# Notes to interim consolidated financial statements

As of June 30, 2020, and December 31, 2019

## 1. Corporate information

(a) Identification -

Minsur S.A. (hereinafter "the Company") was incorporated in Peru in October 1977. The activities of the Company are regulated by the Peruvian General Mining Law. The Company is a subsidiary of Breca Minería S.A.C. domiciled in Peru, which holds 99.99 percent of the Company's common shares and 6.31 percent of its investment shares. The Company's registered address is Jirón Giovanni Batista Lorenzo Bernini 149, Office 501A, San Borja, Lima, Peru.

(b) Business activity -

The main activity of the Company is the production and selling of metallic tin that it is obtained from the mineral exploited in the San Rafael Mine, located in the region of Puno, and the production and selling of gold that is obtained of Pucamarca mine, located in the region of Tacna.

Through its subsidiary Minera Latinoamericana S.A.C., the Company has investments in Mineração Taboca S.A. and subsidiary (which operate the tin mine and a smelting plant located in Brazil), in Inversiones Cordillera del Sur Ltda. and subsidiaries (holding of shares of a group mainly dedicated to the production and selling of cement in Chile) and in Minera Andes del Sur S.P.A. and subsidiary (a Chilean company engaged in mining exploration activities).

In addition, through its subsidiary Cumbres Andinas S.A.C., the Company holds shares in Marcobre S.A.C., a mining company that is in the execution and construction stage of the Mina Justa copper mining project.

Likewise, through its subsidiary Cumbres del Sur S.A.C., the Company holds investments in Minera Sillustani S.A.C. and Compañía Minera Barbastro S.A.C., mining companies that are in the stage of exploration and evaluation of mineral resources.

As of June 30, 2020 and 2019, the Group through its subsidiary Marcobre S.A.C. is developing the Mina Justa copper mining project, located in the Nazca province, Ica region, whose estimated investment amounts to US $ 1.6 trillion and it is estimated that it will have an average annual production during the first 10 years of 181,000 dry tons of copper concentrate and 51,500 tons of copper cathodes, which is expected to be achieved during the year 2021. As of June 30, 2020, the Group made disbursements for approximately US$1,114,957,000 (US$924,090,000 as of December 31, 2019) through of the subsidiary Marcobre, which were mainly for the execution and construction phase of the project.

The construction of the project has been financed with the contributions of the shareholders and through a syndicated loan from a group of financial institutions up to an amount of US$900,000,000. The administration and supervision of the project has been commissioned to Ausenco S.A., an entity that is in charge of Engineering, Procurement, Construction Management (EPCM) according to the contract signed on November 7, 2017, which will be in force until the completion of the Mina Justa project. Management expects to be able to start production in the second quarter of 2021, subject to obtaining the necessary authorizations and environmental approvals.

(c) Sale of minority interest in Cumbres Andinas S.A.C.

At the General Shareholders' Meeting of the Company dated April 23, 2018, the sale of 40 percent of the shares of Cumbres Andinas S.A.C. to Inversiones Alxar S.A. was approved for a sale price of approximately US$182,397,000, whose closing was completed on May 31, 2018.

(d) Consolidated financial statements –

| **The consolidated financial statements include the financial statements of the Company and its subsidiaries (together, the Group):** | **Equity interest** | | | |
|---|---|---|---|---|
| | **June 30, 2020** | | **December 31, 2019** | |
| | **Direct** % | **Indirect** % | **Direct** % | **Indirect** % |
| **Subsidiaries in Chile:** | | | | |
| Minera Andes del Sur SPA | - | 100.00 | - | 100.00 |
| Tarianta SPA | - | 90.00 | - | 90.00 |
| **Subsidiaries in Brazil:** | | | | |
| Mineração Taboca S.A. | - | 100.00 | - | 100.00 |
| Mamoré Mineração e Metalurgia Ltda. | - | 100.00 | - | 100.00 |
| **Subsidiaries in Perú:** | | | | |
| Minera Latinoamericana S.A.C. | 99.99 | - | 99.99 | - |
| Cumbres Andinas S.A.C. | 60.00 | - | 60.00 | - |
| Cumbres del Sur S.A.C. | 99.98 | - | 99.98 | - |
| Compañía Minera Barbastro S.A.C. | - | 99.99 | - | 99.99 |
| Minera Sillustani S.A.C. | - | 99.99 | - | 99.99 |
| Marcobre S.A.C. | - | 60.00 | - | 60.00 |

A summary of the business activities of the entities included in the consolidated financial statements is presented below:

- Minera Andes del Sur SPA. -
  The corporate purpose of this subsidiary is the exploration and exploitation of mining properties that are acquired or obtained and that facilitate or allow the exploitation of the mineral substances contained them.

- Tarianta SPA. –
  The corporate purpose of this subsidiary is the development of mining exploration activities in Chile, as well as the development of mining projects and other related activities.

- Mineração Taboca S.A. -
  This mining entity is engaged in the exploitation of the Pitinga mine, located in the northeast region in the Amazonas state, in the Federative Republic of Brazil. This mine has mainly resources of tin, as well as other minerals. Taboca also operates the Pirapora smelter located in Sao Paulo.

- Mamoré Mineração e Metalurgia Ltda. -
  This subsidiary is engaged in the operation of the smelting plant of Pirapora, in Sao Paulo, Brazil.

- Minera Latinoamericana S.A.C. -
  Through this subsidiary, the Company has investments in Mineração Taboca S.A. and its subsidiary, as well as in Inversiones Cordillera del Sur Ltda. and its subsidiaries and in Minera Andes del Sur S.P.A.

- Cumbres Andinas S.A.C. -

Currently, the activity of this subsidiary is limited to holding 100 percent of shares of the mining company Marcobre S.A.C. mining company that is in the construction stage.

- Marcobre S.A.C. -

  This subsidiary is engaged in the development of mining activities in Peru, being able to execute and subscribe agreements related to such activity, by its own or through third parties. Currently, its activities are mainly focused in the development of its copper project' Mina Justa, which is in construction stage and its located approximately at 400 kilometers to the southeast of Lima, Ica Region.

- Cumbres del Sur S.A.C. -

  The purpose of this subsidiary is the exploration and exploitation of mining rights and, in general, any other activities directly or indirectly included in the mining activity. Currently, the activities of this subsidiary are limited to investment in mining companies in the exploration stage (Minera Sillustani S.A.C. and Compañía Minera Barbastro S.A.C.).

- Compañía Minera Barbastro S.A.C. -

  The purpose of this subsidiary is the exploration and exploitation of mining rights. Currently, it is engaged in the development of Marta mining unit, located in Tinyacclla, district of Huando, in the Huancavelica's region.

- Minera Sillustani S.A.C. -

  The purpose of this subsidiary is the exploration of mining concessions and quarries, and in the development of mining projects of tungsten Palca 11 and Hacienda de Beneficio Rocio 2, located in San Antonio de Putina, Puno's region. Currently, it is mainly engaged in the rehabilitation and remediation of mining projects of Regina mining unit in Puno.

(e) COVID 19 –

**Subsidiaries in Peru**

In mid-March 2020, the Peruvian government declared a state of emergency at the national level followed by compulsory social immobilization with the specification of containing the COVID-19 outbreak in the country, thus establishing the closure of shops and companies with the exception of activities considered essential.

As a result of these provisions imposed by the government and in the well-being of the collaborators, from mid-March 2020 to early May 2020, the Group temporarily halted its production activities at the San Rafael Mining Units, B2 and the Pisco Refinery and Smelter, exploration activities, and construction activities of its Mina Justa project. Consequently, only critical maintenance activities were carried out, those necessary to guarantee the safety and health of the personnel and those related to caring for the environment.

In accordance with government regulations, our operations gradually restarted productive activities during the first weeks of May, beginning with the implementation of protocols and tests and then mobilizing personnel and having a ramp-up period to progressively reach normal capacity of production. Likewise, the construction activities of the Mina Justa Project were restarted. All operations are complying with the established protocols to work safely and take care of the health of all our collaborators

**Subsidiaries in Brazil**

At the beginning of April, aware of its social role, the Group took measures to protect and safeguard the health of its employees, in accordance with the recommendations of the WHO and the Ministry of Health, deciding to suspend activities in the Pitinga and Pirapora units.

After the implementation of new health and safety protocols, which ensure the well-being of employees, the Group decided to progressively resume its operations at the beginning of May 2020 of its mining units in Brazil.

Consequently, due to the temporary lockdown of operations and the progressive restart of operations, at the end of June 2020, the Group obtained a lower production of treated tons of tin, generating indirect fixed costs not absorbed by production (see note 19).

(f) Approval of consolidated financial statements –

The interim condensed consolidated financial statements as of June 30, 2020 were approved for issuance by the Group's Management on August 14, 2020.

## 2. Basis of preparation and accounting policies

2.1. Basis of preparation -

The condensed interim consolidated financial statements of the Group have been prepared and established in accordance with IAS 34 - Interim Financial Information issued by the International Accounting Standards Board (hereinafter "IASB").

The condensed interim consolidated financial statements have been prepared on a historical cost basis, except for the trade accounts receivable, the financial assets at fair value through profit or loss, the financial assets at fair value through OCI and derivative financial instruments, which have been measured at fair value.

The condensed interim consolidated financial statements are presented in United States Dollars (US$) and all values have been rounded to the nearest thousands, except when otherwise indicated.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements.

2.2 Basis of consolidation -

The condensed interim consolidated financial statements comprise the financial statements of the Company and its subsidiaries at the date of the consolidated statement financial position.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Usually, there is a presumption that a majority of voting rights results in control. Support this presumption and when the Group has less than a majority of the voting, or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. Where the Group's interest is less than 100 percent, the interest attributable to outside shareholders is reflected in non-controlling interests (here in after NCI).

The consolidated statement of profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the NCI, even if this result in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial separate statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All assets and liabilities, equity, income, expenses and cash flows related to transactions between the parties of the Group are totally eliminated in the consolidation. A change in the participation of a subsidiary without loss of control is accounted for as an equity transaction.

If the Group losses control over a subsidiary it derecognizes the related assets and liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in the consolidated statement of profit or loss. Any investment retained is recognized at fair value.

2.3 Change in accounting policies and disclosure –

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with the policies considered in the preparation of the Group's annual consolidated financial statements as of December 31, 2019. The following are the standards and interpretations applicable to the Group transactions that entered into force on January 1, 2020.

Amendments to IFRS 3: Definition of a business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together contribute significantly to the ability to create output. In addition, he clarified that a company can exist without including all the inputs and processes necessary to create outputs. These modifications did not have an impact on the Group's interim condensed consolidated financial statements but may affect future periods of the Group performing any business combination.

Modifications to IAS 1 and IAS 8: Definition of material

In October 2018, the IASB issued amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" to align the definition of "material" between the standards and to clarify certain aspects. of the definition. The new definition states that "the information is material if omitting, misstating, or concealing it could be expected to reasonably influence decisions that the primary users of general-purpose financial statements rely on those financial statements, which provide financial information about an entity specific informant". The amendments to the definition of "material" are not expected to have a significant impact on the Group's condensed interim consolidated financial statements.

Conceptual framework for financial information issued on March 29, 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard, and to help all parties understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities, and clarifies some important concepts. These modifications had no impact on the Group's condensed interim consolidated financial statements.

The group has not early adopted any standard, interpretation or modification that has been issued but is not yet in force.

## 3. Cash and cash equivalents

(a) The composition of this caption is presented below:

| | As of June 30, 2020 | As of December 31,2019 |
|---|---|---|
| | US$(000) | US$(000) |
| Cash on hand and petty cash | 18 | 18 |
| Bank current accounts (b) | 147,729 | 14,370 |
| Overnight deposits (c) | 76,444 | 42,324 |
| Time deposits (d) | 74,510 | 75,686 |
| Certificates of bank deposits (e) | 2,425 | 787 |
| Balance considered in the consolidated statements of cash flow | 301,126 | 133,185 |

(b) As of June 30, 2020, and December 31, 2019 the Group maintains its cash demand deposits in local and foreign banks of first level and are freely available and generate interest at market rates.

(c) Overnight deposits are one day deposits in a foreign bank, which earn effective market rates.

(d) Time deposits have original maturities of less than 90 days and can be renewed at maturity. As of June 30, 2020, and December 31, 2019, these deposits earned interest at market interest rates, and were settled in January 2020 and July 2020, respectively.

(e) As of June 30, 2020, correspond to bank deposit certificates-CDB's maintained by Mineração Taboca S.A. for R$13,172,000 (equivalent to US$2,425,000), with original maturities of less than 90 days , (R$3,160,000, equivalent to US$786,000, as of December 31, 2019).

## 4. Other financial assets

(a) The composition of this caption is presented below:

| | As of June 30, 2020 | As of December 31,2019 |
|---|---|---|
| | US$(000) | US$(000) |
| Time deposits with original maturities greater than 90 days | 60,576 | 212,686 |
| Financial assets with changes in other comprehensive income (b) | 23,961 | 110,693 |
| Derivative financial instruments (c) | 1,039 | 6,489 |
| | 85,576 | 329,868 |
| **By nature:** | | |
| Financial Asset | 82,170 | 324,247 |
| Non-Financial Asset | 3,406 | 5,621 |
| **Total** | 85,576 | 329,868 |

(b) The available-for-sale financial investments include the following:

| | As of June 30, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Cost | Acquisition | Unrealized results | Past due interest | Dividends | Sale of the investment | Fair Value |
| | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) |
| Commercial papers | 58,778 | 155,416 | 19 | 3,287 | - | (217,500) | - |
| Certificates of deposit | 40,000 | - | - | 847 | - | (40,847) | - |
| Rímac Seguros y Reaseguros | 21,070 | - | (1,101) | - | 746 | - | 20,715 |
| BBVA Spain (*) | 14,845 | - | (12,102) | - | 503 | - | 3,246 |
| **Total** | 134,693 | 155,416 | (13,184) | 4,134 | 1,249 | (258,347) | 23,961 |

| | As of December 31,2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Cost** | **Acquisition** | **Unrealized results** | **Past due interest** | **Dividends** | **Sale of the investment** | **Fair Value** |
| | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) |
| Commercial papers | 58,778 | 155,416 | 19 | 3,246 | - | (136,000) | 81,459 |
| Certificates of deposit | 40,000 | - | - | 847 | - | (40,847) | - |
| Rímac Seguros y Reaseguros | 21,070 | - | 2,140 | - | 746 | - | 23,956 |
| BBVA Spain (*) | 14,845 | - | (10,070) | - | 503 | - | 5,278 |
| **Total** | 134,693 | 155,416 | (7,911) | 4,093 | 1,249 | (176,847) | 110,693 |

(*) Other financial assets classified as non-current portion.

