition cost of the asset or as part of the expenditure, as appropriate;
- (ii). Accounts receivable and payable that are already expressed including the amount of sales taxes.

The net amount of sales tax recoverable from, or payable to, the taxation authority, is presented as an account receivable or an account payable in the separate statement of financial position, as appropriate.

(r) Classification as Current or Non-current

The Company presents assets and liabilities in the separate statement of financial position based on the classification as current /non-current. An asset is current when:

- The asset is expected to be realized or intended to be sold or consumed during its normal cycle of operation.
- The asset is mainly maintained for trading purposes.
- The asset is expected to be realized within twelve months following the reporting period; or
- The asset is cash or cash equivalent, unless it is restricted and cannot be exchanged nor used to pay a liability, for a minimum period of twelve months following the reporting period.

All other assets are classified as non-current.

A liability is classified as current when the entity:

- Expects to settle liabilities during its normal cycle of operation.
- Maintains the asset mainly for trading purposes.
- The liability should be settled within twelve months following the reporting period; or
- Does not have an unconditional right to defer the payment of the liability for at least twelve months following the closing date of the reporting period.

The Company classifies all the other liabilities as non-current.

Deferred income tax assets and liabilities are, in all cases, classified as non-current assets and liabilities.

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3. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires Management to make judgements, estimates and assumptions that affect the amounts of income, expenses, assets and liabilities reported, and the attached disclosures. Uncertainty on these assumptions and estimates could produce results that require a material adjustment of the carrying value of the affected assets and liabilities in future periods.

3.1. Judgements –

In implementing the accounting policies of the Company, Management has made the following judgements, which have a significant effect on the recognized amounts in these separate financial statements:

- (a) Contingencies -
By nature, contingencies will be settled only when one or more future events occur or fail to occur. Evaluating the existence and the potential number of contingencies inherently implies exercising critical judgment and using estimates about the results of future events.
- (b) Recovery of deferred tax assets - (note 2.3 (q)) -
- (c) Costs of exploration and evaluation - (note 2.3 (k)) -
- (d) Functional Currency - (note 2.3 (d)) -

3.2. Estimates and Assumptions -

Listed below are the key assumptions related to the future and other key sources of estimates of uncertainties at the date of the separate financial statements:

- (a) Estimation of reserves and ore resources -
The Company calculates its reserves applying the methods typically applied in the mining industry and in accordance with international guidelines. All reserves calculated represent estimated quantities of proven and probable ore which, under the current conditions can be economically and legally processed.

The process of estimating the amounts of reserves is complex and requires subjective decision-making in assessing all the geophysical and geological, engineering and economic data available. Revision of the estimates of reserves might take place due to, among others, review of geological data or assumptions, changes in assumed prices, production costs and results of exploration activities.

Changes in reserve estimates might mainly affect the carrying value of mining concessions, the cost of development, and Property, plant and equipment; charges to depreciation and amortization results; and, the carrying value of the provision for closure of mines.

- (b) Units of production depreciation method (note 2.3 (h)) -
- (c) Provision for closure of mines (note 2.3 (n) and note 16 (b)) -
- (d) Determination of the net realizable value of inventories (note 2.3 (e) and note 8) -
- (e) Impairment of non-financial assets (note 2.3 (m)) -
- (f) Embedded Derivatives for tin sales (note 31) -

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4. Issued but not effective standards

The standards and interpretations issued, but not yet effective, to the date of issuance of the interim separate financial statements of the Company are detailed below. The Company intends to adopt these standards, as applicable, as they enter into force:

IAS 9, "Financial Instruments"

In June 2014, the IASB issued the final version of the IFRS 9 "Financial Instruments", which covers all phases of the financial instruments project and replaces IAS 39 "Financial Instruments: Recognition and Measurement" as well as all previous versions of IFRS 9. IFRS 9 brings together the three aspects of project financial accounting: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with anticipated application permitted. Retroactive application is required, but comparison data is not mandatory. For hedge accounting, the requirements are generally applicable prospectively, with some limited exceptions.

It is expected that the adoption of IFRS 9 will not have a significant effect on the classification and measurement of the Company's financial assets and financial liabilities.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 was issued in May 2014 and sets forth a five step model to be applied to revenues arising from contracts with customers. Under the IFRS 15, revenue is recognized by an amount that reflects the contractual consideration agreed upon with customer. The accounting principles of IFRS 15 provide a more structured approach to measure and recognize revenue. This new IFRS related to revenue will apply to all entities and replace all the requirements for revenue recognition under IFRS. A complete or modified retroactive application is required to those annual periods beginning on 1 January 2018, and its early adoption is allowed. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements and is planning to adopt this new Standard on the date its entry into force is required.

IFRS 16 "Leases"

IFRS 16 sets forth the principles for recognition, measurement, disclosure and disclosure for leases and requires all leases to be accounted for under a model similar to accounting for finance leases under IAS 17. The standard includes two exceptions to Recognition for tenants: short-term leases and those in which the underlying asset is of low value. It is required to apply for those annual periods beginning on January 1, 2019, and is allowed to be adopted in advance. The Company is currently evaluating the impact of IFRS 16 on its separate financial statements and expects to adopt this new standard on the required date of its entry into force.

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5. Transactions in foreign currency

Operations in foreign currency (mainly in Nuevos Soles) are made at free-market exchange rates published by the Superintendence of Banking, Insurance and AFP. As of December 31, 2016, the weighted average exchange rates in the free market for transactions in Nuevos Soles were US\$0.2983 for purchase and US\$0.2976 for sale (US\$0.2934 for purchase and US\$0.2930 for sale to December 31, 2015).

As of December 31, 2016 and 2015, the Company had the following assets and liabilities in Nuevos Soles:

	As of 31 December 2016		As of December 31 2015	
	S/.(000)	Equivalent in US\$(000)	S/.(000)	Equivalent in US\$(000)
Assets				
Cash and cash equivalents	744	222	128	38
Trade and other accounts receivable, net	26,095	7,785	23,244	6,820
Income tax prepayments	-	-	11,349	3,330
	<u>26,839</u>	<u>8,007</u>	<u>34,721</u>	<u>10,188</u>
Liabilities				
Income tax payable	(31,680)	(9,429)	-	-
Trade and other accounts payable	(98,857)	(29,421)	(125,066)	(36,644)
	<u>(130,537)</u>	<u>(38,850)</u>	<u>(125,066)</u>	<u>(36,644)</u>
Net liabilities position	<u>(103,698)</u>	<u>(30,843)</u>	<u>(90,345)</u>	<u>(26,456)</u>

As of December 31, 2016 and 2015, the Company has no financial instruments to cover exchange risk in its operations in foreign currency.

6. Cash and cash equivalents

(a) This item comprises the following:

	As of 31.12.2016	As of 31.12.2015
	US\$(000)	US\$(000)
Cash on hand	10	8
Cash demand deposits (b)	15,004	42,377
Term Deposits (c)	326,126	160,746
Overnight deposits (d)	-	179,796
Funds subject to restriction	-	75
Total	<u>341,140</u>	<u>383,001</u>

(b) As of December 31, 2016 and 2015, the Company keeps its deposits in current accounts at first tier domestic and foreign banks and are freely available.

