

Translation of a report and financial statements originally issued in
Spanish - See note 32

Sociedad Minera El Brocal S.A.A.

Financial Statements as of December 31, 2010 and 2009
together with the Report of Independent Auditors

Translation of a report and financial statements originally issued in Spanish - See note 32

Sociedad Minera El Brocal S.A.A.

Financial statements as of December 31, 2010 and 2009
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Report of Independent Auditors

To the Shareholders of Sociedad Minera El Brocal S.A.A.

We have audited the accompanying financial statements of Sociedad Minera El Brocal S.A.A. (a Peruvian corporation, subsidiary of Inversiones Colquijirca S.A.), which comprise the statement of financial position as of December 31, 2010 and 2009, and January 1, 2009; and the statements of income, comprehensive income, changes in shareholders' equity and cash flows as of December 31, 2010 and 2009, as well as the summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in conformity with generally accepted auditing standards in Peru. Those standards require that we comply with ethical requirements and that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making this risk assessment, the auditor considers the relevant internal control of the Company in the preparation and fair presentation of the financial statement, in order to design audit procedures according to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes the evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as the evaluation of the overall presentation of the financial statements.



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Report of Independent Auditors (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sociedad Minera El Brocal S.A.A. as of December 31, 2010 and 2009, and January 1, 2009; and of its financial performance and cash flows as of December 31, 2010 and 2009 in accordance with International Financial Reporting Standards.

Lima, Peru,
February 3, 2011

Countersigned by:

W. Zaldivar, Zaldivar, Pando & Asociados



Marco Antonio Zaldivar
C.P.C.C. Register No.12477

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Sociedad Minera El Brocal S.A.A.

Statement of financial position

As of December 31, 2010 and 2009

	Note	2010 US\$(000)	2009 US\$(000) Restated [note 3.1(b)]	01.01.2009 US\$(000) Restated [note 3.1(a)]
Assets				
Current assets				
Cash, banks and time deposits	6	119,711	178,075	193,080
Trade accounts receivable, net	7	57,461	43,568	17,184
Other accounts receivable, net		2,415	2,876	12,507
Current portion of hedge derivate financial instruments		-	-	52,873
Embedded derivative on sale of concentrates	16(c)	9,155	3,874	-
Inventories, net	8(a)	13,673	5,706	6,051
Other assets		129	1,360	9,216
Total current assets		<u>202,544</u>	<u>235,459</u>	<u>290,911</u>
Long term inventories	8(a)	27,160	4,492	-
Hedge derivate financial instruments		-	-	21,464
Property, plant and equipment, net	9	80,099	54,901	47,241
Expansion operations project	10	111,699	73,158	21,611
Deferred income tax asset	14(b)	16,753	10,387	9,129
Other assets		367	-	-
Total assets		<u>438,622</u>	<u>378,397</u>	<u>390,356</u>
Liabilities and shareholders' equity				
Current liabilities				
Trade accounts payable	11	23,104	13,193	8,621
Other accounts payable with related parties	25	287	455	62
Other current liabilities	12	19,127	13,098	10,917
Income tax payable		9,027	2,092	-
Current portion of hedge derivate financial instruments	16(a)	16,291	1,468	-
Embedded derivative on sale of concentrates		-	-	8,299
Current portion of long-term debt		4	4	4
Total current liabilities		<u>67,840</u>	<u>30,310</u>	<u>27,903</u>
Provision for mine closure and environmental liabilities	13	22,082	21,568	21,031
Hedge derivate financial instruments	16(a)	6,897	5,375	-
Deferred income tax liability	14(b)	8,840	7,661	28,837
Total liabilities		<u>105,659</u>	<u>64,914</u>	<u>77,771</u>
Shareholders' equity				
Capital stock	15	30,281	30,281	30,281
Investment shares		1,810	1,810	1,810
Legal reserve		6,418	6,418	6,418
Unrealized gain (loss) on valuation of hedge derivative financial instruments, net		(16,232)	(4,790)	52,036
Retained earnings		<u>310,686</u>	<u>279,764</u>	<u>222,040</u>
Total shareholders' equity		<u>332,963</u>	<u>313,483</u>	<u>312,585</u>
Total liabilities and shareholders' equity		<u>438,622</u>	<u>378,397</u>	<u>390,356</u>

The accompanying notes are an integral part of this statement of financial position.