- The fair value of commercial papers was estimated based on discounted cash flows using available market rates for debt instruments of similar conditions, maturity, and credit risk.

- As of June 30, 2020, and December 31, 2019, the fair value of the investments in Rimac Seguros y Reaseguros has been determined based on its listing on the Lima Stock Exchange.

- During the first 6 months ended June 30, 2020, the group has received cash dividends of US$132,000 from investments in BBVA de España recognized in the Company's condensed consolidated income statement as financial income. During 2019, the Company received US$959,000 in cash dividends, which were paid to the results of the period.

- During the first 6 months ended June 30, 2020, the Group has not received dividends in shares. During 2019, the Company received dividends in shares of US$746,000.

- The movement of available-for-sale financial investments is presented below:

| | As of June 30, 2020 | As of December 31,2019 |
|---|---|---|
| | US$(000) | US$(000) |
| **Openning balance** | 110,693 | 125,578 |
| New Investments | - | 155,416 |
| Earned interest of deposit certificates | 60 | 2,661 |
| Unrealized results | (5,292) | 3,885 |
| Liquidations of deposit certificates | (81,500) | (176,847) |
| **Ending balance** | 23,961 | 110,693 |
| | | |
| **By maturity:** | | |
| Current portion | 20,715 | 105,415 |
| Non-current portion | 3,246 | 5,278 |
| **Total** | 23,961 | 110,693 |

c) As of June 30, 2020, there are assets for metal financial derivatives in Taboca Subsidiary amounting to US$879,000 (US$6,461,000 as of December 31, 2019) and US$160,000 for interest rate financial derivatives in the Marcobre Subsidiary. As of December 31, 2019, the Company had a balance for a foreign currency forward for an ascending value of US$27,000, which was presented under the heading of "Other financial assets" current portion.

## 5. Trade and other receivables, net

(a) The composition of this caption is presented below:

| | As of June 30, 2020 | As of December 31,2019 |
|---|---|---|
| | US$(000) | US$(000) |
| **Trade:** | | |
| Invoices receivable | 41,856 | 56,592 |
| Changes in the fair value | 424 | 636 |
| | 42,280 | 57,228 |
| **Other receivables:** | | |
| Value added tax credit and other tax credits (c) | 136,556 | 176,173 |
| Related parties, note 31(a) | 2,957 | 3,334 |
| Invoices receivable for the sale of other supplies and fixed assets | 1,775 | 3,942 |
| Judicial deposits (d) | 1,174 | 1,593 |
| Advances to suppliers | 908 | 1,444 |
| Interest receivable | 586 | 4,405 |
| Loans to employees | 153 | 347 |
| Restricted funds | 78 | 84 |
| Others | 2,238 | 946 |
| | 146,425 | 192,268 |
| **Total** | 188,705 | 249,496 |
| **By maturity:** | | |
| Current | 110,714 | 168,885 |
| Non Current | 77,991 | 80,611 |
| **Total** | 188,705 | 249,496 |

(b) As of June 30, 2020, and December 31, 2019, trade accounts receivable does not bear interest and do not have specific guarantees. In the estimation process of expected credit losses, Management evaluates credit risk and individual credit limits. The evaluation is performed at each reporting date using an estimation matrix to measure the expected credit losses.

(c) As of June 30, 2020, and December 31, 2019, this caption mainly corresponds to the credit for the value added tax (hereinafter "VAT") that results from purchases of goods and services resulting from the activities of exploration and development carried out by the subsidiaries in Peru and Brazil (CompañiaMinera Barbastro S.A.C., Marcobre S.A.C. and Mineração Taboca S.A.) that will be offset with the VAT payable that will be generated when the subsidiaries begin their operations.

Likewise, during the first semester of 2020, the Sillustani subsidiary, product of the evaluation of the recoverability of the tax credit for general sales tax, punished the amount of US$143,000 (equivalent to S/488,000). During 2019, the penalty was for the amount of US$729,000 (equivalent to S/2,432,000).

In the opinion of Management, this loan will be recovered in the short term (through the Early Recovery System of the VAT) and in the long term, when the other subsidiaries begin their production operations.

(d) As of June 30, 2020, and December 31, 2019, it corresponds to the judicial deposits held by the subsidiary Mineração Taboca S.A. corresponding to processes that when liquidated through the financing of debts to the tax administration of Brazil (REFIS) and when its expects the development of the review initiated in 2014 by the Federal Revenue Secretariat of Brazil and the Attorney General's Office and the National Treasury of Brazil, to request the release and consequent lifting of the amounts deposited, during the year 2019 the Subsidiary get the release of US$5,020,000 was made.

(e) As of June 30, 2020, and December 31, 2019, they mainly correspond to interest receivable related to time deposits.

## 6. Inventory, net

(a) The composition of this caption is presented below:

| | As of June 30, 2020 | As of December 31,2019 |
|---|---|---|
| | US$(000) | US$(000) |
| Finished products | 15,857 | 27,642 |
| Work in progress (b) | 66,846 | 57,813 |
| Materials and supplies | 38,858 | 41,989 |
| Mineral extracted | 2,751 | 3,455 |
| Inventory in transit | 83 | 4,884 |
| | 124,395 | 135,783 |
| Impairment loss of inventories (c) | - | (1,006) |
| Allowance for obsolescence (d) | (3,330) | (3,755) |
| | 121,065 | 131,022 |
| **By maturity:** | | |
| Current | 92,050 | 117,638 |
| Non Current | 29,015 | 13,384 |
| **Total** | 121,065 | 131,022 |

(b) As of June 30, 2020, and December 31, 2019, the products in process was made up as follows:

| | As of June 30, 2020 | As of December 31,2019 |
|---|---|---|
| | US$(000) | US$(000) |
| **Products in tin process - Taboca** | | |
| Sintering | 10,145 | 8,172 |
| Tin concentrate flotation | 214 | 212 |
| Gravimetric tin concentrate | 234 | 201 |
| Others | 3,655 | 2,293 |
| | 14,248 | 10,878 |
| **Products in gold process - Minsur** | | |
| Refined in process | 605 | 1,847 |
| Adsorption tanks | 1,429 | 1,236 |
| Leaching PAD – armed cell | 4,538 | 5,349 |
| Dore bar | 5 | 1,733 |
| Broken mineral in charge | 3,857 | 4,044 |
| Others | 33 | 123 |
| | 10,467 | 14,332 |
| **Products in tin process - Minsur** | | |
| Gravimetric tin concentrate | 3,305 | 6,044 |
| Metal in process | 1,369 | 2,297 |
| Dross | 2,246 | 2,100 |
| Tin concentrate flotation | 766 | 3,283 |
| Bag House Powder | 1,437 | 1,001 |
| Metal MH iron | 1,666 | 161 |
| Others | 842 | 1,139 |
| | 11,631 | 16,025 |
| **Products in process of Fe, Nb and Ta - Taboca** | | |
| Metallurgy | 1,100 | 3,015 |

| | | |
|---|---|---|
| Flotation of Niobates | 387 | 179 |
| | 1,487 | 3,194 |
| | | |
| **Products in tin process - Marcobre** | | |
| Mined material | 29,013 | 13,384 |
| | 29,013 | 13,384 |
| | 66,846 | 57,813 |

The products in process (tin, gold, iron, niobio and tantalum and mined material) present the following characteristics:

*i.* *Tin -*

Operations in Peru:

The crude tin produced in the foundry contains impurities such as iron, copper, arsenic, antimony, lead, bismuth and indium. These impurities are removed sequentially, through a pyro-metallurgical process, in cast iron pots of 50 tons capacity, taking advantage of their different physicochemical properties, until obtaining refined tin with 99.94 percent of purity and a maximum of 0.02 percent of lead, which is then molded into ingots and other presentations.

Operations in Brazil:

Conformed by cassiterite and columbite that will later be concentrated using systems of jigs, spirals, tables, electrostatic separators, also by the concentrate of gravimetric tin and by flotation, which contain tin extracted from the inside mine. These materials are available to follow the following processes of tin recovery, which basically consist of the smelting and refining process.

*ii.* *Gold -*

Corresponds to the mineral placed on the leach deposits, which contain the ore that has been extracted from the pit and that are available to follow the gold recovery processes. In the deposits of leached mineral the recovery is carried out through its exposure to the solution of sodium cyanide that dissolves the gold and whose solution is sent to the plant of the extraction process.

*iii.* Iron, Niobium and Tantalum -

The alloy of Iron Niobium and Tantalum (FeNbTa) is a metallic alloy of Niobium and Tantalum combined in a matrix of Ferro-Oxygen-Silicon, resulting from the melting of the minerals of columbite and pyrochlore, extracted from the Pitinga Mine.

*iv.* *Mined material -*

It corresponds to the marketable mined material extracted as part of the stripping activities in the open pit under construction of the Mina Justa Unit. The subsidiary expects to process this material from 2021 once commercial operations begin.

(c) The estimation for impairment loss of finished products and products in process had the following movement as of June 30, 2020 and December 31, 2019:

| | **As of June 30, 2020** | **As of December 31,2019** |
|---|---|---|
| | US$(000) | US$(000) |
| **Openning balance** | 1,006 | 1,620 |
| Estimation of the period | - | 182 |
| Recovery from devaluation | (937) | (771) |
| Translation difference | (69) | (25) |
| **Ending balance** | - | 1,006 |

(d) The allowance for obsolescence of materials and supplies had the following movement as of June 30, 2020 and December 31, 2019:

| | As of June 30, 2020 | As of December 31,2019 |
|---|---|---|
| | US$(000) | US$(000) |
| **Openning balance** | 3,755 | 4,017 |
| Allowance of the period, note 19 | 105 | 758 |
| Destruction of obsolete goods from previous years | - | (958) |
| Translation difference | (530) | (62) |
| **Ending balance** | 3,330 | 3,755 |

In the opinion of management of the Group, the balance of the estimate for obsolescence and impairment is sufficient to adequately cover the risks of this item at the date of the condensed consolidated statement of financial position, so that the book value does not exceed the net realizable value.

## 7. Investments in associates

(a) This caption is made up as follows:

| | Interest in equity | | Equity value | |
|---|---|---|---|---|
| | As of June 30, 2020 | As of December 31,2019 | As of June 30, 2020 | As of December 31,2019 |
| | % | % | US$(000) | US$(000) |
| Inversiones Cordillera del Sur Ltda. and subsidiaries (c) | 73.85 | 73.85 | 235,254 | 252,089 |
| Futura Consorcio Inmobiliario S.A (c) | 3.31 | 3.31 | 3,491 | 3,528 |
| Explosivos S.A. (c) | - | 7.3 | - | 7,564 |
| | | | 238,745 | 263,181 |

The Group has recognized its investment in Futura Consorcio Inmobiliario S.A., as an investment in associates considering that it is operated by the same economic group.

(b) The net share of the profits (losses) of its associated companies is as follows:

| | As of June 30, 2020 | As of June 30,2019 |
|---|---|---|
| | US$(000) | US$(000) |
| Inversiones Cordillera del Sur Ltda. and subsidiariaes | 838 | 1,154 |
| Explosivos S.A. | 264 | (370) |
| Futura Consorcio Inmobiliario S.A. | 89 | (4) |
| **Total** | 1,191 | 780 |

During February 2020, the Breca Group, the Company's parent company, signed a purchase agreement by which it would transfer a large part of its representative shares to Orica Mining Service Peru S.A., with Minsur holding 7.30% of the total of said shares.

The sale of these shares was carried out through an over-the-counter operation at a sale price of US$2.55 per share, the closing of which was completed on April 30, 2020. As a consequence of this operation, the Company has recognized in the condensed consolidated statement of results a profit of US$997,000. Said result is included in the captions of other operating income for US$8,355,000 and other operating expenses for US$7,358,000.

(c) As of June 30, 2020, and December 31, 2019, the group concluded that there are no indications of impairment for its investments in associates, therefore, it did not make a formal estimate of the recoverable amount.

## 8. Property, plant and equipment, net

(a) The composition and movement of this caption as of June 30, 2020 and December 31, 2019:

| | Balance as of January 1, 2020 | Additions | Disposals (d) | Reclassifications | Translation | Translating adjustment | Balance as of June 30, 2020 |
|---|---|---|---|---|---|---|---|
| | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) |
| **Cost -** | | | | | | | |
| Land | 23,001 | - | - | - | - | (284) | 22,717 |
| Buildings and installations | 667,118 | - | - | - | 6,313 | (35,286) | 638,145 |
| Machinery and equipment | 608,751 | (143) | (130) | - | 9,089 | (34,505) | 583,062 |
| Furniture, fixtures, computer equipments, communication and security equipments | 13,916 | - | - | - | 48 | (1,067) | 12,897 |
| Vehicles | 10,749 | - | (155) | - | 205 | (1,878) | 8,921 |
| Work in progress (c) | 861,860 | 170,779 | - | (521) | (15,690) | (5,717) | 1,010,711 |
| Mine closure costs | 133,690 | (4,655) | - | - | - | (10,978) | 118,057 |
| | 2,319,085 | 165,981 | (285) | (521) | (35) | (89,715) | 2,394,510 |
| **Accumulated Depreciation -** | | | | | | | |
| Buildings and installations | 320,427 | 17,158 | - | - | - | (7,482) | 330,103 |
| Machinery and equipment | 317,744 | 23,436 | (90) | - | - | (21,864) | 319,226 |
| Furniture, fixtures, computer equipments, communication and security equipments | 10,677 | 472 | - | - | - | (798) | 10,351 |
| Vehicles | 6,266 | 428 | (139) | - | - | (1,002) | 5,553 |
| Mine closure costs | 48,830 | 2,349 | - | - | - | (822) | 50,357 |
| | 703,944 | 43,843 | (229) | - | - | (31,968) | 715,590 |
| Impairment loss of Property, plant and equipment (f) | (46,922) | - | - | - | - | 12,172 | (34,750) |
| **Net cost** | 1,568,219 | 122,138 | (56) | (521) | (35) | (45,575) | 1,644,170 |

| | Balance as of January 1, 2019 | Additions | Disposals (d) | Reclassifications | Transfers | Translating adjustment | Balance as of December 31, 2019 |
|---|---|---|---|---|---|---|---|
| | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) |
| **Cost -** | | | | | | | |
| Land | 23,043 | - | - | - | - | (42) | 23,001 |
| Buildings and installations | 546,964 | 1,902 | (1,036) | 2,621 | 121,151 | (4,484) | 667,118 |
| Machinery and equipment | 417,877 | 1,637 | (3,678) | - | 197,725 | (4,810) | 608,751 |
| Furniture, fixtures, computer equipments, communication and security equipments | 12,924 | 48 | (68) | - | 1,157 | (145) | 13,916 |
| Vehicles | 10,701 | 1,575 | (2,306) | - | 1,042 | (263) | 10,749 |
| Work in progress (c) | 387,209 | 800,603 | (93) | (3,777) | (321,075) | (1,007) | 861,860 |
| Mine closure costs | 87,309 | 47,743 | - | - | - | (1,362) | 133,690 |
| | 1,486,027 | 853,508 | (7,181) | (1,156) | - | (12,113) | 2,319,085 |
| **Accumulated Depreciation -** | | | | | | | |
| Buildings and installations | 281,050 | 40,785 | (457) | - | - | (951) | 320,427 |
| Machinery and equipment | 287,893 | 34,563 | (1,737) | - | - | (2,975) | 317,744 |
| Furniture, fixtures, computer equipments, communication and security equipments | 9,923 | 899 | (37) | - | - | (108) | 10,677 |
| Vehicles | 7,394 | 736 | (1,718) | - | - | (146) | 6,266 |
| Mine closure costs | 42,343 | 6,586 | - | - | - | (99) | 48,830 |
| | 628,603 | 83,569 | (3,949) | - | - | (4,279) | 703,944 |
| Impairment loss of Property, plant and equipment (f) | (56,924) | | 8,150 | | | 1,852 | (46,922) |
| **Net cost** | 800,500 | | | | - | | 1,568,219 |