(c) Term Deposits with maturities greater than 180 days which may be renewed at maturity. As of December 31, 2016 and 2015 these deposits accrued interests calculated at current market rates.

(d) Demand deposits (overnight deposits) are one-day deposits in an offshore bank, bearing interests at current market rates.

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7. Trade and other receivables, net

(a) This item comprises the following:

	As of 31.12.2016 US\$(000)	As of 31.12.2015 US\$(000)
Trade	54,345	45,104
Related parties, note 27	8,559	627
Others receivable:		
Value added tax credit	3,542	6,484
Advances to suppliers	1,167	2,653
Accounts receivable staff	1,331	820
Others	5,232	2,882
	11,272	12,839
Total	74,176	58,570
Classification by Maturity		
Current portion	74,176	58,570
Non-current portion	-	-
Total	74,176	58,570

(b) As of December 31, 2016, commercial accounts receivable do not accrue interests and do not have specific guarantees. In the process of estimating the provision for doubtful accounts, the Company's Management continuously analyses market conditions, for which it uses aging analysis for commercial operations.

(c) In the opinion of the Company's Management, the estimate of doubtful accounts as of December 31, 2016 and 2015 adequately covers the credit risk of these headings to those dates.

Following, the activity of doubtful accounts estimate:

	As of 31.12.2016 US\$(000)	As of 31.12.2015 US\$(000)
Opening balance	2,587	2,587
Recovery allowance, note 24	(1,377)	-
Final Balance	1,210	2,587

(d) Aging analysis of commercial accounts receivable as of December 31, 2016 and 2015 is the following:

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	Total US\$(000)	Neither past, due nor Impaired US\$(000)	Past due but not impaired				
			< 30 days US\$(000)	30 - 60 days US\$(000)	61 - 90 days US\$(000)	91 - 120 days US\$(000)	> 120 days US\$(000)
As of 31.12.2016	54,345	47,696	-	6,657	(5)	(3)	-
As of 31.12.2015	45,104	39,846	-	5,311	1	(54)	-

8. Inventories, net

This item comprises the following:

	As of 31.12.2016 US\$(000)	As of 31.12.2015 US\$(000)
Finished products	16,624	16,318
Work in progress	22,848	22,495
Materials and supplies	23,089	24,111
Mineral extracted	292	785
Inventory in transit	25	25
	<u>62,878</u>	<u>63,734</u>
Allowance for obsolescence	(2,784)	(2,302)
Total	<u>60,094</u>	<u>61,432</u>

9. Financial assets and liability

(a) The composition of receivable accounts include the following:

	AI 31.12.2016 US\$(000)	AI 31.12.2015 US\$(000)
Financial asset with changes in results	6,072	6,412
Embedded derivatives for sale of tin, note 31 (b)	394	-
Total	<u>6,466</u>	<u>6,412</u>

(b) The composition of payable accounts include the following:

	AI 31.12.2016 US\$(000)	AI 31.12.2015 US\$(000)
Embedded derivatives for sale of tin, note 31 (b)	47	263
Hedgings, note 31 (a)	1,632	-
Total	<u>1,679</u>	<u>263</u>

(c) Financial assets at fair value through profit or loss

- As of December 31, 2016 and 2015, the Company keeps an investment in shares of BBVA of Spain for US\$6,072,000 and US\$6,412,000, respectively. BBVA of Spain is an entity of recognized prestige in the international market, therefore, its level of risk is very low.

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2. As of December 31, 2016 and 2015, the fair value of this investment classified as financial assets at fair value through profit and loss has been determined on the basis of its listing in the Spanish Stock Exchange. Following is the activity of the item:

	As of 31.12.2016	As of 31.12.2015
	US\$(000)	US\$(000)
Opening balance	6,412	8,155
Changes in the fair value	(340)	(1,743)
Final Balance	6,072	6,412

3. As of December 31, 2016 the Company received cash and share dividends from the BBVA of Spain for US\$159,000 and US\$18,000, respectively (US\$78,000 in 2015), which were charged to the income of the year.

10. Available-for sale financial investments

- (a) Financial investments available for sale include the following:

	As of 31.12.2016			
	Cost	Unrealized results	Accrued interests	Fair Value
	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Public quotation mutual funds	125,000	3,809	-	128,809
Certificates of deposit without public quotation	35,000	43	1,848	36,891
Total	160,000	3,852	1,848	165,700

	As of 31.12.2015			
	Cost	Unrealized results	Accrued interests	Fair Value
	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Public quotation mutual funds	125,000	998	-	125,998
Certificates of deposit without public quotation	65,000	(181)	1,681	66,500
Total	190,000	817	1,681	192,498

The fair value of mutual funds is determined on the basis of public price quotations in an active market. The fair value of the certificates of deposit without public quotation is estimated based on discounted cash flows using available market rates for debt instruments of similar conditions, maturity and credit risk.

- (b) The activity of investments available for sale is presented below:

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	As of 31.12.2016	As of 31.12.2015
	US\$(000)	US\$(000)
Opening balance	192,498	189,576
Fair value registered in other comprehensive income	3,035	1,472
Accrued interest in certificated deposits	167	1,450
Certificate of Deposit Settlement	(30,000)	-
Ending balance	165,700	192,498

11. Investments in subsidiaries and associates

(a) This item comprises the following:

	Interest in equity		Investments amount	
	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
	%	%	US\$(000)	US\$(000)
Subsidiaries				
Minera Latinoamericana S.A.C.	99.99	99.99	490,558	395,277
Cumbres Andinas S.A.	99.97	99.97	253,799	149,360
Minsur U.S.A. Inc.	99.99	99.99	292	292
			<u>744,649</u>	<u>544,929</u>
Asociates				
Rimac Seguros y Reaseguros.	14.51	14.51	61,014	48,214
Servicios Aeronáuticos Unidos S.A.C.	47.50	47.50	2,871	3,375
Explosivos S.A.	10.95	7.30	12,182	7,886
Futura Consorcio Inmobiliario S.A.	4.96	4.96	5,113	5,318
			<u>81,180</u>	<u>64,793</u>
Total			<u>825,829</u>	<u>609,722</u>

The company has recognized its investments in Rimac Seguros y Reaseguros, Explosivos S.A. and Futura Consorcio Inmobiliario S.A. as investments in affiliates considering that they are operated by the same economic group.

(b) Following the details of the Company's participation in the results of the subsidiaries and associates:

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	As of 31.12.2016	As of 31.12.2015
	US\$(000)	US\$(000)
Minera Latinoamericana S.A.C.	(21,240)	(25,604)
Cumbres Andinas S.A.	(13,516)	(13,504)
Minsur U.S.A. Inc.	-	92
Rimac Seguros y Reaseguros	3,161	8,240
Servicios Aeronáuticos Unidos S.A.C.	(504)	321
Explosivos S.A.	4,294	(602)
Futura Consorcio Inmobiliario S.A.	(266)	32
Ending balance	(28,071)	(31,025)

c) Relevant data on subsidiaries -

Minera Latinoamericana S.A.C. - Minlat

The corporate purpose of this subsidiary is the exploration and exploitation of mineral rights and, in general, any other activity directly or indirectly comprised in the mining industry, both in the Peruvian territory and abroad. At present it has operations in Chile and Brazil

On January 29, 2015, subsidiary Minlat entered into a shareholders' agreement with its related company Inversiones Breca S.A. (hereinafter, "Breca") by means of which it was agreed that Breca (minority shareholder of subsidiary Inversiones Cordillera del Sur I Ltda., hereinafter, "Cordillera"), would conduct all relevant activities of Cordillera starting 2015. According to IFRS 10 "Consolidated Financial Statements", when loss of control of a subsidiary takes place, the controller stops consolidating the financial information of the subsidiary from the date on which the loss of control takes place and records the investment in such entity as an affiliate. However, the IFRS does not contemplate the accounting treatment in transactions between entities under common control.