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Sociedad Minera El Brocal S.A.A.

Statement of income

For the years ended December 31, 2010 and 2009

	Note	2010 US\$(000)	2009 US\$(000) Restated [note 3.5]
Net sales	18	219,193	220,728
Cost of sales	19	(94,673)	(91,950)
Gross income		124,520	128,778
Operating expenses			
Exploration in non-operating areas	20	(8,963)	(3,997)
General and administrative	21	(6,199)	(10,498)
Royalties to the Peruvian State		(4,038)	(3,001)
Selling	22	(3,340)	(4,791)
Support to neighboring communities		(2,349)	(544)
Voluntary and temporary contribution to the Peruvian State	23	(824)	(819)
Other, net		483	(28)
Total operating expenses		(25,230)	(23,678)
Operating income		99,290	105,100
Other revenues (expenses)			
Financial income		1,500	2,327
Gain from exchange difference, net		232	1,675
Financial expense of the provision for closure of mining units		(1,295)	(1,265)
Financial expenses		-	(24)
Total other revenues, net		437	2,713
Income before income tax		99,727	107,813
Income tax	14(a)	(28,067)	(25,867)
Net income		71,660	81,946
Net income per share, basic and diluted, stated in U.S. dollars	24	0.6508	0.7443
Weighted average number of shares outstanding (in units)	24	110,105,236	110,105,236

The accompanying notes are an integral part of this statement.

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Sociedad Minera El Brocal S.A.A.

Statement of comprehensive income

For the years ended December 31, 2010 and 2009

	Note	2010 US\$(000)	2009 US\$(000) Restated [note 3.5]
Net income		<u>71,660</u>	<u>81,946</u>
Other comprehensive income			
Net change in unrealized gain on hedge derivative financial instruments	16(b)	(16,345)	(81,180)
Related income tax	16(b)	<u>4,903</u>	<u>24,354</u>
Other comprehensive income, net of income tax		<u>(11,442)</u>	<u>(56,826)</u>
Total comprehensive income		<u>60,218</u>	<u>25,120</u>

The accompanying notes are an integral part of this statement.

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Sociedad Minera El Brocal S.A.A.

Statement of changes in shareholders' equity

For the years ended December 31, 2010 and 2009

	Capital stock US\$(000)	Investment shares US\$(000)	Legal reserve US\$(000)	Unrealized gain (loss) on hedge derivative financial instruments, net US\$(000)	Retained earnings US\$(000)	Total US\$(000)
Balance as of January 1, 2009 (restated, note 3.3)	30,281	1,810	6,418	52,036	222,040	312,585
Net income	-	-	-	-	81,946	81,946
Net change in unrealized gain on hedge derivative financial instruments, note 16(b)	-	-	-	(56,826)	-	(56,826)
Comprehensive income	-	-	-	(56,826)	81,946	25,120
Dividend paid, note 15(d)	-	-	-	-	(24,222)	(24,222)
Balance as of December 31, 2009 (restated, note 3.3)	30,281	1,810	6,418	(4,790)	279,764	313,483
Net income	-	-	-	-	71,660	71,660
Net change in unrealized gain on hedge derivative financial instruments, note 16(b)	-	-	-	(11,442)	-	(11,442)
Comprehensive income	-	-	-	(11,442)	71,660	60,218
Dividend paid, note 15(d)	-	-	-	-	(40,738)	(40,738)
Balance as of December 31, 2010	<u>30,281</u>	<u>1,810</u>	<u>6,418</u>	<u>(16,232)</u>	<u>310,686</u>	<u>332,963</u>

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Sociedad Minera El Brocal S.A.A.