(b) The depreciation expense has been distributed in the consolidated statements of profit or loss as follows:

| | As of June 30, 2020<br>US$(000) | As of June 30,2019<br>US$(000) |
|---|---|---|
| Cost of sales, note 19 | 26,641 | 34,455 |
| Development cost | 9,096 | 3,398 |
| Unabsorbed costs, note 19 | 7,161 | - |
| Administration expenses | 818 | 404 |
| Exploration and evaluation expenses | 66 | 53 |
| Selling expenses | 5 | 5 |
| Other expenses | 56 | 89 |
| | 43,843 | 38,404 |

(c) As of June 30, 2020, and December 31, 2019, the balance of work in progress includes mainly the following items:

| | As of June 30, 2020<br>US$(000) | As of December 31,2019<br>US$(000) |
|---|---|---|
| Engineering and construction management of the Mina Justa Project - Marcobre | 925,485 | 781,576 |
| Project - B2 (level 4480 and 4475) – Minsur | 42,361 | 40,558 |
| Quick Wins Project - Taboca | 4,386 | 5,065 |
| Regrowth of B3 tailings dam - Minsur | 3,856 | 1,093 |
| Emergency adaptation of dams - Taboca | 3,411 | 3,428 |
| Plant Treatment Increase 3200 tpd | 2,750 | 2,336 |
| Acquisition of LAVRA equipment - Line - Taboca | 2,383 | 1,149 |
| Yellow Line Equipment Acquisition | 1,377 | |
| Leach pad - new barren line - Minsur | 1,368 | 675 |
| Metallurgical trench construction | 1,365 | 1,368 |
| Waterproofing of massive UHE 01 - Taboca | 1,249 | 1,208 |
| Emergency adaptation of raw materials - Taboca | 870 | 985 |
| Pitinga Project - Taboca | 832 | 648 |
| Fence Construction - Taboca | 738 | 996 |
| Concentrator spiral exchange | 633 | 854 |
| Oven No. 11 and No. 12 - Taboca | 576 | 778 |
| Adquisition of equipment Simba T1D | 480 | - |
| Reinforcement of dams A and C - Taboca | 404 | 536 |
| Implementation of the Dispatch Project | 393 | - |
| Reinforcement Lagoons | 392 | - |
| "Rio Azufre" Water Plant - Minsur | 261 | 309 |
| Redesign Feeders and other equipment | 227 | - |
| Scoop team | - | 595 |
| Ventilation System "Cyndhi 39502 - Minsur | - | 147 |
| Others | 14,914 | 17,556 |
| | 1,010,711 | 861,860 |

(d) As of June 30, 2020, and December 31, 2019, this item mainly corresponds to the disposal of different components of the machinery and equipment items due to the replacement of components and the write-off of missing assets of the Group.

(e) Evaluation of deterioration of mining units -

In accordance with the Group's policies and procedures, each asset or cash generating unit (CGU) is evaluated annually at the end of the period, to determine if there are impairment indicators. If there are such indicators of impairment, a formal estimate of the recoverable amount is made.

As of June 30, 2020, and December 31, 2019, the Group concluded that there are no signs of impairment in any of its mining units, therefore, it did not make a formal estimate of the recoverable amount.

## 9. Intangible assets, net

(a) The composition and movement of this caption as of June 30, 2020 and December 31, 2019:

| | Balance as of January 1, 2020 US$(000) | Additions US$(000) | Reclassifications US$(000) | Translating adjustment US$(000) | Balance as of June 30, 2020 US$(000) |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| **Definite useful life** | | | | | |
| Mining concessions and mining rights (d) | 395,515 | 76 | (179) | (18,500) | 376,912 |
| Mine development costs (c) | 219,093 | 57,509 | - | - | 276,602 |
| Connection and easement rights | 6,247 | - | - | - | 6,247 |
| Usufruct of lands | 3,907 | - | - | (34) | 3,873 |
| Remediation asset | 1,133 | - | - | - | 1,133 |
| Licenses | 2,735 | 9 | 35 | (225) | 2,554 |
| | 628,630 | 57,594 | (144) | (18,759) | 667,321 |
| **Accumulated amortization:** | | | | | |
| Mining concessions and mining rights | 19,738 | 661 | - | (4,350) | 16,049 |
| Mine development costs | 28,470 | 1,938 | - | - | 30,408 |
| Connection and easement rights | 2,751 | 110 | - | - | 2,861 |
| Usufruct of lands | 2,064 | 159 | - | 14 | 2,237 |
| Remediation asset | 1,198 | - | (65) | - | 1,133 |
| Licenses | 989 | 184 | - | (124) | 1,049 |
| | 55,210 | 3,052 | (65) | (4,460) | 53,737 |
| **Net cost** | 573,420 | | | | 613,584 |

| | Balance as of January 1, 2019 US$(000) | Additions US$(000) | Reclassifications US$(000) | Translating adjustment US$(000) | Balance as of December 31, 2019 US$(000) |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| **Definite useful life** | | | | | |
| Mining concessions and mining rights (d) | 397,468 | 611 | - | (2,564) | 395,515 |
| Mine development costs (c) | 120,229 | 95,883 | 2,981 | - | 219,093 |
| Connection and easement rights | 6,117 | 130 | - | - | 6,247 |
| Usufruct of lands | 3,686 | 207 | - | 14 | 3,907 |
| Remediation asset | 1,133 | - | - | - | 1,133 |
| Licenses | 1,911 | 817 | - | 7 | 2,735 |
| | 530,544 | 97,648 | 2,981 | (2,543) | 628,630 |
| **Accumulated amortization:** | | | | | |
| Mining concessions and mining rights | 18,355 | 1,965 | - | (582) | 19,738 |
| Mine development costs | 25,737 | 2,733 | - | - | 28,470 |
| Connection and easement rights | 2,406 | 345 | - | - | 2,751 |
| Usufruct of lands | 1,706 | 352 | - | 6 | 2,064 |
| Remediation asset | 1,250 | 65 | - | (117) | 1,198 |
| Licenses | 648 | 246 | - | 95 | 989 |
| | 50,102 | 5,706 | - | (598) | 55,210 |
| **Net cost** | 480,442 | | | | 573,420 |

(b) The amortization expense has been distributed in the consolidated statements of profit or loss as follows:

| | As of June 30, 2020 | As of June 30,2019 |
|---|---|---|
| | US$(000) | US$(000) |
| Cost of sales, note 19 | 1,971 | 2,592 |
| Exploration expenses and studies | 526 | 74 |
| Unabsorbed costs, note 19 | 458 | - |
| Mine development | 70 | 51 |
| Administration expenses | 27 | 15 |
| | 3,052 | 2,732 |

(c) As of June 30, 2020, and December 31, 2019, additions for development cost mainly comprise the management services of the Mina Justa project and the B2 project

(d) As of June 30, 2020, and December 31, 2019, mining concessions and mining rights are mainly related to the Mineração Taboca S.A. concession and Mina Justa.

## 10. Other non-financial assets

(a) The composition of the item is presented below:

| | As of June 30, 2020 | As of December 31,2019 |
|---|---|---|
| | US$(000) | US$(000) |
| Right-of-use assets, net (b) | 29,295 | 38,020 |
| Services and expenses contracted in advance (c) | 16,979 | 22,449 |
| **Total** | **46,274** | **60,469** |
| | | |
| **By maturity:** | | |
| Current | 6,407 | 5,775 |
| Non Current | 39,867 | 54,694 |
| **Total** | **46,274** | **60,469** |

(b) Right-of-use assets, net

(b.1) The composition and movement of the item is presented below:

| | Balance as of January 1, 2020 | Additions | Disposals | Translating adjustment | Balance as of June 30, 2020 |
|---|---|---|---|---|---|
| | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) |
| **Cost** | | | | | |
| Land and buildings | 17,217 | 36 | - | (302) | 16,951 |
| Machinery and equipment | 49,619 | 4,121 | - | (10,263) | 43,477 |
| Vehicles | 6,588 | 65 | - | - | 6,653 |
| | 73,424 | 4,222 | - | (10,565) | 67,081 |
| **Accumulated Depreciation** | | | | | |
| Land and buildings | 3,616 | 678 | - | (143) | 4,151 |
| Machinery and equipment | 28,525 | 6,961 | - | (6,265) | 29,221 |
| Vehicles | 3,263 | 1,151 | - | - | 4,414 |
| | 35,404 | 8,790 | - | (6,408) | 37,786 |
| **Net cost** | 38,020 | | | | 29,295 |

| | Balance as of January 1, 2019 | Additions | Disposals | Translating adjustment | Balance as of December 31, 2019 |
|---|---|---|---|---|---|
| | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) |
| **Cost** | | | | | |
| Land and buildings | 7,161 | 10,821 | (736) | (29) | 17,217 |
| Machinery and equipment | 40,231 | 10,898 | (233) | (1,277) | 49,619 |
| Vehicles | 2,546 | 4,485 | (443) | - | 6,588 |
| Furniture and fixtures | 85 | - | (85) | - | - |
| | 50,023 | 26,204 | (1,497) | (1,306) | 73,424 |
| **Accumulated Depreciation** | | | | | |
| Land and buildings | 2,241 | 2,125 | (736) | (14) | 3,616 |
| Machinery and equipment | 14,985 | 14,536 | (305) | (691) | 28,525 |
| Vehicles | 1,137 | 2,569 | (443) | - | 3,263 |
| Furniture and fixtures | 13 | - | (13) | - | - |
| | 18,376 | 19,230 | (1,497) | (705) | 35,404 |
| **Net cost** | 31,647 | | | | 38,020 |

(b.2) The depreciation expenses have been distributed in the consolidated statements of profits or loss as follows:

| | As of June 30, 2020 | As of June 30,2019 |
|---|---|---|
| | US$(000) | US$(000) |
| Cost of sales, note 19 | 6,217 | 7,070 |
| Development cost | 1,606 | 1,205 |
| Unabsorbed costs, note 19 | 848 | - |
| Administration expenses | 119 | 270 |
| | 8,790 | 8,545 |

(b.3) There are certain lease agreements that include extension and termination options and variable lease payments, which are not material. The Group maintains certain machinery leases with lease terms of 12 months or less and leases of low-value assets. The Group applies the exceptions and does not recognize the right-of-use assets and the lease liability of these.

(b.4) As of June 30, 2020, as a result of the national state of emergency, there have been no significant changes in the contractual clauses for the lease contracts.

(b.5) Certain leasing contracts ended during the first half of 2020, which are presented as derecognition in the movement of assets for rights in use.

(b.6) The Group's obligations are guaranteed through letters of guarantee delivered to the lessors. Likewise, the contracts do not require the Group to comply with certain financial ratios. Generally, the Group maintains restrictions to assign and sublease the leased assets.

(c) Services and expenses contracted in advance

(c.1) The following is the composition of the item:

| | As of June 30, 2020 | As of December 31,2019 |
|---|---|---|
| | US$ (000) | US$ (000) |
| Financing structuring costs paid in advance of the subsidiary Marcobre | 10,572 | 16,674 |
| Insurance and taxes paid in advance | 6,407 | 5,775 |
| **Total** | 16,979 | 22,449 |

(c.2) The maturity classification is presented below:

| | As of June 30, 2020<br>US$ (000) | As of December 31,2019<br>US$ (000) |
|---|---|---|
| **By maturity:** | | |
| Current portion | 6,407 | 5,775 |
| Non-current portion | 10,572 | 16,674 |
| **Total** | 16,979 | 22,449 |

## 11. Trade and other accounts payables

(a) The composition of this caption is presented below:

| | As of June 30, 2020<br>US$(000) | As of December 31,2019<br>US$(000) |
|---|---|---|
| **Trade payables (b):** | | |
| Third parties | 104,959 | 222,081 |
| Related parties, note 22 | 6,668 | 11,265 |
| | 111,627 | 233,346 |
| **Other accounts payable (b):** | | |
| Interest payable | 21,225 | 23,170 |
| Accounts payable for acquisition of non-controlling (c) | 20,207 | 19,854 |
| Other taxes and contributions payable | 9,045 | 15,189 |
| Accounts payable for options' subscription | 2,844 | 3,419 |
| Accounts payable to rural communities (d) | 829 | 835 |
| Others | 1,373 | 1,201 |
| | 55,523 | 63,668 |
| **Lease liabilities (e)** | | |
| Third parties | 24,042 | 30,941 |
| Related parties, note 22 | 6,851 | 8,722 |
| | 30,893 | 39,663 |
| **Total** | 198,043 | 336,677 |

(b) Trade accounts payable are related to the purchases of material and supplies for the Group operation, and mainly correspond to invoices payable to suppliers. These payable does not bear interest and are normally settled on 30 to 60 days term.

Other payables do not bear interest and have an average due date of 3 months.

(c) Purchase of non-controlling interest –
On September 23, 2016, through its subsidiary Cumbres Andinas S.A., the Group acquired the non-controlling interest of Marcobre S.A.C. (Marcobre), which represented 30 percent of its capital stock and belonged to KLS Limited, thus obtaining control of 100 percent of the shares of subsidiary Marcobre, which generated an outstanding balance of US$25,000,000 payable that will be paid in five installments of annual maturity for an amount of US$5,000,000 each, beginning after which ever happens first between: (a) 10 working days after the start of commercial production of the Mina Justa project, or (b) on September 30, 2023.