The main purpose of affiliate Cordillera is to maintain investment in Melon and subsidiaries. The corporate purpose of Melon S.A. is the production, marketing and supply of cement, ready-mix concrete, mortar and pre-dosed aggregates to distributors of construction materials, to construction companies related to the real estate sectors, civil works and mining and to concrete companies in Chile.

The following are subsidiaries of Minlat:

- (i). Mineração Taboca S.A.
Taboca is a mining company whose main operation is the Pitinga mine, located in the northeast region of the state of Amazonas, in the Federative Republic of Brazil. This mine basically produces tin concentrate. Taboca also operates the Pirapora smelting plant in Sao Paulo.
- (ii). Minera Andes del Sur S.P.A.
Holding company mainly engaged in executing mining exploration projects in Chile.

The investment activity in Minlat is the following:

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	As of 31.12.2016	As of 31.12.2015
	US\$(000)	US\$(000)
Opening balance	395,277	505,243
Plus (minus):		
Participation in net profit/(loss)	(21,240)	(79,771)
Capital contributions	65,000	95,002
Translation	49,072	(128,676)
Unrealized results	2,407	(37)
Other results	-	3,474
Others	42	42
Ending balance	490,558	395,277

Cumbres Andinas S.A.

The corporate purpose of this subsidiary is the exploration and exploitation of mineral rights and, in general, any other activity directly or indirectly comprised in the mining industry. At present, the activities of the Company are limited to the holding of shares of mining companies at their exploration stage (Minera Sillustani S.A. and Compañía Minera Barbastro S.A.C.) and Marcobre S.A.C., in the definition stage (hereinafter "Sillustani", "Barbastro" and "Marcobre", respectively).

The subsidiary Marcobre S.A.C. is in evaluation of the feasibility study of copper mining project called "Mina Justa" that is located in Nazca (Peru).

On 28 September 2016, Cumbres Andinas S.A. acquired the 30% shares of Marcobre to the Korean KLS Limited, thus achieving control of 100% of the shares of Marcobre, head of the Mina Justa project.

Cumbres Andinas S.A. has 99.99% in subsidiaries Barbastro and Sillustani.

Following is the investment activity in Cumbres Andinas S.A.:

	As of 31.12.2016	As of 31.12.2015
	US\$(000)	US\$(000)
Opening balance	149,360	547,522
Plus (minus):		
Participation in net profit/(loss)	(13,516)	(417,300)
Capital contributions	127,520	24,580
Other results	(9,444)	(4,729)
Translation	(121)	(713)
Ending balance	253,799	149,360

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d) Investment activities in affiliates and relevant data on the affiliates:

Rimac Seguros y Reaseguros

The main economic activity of this affiliate domiciled in Peru, comprises contracting and handling general risk and life insurance and reinsurance operations, as well as financial and real estate investments and related activities.

The investment activity in Rimac Seguros y Reaseguros is the following:

	As of 31.12.2016	As of 31.12.2015
	US\$(000)	US\$(000)
Opening balance	48,214	62,902
Plus (minus):		
Participation in net profit/(loss)	3,161	12,948
Unrealized results	10,830	(17,940)
Translation	881	(6,896)
Dividends	(1,903)	(2,542)
Others	(169)	(258)
Ending balance	61,014	48,214

Servicios Aeronauticos Unidos S.A.C.- SAUSAC

The corporate purpose of this affiliate domiciled in Peru, is to provide air transport services for passengers, cargo and mail, prospecting, aircraft maintenance and trading spare parts for civil aviation.

The investment activity in Servicios Aeronauticos Unidos S.A.C. is the following:

	As of 31.12.2016	As of 31.12.2015
	US\$(000)	US\$(000)
Opening balance	3,375	4,078
Plus (minus):		
Participation in net profit/(loss)	(504)	(703)
Ending balance	2,871	3,375

Explosivos S.A.

The economic activity of this affiliate domiciled in Peru, comprises manufacturing, domestic sale, and exporting packaged explosives, accessories and blasting agents; it is also engaged in the provision of blasting services, and all kinds of services and supporting works for mining companies.

The investment activity in Explosivos S.A. is the following:

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Notes to the separate interim financial statements (unaudited)

As of December 31, 2016

	As of 31.12.2016 US\$(000)	As of 31.12.2015 US\$(000)
Opening balance	7,886	7,340
Plus (minus):		
Participation in net profit/(loss)	4,294	(507)
Translation	2	1,053
Ending balance	12,182	7,886

Futura Consorcio Inmobiliario S.A.

The investment activity in Explosivos S.A. is the following:

	As of 31.12.2016 US\$(000)	As of 31.12.2015 US\$(000)
Opening balance	5,318	5,097
Plus (minus):		
Participation in net profit/(loss)	(266)	916
Unrealized results	(7)	-
Translation	82	(695)
Other adjustments	(14)	-
Ending balance	5,113	5,318

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Notes to the separate interim financial statements (unaudited)

As of December 31, 2016

12. Property, plant and equipment, net

(a) The composition and activity of the item is as follows:

	Opening balance 01.01.2016	Additions	Deductions and Adjustments	Transfers	Ending balance 31.12.2016
	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Cost -					
Land	14,042	600	-	-	14,642
Buildings and installations	341,552	-	(9,578)	17,653	349,627
Machinery and equipment	235,571	-	(2,937)	23,586	256,220
Furniture and fixtures and computer equipment	5,022	-	(15)	960	5,967
Communication and safety equipment	1,481	-	-	-	1,481
Vehicles	5,179	-	(15)	284	5,448
Work in progress	21,498	35,833	-	(39,049)	18,282
Financial leasing	3,660	-	-	(3,660)	-
Mine closure costs	59,546	(6,599)	-	-	52,947
	687,551	29,834	(14,320)	-	703,065
Accumulated Depreciation -					
Buildings and installations	183,894	23,709	(8,949)	-	198,654
Machinery and equipment	173,166	11,890	(1,384)	1,632	185,304
Furniture, fixtures and computer equipment	3,636	442	(14)	(1)	4,063
Communication and safety equipment	763	201	(12)	1	953
Vehicles	3,482	366	(1,352)	29	2,525
Financial leasing	1,362	299	-	(1,661)	-
Mine closure costs	32,117	2,762	-	-	34,879
	398,420	39,669	(11,711)	-	426,378
Net cost	289,131				276,687