During 2020, as a result of the update of the account payable for the acquisition of non-controlling interest, the Group recognized an increase in the account payable and higher financial expenses in the amount of US$712,000, see note 20.

(d) Local communities -

Corresponds to liabilities generated by contracts for land usufruct and complementary rights signed with the local Communities Tinyacclla and Rio de la Virgen, through which the Group is granted the right to carry out mining exploration and exploitation activities for a term of 25 and 15 years, respectively.

(e) The right-of-use liability is generated using different assets necessary for the Group's operation. Lease contracts have maturities of up to 10 years, on which implicit annual interest rates have been determined that fluctuate between 3% and 5%. The maturity classification is presented below:

| | **As of June 30, 2020** | **As of December 31,2019** |
|---|---|---|
| | US$(000) | US$(000) |
| **By maturity:** | | |
| Currrent portion | 11,789 | 16,583 |
| Non-current portion | 19,104 | 23,080 |
| **Total** | 30,893 | 39,663 |

## 12. Employee benefits

(a) The composition of this caption is presented below:

| | **As of June 30, 2020** | **As of December 31,2019** |
|---|---|---|
| | US$(000) | US$(000) |
| Workers' profit sharing (d) | 3,121 | 23,187 |
| Remuneration and allowances | 13,029 | 7,864 |
| | 16,150 | 31,051 |

(b) Workers' profit sharing payable –

In accordance with Peruvian legislation, the Company determines the workers' profits share by applying the 8 percent rate on the same net tax base used to calculate income taxes. The distribution is determined by 50 percent on the number of days that each worker worked during the previous year and 50 percent on the proportional levels of annual remuneration.

## 13. Borrowings

(a) The composition of this caption is presented below:

| Entity | | Interest rate | As of June 30, 2020 US$(000) | As of December 31,2019 US$(000) |
|---|---|---|---|---|
| Syndicated loan, net of structuring costs (c) | | Libor 3 meses +1.57% | 649,494 | 502,282 |
| Corporate bonds, net of issuance costs (d) | Sin garantías | 6.25% | 444,142 | 443,431 |
| Citibank (e) | Corporativo Minsur | Libor 3 meses + Spread | 105,850 | 105,201 |
| Bank do Brasil (g) | Con garantías | 2.03% - 3.38% | 33,357 | 14,728 |
| Bank Santander (g) | Sin garantías | 1.83% - 5.20% | 16,129 | 12,424 |
| Bank Itaú | Con garantías | 5,03% - 5,90% | 4,032 | 11,622 |
| Bank Santos (g) | Sin garantías | Tasa CDI + 2% | 2,220 | 3,695 |
| Bank ABC Brasil (g) | Sin garantías | 6.85% | 2,016 | - |
| Bank Bradesco | Sin garantías | 3.20% | 2,016 | 2,004 |
| | | | 1,259,256 | 1,095,387 |
| **By maturity:** | | | | |
| Currrent | | | 81,978 | 48,870 |
| Non-current | | | 1,177,278 | 1,046,517 |
| | | | 1,259,256 | 1,095,387 |

(b) The following is the movement of financial obligations:

| | As of June 30, 2020 US$(000) | As of December 31,2019 US$(000) |
|---|---|---|
| **Opening balance** | 1,095,387 | 639,622 |
| Additions | 186,303 | 509,323 |
| Structuring costs | 3,923 | (16,027) |
| Payments | (22,804) | (35,303) |
| Translation | (3,553) | (2,228) |
| **Ending balance** | 1,259,256 | 1,095,387 |

(c) On August 15, 2018 the subsidiary Marcobre subscribed a syndicated loan with a group of borrowers composed by Export Development Canada; Export Finance and Insurance Corporation; KFW IPEX-Bank GMBH; The Export-Import Bank of Korea; Banco Bilbao Viscaya Argentaria, S.A .; Hong Kong, Banco de Crédito del Peru; BBVA Banco Continental; Credit Agricole Corporate and Investment Bank; ING Bank (a Branch of ING-DIBA AG); ING Capital LLC; Natixis London Branch; Natixis New York Branch, Société Génerale; and Banco Bilbao Viscaya Argentaria, SA, New York Branch, for which it obtained a credit line of US$900 million due in 2025; this loan will be used for the development and construction of the Mina Justa project with a variable interest rate of Libor for three months of 0.25% as of June 30, 2020 plus an average fixed margin of 1.57%. To obtain this loan, the subsidiary Marcobre counted as guarantors with Minsur S.A. and Empresas Copec S.A. Until June 30, 2020, the subsidiary Marcobre has received disbursements for US$666,000,000 (US$522,000,000 as of December 31, 2019).

During the loan period, Marcobre must comply with the following conditions agreed in the loan agreement:

- Notify to the guarantor agent of any revision of the Mining Plan. In addition, the subsidiary Marcobre may not, without the consent of the lenders, use the project funds in an amount exceeding US$2,500,000 in any period to pay the costs incurred in connection with mining concessions other than strategic mining concessions.

- Marcobre will notify the guarantee agent before incurring capital expenditures during any fiscal year that exceeds US$20,000,000 above the total capital expenditures budgeted in the annual budget and the operating plan in effect for that fiscal year.

As of June 30, 2020, and December 31, 2019, the subsidiary Marcobre has complied with the financial restrictions of the subscribed contract.
As of June 30, 2020, the subsidiary Marcobre has constituted mortgages and pledges for all of its property, plant and equipment and its intangible assets as collateral for the subscribed syndicated loan.

(d) The General Meeting of Shareholders of January 30, 2014, agreed that the Group should issue an international bond issue ("Senior Notes") through a private placement under Rule 144 A and Regulation S of the US Securities Act of 1933. He also agreed to list these bonds on the Luxembourg Stock Exchange. On January 31, 2014, the Group issued bonds with a nominal value of US$450,000,000 due on February 7, 2024 at a coupon rate of 6.25 percent, obtaining a net collection under the pair of US$441,823,500.

Bonds restrict the ability of the Group to perform certain transactions; however, these restrictions do not condition the Group to comply with financial ratios or maintain specific levels of liquidity.

(e) Corresponds to "prepaid export - PPE" loans obtained by the subsidiary Minera Taboca during 2017, whose maturity dates are during October 2020 and December 2023, the financing was carried out with the objective of reducing part of its short-term debts and improving cash flow in the subsidiary.

(f) As of June 30, 2020, the subsidiary Marcobre incurred costs for structuring of the debt for amounting of US$40,663,000 (US$39,297,000 as of December 31, 2019), related to obtaining the US$900,000,000 credit line. As of June 30, 2020, it has received disbursements of US$666,000,000 as a result it has recognized a debt structuring cost related to the portion for an amount of US$30,090,000 (US$19,718,000 as of December 31, 2019). These costs have been presented net of long-term debt, and partially recognized in financial expense according to the amortized cost method.

(g) They correspond to loans of the type "advance of exchange contracts -ACC", obtained by the subsidiary Minera Taboca to finance their working capital and contracted in relation to their export operations, also these export exchange contracts financed constitute the guarantees of the financed amounts.

(h) As of June 30, 2020, Minsur S.A. maintains joint guarantee and letter of credit by US$190,400,000 to guarantee the financial obligations of its subsidiary Taboca with the following financial institutions:

- Banco Itaú for US$10,000,000; solidarity bond, with no expiration date that supports credit liabilities.
- Banco do Brasil for US$20,000,000; solidarity bond, with no expiration date that supports credit liabilities.
- Banco Santander Brasil for US$10,000,000; solidarity bond, with no expiration date that supports credit liabilities.
- Merryl Lynch International for US$15,000,000; solidarity bond, with no expiration date and that supports liabilities for derivative financial instruments.
- JP Morgan Chase Bank NA for US$10,000,000, solidarity bond, with no due date and that supports liabilities for derivative financial instruments.
- Citibank for US$105,000,000; assigned to debt and US$5,400,000 assigned to derivatives; both solidarity bonds, with no expiration date and that supports liabilities for credits and derivate financial instruments.
- Itaú Bank for US$10,000,000; solidarity bond, with no expiration date and that supports liabilities for derivative financial instruments.
- Bradesco Bank for US$5,000,000; solidarity bond, with no expiration date that supports credit liabilities.

## 14. Provisions

(a) The composition of this caption is presented below:

| | Provision for mine closure (b) | Provision for environmental Remediation (c) | Provision for contingency (d) | Provision for bonuses employees | Total |
|---|---|---|---|---|---|
| | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) |
| **As of January 1, 2019** | 108,959 | 42,400 | 6,295 | 13,084 | 170,738 |
| Additions, note 12(a) | 47,821 | 4,158 | 1,937 | 20,878 | 74,794 |
| Translation | (2,128) | (1,282) | (94) | (22) | (3,526) |
| Change in estimates | 1,465 | 6,125 | - | - | 7,590 |
| Payments and advances | (296) | (3,469) | (1,643) | (9,751) | (15,159) |
| Reversals | - | (835) | (773) | - | (1,608) |
| **As of December 31, 2019** | 155,821 | 47,097 | 5,722 | 24,189 | 232,829 |
| Additions, note 12(a) | 2,530 | 156 | 2,598 | 6,912 | 12,196 |
| Translation | (16,352) | (9,279) | (944) | (2) | (26,577) |
| Change in estimates | 445 | 29 | - | - | 474 |
| Payments and advances | (69) | (944) | (1,489) | (18,395) | (20,897) |
| Reversals | (7,151) | (2,954) | (150) | - | (10,255) |
| **As of June 30, 2020** | 135,224 | 34,105 | 5,737 | 12,704 | 187,770 |
| | | | | | |
| **By maturity:** | | | | | |
| Current portion | 6,116 | 2,997 | 3,560 | 22,464 | 35,137 |
| Non-current portion | 149,705 | 44,100 | 2,162 | 1,725 | 197,692 |
| **As of December 31, 2019** | 155,821 | 47,097 | 5,722 | 24,189 | 232,829 |
| | | | | | |
| **By maturity:** | | | | | |
| Current portion | 4,748 | 2,007 | 3,952 | 12,704 | 23,411 |
| Non-current portion | 130,476 | 32,098 | 1,785 | - | 164,359 |
| **As of June 30, 2020** | 135,224 | 34,105 | 5,737 | 12,704 | 187,770 |

(b) The provision for mine closure is made up as follows:

| | Units Pitinga and Pirapora US$(000) | Units San Rafael, Pucamarca and Pisco US$(000) | Unit Mina Justa US$(000) | Unit Marta US$(000) | Total US$(000) |
|---|---|---|---|---|---|
| **As of January 1, 2018** | 46,291 | 59,962 | - | 2,706 | 108,959 |
| Additions | 21,832 | 9,847 | 16,064 | 78 | 47,821 |
| Translation | (2,127) | - | - | (1) | (2,128) |
| Accretion | - | 1,432 | - | 33 | 1,465 |
| Payments and advances | - | (93) | - | (203) | (296) |
| **As of December 31, 2019** | 65,996 | 71,148 | 16,064 | 2,613 | 155,821 |
| Additions | - | 2,496 | - | 34 | 2,530 |
| Translation | (16,353) | - | - | 1 | (16,352) |
| Accretion | - | 445 | - | - | 445 |
| Payments and advances | - | (4) | - | (65) | (69) |
| Reversals | (7,151) | - | - | - | (7,151) |
| **As of June 30, 2020** | 42,492 | 74,085 | 16,064 | 2,583 | 135,224 |

| | | | | | |
|---|---|---|---|---|---|
| **By maturity:** | | | | | |
| Current portion | 4,750 | 105 | - | 1,261 | 6,116 |
| Non-current portion | 61,246 | 71,043 | 16,064 | 1,352 | 149,705 |
| **As of December 31, 2019** | 65,996 | 71,148 | 16,064 | 2,613 | 155,821 |
| | | | | | |
| **By maturity:** | | | | | |
| Current portion | 3,441 | 101 | - | 1,206 | 4,748 |
| Non-current portion | 39,051 | 73,984 | 16,064 | 1,377 | 130,476 |
| **As of June 30, 2020** | 42,492 | 74,085 | 16,064 | 2,583 | 135,224 |

The provision for closure of mining units and exploration projects reflects the present value of the closing costs expected to be incurred between 2020 and 2054, in compliance with regulations Government. The estimated mine closure is based on studies prepared by independent advisors, which comply with current environmental regulations. The estimated mine closure is based on studies prepared by independent advisors, which comply with current environmental regulations. The provision for mine closure corresponds mainly to activities that must be carried out for the restoration of the mining units and areas affected by the exploitation activities. The main works to be done correspond to earthworks, revegetation and dismantling of the plants. Closing budgets are reviewed regularly to take into consideration any significant changes in the studies performed. However, mine closure will depend on the market prices of the required closing works that will reflect future economic conditions. Likewise, the timing of disbursements will depend on the life of the mine, which will depend on future metal prices.

As of June 30, 2020, the main assumptions used in the calculation of the present value of the mine closure provision are the following:

| | **Pirapora and Pitinga Units** | **San Rafael, Pucamarca and Pisco Units** | **Marta Unit** | **Mina Justa Unit** |
|---|---|---|---|---|
| Annual risk-free rate | 4.11% | Between (1.59) % and 2.66% | Between (1.59%) and 2.66% | Between 1.62% and 2.10% |
| Years covered by the closure mine | 43 years | 10, 14 and 34 years | 2 years | 16 years |

(d) This includes provision for environmental remediation obligation comprised by the following:

| | **Units Pitinga and Pirapora** US$(000) (i) | **Sillustani** US$(000) (ii) | **Marcobre** US$(000) (iii) | **Total** US$(000) |
|---|---|---|---|---|
| **As of January 1, 2019** | 33,567 | 8,120 | 713 | 42,400 |
| Additions | - | 4,086 | - | 4,086 |
| Translation | (1,305) | 23 | - | (1,282) |
| Accretion | 5,986 | 100 | 39 | 6,125 |
| Payments and advances | (1,046) | (2,351) | - | (3,397) |
| Reversals, note 28 | - | (835) | - | (835) |
| **As of December 31, 2019** | 37,202 | 9,143 | 752 | 47,097 |
| Additions | - | 156 | - | 156 |
| Translation | (9,294) | 15 | - | (9,279) |
| Accretion | - | 13 | 16 | 29 |
| Payments and advances | (371) | (573) | - | (944) |
| Reversals, note 28 | (2,954) | - | - | (2,954) |
| **As of June 30, 2020** | 24,583 | 8,754 | 768 | 34,105 |

| | | | | |
|---|---|---|---|---|
| **By maturity:** | | | | |
| Current portion | 1,661 | 1,336 | - | 2,997 |
| Non-current portion | 35,541 | 7,807 | 752 | 44,100 |
| **As of December 31, 2019** | 37,202 | 9,143 | 752 | 47,097 |
| | | | | |
| **By maturity:** | | | | |
| Current portion | 1,233 | 774 | - | 2,007 |
| Non-current portion | 23,350 | 7,980 | 768 | 32,098 |
| **As of June 30, 2020** | 24,583 | 8,754 | 768 | 34,105 |

(i) It includes environmental restoration activities for the operations of the Pitinga mine in Brazil carried out in previous years. With the support of external specialists Taboca has updated the environmental remediation provision of the Pitinga and Pirapora units as of June 30, 2020.

(ii) It mainly includes environmental restoration activities in the Puno region related to the subsidiary Sillustani S.A.C and includes dyke construction activities, improvement of drainage systems, water treatment, bofedal rehabilitation.

(iii) This obligation is related with restoration activities in explorations area of Mina Justa Project which is operated by the subsidiary Marcobre and includes activities such as earthwork, revegetation and the dismantling of all facilities. This obligation is expected to be incurred during 2025, according to environmental regulations.

(d) Provision for contingencies -

(d.1) This caption is made up of the following:

Brazilian subsidiary –

It mainly corresponds to claims for compensation of ex-workers for US$1,579,000 (US$2,135,000 as of December 31, 2019), civil contingencies for US$192,000 (US$257,000 as of December 31, 2019).

Peruvian subsidiary –

It mainly corresponds to environmental contingencies that come from processes interposed by the Agency for Environmental Assessment and Control (OEFA by its acronym in Spanish), National Water Authority (ANA by its acronym in Spanish) and Supervisory Body for Investment in Energy and Mining (OSINERGMIN by its acronym in Spanish) for US$195,000 (US$232,000 at December 31, 2019), labor contingencies for US$2,548,000 (US$3,098,000 as of December 31, 2019).

## 15. Income tax

a) The reconciliation of the income tax expense and the profit before taxes times the tax rate of 2020 and 2019, is presented below:

| | **As of June 30, 2020**<br>US$(000) | **As of June 30,2019**<br>US$(000) |
|---|---|---|
| **Profit before income tax** | (12,380) | 89,384 |
| Translation (b) | (20,917) | 9,102 |
| Tax losses in subsidiaries | (17,955) | (301) |
| Effect of permanent differences, net | (786) | (6,438) |
| Income tax at statutory rate | 5,442 | (26,449) |
| Share results from associates | 351 | 230 |
| Effect of mining royalties | 1,441 | 2,395 |
| Income tax expense | (32,424) | (21,461) |

| | | |
|---|---|---|
| Tax regularization | - | (1,361) |
| Mining royalties and special mining tax | (4,886) | (6,842) |
| **Total** | (37,310) | (29,664) |

(b) This expense arises from maintaining the US dollar as a functional currency for accounting purposes and soles for tax purposes. As of June 30, 2020, the variation of the exchange rate was S/3.317 to S/3.541 resulting in the afore mentioned income, which does not imply a disbursement affecting the Group's cash flow.

(c) The (expense) income for income tax shown in the consolidated statements of profit or loss consists on the following:

| | As of June 30, 2020 | As of June 30,2019 |
|---|---|---|
| | US$(000) | US$(000) |
| **Income tax** | | |
| Current | (11,133) | (37,315) |
| Deferred | (21,291) | 14,494 |
| | (32,424) | (22,821) |
| **Mining royalties and special mining tax** | | |
| Current | (4,516) | (8,119) |
| Deferred | (370) | 1,276 |
| | (4,886) | (6,843) |
| | (37,310) | (29,664) |

(d) As of June 30, 2020, and December 31, 2019, the Group maintains a favorable balance for income tax of US$20,558,000 and US$3,420,000, respectively. Likewise, it has an income tax payable for US$4,564,000 as of December 31, 2019.

(e) Deferred income tax on investments in associates -

The Group does not record the deferred income tax asset related to investments in its associates: Inversiones Cordillera del Sur Ltda. And Futura Consorcio Inmobiliario S.A. because: (i) Inversiones Breca and Subsidiaries subsidiaries have joint control of those companies, which operate as part of the economic group, and (ii) the Group has the intent and the ability to hold these investments in the long-term. Consequently, Management believes that the temporary difference will be reversed through dividends to be received in the future, which according to current tax rules are not subject to income tax. There is no legal or contractual obligation for the Group's Management to be forced to sell its investment in associates.

## 16. Equity

(a) Capital stock -

As of June 30, 2020, and December 31, 2019, the authorized, subscribed and paid capital stock in accordance with the Group's by-laws, is represented by 19,220,015 common shares with a nominal value of S/100.00 each one (equivalent to US$601,269,000 at the historical exchange rate).

(b) Investment shares -

As of June 30, 2020, and December 31, 2019, this caption is made up of 960,999,163 investment shares, with a nominal value of S/1 each one.

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 June 30, 2020 was S/1.55 per share (S/1.56 per share as of December 31, 2019).

(c) 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 is an obligation to replenish it.

As of June 30, 2020, and December 31, 2019, the Group has not increased its legal reserve because it reached the limit mentioned above.

(d) Reinvested earning -

As of June 30, 2020, and December 31, 2019, reinvested profits have not been capitalized.

(e) Declared and paid dividends -

As of June 30, 2020, the Group has not declared dividends.

Below is information on dividends declared and paid for the year 2019:

| | Date | Dividends declared and paid US$(000) | Dividends by common share US$(000) | Dividends per investment action US$(000) |
|---|---|---|---|---|
| **Dividends 2019** | | | | |
| Shareholders' meeting | February 21st | 66,000 | 2.2893 | 0.02289 |

(f) Other reserves -

During the year 2018, the Group as a result of the sale of 40 percent of its shares in the subsidiary Cumbres Andinas S.A. recognized a gain of US$39,389,000, which was decreased by US$7,400,000 due to the obligations assumed in relation to the share transfer agreement denominated "Purchase Agreement" between Minsur and Alxar International SpA as shareholders owning 100 percent of the shares of Cumbres Andinas S.A.C.

As of June 30, 2020, the Group updated the present value of the obligation mentioned in the previous paragraph for the amount of US$286,000 under the heading "Financial expenses" in the consolidated statement of income.

(g) Cumulative translation adjustment -

This caption corresponds to the exchange difference resulting from the translation of the financial statements of the foreign subsidiaries and associates, into the functional currency of the Group.

(h) Unrealized results -

The movement during the first semester 2020 corresponds to unrealized losses of financial assets with changes in other comprehensive income for US$5,292,000, to the gain on associated investments for US$60,000 and to the loss from cash flow hedging of US$66,103,000 from hedging of metal prices, interest rate and exchange rate hedging. These amounts generated income from income tax that was recognized in the condensed consolidated statement of other comprehensive income for an amount of US$16,846,000.

(i) Non-controlling interest contributions -

During the year 2020 and 2019, the Group received non-controlling interest contributions for a total amount of US$49,240,000 and US$123,140,000, respectively as part of the financing of the Mina Justa project and other mining exploration projects.

## 17. Tax situation

(a) Peruvian tax -

Minsur S.A is subject to the Peruvian tax system.

By Legislative Decree N° 1261 published on December 10, 2016, the Peruvian government introduced certain amendments to the Income Tax Law, effective as from January 1, 2017. The most relevant are presented below:

- An income tax rate of 29.5 percent is set.
- A tax of 5 percent of the income tax is established to the dividends or any other form of distribution of profits. The rate applicable to dividends will be considered taking into account the year in which the results or profits that form part of the distribution have been obtained, in accordance with the following: 4.1 percent with respect to the results obtained until December 31, 2014; 6.8 percent with respect to the results obtained during the years 2015 and 2016; and 5 percent with respect to the results obtained from January 1, 2017.

In July 2018 Law N° 30823 was published in which Congress delegated to the Executive Power the power to legislate on various issues, including tax and financial matters. In this sense, the main tax regulations issued were the following:

(i) Modified, starting January 1, 2019, the treatment applicable to the royalties and fees for services provided by non-domiciled recipients, eliminating the obligation to pay an amount equivalent to the withholding when the costs or expenses are booked, and must now withhold the corresponding income tax at the time of their payment or retribution accreditation (Legislative Decree N° 1369).

(ii) Established rules governing the obligation of persons legal and/or entities legal to report the identification of their final beneficiaries (Legislative Decree N° 1372). These rules are applicable to legal persons domiciled in the country, pursuant to article 7 of the Income Tax Law, and to legal entities in the country. The obligation is applicable for non-domiciled legal entities and legal entities constituted abroad while: a) have a branch, agency or another permanent establishment in the country; b) the person (natural or legal entity) who manage the autonomous patrimony or foreign investment funds, or the natural or legal person who has quality of guard or administrator, is domiciled in the country; and, c) any part of a consortium is domiciled in the country. This obligation will be fulfilled by submitting to the tax authority of sworn statement information, which should contain the final beneficiary information and be submitted, in compliance with the regulations and in the deadlines established through a resolution of the Superintendence of Peruvian Tax Administration.

(iii) The Tax Code was modified in order to provide greater guarantees to taxpayers in the application of the general anti-avoidance rule (Rule XVI of the Preliminary Title of the Tax Code); as well as to provide the Tax Administration with tools for its effective implementation (Legislative Decree No. 1422).

As part of this modification, a new assumption of joint and several liabilities are envisaged, when the tax debtor is subject to the application of the measures provided by Rule XVI in the event that tax evasion cases are detected; in such case, the joint and several liability shall be attributed to the legal representatives provided that they have collaborated with the design or approval or execution of acts or situations or economic relations foreseen as elusive in Rule XVI. In the case of companies that have a Board of Directors, it is up to this corporate body to define the tax strategy of the entity, having to decide on the approval or not of acts, situations or economic relations to be carried out within the framework of tax planning, this power being non-delegable. The acts, situations and economic relations carried out within the framework of fiscal planning and implemented on the date of entry into force of Legislative Decree N° 1422 (September 14, 2018) and which continue to have effect, were evaluated by the Board of Directors of the legal entity for the purpose of ratification or modification until March 29, 2019, without prejudice to the fact that the Management or other administrators of the company have approved the aforementioned acts, situations and economic relations.

It has also been established that the application of Rule XVI, as regards the re-characterization of tax evasion cases, will take place in the final inspection procedures in which acts, facts or situations produced since 19 July 2012.

(iv) Amendments to the Income Tax Law were included, effective as of January 1, 2019, to improve the tax treatment applicable to (Legislative Decree N° 1424):

- Income obtained from the indirect transfer of shares or participations representing the capital of legal persons domiciled in the country. Among the most relevant changes is the inclusion of a new indirect alienation assumption, which is configured when the total amount of the shares of the domiciled legal entity whose indirect disposal is made is equal to or greater than 40,000 UIT.

- Permanent establishments of sole proprietorships, companies and entities of any nature incorporated abroad. For this purpose, new cases of permanent establishment have been included, among them, when the rendering of services in the country occurs, with respect to the same project, service or related one, for a period that exceeds 183 calendar days in total within any period of twelve months.

- The system of credits against Income Tax for taxes paid abroad, to be included in the indirect credit (corporate tax paid by foreign subsidiaries) as credit applicable against the Income Tax of domiciled legal persons, in order to avoid the double economic imposition.

- The deduction of interest expenses for the determination of corporate income tax. To this end, limits were established both for loans with related parties, as well as for loans with third parties contracted as of September 14, 2018 on the basis of equity and EBITDA.

(v) Regulations have been established for the accrual of income and expenses for tax purposes as of January 1, 2019 (Legislative Decree N° 1425). Until 2018 there was no normative definition of this concept, so in many cases accounting rules were used for its interpretation. In general terms, with the new criterion, for purposes of the determination of Income Tax, it matters if the substantial facts for the generation of income or expense agreed by the parties have occurred, which are not subject to a condition precedent, in whose case the recognition will be given when it is fulfilled and the opportunity for collection or payment established will not be taken into account.

(vi) Through Legislative Decree 1471 dated April 29, 2020, exceptionally, rules were established for the determination of payments on account of the third category income tax corresponding to the months of April to July of fiscal year 2020, with the option that taxpayers can reduce or suspend them.

(vii) On May 8, 2020, Legislative Decree 1481 was published, which extends the compensation period for losses corresponding to fiscal year 2020 from 4 to 5 years when System A) of article 50 of the Law is chosen. of Income Tax.

(viii) Through Legislative Decree 1488, published on May 10, 2020, a special depreciation regime is established, exceptionally and temporarily, by increasing the percentages of this, for certain assets, in order to promote private investment. and provide greater liquidity, given the current economic situation due to the effects of COVID. As of fiscal year 2021, buildings and constructions will be depreciated, for income tax purposes, applying an annual depreciation percentage of 20% until full depreciation, provided that the assets are fully assigned to the production of third-party taxable income. category and meet the following conditions: a) construction would have started as of January 1, 2020 and b) Until December 31, 2022, construction had a work progress of at least 80%. Likewise, the following assets acquired from fiscal year 2020 and 2021 will be depreciated by applying the following percentages to their value:

- Data processing equipment: 50%,
- Machinery and equipment: 20%,
- Land transport vehicles 33.3%; and,
- Hybrid transport vehicle 50%

(b) Tax Situation

Minsur S.A

The tax authorities have the power to review and adjust the income tax calculated by the Company in the four years following the year the tax returns presentation. The tax returns of the Income tax for the years 2015 to 2019 and value added tax (VAT) for the years 2016 to 2019 are open to review by tax authorities. To date, the Tax Administration performed the review of the income tax for the year 2000 to 2011 and 2014, and the value added tax and value added tax for the years 2000 to December 2008.

Due to the interpretations that the tax authorities may give to legislation in effect, it is not possible to determine whether or not of the tax audits that will perform will result in increased liabilities for the Company. Therefore, any greater tax or surcharge that could result from eventual tax reviews would be applied to the results of the fiscal year in which it is determined.

However, in opinion of the Company's management and its legal counsels, any eventual additional tax settlement would not be significant for the interim consolidated financial statements as of June 30, 2020 and December 31, 2019.

Brazilian subsidiaries –

Mineração Taboca S.A. is subject to the Brazilian tax regime. As of June 30, 2020, and December 31, 2019, the income tax rate is 34 percent of taxable income. Cash dividends in favor of non-domiciled shareholders are not taxed. The years open of review are from 2015 to 2019.