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	Opening balance 01.01.2015	Additions	Deductions and Adjustments	Transfers	Ending balance 12.31.2015
	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Cost -					
Land	12,050	1,962	30	-	14,042
Buildings and installations	333,857	7	-	7,688	341,552
Machinery and equipment	231,442	-	(3,823)	7,952	235,571
Furniture and fixtures and computer equipment	5,295	-	(16)	(257)	5,022
Communication and safety equipment	1,438	-	(2)	45	1,481
Vehicles	4,935	-	(328)	572	5,179
Units in transit	808	-	(808)	-	-
Work in progress	10,730	25,834	-	(15,066)	21,498
Financial leasing	4,594	-	-	(934)	3,660
Mine closure costs	56,237	3,309	-	-	59,546
	<u>661,386</u>	<u>31,112</u>	<u>(4,947)</u>	<u>-</u>	<u>687,551</u>
Accumulated Depreciation -					
Buildings and installations	144,774	39,120	-	-	183,894
Machinery and equipment	162,805	12,397	(2,251)	215	173,166
Furniture, fixtures and computer equipment	3,687	335	(15)	(371)	3,636
Communication and safety equipment	214	179	(1)	371	763
Vehicles	3,122	502	(321)	179	3,482
Financial leasing	1,139	617	-	(394)	1,362
Mine closure costs	25,621	6,496	-	-	32,117
	<u>341,362</u>	<u>59,646</u>	<u>(2,588)</u>	<u>-</u>	<u>398,420</u>
Net cost	<u>320,024</u>				<u>289,131</u>

(b) Depreciation expense has been distributed in the separate profit and loss statement, as follows:

	31.12.2016	12.31.2015
	US\$(000)	US\$(000)
Cost of sales, note 21	38,812	58,869
Administration expenses, note 22	447	317
Selling expenses, note 23	7	7
Exploration expenses, note 24	246	204
Other expenses, note 25	157	249
Total	<u>39,669</u>	<u>59,646</u>

(c) As of December 31, 2016, management has not found impairment loss relating to these assets.

(d) The carrying value of machinery and vehicles maintained in financial lease as of December 31, 2016 was around US\$3,660,000. Lease assets have guarantees.

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Notes to the separate interim financial statements (unaudited)

As of December 31, 2016

13. Intangible Assets, net

(a) Following is the composition and activity of the item:

	Opening balance 01.01.2016	Additions	Disposals	Transfers	Ending balance 31.12.2016
	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Cost -					
Development Cost	30,257	2,829	-	-	33,086
Mining Concessions	4,076	155	-	-	4,231
Feasibility expenses B2	-	3,594	-	-	3,594
Easement	3,258	-	-	87	3,258
Usufruct of lands	1,692	14	-	(87)	1,706
Gas connection rights	545	-	-	-	545
Licenses	117	-	-	-	117
	39,945	6,592	-	-	46,537
Accumulated amortization -					
Development Cost	11,988	2,746	-	-	14,734
Mining Concessions	1,713	318	-	-	2,031
Easement	1,146	317	-	41	1,463
Usufruct of lands	860	176	-	(41)	1,036
Gas connection rights	64	53	-	-	117
Licenses	21	7	-	-	28
	15,792	3,617	-	-	19,409
Net cost	24,153				27,128
Cost -					
Development Cost	30,257	-	-	-	30,257
Mining Concessions	3,826	250	-	-	4,076
Easement	2,689	569	-	-	3,258
Usufruct of lands	1,521	202	(31)	-	1,692
Gas connection rights	545	-	-	-	545
Licenses	36	81	-	-	117
	38,874	1,102	(31)	-	39,945
Accumulated amortization -					
Development Cost	8,141	3,847	-	-	11,988
Mining Concessions	1,268	445	-	-	1,713
Easement	701	445	-	-	1,146
Usufruct of lands	668	193	(1)	-	860
Gas connection rights	9	55	-	-	64
Licenses	13	8	-	-	21
	10,800	4,993	(1)	-	15,792
Net cost	28,074				24,153

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As of December 31, 2016

(b) Amortization expense has been distributed in the separate profit and loss statement, as follows:

	As of 31.12.2016	As of 31.12.2015
	US\$(000)	US\$(000)
Cost of sales, note 21	3,506	4888
Exploration expenses, note 25	111	105
Total	3,617	4,993

14. Interest-bearing loans and borrowings

(a) This item comprises the following:

Entity	Guarantees	Interest Rate	As of 31.12.2016 US\$(000)	As of 31.12.2015 US\$(000)
Corporate Bonds, net of issuance costs (b)	No guarantees	6.25%	440,107	439,145
BBVA Continental	Leasehold	2.68%	-	172
Banco de Credito del Peru	Leasehold	4.54%	-	62
Total			440,107	439,379
Classification by Maturity				
Current Portion			-	234
Non-Current Portion			439,778	439,145
Total			439,778	439,379

(b) The General Shareholders' Meeting of January 30, 2014, agreed that the Company carried out an international bond issue ("Senior Notes") through private placement under Rule 144 A and Regulations of the US Securities Act of 1933. It also agreed to list these bonds on the Luxembourg Stock Exchange. On January 31, 2014, the Company issued bonds with a nominal value of US\$450,000,000 with maturity on February 7, 2024 by a 6.25 % coupon rate, resulting in net proceeds under par of US\$441,823,500.

Bonds restrict Minsur and its subsidiaries' capacity to engage in certain transactions, however, these restrictions do not condition the Company to fulfil financial ratios or maintain specific levels of liquidity.

15. Trade and other payables

(a) This item comprises the following:

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Notes to the separate interim financial statements (unaudited)

As of December 31, 2016

	As of 31.12.2016	As of 31.12.2015
	US\$(000)	US\$(000)
Trade payable	38,959	29,494
Related parties	9,777	14,932
Other accounts payable:		
Interest payable	11,158	11,160
Taxes and contributions payable	10,142	6,205
Others	2,382	2,194
	<u>23,682</u>	<u>19,559</u>
Employee Benefits		
Workers' profit sharing	17,303	14,347
Remunerations and contributions payable	2,445	2,123
	<u>19,748</u>	<u>16,470</u>
Total	<u>92,166</u>	<u>80,455</u>

(b) Commercial accounts payable are mainly originated by the acquisition of materials, supplies, spare parts and services provided by third parties. These obligations are mainly expressed in US Dollars, have current maturities, do not accrue interests and do not have specific guarantees.