According to the Brazilian laws the tax losses do not expired, but their utilization will be limited to 30 percent of the taxable profit of each future period. As of June 30, 2020 and December 31, 2019, the deferred asset not recognized for tax losses carry forward amounts to R$417,272,000 (equivalent to US$78,817,000) and R$515,798,000 (US$128,212,000 respectively; the Taboca subsidiary has only recognized deferred income tax generated for the portion that it considers recoverable of the asset for generating deferred income tax for US$8,192,000

Peruvian subsidiaries -

The tax authorities have the power to review and, if applicable, correct the income tax calculated in the four years after the year of filing the tax return. The tax returns of the Income Tax of the Peruvian subsidiaries for the years 2015 to 2019 and General Sales Tax for the periods 2015 to 2019 are pending review by the tax authorities.

As of June 30, 2020, and December 31, 2019, the unrecognized deferred asset for the carry-over tax loss of the Peruvian subsidiaries is as follows:

| | As of June 30, 2020<br>US$(000) | As of December, 31,2019<br>US$(000) |
|---|---|---|
| Minera Sillustani S.A.C. | 5,922 | 6,116 |
| Compañía Minera Barbastro S.A.C. | 4,679 | 4,836 |
| Minera Latinoamericana S.A.C. | 361 | 4,151 |
| Cumbres Andinas S.A.C. | 1,070 | 951 |
| Cumbres del Sur S.A.C | 68 | 775 |

As of June 30, 2020, these subsidiaries, have not recognized deferred income tax asset originated by the tax loss carryforward by US$12,100,000 (US$16,829,000 as of December 31, 2019), because management has no certainty about the future realization of such tax losses.

Subsidiaries of Chile -

Minera Andes del Sur Spa and subsidiary is subject to the Chilean tax regime. As of June 30, 2020, and December 31, 2019, the income tax rate is 27 percent on taxable income. Cash dividends in favor of non-domiciled shareholders are not taxed. The periods open for fiscal review by the Chilean tax administration include the years 2015 to 2019.

(c) Transfer pricing -

For the purposes of determining current income tax, the prices and amounts of those consideration that have been agreed upon in transactions between related parties or that are carried out from, to or through countries or territories of low or zero taxation, must have documentation and information to support the valuation methods and criteria applied in their determination. The Tax Administration is entitled to request this information from the Group. Based on the analysis of the Group's operations, Management and its legal advisors are of the opinion that, as a consequence of the application of these rules, no material contingencies will arise as of June 30, 2020 and December 31, 2019.

(d) Legal Stability Agreement -

On December 9, 2016, the subsidiary Marcobre S.A.C. signed a Legal Stability Agreement with the Agency for the Promotion of Private Investment - PROINVERSION, respectively, through which it undertakes to issue shares in favor of its Principal (Cumbres Andinas S.A.C.) for US$135,300,000 within a period not exceeding two years and it will be destined to expand the productive capacity of the subsidiary Marcobre S.A.C. and obtains the stabilization of the income tax and labor regimes, in force at the date of subscription of the agreement. This agreement has a term of 10 years counted from the date of its subscription. As of June 30, 2020, the subsidiary Marcobre S.A.C. maintains the income tax rates of 26 percent. (26 and 27 percent as of December 31, 2019 and 2018, respectively).

Likewise, the subsidiary Cumbres Andinas S.A.C., on June 25, 2018, signed a legal stability agreement with the Private Investment Promotion Agency - PROINVERSIÓN, through which it undertook to make capital contributions to Marcobre S.A.C. for an amount of investment amounting to US$563,000,000, said agreement is valided for 10 years from the date of subscription.

## 18. Net sales

The composition of this caption is presented below:

| | As of June 30, 2020 | As of June 30,2019 |
|---|---|---|
| | US$(000) | US$(000) |
| Tin and other minerals | 176,028 | 232,637 |
| Gold | 66,516 | 101,054 |
| Niobium and tantalum | 23,602 | 32,126 |
| | 266,146 | 365,817 |

Tin sales concentration -

As of June 30, 2020, there is no significant concentration of sales. The three most important clients accounted for 39 percent of total sales (40 percent as of June 30, 2019).

Concentration of gold sales -

As of June 30, 2020, the Group sold gold to four customers that represented 100 percent of sales (three customers as of March 31,2019)

Concentration of sales of niobium and tantalum -

As of June 30, 2020, there is a significant concentration of sales, since its three main clients represent 71 percent of total sales. (As of June 30, 2019, the top 3 customers represented 50 percent).

## 19. Cost of sales

a) The composition of this caption is made up as follows:

| | As of June 30, 2020 | As of June 30,2019 |
|---|---|---|
| | US$(000) | US$(000) |
| Opening balance of finished product inventory | 26,232 | 42,352 |
| Opening balance of product in process inventory | 47,883 | 32,600 |
| Wages and salaries | 33,181 | 50,473 |
| Consumption of raw material and miscellaneous supplies | 28,403 | 44,392 |
| Services rendered by third parties | 33,964 | 50,431 |
| Depreciation, notes 12(b) and 14(b) | 32,858 | 41,525 |
| Purchase of mining services from AESA S.A. | 8,609 | 14,044 |
| Electricity | 5,401 | 5,918 |
| Amortization, note 13(b) | 1,971 | 2,592 |
| Purchase of explosives from Exsa S.A. | 1,136 | 2,660 |
| Out of inventory | 9 | - |
| Allowance for obsolescence of materials and supplies | 105 | (332) |
| Gold / silver drop / drop | 336 | - |
| Costs not absorbed by normal production capacity | 21,209 | - |
| Recovery of estimation due to devaluation of inventories | (608) | (222) |
| Other manufacturing expenses | 5,274 | 6,739 |
| Traslation | (5,350) | - |
| Final balance of work in process inventory | (40,586) | (52,353) |
| Final balance of finished product inventory | (15,857) | (18,299) |
| | 184,170 | 222,520 |

b) During the first semester 2020, the item includes indirect fixed costs that were not absorbed by production as a consequence of the lockdown of operations and subsequent gradual restart of operations, which resulted in production below normal capacity as explained in the note 1(c). The composition of the item is as follows:

| | As of June 30, 2020 | As of June 30,2019 |
|---|---|---|
| | US$(000) | US$(000) |
| Depreciation, notes 12(b) and 14(b) | 8,009 | - |
| Services rendered by third parties | 4,545 | - |
| Consumption of raw material and miscellaneous supplies | 349 | - |
| Wages and salaries | 5,909 | - |
| Social benefits | 465 | - |
| Amortization, note 13(b) | 458 | - |
| Other manufacturing expenses | 1,474 | - |
| | 21,209 | - |

## 20. Finance income and costs

The composition of this caption is made up as follows:

| | As of June 30, 2020 | As of June 30,2019 |
|---|---|---|
| | US$(000) | US$(000) |
| **Finance income:** | | |
| Interest paid by the Tax Administration | 652 | 7,213 |
| Interest for term deposits | 2,741 | 5,912 |
| Interest on certificate of deposit, note 4 | 60 | - |
| Revenue on financial instruments | 116 | 1,581 |
| Others | 3,283 | 884 |
| **Interest income** | 6,852 | 15,590 |
| Unwinding discount of the provisions for the closure of mining units, environmental remediation and others | 395 | 267 |
| **Total** | 7,247 | 15,857 |
| **Finance costs:** | | |
| Interest of corporate bonds | (14,035) | (11,138) |
| Interest and commissions of bank loans | (2,726) | (3,436) |
| Amortization of corporate bond issuance costs | (1,411) | (665) |
| Lease interests | (573) | (676) |
| Interest paid to the Tax Administration | - | (2,056) |
| Results of derivatives of exchange rate and interest rate | (10,798) | (4,626) |
| Others | (198) | (314) |
| **Interest expenses** | (29,741) | (22,911) |
| Unwinding discount of the non-controlling interest payable account, note 11(c) | (712) | (935) |
| Account payable discount update | (286) | (266) |
| Unwinding discount of the provisions for the closure of mining units, environmental remediation and others | (732) | (848) |
| **Total** | (31,471) | (24,960) |

## 21. Earnings per share

The basic and diluted earnings per share are calculating dividing the net income for the year by the weighted average number of outstanding shares during the year.

The calculation of the earnings per share is presented below:

| | As of June 30, 2020 | As of March 31,2019 |
|---|---|---|
| | US$ | US$ |
| **Numerator** | | |
| Net income attributable to the owners of the Parent Company | (41,472,000) | 60,022,000 |

| | Number of stockshare | Number of stockshare |
|---|---|---|
| **Denominator -** | | |
| Common stockshares | 19,220,015 | 19,220,015 |
| Investment shar | 960,999,163 | 960,999,163 |
| | | |
| **Profit per share** | | |
| Basic and diluted - US$ per common share | (1.439) | 2.082 |
| Basic and diluted - US$ per investment share | (0.014) | 0.021 |

The basic and diluted earnings per share are the same since there are no dilutive financial instruments over the profits.

There have not been other transactions involving common shares and investment shares between the reporting date and the closing date of these consolidated financial statements.

## 22. Related parties transactions

(a) Receivables and Payables -

The balances of the receivable and payable with related parties as of June 30, 2020 and December 31, 2019 follow:

| | As of June 30, 2020 | As of December 31,2019 |
|---|---|---|
| | US$(000) | US$(000) |
| **Classification by existing categories** | | |
| **Collecting receivables (current), note 5 (a):** | | |
| **Other related parties** | | |
| Compañía Minera Raura S.A. | 2,030 | 1,899 |
| Administración de Empresas S.A. | 887 | 1,268 |
| Rímac Seguros y Reaseguros | 27 | - |
| Clinica Internacional S.A. | 13 | 10 |
| Exsa S.A. | - | 157 |
| | 2,957 | 3,334 |
| | | |
| **For paying commercial and various (current), note 11(b):** | | |
| **Associated** | | |
| Exsa S.A. | - | 2,072 |
| | - | 2,072 |
| **Other related parties** | | |
| Administración de Empresas S.A. | 3,103 | 6,186 |
| Rímac Seguros y Reaseguros | 2,344 | 2,347 |
| Clínica Internacional. S.A. | 895 | 414 |
| Inversiones San Borja S.A. | 118 | 19 |
| Compañía Minera Raura S.A. | 85 | 12 |
| Protección Personal S.A.C. | 66 | 22 |
| Terpel Comercial del Perú S.R.L. | 42 | - |
| Corporación Breca S.A.C. | 5 | 9 |
| Corporación Peruana de Productos Químicos S.A. | 4 | 22 |
| Inversiones Nacionales de Turismo S.A. | 3 | 6 |
| Centría Servicios Administrativos S.A. | 3 | - |
| Rímac S.A. Entidad prestadora de salud | - | 83 |
| Brein Hub S.A.C. | - | 73 |
| | 6,668 | 9,193 |
| | 6,668 | 11,265 |

| | | |
|---|---|---|
| **Financial obligations** | | |
| **Other related parties, note 11(e)** | | |
| Inversiones San Borja S.A. | 4,804 | 5,091 |
| Administración de Empresas S.A. | 2,028 | 3,584 |
| Clínica Internacional. S.A. | 19 | 47 |
| | 6,851 | 8,722 |
| | 13,519 | 19,987 |
| **Classification by nature:** | | |
| Commercial, note 16(e) | 6,668 | 11,265 |
| Financial Obligations, note 18 (a) | 6,851 | 8,722 |
| | 13,519 | 19,987 |

There have been no guarantees provided or received for any related party receivables or payables. As of June 30, 2020, and December 31, 2019, the Group has not recorded any impairment of receivables related to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Balances payable to related companies are current maturities, interest free and have no specific guarantees.

## 23. Commitments

(a) Environmental Impact Study (EIA)

According to Supreme Decree 016-93-EM, effective since 1993, all mining companies must file an EIA before the Ministry of Energy and Mines (MEM). EIAs are prepared by environmental consultants registered before MEM. EIAs consider all the environmental controls that all mining entities will implement during the life of the mining units. All mining units of the Group have an approved EIA for their activities.

(b) Law of Mine Closure in Peru –

On October 14, 2004, the Peruvian government enacted the Law No.28090 which purpose is to regulate the obligations and procedures that Peruvians mining companies should comply for the elaboration, filling and implementation of the Mine Closure Plan, as well as to require the establishment of environmental guarantees to secure fulfillment of related mine closure plan. The corresponding ruling was approved on August 15, 2005 by means of Supreme Decree No.033-2005-EM.

*Minsur S.A.*

As of June 30, 2020, the provision for mine closure of the San Rafael, Pucamarca and Pisco units amounts to US$74,085,000 (US$71,148,000 as of December 31, 2019).

*Compañía Minera Barbastro S.A.C.*

As of June 30, 2020, the provision for mine closure of the Marta unit amounts to US$2,583,000 equivalent to S/9,146,000 (US$2,613,000, equivalent to S/8,669,000 as of December 31, 2019).

*Mineração Taboca S.A.*

According to environmental regulations in Brazil, Taboca has recognized a provision for mine closure of the mining unit of Pitinga and Pirapora for US$42,492,000 as of June 30, 2020 (US$65,996,000 as of December 31, 2019).

*Marcobre S.A.C.*

The subsidiary presented a Mine Closure Plan for its Mina Justa project, which was approved by the "General Direction of the Environmental Mining Matters" through Directorial Resolution No. 089-2019-MEM / DGAM on June 14, 2019. This mine closure plan covers progressive, final and post closure activities of the mine, so this plan constitutes a future commitment of Marcobre that amounts to a nominal value of US$41,137,554 which becomes an obligation when mining activities of development and operation have an impact on the current conditions of the concessions.

As of June 30, 2020, and December 31, 2019, the provision for mine closure of the Mina Justa unit amounts to US$16,064,000.

*Environmental remediation*

*Marcobre S.A.C.*

As of June 30, 2020 and December 31, 2019, the subsidiary Marcobre already has the approval of the feasibility of the Mina Justa Project, so it presented to the "General Direction of the Environmental Mining Matters" a closure plan for its exploration activities, which was approved by Directive Resolution No. 325-2013 / MEM / AAM on September 3, 2013. In relation to this closure plan, as of June 30, 2020 and December 31, 2019, the subsidiary maintains a liability for environmental restoration of US$768,000 and US$752,000, respectively.

*Minera Sillustani S.A.C.*

The subsidiary has a Closure Plan for Environmental Liabilities approved by the Ministry of Energy and Mines (MINEM) through Directorial Resolution No. 154-2009-MEM of June 10, 2009, as well as a modification of its schedule, approved by means of Directorial Resolution No. 354-2010-MEM/AAM on November 2, 2010. The plan for closing the environmental liabilities of the Regina Mine is oriented to propose the pertinent measures for the remediation of the liabilities that are part of the project.

The closure plan for mining environmental liabilities of the subsidiary has been prepared in compliance with Law N ° 28271 "Law Regulating the Environmental Liabilities of Mining Activity" modified by Law N ° 28526, and its regulation, Supreme Decree N ° 059-2005-EM, modified by Supreme Decree N ° 003-2009-EM. Likewise, it has been developed taking into account the Guide for the Preparation of Mining Environmental Liabilities of the MINEM.

In compliance with this obligation, on December 29, 2016, the Company presented to the Ministry of Energy and Mines, the Closure Plan of the environmental liability of the Regina Mine, which was subscribed in Directorial Resolution No. 117-2017-MEM-DGAAM of April 17, 2017.

As of June 30, 2020, and December 31, 2019, the provision related to this matter by the subsidiary Minera Sillustani amounts to US$8,754,000 equivalent to S/30,998,000 (US$9,143,000 equivalent to S/30,327,946 as of December 31, 2019).

Mineração Taboca S.A.

According to environmental regulations in Brazil, the subsidiary Minera Taboca and Subsidiaries has recognized a provision for environmental remediation amounts to US$24,583,000 (US$37,202,000 as of December 31, 2019). The rates used for this purpose were 4.05% and cover a period of 43 years.

(c) Community Support Agreement –

*Minera Barbastro S.A.C.*

On November 28, 2008, the subsidiary committed itself to the Rural Community of Tinyacclla, to carry out social and/or sustainable development works during the period in which it conducts its exploration and exploitation activities on the lands of the Community, on the basis of the following budget:

(i) From the first to the fifth year: US$19,000 per year.

(ii) From the sixth to the tenth year: US$23,000 per year.

(iii) From the eleventh to the fifteenth year: US$29,000 per year.
(iv) From the sixteenth to the twentieth year: US$36,000 per year.
(v) From the twenty-first to the twenty-fifth year: US$45,000 per year.

As of June 30, 2020, the subsidiary has been recognizing these disbursements as part of the exploration and study expenses in the consolidated statement of profit or loss.

*Minera Sillustani S.A.C.*

On September 17, 2009, the subsidiary committed itself to the Rural Community of Rio de la Virgen to carry out social and/or sustainable development works during the period in which it conducts its exploration and exploitation activities on the lands of the Community, on the basis of the following budget:

(i) From the first to the fifth year: US$17,000 per year.
(ii) From the sixth to the tenth year: US$21,000 per year.
(iii) From the eleventh to the fifteenth year: US$26,000 per year.

On June 18, 2013, the subsidiary committed itself to the Peña Azul Rural Community, to carry out social and/or sustainable development works during the period in which it conducts its exploration and exploitation activities on the lands of the Community, on the basis of the following budget:

(iv) From the first to the fifth year: US$36,000 per year.
(v) From the sixth to the tenth year: US$43,200 per year.
(vi) From the eleventh to the fifteenth year: US$51,840 per year.
(vii) From the sixteenth to the twentieth year: US$62,208 per year.

Both Agreements contemplate the creation of a "social management committee" in charge of: (i) determining the sustainable development works to be developed in the calendar year, (ii) prepare the budget and (iii) prepare the disbursement schedule.

As of June 30, 2020, the subsidiary has been recognizing these disbursements as part of the exploration and study expenses in the consolidated statement of profit or loss.

(d) Guarantee -

During 2018, the Marcobre subsidiary has obtained the financing of US$900,000,000 for the development and construction of the Mina Justa project, which is guaranteed by its shareholders Minsur S.A. e Inversiones Alxar S.A. Until June 30, 2020, the subsidiary has received disbursements of US$666,000,000 (US$522,000,000 as of December 31, 2019).

As of June 30, 2020 and December 31, 2019, the Taboca subsidiary does not have any commitments assumed in relation to commercial transactions, nor does it have any guarantees, warranties or guarantees granted to financial institutions, with the exception of exchange contract advances (ACC), US$41,690,000 equivalent to R$216,734,000 (US$36,069,000 equivalent to R$145,105,000 as of December 31, 2019) and the export prepayment (PPE) for the amount of US$120,000,000 equivalent to R$623,844,000 (US$109,910,000 equivalent to R$442,168,000 as of December 31, 2019), with original maturity scheduled for October 2023. Additionally, the financial obligation of the Taboca subsidiary is guaranteed by Minsur S.A. for a total of US$190,400,000 as detailed in note 13(i).

(f) Commitment to future payments -

On August 6, 2004, the subsidiary Marcobre signed simultaneous contracts with Shougang Hierro Perú (SHP) and Rio Tinto Mining and Exploration Limited, Branch of Peru (Rio Tinto), to acquire the mining concessions, mining rights, option rights and technical studies referred to specific geographical area in the province of Nazca, dominated "Target Area 1". According to such contracts, it was established a fixed consideration (which was totally fully paid by the Company during 2007 and 2008), and a conditional consideration of US$10,000,000, which will be subject to the subsidiary Marcobre adopting the mining decision and as long as the mineral resources have a metallic content higher than 2.58 million of metric tons of copper (US$3,000,000 was paid) and 3.44 million metric tons of copper (opportunity when the difference of US$7,000,000 shall be paid).

With the objective to assure the conditional consideration mentioned in the paragraph above, the Group subscribed: (i) a mortgage on the mining concession of Target Area 1 for up to US$27,600,000 (which includes the amount of interest, legal fees, costs and expenses in the event necessary to start a legal process to execute the good subject to the guarantee), which will be effective until the Company had entirely fulfilled each and every one of the guaranteed obligations, and (ii) a pledge on shares issued on behalf of the shareholders of the subsidiary Marcobre.

On July 27, 2018, the parties agree to modify the Transfer Agreement of Target Area 1, release the guarantees contained in the contract, replacing the guarantees, the buyer will deliver 4 bank guarantee letters, 2 bank guarantee letters in favor of Rio Tinto, one for the amount of US$2,035,500, and other for US$4,749,500, 2 letters passes Shougang Hierro Perú (SHP), one for the amount of US$1,275,000, and other for US$2,975,000, to guarantee the timely and faithful payment of the payment conditioned in the clauses of the transfer contract of Target 1.

During year 2017, the Group determine the account payable related to these contracts, concluding that it amounts to US$3,000,000 (US$1,275,000 to Shougang Hierro Perú and US$1,725,000 to Rio Tinto respectively), which was paid during the year 2018.

During 2019, Shougang Hierro Perú and Rio Tinto hired an independent auditor to validate the mineral resources reported by the Management of the subsidiary Marcobre. As of the date of these consolidated financial statements, the results of the audit are under review by all parties involved.

During 2020, as a result of the audit carried out, the Subsidiary has paid the amount of US$7,724,500 to the companies Shougang Hierro Perú S.A.A. and Rio Tinto Mining and Exploration S.A.C., as contractually agreed between the parties.

## 24. Contingencies

Peruvian entities -

(a) In January 2020, the Tax Administration notified the Company of 13 Resolutions regarding the inspection process of the 2014 Income Tax and Fine Resolution No. 0120020033527 for S / 5,240,000 on which the corresponding Claim Resource was presented.

During 2019, the Tax Court notified to the Company the Resolution N° 10924-1-2019 regarding the tax processes of the 2006 for the Regularization of Income Tax and Payments on Income Tax for both exercises, by which certain repairs are declared void. The Tax Administration has not yet issued the Compliance Resolution for the return of the amounts paid.

During 2019, the Company made the payment under protest of determination resolutions N°120030029077 and N° 0120020022520 for S/12,815,000 (equivalent to US$3,886,000) for various assessments made by the Tax

Administration related to the income tax of the 2008 period carried out in previous years. Consequently, the Company recognized S/6,779,000 (equivalent to US$2,056,000) related to interest as financial expense, S/6,036,000 (equivalent to US$1,830,000) as a higher income tax. In our opinion and in the opinion of our legal advisors, the Company will obtain a favorable result in the appeal stage before the Tax Court.

During 2019, with respect to the appeal presented by the Company to the tax authorities for fiscal years 2004 and 2005, the Tax Administration issued the Intendance Resolutions N° 012-180-0018290, 012-180-0018291, 012-180-0018292, 012-180-0018299, 012-180-0018300, 012-180-0018302 and 012-180-0018303 which ordered the refund of where it was arranged that the return of S/37,802,000 (equivalent to US$11,250,000); the amount of S/24,235,000 (equivalent to US$7,213,000) was recognized related to interest on income tax payments and payments on in advance improperly made as financial income, S/7,879,000 (equivalent to US$2,344,000) as a lower income tax, and the balance of S/5,688,000 (equivalent to US$1,693,000) corresponding to the refund of fines as other income.

(b) Sanctioning administrative processes –

As of June 30, 2020, and in previous years, the Company has received various notifications from the Environmental Assessment and Enforcement Agency (OEFA), the National Water Authority (ANA) and the Supervisory Agency for Investment in Energy and Mining (OSINERGMIN), respectively. Said notifications refer to infractions for breaches of procedures of the norms of protection and conservation of the environment and of the norms of safety and mining hygiene. In relation to these notifications, the Company has presented its disclaimers on the observations made, pending that OSINERGMIN, ANA and OEFA issue their pronouncements regarding the resources presented.

Management and its legal counsels have analyzed these processes and they have estimated a probable contingency of US$195,000 (US$232,000 as of December 31, 2019), which is presented under "Provisions" in the Consolidated statements of financial situation.

Brazilian entities -

Mineração Taboca S.A. and its subsidiary have tax, labor, and other contingencies which are classified as possible. The main possible contingencies are detailed bellow:

(a) Lawsuit with Banco Santos

Mamore, the subsidiary of Taboca, is involved in five lawsuits initiated by Banco Santos, Fund Basa de Investimento Financiero and Mellon Aroveredo Fundo de Investimento Multimercado Previdenciario (Mellon Aroveredo) in relation to an alleged failure to pay credit agreements originally signed with Banco Santos during the years 2005 to 2007. These five claims include three lawsuits in which it is jointly involved with Mamoré, the former parent company Paranapanema. Of all these claims, in the opinion of the Group's and Management's legal advisors have a risk of loss classified as possible and amount to approximately R$80,736,000 equivalent to approximately US$14,896,000 (R$70,073,000 equivalent to US$17,431,000 as of December 31, 2019).

(b) Civil, Labor and tax proceedings -

Taboca and its subsidiaries have civil, labor and tax processes that involve risk of potential losses according to the assessment made by management and its legal counsel, consequently for those possible contingencies were not made any provision which amount to R$32,553,645, R$31,234,794 and R$138,021,830, respectively (equivalent to approximately, US$6,006,000, US$5,763,000 and US$25,465,000 as of June 30, 2020, (R$31,176,929 R$30,331,901 and R$133,999,000, respectively, equivalent to approximately US$7,755,454, US$7,545,000 and US$33,333,000) as of December 31, 2019).

As of June 30, 2020, the Group has other labor lawsuits that amount to US$500,000(US$552,000 as of December 31, 2019) in our opinion and in the opinion of our legal advisors the possibility of progress of this legal actions is possible, therefore the Company did not record any provision for this labor claims as of June 30, 2020.

## 25. Segment information

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

- Production and marketing of tin extracted from Peru.
- Production and marketing of tin extracted from Brazil.
- Production and marketing of gold extracted from Peru.
- Other mining exploration activities in Peru and Chile.

No other operating segments have been added to form part of the operating segments described above. All non-current assets are located in Peru, Brazil and Chile.

Management monitors the profit (loss) before tax for each business units separately for the purpose of making decisions about resource allocation and performance assessment.
Segment performance is evaluated based on profit (loss) before income tax and is measured consistently with income (loss) in the consolidated statements of profit or loss.

| | Tin and Gold (Peru) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Tin | Gold | Not distributable | Total | Tin | Mining exploration | Adjustments and Eliminations | Total Consolidated |
| | (Perú) | (Perú) | (Perú) | (Perú) | (Brasil) | (Perú and Chile) | | |
| | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) | US$ (000) |
| **As of June 30, 2020:** | | | | | | | | |
| **Results:** | | | | | | | | |
| Entry of external customers | 140,228 | 66,402 | - | 206,630 | 59,516 | - | - | 266,146 |
| Sales cost | (101,059) | (32,187) | - | (133,246) | (50,924) | - | - | (184,170) |
| Administration expenses | (12,209) | (3,889) | - | (16,098) | (4,875) | (344) | 686 | (20,631) |
| Selling expenses | (1,677) | (513) | - | (2,190) | (948) | - | - | (3,138) |
| Exploration expenses and studies | (2,739) | (352) | - | (3,091) | - | (3,658) | - | (6,749) |
| Others, net | 3,442 | 1,096 | - | 4,538 | (1,207) | 593 | (686) | 3,238 |
| Operating income | 25,986 | 30,557 | - | 56,543 | 1,562 | (3,409) | - | 54,696 |
| Profit before income tax | - | - | 40,431 | 40,431 | (46,206) | (9,695) | 3,090 | (12,380) |
| Income tax | - | - | (23,741) | (23,741) | (1,699) | (11,870) | - | (37,310) |
| **Net profit** | | | **16,690** | **16,690** | **(47,905)** | **(21,565)** | **3,090** | **(49,690)** |
| **Other revelations:** | | | | | | | | |
| Depreciation and amortization (included in costs and expenses) | (21,792) | (11,400) | (600) | (33,792) | (10,991) | (130) | - | (44,913) |

| | Tin and Gold (Peru) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Tin | Gold | Not distributable | Total | Tin | Mining exploration | Adjustments and Eliminations | Total Consolidated |
| | (Perú) | (Perú) | (Perú) | (Perú) | (Brasil) | (Perú and Chile) | | |
| | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) | US$ (000) |
| **As of June 30, 2019:** | | | | | | | | |
| **Results:** | | | | | | | | |
| Entry of external customers | 202,341 | 68,688 | - | 271,029 | 94,788 | - | - | 365,817 |
| Sales cost | (97,797) | (43,264) | - | (141,061) | (81,459) | - | - | (222,520) |
| Administration expenses | (13,052) | (5,774) | - | (18,826) | (6,529) | (60) | 351 | (25,064) |
| Selling expenses | (2,249) | (690) | - | (2,939) | (939) | - | - | (3,878) |
| Exploration expenses and studies | (11,077) | (378) | - | (11,455) | - | (9,283) | - | (20,738) |
| Others, net | 622 | 275 | - | 897 | (780) | 6 | (351) | (228) |
| Operating income | 78,788 | 18,857 | - | 97,645 | 5,081 | (9,337) | - | 93,389 |
| Profit before income tax | - | - | 95,244 | 95,244 | (1,650) | (7,860) | 3,650 | 89,384 |
| Income tax | - | - | (35,227) | (35,227) | (528) | 6,091 | - | (29,664) |
| **Net profit** | | | **60,017** | **60,017** | **(2,178)** | **(1,769)** | **3,650** | **59,720** |
| **Other revelations:** | | | | | | | | |
| Depreciation and amortization (included in costs and expenses) | (11,934) | (19,587) | (307) | (31,828) | (13,146) | (53) | - | (45,027) |

## 26. Financial derivative instruments

(a) Given that the interest payments on the loans obtained by the Marcobre subsidiary during 2018 are subject to variations caused by being indexed at a variable interest rate, the Group decided to opt for a hedging strategy called bottom layer hedge or hedging strategy. Layered, which prospectively covers the Group's cash flows, which qualify as highly probable forecast transactions, with three different tranches (with swaps and caps options) distributed as follows:

- Tranch 1: From December 31, 2018 to June 30, 2021, it covers 50% with a swap and 20% with the cap N° 1.
- Tranch 2: Between June 30, 2021 and June 30, 2023, cover 35% with a swap and 45% with the cap N° 1.
- Tranch 3: After June 2023 until December 31, 2025 covers 80% with the cap N° 2.