16. Provisions

(a) This item comprises the following:

	Provisions for mine closure (b)	Provision for bonuses to employees (c)	Provision for Contingencies (d)	Total
	US\$(000)	US\$(000)	US\$(000)	US\$(000)
As of January 1, 2015	52,513	4,973	1,911	59,397
Change in estimates	3,309	-	-	3,309
Reversals	-	-	(763)	(763)
Additions	-	4,069	-	4,069
Accretion	1,237	-	-	1,237
Payments and advances	(854)	(4,973)	(43)	(5,870)
As of December 31, 2015	<u>56,205</u>	<u>4,069</u>	<u>1,105</u>	<u>61,379</u>
As of January 1, 2016	56,205	4,069	1,105	61,379
Estimated exchange	(6,600)	-	-	(6,600)
Reversals	-	-	(153)	(153)
Additions	-	4,464	167	4,631
Accretion	1,813	-	-	1,813
Payments and pre-payments	(64)	(4,069)	(59)	(4,192)
As of December 31, 2016	<u>51,354</u>	<u>4,464</u>	<u>1,060</u>	<u>56,878</u>

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Notes to the separate interim financial statements (unaudited)

As of December 31, 2016

	Provisions for mine closure	Provision for bonuses to employees	Provision for Contingencies	Total
	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Classification by Maturity				
Current Portion	5,794	4,069	1,105	10,968
Non-Current Portion	50,411	-	-	50,411
As of December 31, 2015	56,205	4,069	1,105	61,379
Current Portion	2,947	4,464	1,060	8,471
Non-Current Portion	48,407	-	-	48,407
As of December 31, 2016	51,354	4,464	1,060	56,878

(b) Provision for mine closure -

The provision for closure of mines represents the current value of closure costs expected to be incurred between years 2017 and 2042, in compliance with government regulations. The estimated cost for mine closure is based on surveys prepared by independent consultants, which comply with the existing environmental regulations. The provision for closure of mines mainly corresponds to activities to be carried out to restore the mines and impacted areas by exploitation activities. The main works to perform are: earthworks, revegetation work, and plants removal. Closure budgets are regularly reviewed to take into account any significant changes in the surveys undertaken. However, costs of mine closures will depend on market prices of the closure works required, which will reflect the future economic conditions. Also, the timing of disbursements will depend on the life of the mine, which will in turn depend on future metal quotations.

As of December 31, 2016, the future value of the provision for closure of mines is US\$68,478,000, (as of December 31, 2015 it was US\$73,639,000), as discounted using annual risk-free rates for the provision of each mine according to its term of validity, which range between 1.36% and 4.02%, resulting in an updated liability of US\$51,353,000 (US\$56,205,000 as of December 31, 2015). The Company believes that this liability is sufficient to comply with the existing environmental protection laws approved by the Ministry of Energy and Mines.

(c) Provision for bonus to employees -

As of December 31, 2016 this item corresponds to a performance bonus for workers to be paid in the first quarter of 2017.

(d) Provision for contingencies -

This provision comprises the estimate of provisions for liabilities for environmental contingencies in US\$772,000 (US\$608,000 as of December 31, 2015) and labor contingencies in US\$288,000 (US\$497,000 as of December 31, 2015).

17. Income Tax

(a) The following comprise the Current Tax Assets/(Liability):

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Notes to the separate interim financial statements (unaudited)

As of December 31, 2016

	As of 31.12.2016 US\$(000)	As of 31.12.2015 US\$(000)
Asset/(Liability) for Tax on Earnings		
Current Income Tax	(55,204)	(45,568)
Current Income Tax Prepayment	45,885	48,898
Total	(9,319)	3,330

(b) Following is the composition and activity of the item:

	As of 31.12.2016 US\$(000)	As of 31.12.2015 US\$(000)
Income Tax:		
Deferred income tax assets		
Provision for mine closure	14,749	14,810
Differences in book and tax basis for fixed assets	13,885	8,140
Tax benefit for tax overpayments from previous years	4,855	5,265
Investments at fair value through profit and loss	2,150	2,299
Mining royalty and special mining tax	1,730	721
Other provisions	1,720	696
Vacations payables	648	499
Embedded derivatives for sale of tin	(14)	74
	<u>39,723</u>	<u>32,504</u>
Deferred income tax liabilities		
Exchange difference for non-monetary items	(11,098)	(13,943)
Asset retirement costs	(5,329)	(7,391)
Development costs	(5,223)	(4,723)
Available for sale investments	(554)	(674)
Differences in book and tax bases of inventories	(394)	(612)
Deferred income tax asset, net	<u>17,125</u>	<u>5,161</u>
Mining royalty (MR) and Special Mining Tax (SMT):		
Deferred assets		
Differences in book and tax basis of fixed assets	3,351	1,874
Exploration expenses	1,355	1,135
	<u>4,706</u>	<u>3,009</u>
Deferred liability		
Exchange difference for non-monetary items	(2,538)	(2,947)
Differences in book and tax basis of inventories	(23)	(131)
	<u>(2,561)</u>	<u>(3,078)</u>
Deferred tax liability of MR and SMT, net	<u>2,145</u>	<u>(69)</u>
Total deferred income tax asset, net	<u>19,270</u>	<u>5,092</u>

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As of December 31, 2016

- (c) Following is the Reconciliation of Income Tax Expense with profits before income tax multiplied by the statutory rate:

	As of 31.12.2016	As of 31.12.2015
	US\$(000)	US\$(000)
Profit before income tax	148,270	(372,169)
At statutory income tax rate (28%)	41,516	(104,207)
Effect of mining royalties	(5,145)	(3,234)
Participation in results of subsidiaries and associates	8,393	135,611
Effect of translation	(4,488)	19,364
Effect of permanent differences, net	2,286	87
Effect of the change in income tax-rate	47	-
Previous years' adjustment:	-	(8,424)
Income Tax Expense	42,609	39,197
Mining Royalties and Special Mining Tax	16,162	10,464
Total	58,771	49,661

- (d) The Income tax expense shown in the separate profit and loss statement is composed as follows:

	As of 31.12.2016	As of 31.12.2015
	US\$(000)	US\$(000)
Income Tax		
Current	55,312	45,872
Deferred	(12,703)	(6,675)
	<u>42,609</u>	<u>39,197</u>
Mining Royalties and Special Mining Tax		
Current	18,376	11,549
Deferred	(2,214)	(1,085)
	<u>16,162</u>	<u>10,464</u>
	<u>58,771</u>	<u>49,661</u>

18. Net Equity

- (a) Capital Stock -

As of December 31, 2016 and 2015 the authorized, subscribed and paid in capital stock in accordance with the Company's by-laws and amendments, comprises 19,220,015 common shares with a nominal value of S/.100.00 each one.

- (b) Investment Shares-

As of December 31, 2016 and 2015, this caption comprises 960,999,163 investment shares, with a nominal value of S/.1.00 each one.

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As of December 31, 2016

According to the current legislation, the investment shares grant the holders the right to participate in the dividend distribution, make contributions to maintain its share in the case of capital increases as a result of additional contributions, increase the investment shares account due to the capitalization of equity accounts, redemption of shares and participation in the distribution of the equity in case of dissolution. The investment shares do not grant access to the Board of Directors or to the Shareholders' meetings. The investment shares of the Company are listed on the Lima Stock Exchange (BVL).

The quotation of these shares as of December 31, 2016 was S/.1.45 per share (S/.0.50 per share as of December 31, 2015 with a frequency of negotiation of 70 percent).

(c) Unrealized results -

This item includes the effect of translation of subsidiaries and associated companies, investments at fair value with effect on equity and additionally, unrealized losses from derivative hedging instruments.

During 2016, the resulting exchange difference was a gain of US\$49,917,000 (which includes a translation result loss of US\$40,238,000 from Brazilian subsidiary, a translation result profit of US\$8,820,000 from the associate Inversiones Cordillera del Sur Ltda., a translation result profit of US\$859,000 from the Peruvian associates). During 2015, the resulting translation result was a loss of US\$135,938,000 (which includes a translation result loss of US\$90,563,000 from the Brazilian subsidiary, a translation result loss of US\$38,097,000 from Inversiones Cordillera del Sur Ltda. and a translation result loss of US\$6,549,000 from Peruvian associates). These exchange differences are included in the separated statement of comprehensive income.