(b) These "Cap interest rate" and "Interest rate swap" contracts were subscribed for a maximum amount of US$720,000,000, which covers 80% of the subsidiary Marcobre's loan.

The total cost of the premiums for the Cap N° 1 and Cap N° 2 options during the year 2018 was US$3,964,000, which will be accrued during the term of the options. The payment of the option premium was financed within 4 years.

| **Entity** | **Value Reference (maximum)** US$(000) | **Agreed rate** % |
|---|---|---|
| **Natixis Bank** | | |
| Interest Rate Swap | 450,000 | 2.866% |
| **Societe Generale Bank** | | |
| Interest Rate Cap N°1 | 405,000 | 3.332% |
| Interest Rate Cap N°2 | 208,526 | 3.362% |

| | | **Hedged value** | |
|---|---|---|---|
| | | **As of June 30, 2020** US$(000) | **As of December 31, 2019** US$(000) |
| Cash flow hedge - | | | |
| Interest rate swap (d) | From December 2018 to June 2023 | 2,041 | 17,593 |
| Cap 1 – Interest rate (d) | From December 2018 to June 2023 | 1,584 | 13,297 |
| Cap 2 – interest rate (d) | From June 2023 to September 2025 | 1,331 | 5,322 |
| Total | | 4,956 | 36,212 |

(c) As of June 30, 2020, the Group through its subsidiary Marcobre has recognized an account payable for the fair value of derivative financial instruments in the amount of US$23,088,000 of which US$11,726,000 are current maturity and US$11,362,000 are non-current maturity (US$15,297,000 as of December 31, 2019 of which US$5,818,000 are of current maturity and US$9,479,000 non-current), and an account receivable for presented in the caption "Other financial assets" non-current for US$160,000 whose impact on Other comprehensive results were as follows:

| | Effect on other comprehensive Income Income (expense) | |
|---|---|---|
| | As of June 30, 2020 | As of December 31, 2019 |
| | US$(000) | US$(000) |
| **Derivatives of interest rates -** | | |
| Interest rate swap | (10,712) | 8,129 |
| Cap 1 – Interest rate | 4,323 | 1,120 |
| Cap 2 – interest rate | 2,563 | 823 |
| Other effects | (3,534) | (539) |
| | (7,360) | 9,533 |
| (-) Deferred income tax | 1,914 | (2,479) |
| Net effect | (5,446) | 7,054 |

(d) The subsidiary Taboca maintains derivative financial instruments of exchange rate swaps, Zero Cost Collar of exchange rate and NDF (Non Deliverable Forward) in order to protect and manage the risks inherent to the variation of the foreign currency (dollar for the case of Taboca) and prices of tin commodities. These operations aim to reduce currency exposure and significant changes in commodity prices. As of June 30, 2020, the net fair value of these derivatives amounts to US$(22,590,000) equivalent to R$(122,709,000) (US$3,021,000 equivalent to R$12,154,000 as of December 31, 2019).

(e) Gold price coverage -

The Company signed contracts that include derivative financial instruments with the objective of reducing the risk on cash flows attributable to the fluctuation of the gold price, from January 2020 to December 2024.

The Company has designated these derivatives as cash flow hedges, given that it has determined that there is an adequate economic relationship between the hedging instruments and the hedged items, which are highly probable.

The following is the composition of the positions to be settled and that are part of the liability for a derivative hedging instrument as of June 30, 2020

| Instrument | Expiration period | Covered volume | Agreed price | Estimated price | Fair value |
|---|---|---|---|---|---|
| | | Oz | US$/oz | US$/oz | US$(000) |
| **Zero Cost Collar** | | | | | |
| | Año 2020 | 33,718 | 1,450 – 1,577 | 1,726 | (7,387) |
| | Año 2021 | 46,900 | 1,450 – 1,639 | 1,831 | (8,975) |
| | Año 2022 | 55,740 | 1,450 – 1,700 | 1,841 | (7,822) |
| | Año 2023 | 52,941 | 1,450 – 1,746 | 1,859 | (6,434) |
| | Año 2024 | 32,000 | 1,450 – 1,775 | 1,878 | (3,259) |
| | | | | | (33,877) |

The effective portion of the variations in the fair value of the derivative financial instruments that qualify as hedges are recognized as assets or liabilities, having the net equity as a counterpart. As of June 30, 2020, the Company recognized in the caption "Unrealized results" of the consolidated statement of changes in equity a negative variation in the fair value of approximately US$23,351,000, which is presented net of the effect on income tax. the earnings.

(f) Currency Forward -

As of December 31, 2019, the company had a forwarding of currency classified as a hedging financial instrument and whose value amounted to US$116,000, which was settled during the first quarter of 2020.

## 27. Financial instrument risk management, objectives and policies

### 27.1 Financial risk factors

The Group's main financial liabilities, other than derivatives, comprise financial liabilities, trade payables and other payables. The main purpose of the financial liabilities is to finance the Group's operations. The Group's main financial assets include cash and term deposits and trade and other receivables that derive directly from its operations. The Group also holds financial assets at fair value through other comprehensive income.

Due to the nature of its activities, the Group is exposed to market, credit, liquidity and capital management risks, which are managed by senior management through a process of continuous identification, measurement and monitoring, subject to limits of risk and other controls. This risk management process is critical for the continued profitability of the Group and each person within the Group is responsible for risk exposures related to their responsibilities. The independent risk control process does not include business risks such as changes in the environment, technology and industry, which are monitored through the strategic planning process of the Group.

Management reviews and approves the policies to manage each of the risks as mentioned in the consolidated financial statements as of December 31, 2019. Due to the current situation explained in detail in note 1(c) we have updated relevant financial risks, which we show below.

(i) Market risks

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices involve three types of risk: the risk of exchange rate, the interest rate risk and price risk. Financial instruments affected by market risk include bank deposits and time deposits, receivables and payables in currencies other than US dollar, financial asset at fair value, financial derivative instruments and borrowings.

The sensitivity analyzes included in the following sections relate to the financial situation as of June 30, 2020 and December 31, 2019.

**Foreign currency risk –**

The Group operates internationally and its exposure to exchange risk results from its operations carried out in currencies other than its functional currency. The transactions of the Group are mainly settled in U.S. dollars, Brazilian reales and soles. Although to a lesser extent, the Group also has operations in other currencies such as Chilean pesos. As a result, the Group is exposed to the foreign exchange risk fluctuation.

Management assumes the risk of change with the product of operations; that is, it does not perform hedging operations with derivative financial instruments to cover its exchange risk.

The following table shows the sensitivity of the Group's results as of June 30, 2020 and June 30, 2019, considering as an assumption if the Brazilian reales and Peruvian soles had revalued / devalued 10 percent with respect to US dollar.

| Year | Potencial increase/decrease | Effect on profit before income tax US$(000) |
|---|---|---|
| **June 30, 2020** | 10% | 2,973 |
| | -10% | (2,973) |
| **June 30, 2019** | 10% | 10,268 |
| | -10% | (10,268) |

**Interest rate risk –**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument fluctuate due to changes in market interest rates.

As of June 30, 2020, and June 30, 2019, the Company's corporate bonds have a fixed effective interest rate. Nevertheless, the subsidiary Marcobre subscribed variable rate loans to mitigate the risk of variation of the interest rate. In this regard, the Group has entered into derivative financial instruments. Consequently, Management has assessed that it is not relevant to carry out a sensitivity analysis to changes in interest rates.

**Changes risk in mineral prices –**

The international tin price has a significant impact on the results of operations of the Group. These tin and gold prices historically have fluctuated and are influenced by factors beyond the control. The Group manages its price risk primarily through the use of sales commitments under customer contracts and underwriting derivative contracts for the metals it markets.

The Group has price risk from its sales contracts established at provisional prices, subject to a future price in a given month, based mainly on the average monthly price in the LME. To the extent that the final price is higher or lower initially provisionally recorded, the increase or decrease in income is recorded at each date of the financial report until the date of the final settlement.

The Company and the subsidiary Mineração Taboca entered into derivative contracts that qualify as cash flow hedges, with the intention of covering the risk resulting from the fall in prices of tin and gold. These derivative contracts were recorded as assets or liabilities in the consolidated statement of financial position and are presented at fair value. To the extent that these hedges were effective to offset future cash flows from the sale of related production, changes in fair value were deferred in an equity account. Deferred amounts were reclassified to sales when the corresponding production was sold.

The table below summarizes the impact on earnings before income tax for changes in the tin price. This analysis is based on the presumption that the price of tin has increased or decreased by 10 percent, while the rest of the variables remain constant.

| Year | Potencial increase/decrease | Effect on profit before income tax<br>US$(000) |
|---|---|---|
| **June 30, 2020** | 10% | 1,924 |
| | -10% | (1,924) |
| **June 30, 2019** | 10% | 3,731 |
| | -10% | (3,731) |

(ii) Credit risk

The Group's financial assets potentially exposed to credit risk concentrations are mainly banked deposits and trade receivables. With regard to bank deposits, the Group reduces the probability of significant credit risk because its deposits are held in first class financial institutions and limits the amount of exposure to credit risk in any financial institutions.

Regarding trade accounts receivable, there are no significant concentrations. The Group has established policies to ensure that the sale of its production is made to clients with adequate credit history. The maximum exposure to credit risk for the components of the consolidated financial statements as of June 30, 2020 and December 31, 2019 is represented by the sum of the items cash and cash equivalents, other financial assets, trade accounts receivable and various.

Financial instruments and bank deposits-

The credit risk in bank balances is managed by the Chief Financial Officer in accordance with Group policies. The counterparty credit limits are reviewed by Management and the Board. The limits are established to minimize the risk concentration and therefore mitigate financial losses from potential default of the counterparty.

Changes in liabilities from financing activities –

Below we present the reconciliation of the movements in the financial obligations and the financing:

| | January 1 2020 | Cash flows | Additions | Translation | Others | June 30, 2020 |
|---|---|---|---|---|---|---|
| | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) |
| Corporate bonds | 443,431 | - | - | - | 711 | 444,142 |
| Bank loans | 651,956 | (22,804) | 186,303 | (3,553) | 3,212 | 815,114 |
| Leases | 39,663 | (8,965) | 101 | 94 | - | 30,893 |
| **Total liabilities from financing activities** | 1,135,050 | (31,769) | 186,404 | (3,459) | 3,923 | 1,290,149 |

| | January 1 2019 | Cash flows | Additions | Translation | Others | December 31, 2019 |
|---|---|---|---|---|---|---|
| | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) | US$(000) |
| Corporate bonds | 442,075 | - | - | - | 1,356 | 443,431 |
| Bank loans | 197,547 | (35,303) | 509,323 | (2,228) | (17,383) | 651,956 |
| Leases | 32,502 | (19,340) | 26,204 | 297 | - | 39,663 |
| **Total liabilities from financing activities** | 672,124 | (54,643) | 535,527 | (1,931) | (16,027) | 1,135,050 |

Trade accounts receivable-

The credit risk of the clients is managed by the Management, subject to duly established policies, procedures and controls. The outstanding balances of accounts receivable are periodically reviewed to ensure their recovery. The Group's tin and gold sales are made to foreign customers located mainly in Europe and the United States, respectively. And due that does not have significant sales concentration if has limited credit risk exposition.

On the other hand, according to Management's evaluation, the analysis of the age of trade accounts receivable as of June 30, 2020 compared to December 31, 2019 has not undergone significant changes. The Group's Management will continue to closely evaluate the impact of health emergencies on the international economy and the impact on the client portfolio and its credit behavior■

Others accounts receivable

Accounts receivable other than the tax credit for value added tax and other tax credits correspond to outstanding balances for items that are not related to the Group's main operating activities. The Group' Management continuously monitors the credit risk of these items and periodically evaluates those debts that show impairment to determine the provision required for collectability.

(jj) Liquidity risk-

The prudent management of liquidity risk involves maintaining sufficient cash and cash equivalents, the availability of financing through an adequate number of committed sources of financing and the ability to close market positions. Given this, the Group permanently monitors liquidity reserves based on the analysis of its working capital (liquidity ratio) and its cash flow projections that take into account the future prices of the products it sells and the necessary costs. for its production and sale.

In this sense, in Management's opinion, the Group has not identified significant liquidity risks and has sufficient financial strength to face short-term obligations in the event of an extension of the state of emergency, considering that it maintains US$301,126,000 in cash and cash equivalents, and US$60,576,000 in time deposits with maturities greater than 90 days that are freely available.

Likewise, it is relevant to indicate that the projection of financial liabilities to expire greater than 1 year and that were reported in our consolidated financial statements as of December 31, 2019, have not had significant changes during the second quarter of 2020, in that sense, no portion of the principal amount of the corporate bonds and the syndicated loan will mature in a period greater than 4 years, and that the balances projected on future interests and commercial and other accounts payable greater than 1 year remain substantially stable.

**27.2 Capital risk management**

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns to its shareholders, benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

The policy of the Group consists on financing all its projects with a conservative mix of own cash resources and debt. With this objective the Group' Management use to make capital contributions and/or loans to its subsidiaries in Peru, Chile and Brazil, the additional needs are covered by bank loans. In order to achieve this, the Group periodically capitalizes its earnings and if necessary adjusts the amount of the dividends payable to its shareholders. There were no changes in the Group's objectives, policies and procedures during the periods ended June 30, 2020 and December 31, 2019.

**27.3 Price risk management activities**

As a result of its activities, the Group is exposed to the risk of future changes in the price of gold and other metals. The Group has acquired financial hedging instruments to hedge said risk on a portion of the cash flows attributable to fluctuations in the price of said metals.

## 28. Subsequent events

Between July 1, 2020 and the date of issuance of the interim condensed consolidated financial statements, no significant subsequent events of a financial-accounting nature have occurred that could affect the interpretation of these condensed consolidated financial statements.