(d) Legal Reserve -

The Peruvian General Corporation Law requires that a minimum of 10 percent of the distributable earnings for each period, after deducting the income tax, needs to be transferred to a legal reserve until such is equal to 20 percent of the capital. This legal reserve can offset losses or can be capitalized, in both cases there remaining the obligation to replenish it.

As of December 31, 2016 and 2015, the Company has not increased its legal reserve because the legal reserve reached the limit mentioned above.

(e) Declared and paid dividends -

Below is information on declared and paid dividends as of December 31, 2016:

	Date	Dividends declared and paid	Dividends per common share	Dividends per investment share
		US\$(000)	US\$(000)	US\$(000)
As of December 31, 2016				
Shareholders' meeting	- - -	<u>-</u>	0.00	0.000
As of December 31, 2015				
Shareholders' meeting	March 26, 2015	<u>50,000</u>	1.73	0.017

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(f) Result per share

The result per basic share is calculated by dividing the result of the period by the weighted average of the number of outstanding shares during the year.

The result per basic and diluted share is the same, since there are no reducing effects on profits.

	As of 31.12.2016 US\$(000)	As of 31.12.2015 US\$(000)
Profit attributable to common and investing shareholders	89,499	(421,830)
Denominator		
Common Shares	19,220,015	19,220,015
Investment Shares	960,999,163	960,999,163
Result per share		
Profit attributable to common shareholders	3.104	(13.795)
Profit attributable to investing shareholders	0.031	(0.138)

19. Tax Situation

- (a) The Company is subject to the Peruvian tax regime. As of December 31, 2015 the income tax rate is 28 percent. Likewise, as of December 31, 2015 non-domiciled persons in Peru and natural persons are subject to pay an additional 6.8 percent tax on dividends received.

As of January 01, 2015, Law 30296 entered into force introducing certain amendments to the Income Tax Law. The most relevant changes were the changes to the income tax rates and to additional tax withholdings for dividends received applicable to non-domiciled legal persons and to natural persons in Peru. The following are the modified tax rates:

	Income Tax	Withholding for dividends received
Years 2015 and 2016:	28%	6.8%
Years 2017 and 2018:	27%	8%
Year 2019 onwards:	26%	9.3%

The Law has also provided for the application of a 4.1% rate to the cumulative results or other concepts likely to generate taxable dividends, obtained until 31 December 31 2014, and which form part of dividend distribution or any other form of profit sharing.

- (b) On December 10, 2016, the Government within its powers delegated by the Congress, issued Legislative Decree No. 1261, which modifies the Income Tax rate to 29.5%, starting in 2017 and for persons not domiciled in Peru and natural persons are entitled to pay an additional tax of 5 percent on the dividends received, to date the publication of the regulatory rules for its entry into force is expected.
- (c) Tax authorities are entitled to check and, if applicable, revise the Income Tax calculated by the company in the four years following filing of the income tax return of said taxes. Income tax returns

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As of December 31, 2016

for years 2012 to 2016 and Sales Tax for years 2013 to 2016, are still to be checked by the tax authorities. To date, the Tax Administration carried out a review of the income tax returns for financial years 2000 to 2010 and Sales Tax returns for years 2000 to December 2008.

Since the interpretations that the tax authorities may give of the current legal regulations are hard to predict, as of this date, it is not possible to determine whether the reviews to be made will result in liabilities to the Company, therefore, any higher tax or surcharge that might result from any eventual tax review would be applied to profit or loss of the year in which it is determined. However, in the opinion of the Company's Management and its legal advisors, any eventual additional settlement of taxes would not be significant for the separate financial statements as of December 31, 2016 and 2015.

- (d) For the purpose to determine the Income Tax and Sales Tax, transfer pricing of transactions with related companies and with companies resident in territories of low or zero taxation must be supported with documentation and data on the valuation methods used and the criteria considered for its determination. Based on the analysis of the Company's operations, Management, and its legal advisors believe that no significant contingencies will arise for the Company as of December 31, 2016 and 2015 as a consequence of the application of this Standard.

20. Net Sales

This item comprises the following:

	As of 31.12.2016	As of 31.12.2015
	US\$(000)	US\$(000)
Tin	360,348	346,994
Gold	132,883	140,040
	<u>493,231</u>	<u>487,034</u>
Embedded derivative for sale of tin	216	295
Hedge	(3,797)	-
	<u>489,650</u>	<u>487,329</u>

The following table presents the net sales of tin and gold by geographical region:

	As of 31.12.2016	As of 31.12.2015
	US\$(000)	US\$(000)
Tin:		
America	163,120	152,624
Europe	155,560	169,246
Asia	36,123	21,335
Peru	5,546	3,789
Gold:		
United States	85,218	140,040
Europe	47,665	-
	<u>493,231</u>	<u>487,034</u>
Embedded derivative for sale of tin	216	295
Hedge	(3,797)	-
	<u>489,650</u>	<u>487,329</u>

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21. Cost of Sales

This item comprises the following:

	As of 31.12.2016	As of 31.12.2015
	US\$(000)	US\$(000)
Opening finished product inventory, note 8	16,318	20,444
Opening product in process inventory, note 8	22,495	28,124
Opening mineral extracted inventory, note 8	785	933
	<u>39,598</u>	<u>49,501</u>
Other third-party services	49,973	50,170
Depreciation, note 12 (b)	38,812	58,869
Consumption of raw material and miscellaneous supplies	36,993	42,089
Purchase of mining services from AESA S.A.	32,608	42,292
Other personnel expense	20,894	18,423
Wages and salaries	18,426	16,263
Electricity	12,741	12,661
Employee benefits	8,835	11,474
Purchase of explosives from Exsa S.A.	6,801	7,299
Other manufacturing expenses	4,582	4,348
Amortization, note 13 (b)	3,506	4,888
Production Cost	<u>234,171</u>	<u>268,776</u>
Final finished product inventory, note 8	(16,624)	(16,318)
Final work in process inventory, note 8	(22,848)	(22,495)
Final mineral extracted inventory, note 8	(292)	(785)
	<u>(39,764)</u>	<u>(39,598)</u>
Cost of Sales	<u>234,005</u>	<u>278,679</u>

22. Administrative expenses

This item comprises the following:

	As of 31.12.2016	As of 31.12.2015
	US\$(000)	US\$(000)
Other personnel expense	8,669	7,563
Wages	7,831	9,185
Other third-party services	4,740	4,473
Employee benefits	2,859	3,414
Advice and consulting	2,020	2,515
Other management charges and provisions	1,208	1,401
Depreciation, note 12 (b)	447	317
Total	<u>27,774</u>	<u>28,868</u>

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23. Selling expenses

This item comprises the following:

	As of 31.12.2016	As of 31.12.2015
	US\$(000)	US\$(000)
Other third-party services	2,051	2,606
Other management charges and provisions	529	705
Warehouse expenses	446	604
Sales commissions	440	1,719
Wages	315	277
Other personnel expense	164	274
Employee benefits	103	107
Depreciation, note 12 (b)	7	7
Total	4,055	6,299

24. Other Operating Incomes

This item comprises the following:

	As of 31.12.2016	As of 31.12.2015
	US\$(000)	US\$(000)
Revenue on sale of supplies	2,966	4,278
Income for advisory services	1,516	1,599
Recovery allowance for doubtful accounts, note 7	1,377	-
Lease of property	730	134
Revenue on sale of property, plant and equipment	469	50
Lease of equipment	320	-
Income from previous years - Mineração Taboca S.A.	176	-
Reversal of provision for environmental liabilities	154	763
Inventory Difference Income	149	-
Others	982	347
Total	8,839	7,171

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25. Other Operating Expenses

This item comprises the following:

	As of 31.12.2016	As of 31.12.2015
	US\$(000)	US\$(000)
Exploration expenses and project expenses		
Services provided by third parties	10,280	18,505
Purchase of contract mining serv. AESA S.A.	1,600	2,399
Other personnel expenses	1,069	1,541
Mineral rights	712	757
Wages	627	1,064
Other diverse charges	264	633
Employee benefits	211	1,065
Depreciation, note 12 (b)	246	204
Amortization, note 13 (b)	111	105
	<u>15,120</u>	<u>26,273</u>
Other Operating Expenses		
Cost of sale of supplies	2,374	3,656
Net cost of property, plant and equipment withdrawn	2,160	1,502
Assumed tax	1,474	-
Contributions to public entities of environmental regulation	1,432	1,619
Deductible donations	1,407	1,456
Mining retired fund	987	822
Net cost of disposal of assets	548	-
Adjustments for physical inventory of supplies	281	88
Provision for administrative and labor contingencies	167	-
Depreciation, note 12 (b)	157	249
Others	3,014	2,654
	<u>14,001</u>	<u>12,046</u>
Total others, net	<u>29,121</u>	<u>38,319</u>

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26. Financial Income and Costs

This item comprises the following:

	As of 31.12.2016 US\$(000)	As of 31.12.2015 US\$(000)
Financial Income		
Interest on time deposits	1,924	1,485
Interest on certificates of deposit	1,376	1,450
Interest on accounts receivable	40	1,345
Interest on current accounts	317	103
Others	28	115
Interests Income	3,685	4,498
Financial costs:		
Interests on corporate bond	(28,125)	(28,125)
Amortization of issuance costs of corporate bond	(961)	(1,204)
Others	(11)	(38)
Interest Expenses	(29,097)	(29,367)
Accretion	(1,813)	(1,237)
	(30,910)	(30,604)

27. Transactions with related companies

- (a) Accounts receivable and payable -
As of December 31, 2016 and 2015 balances of accounts receivable and accounts payable with related companies are as follows:

	As of 31.12.2016 US\$(000)	As of 31.12.2015 US\$(000)
Receivable:		
Mineração Taboca S.A.	8,090	-
Administración de Empresas S.A.	204	147
Marcobre S.A.C.	109	126
Compañía Minera Raura S.A.	93	289
Cumbres Andinas S.A.	14	14
Minera Latinoamericana S.A.C.	14	14
Cía. Minera Barbastro S.A.C.	14	14
Minera Sillustani S.A.C.	14	14
Clinica Internacional S.A.	4	6
Tecnológica de Alimentos S.A.	2	2
Minera Carabaya S.A (en liquidación)	1	1
Total	8,559	627

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Classification by Maturity

Current	8,559	627
Non Current	-	-
Total	8,559	627

Payable:

Administración de Empresas S.A.	8,219	12,139
Exsa S.A.	1,121	1,757
Clínica Internacional S.A.	156	244
Inversiones San Borja S.A	176	-
Rímac Seguros y Reaseguros	38	127
Protección Personal S.A.C.	19	5
Centria Servicios Administrativos S.A.	18	228
Inversiones Nacionales de Turismo S.A.	11	28
Urbanizadora Jardín S.A.	10	48
Corporación Peruana de Productos Químicos	9	76
Rímac S.A. Entidad Prestadora de Salud	-	210
Compañía Minera Raura S.A.	-	45
Estratégica S.A.C.	-	17
Compañía Minera Barbastro S.A.C.	-	6
Constructora AESA S.A.	-	2
	9,777	14,932

Balance payable to related companies have a current maturity, does not accrue interests and lacks specific securities

28. Commitment

(a) Environmental Impact Assessments (EIA)

According to Supreme Decree 016-93-EM, in force since 1993, all mining companies must file an EIA to the Ministry of Energy and Mines (MEM). Environmental Impact Assessments are prepared by environmental consultants registered with the MEM. These assessments consider all environmental controls that mining entities will implement during the life of the mines. All the Company's mines have an approved Environmental Impact Assessment for their activities.

(b) Mine Closure Law in Peru -

On 14 October 2004, Law No. 28090 entered into force, intended to regulate the obligations and procedures to be followed by owners of the mining activity for the preparation, filing and implementation of the Mine Closure Plan and the establishment of the appropriate environmental guarantees. The Regulations for Mine Closure were approved on 15 August 2005 by Supreme Decree No. 033-2005-EM.

In compliance with this obligation, in 2006, the Company introduced the Mine Closure Plan for San Rafael and Pisco mines, which were approved in 2009 by the Ministry of Energy and Mines. The Environmental Regulations in force in Peru provide that 3 years after the plan is approved an update must be filed; therefore, on 17 December 2012 the Company filed to the Ministry of Energy and Mines and updated Mine Closure Plan for San Rafael, as approved by means of Directorial Resolution No. 098-2013-MEM/AAM on 8 April 2013. Also, on 22 June 2012, the Company

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presented an update of the Pisco Mine Closure Plan, which was approved by means of Directorial Resolution No. 215-2013-MEM/AAM of 21 June 2013. As to Pucamarca mine, on 19 August 2010, the Company filed its Closure Plan, which was approved by means of Directorial Resolution No. 207-2011-MEM/AAM of 30 June 2011 and which updating is underway.

As of December 31, 2016, the provision for Mine Closure of San Rafael, Pucamarca and Pisco mines amounts to US\$51,353,000 (US\$56,205,000 as of December 31, 2015). See activity of this provision in note 16 (a).

(c) Guarantees –

The Company has issued guarantees Stand By for an amount of US\$20,000,000 with Banco do Brasil is also jointly and severally liable for an amount of US\$50,000,000 with banks Itau, do Brasil and Santander do Brasil to guarantee loans made by its subsidiary Mineração Taboca S.A., as well as for US \$ 10,000,000 to guarantee the contracts derived from said sub-subsiary with BAML.

29. Tax and Administrative disciplinary proceedings

- (a) Based on the results of audits for years 2000 to 2010, the Company has been served notices for omissions to income tax and Sales Tax amounting to S/.129,182,000 (equivalent to US\$37,850,000). In all cases, the Company filed remedies of complaint for it could not find the relevant resolutions in the current legal rules of Peru. To date, these appeals are pending resolution.

On the other hand, as to the appeals mentioned hereinabove, the Company has, under protest, been making payments of the amounts assessed, while exercising its right of complaint with SUNAT or appeal before the Tax Court, as appropriate. As of December 31, 2015, the balance paid under protest amounts to US\$25,922,000. The Company has recognized an account receivable, considering that there are chances of recovery.

- (b) In the appeal filed by the Company to the Tax Authorities for tax year 2002, the Company includes complaint for having made excess Income Tax payments that same year amounting to S/.104,780,000 (equivalent to US\$30,700,000). This amount corresponds to an erroneous determination of a capital gain declared in excess for tax purposes related to the sale of 9,847,142 shares of Union de Cervecerias Peruanas Backus & Johnston S.A.A. made in July 2002. The Company will recognize the asset related to this claim on the actual date of return of the unduly paid tax by the Tax Administration. Management and its legal advisors believe that this appeal will be favorably resolved for the Company.

(c) Administrative disciplinary processes -

In 2016, and prior years, the Company was served several notices from the Agency for Assessment and Environmental Control (OEFA) and OSINERGMIN, respectively. These notices relate to infringements for breach of the procedures of environmental protection and preservation standards and mining safety and hygiene regulations. Administrative fines derived from these processes imposed by OSINERGMIN and OEFA amount to around 597 Tax Units – UIT (equivalent to US\$772,000 as of December 2016). In regard to these notices, the Company has filed appeals and resorted to the courts; these processes are still pending resolution.

As of December 31, 2016, in analysing these processes, Management and its legal advisors estimated a probable contingency of US\$772,000, which is presented under the "provisions" heading in the separate statement of financial position (note 16 (d)).

(d) Labor processes -

The Company has several labor claims mainly compensation for damages for occupational disease. In this regard, the Management and its legal advisors have been following the various processes that affect the Company. As a result of this analysis as of December 31, 2016 and 2015 the Company

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As of December 31, 2016

maintains provisions for labor contingencies, estimated sufficient to cover the risks affecting the business for this item.

As of December 31, 2016, these provisions amount to approximately US\$288,000 (US\$497,000 at December 31, 2015) and are presented in the "Provisions" caption of the separate statement of financial position (note 16(d)).

The Company also faces other labor claims amounting to US \$ 214,000 for which Management and its legal advisors consider that it is only possible and not probable that such legal actions will succeed, and therefore no provision was recorded for these category labor claims possible as of December 31, 2016.

As of December 31, 2016, in the opinion of management and its external legal advisors, the resolution of environmental and labor contingencies will not result in additional liabilities to those already recorded.

30. Segmented Data

Management has determined the operating segments of the Company on the basis of the reports used for decision-making. Management considers the business units on the basis of their products, activities, and geographic location:

- Production and sale of tin produced in Peru.
- Production and sale of gold produced in Peru (segment which started production in January 2013).

No other operating segment has been added to be part of the operating segments described above.

Management monitors profits before taxes separately per each business unit to make the decisions on the allocation of resources and the assessment of financial yield. The financial yield of a segment is assessed on the basis of profits before income tax and is measured consistently with profits before income tax in the separate profit and loss statement.

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As of December 31, 2016

As of December 31, 2016	Tin (Peru) US\$(000)	Gold (Peru) US\$(000)	Others non allocable US\$(000)	Total US\$(000)
Results:				
Sales	360,348	132,883	-	493,231
Embedded Derivative	216	-	-	216
Hedge	(4,247)	450	-	(3,797)
Cost of Sales	(172,807)	(60,715)	-	(233,522)
Other Operating Income	(483)	-	-	(483)
Gross Margin	<u>183,027</u>	<u>72,618</u>	<u>-</u>	<u>255,645</u>
Administrative Expenses	(20,553)	(7,221)	-	(27,774)
Selling expenses	(3,893)	(162)	-	(4,055)
Exploration expenses	(14,969)	(151)	-	(15,120)
Other expenses, net	(3,820)	(1,342)	-	(5,162)
Operating income	<u>139,792</u>	<u>63,742</u>	<u>-</u>	<u>203,534</u>
Profit before income tax	-	-	148,270	148,270
Income Tax	-	-	(58,771)	(58,771)
Net Profit	<u>-</u>	<u>-</u>	<u>89,499</u>	<u>89,499</u>
Other disclosures:				
Additions of fixed assets and intangibles	20,531	7,289	2,012	29,832
Depreciation and amortization (included in costs and expenses)	(14,967)	(27,351)	(969)	(43,287)
Operating activities	-	-	161,092	161,092
Investing activities	-	-	(202,743)	(202,743)

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As of December 31, 2016

As of December 31, 2015	Tin (Peru) US\$(000)	Gold (Peru) US\$(000)	Others non allocable US\$(000)	Total US\$(000)
Results:				
Sales	346,994	140,040	-	487,034
Embedded Derivative	295	-	-	295
Cost of Sales	(206,877)	(71,783)	-	(278,660)
Other operational cost	(19)	-	-	(19)
Gross Margin	<u>140,393</u>	<u>68,257</u>	<u>-</u>	<u>208,650</u>
Administrative Expenses	(21,432)	(7,436)	-	(28,868)
Selling expenses	(6,198)	(101)	-	(6,299)
Exploration expenses	(25,822)	(451)	-	(26,273)
Other expenses, net	(3,619)	(1,256)	-	(4,875)
Operating income	<u>83,322</u>	<u>59,013</u>	<u>-</u>	<u>142,335</u>
Profit before income tax	-	-	(372,169)	(372,169)
Income Tax	-	-	(49,661)	(49,661)
Loss for the year	<u>-</u>	<u>-</u>	<u>(421,830)</u>	<u>(421,830)</u>
Other disclosures:				
Additions of fixed assets and intangibles	25,150	7,064	-	32,214
Depreciation and amortization (included in costs and expenses)	(30,390)	(34,249)	-	(64,639)
Operating activities	-	-	108,159	108,159
Investing activities	-	-	(63,878)	(63,878)

31. Derivative Financial Instruments

a) *Embedded derivatives for sale of tin:*

Sale of tin produced in Peru is based in trading contracts, according to which a provisional value is allocated, which is then adjusted to a final settlement is based on a future cotizaci3nones (forward).

Embedded Derivatives held as of December 31, 2016 and 2015:

Metal	Quantity	Quotations period	Period		Fair Value US\$(000)
			Provisional US\$(000)	Futures US\$(000)	
As of 31 December 2016					
Ore Sale					
Tin	1,080 TM	Enero / Febrero 2017	23,371	23,324	(47)
Total net liability					(47)
As of 31 December 2015					
Ore Sale					
Tin	2,138 MT	January 2016	32,509	32,246	(263)
Total net liability					(263)

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b) Hedging:

In order to hedge the risk of volatility in the gold price, which was manifested in the last months 2016, the Company has decided to coverage the sale of this mineral, by hiring collar options at zero cost to cover the future price sales of 24,000 ounces of gold from July to December 2016 (4,000 ounces per month). Collars set a base price of US\$1,250/oz and a roof of US\$1,420/oz.

Additionally, the Company contracted hedges in tin using collar options at zero cost by 3,200 tons from September to December 2016 (800 tons per month). There were 5 collar options programs with priced floor of US\$17,000/t and roof of US\$19,300/t (900t), US\$19,050/t (600t), US\$19,112/t (200t), US \$ 19,229/t (1,052t) and US\$19,500/t (448t).

As of December 31, 2016, the effect on results for these options was a loss of US\$4,247,000 for tin hedge and a gain of US \$ 450,000 for the gold equivalent. See note 30.

At year-end 2016, the Company does not have hedging instruments.