Statement of cash flows

For the years ended December 31, 2010 and 2009

	2010 US\$(000)	2009 US\$(000)
		Restated [note 3.4]
Operating activities		
Net income	71,660	81,946
Add (less) - Items that do not affect operating cash flows		
Depreciation	7,056	7,224
Increase of provision for doubtful accounts	-	4,132
Valuation of embedded derivative on sale	(9,155)	(3,874)
Financial expense of the provision for closure of mining units	1,295	1,265
Deferred income tax expense (income)	(284)	1,920
Net cost of fixed assets retired	-	85
Provision (reverse) for obsolescence of spare part and supplies	(4)	13
Changes of net operating assets and liabilities		
Decrease (increase) in operating assets -		
Trade accounts receivable	(10,019)	(29,552)
Other accounts receivable	461	9,631
Inventory	(30,631)	(4,147)
Prepaid income tax	-	6,274
Value added tax credit and others	864	1,582
Increase (decrease) in operating liabilities -		
Trade accounts payable	9,743	4,924
Other accounts liabilities	5,427	(7,866)
Income tax payable	<u>6,935</u>	<u>2,092</u>
Net cash and cash equivalents provided by operating activities	<u>53,348</u>	<u>75,649</u>

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Statement of Cash Flows (continued)

	2010 US\$(000)	2009 US\$(000)	
			Restated [note 3.4]
Investing activities			
Increase in time deposits	(17,685)	-	
Decrease in time deposits	-	22,365	
Disbursements for the expansion operations project	(57,366)	(51,283)	
Purchase of property, plant and equipment	<u>(13,608)</u>	<u>(15,032)</u>	
Net cash and cash equivalents used in investing activities	<u>(88,659)</u>	<u>(43,950)</u>	
Financing activities			
Payment of dividends	(40,738)	<u>(24,339)</u>	
Net cash and cash equivalents used in financing activities	<u>(40,738)</u>	<u>(24,339)</u>	
Net cash and cash equivalents increase (decrease) during the year	(76,049)	7,360	
Cash and cash equivalents at beginning of year	<u>178,075</u>	<u>170,715</u>	
Cash and cash equivalents at year-end, note 6	<u>102,026</u>	<u>178,075</u>	
Additional information to the statement of cash flows:			
Income tax payments	21,417	15,582	

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Sociedad Minera El Brocal S.A.A.

Notes to the Financial Statements

As of December 31, 2010 and 2009

1. Identification and business activity of the Company

(a) Identification -

Sociedad Minera El Brocal S.A.A. (hereafter "the Company") was incorporated in Peru in 1956. The Company is a subsidiary of Inversiones Colquijirca S.A. (hereinafter "the Principal"), which owns 51.06 percent of its common shares (see note 15(a)). Compañía de Minas Buenaventura S.A.A. owns direct and indirectly the 81.30 percent of Inversiones Colquijirca S.A.'s common shares. The Company's legal address is Av. Javier Prado Oeste 2173, San Isidro, Lima, Peru.

(b) Economic activity -

The Company is engaged in the extraction, concentration and commercialization of polymetallic ores, mainly zinc, silver, lead and copper, and carries out its operations at the Colquijirca mining unit (which comprises the Colquijirca mine and the Huarauca plant) located in the district of Tinyahuarco, province of Cerro de Pasco, department of Pasco, Peru.

(c) Financial statement approval -

In Management's opinion, the accompanying financial statements will be approved without modifications in the Board of Directors' and Shareholders' meeting to be held during the first quarter of 2011.

2. Basis of preparation, accounting principles and practices

2.1 Basis of preparation -

Statement of compliance -

The financial statements have been prepared in accordance with International Financial Reporting Standards (hereafter "IFRS"), published by the International Accounting Standards Board (hereafter "IASB"), as of December 31, 2010, year of the Company's IFRS transition (see note 3). In previous years, the Company's financial statements were prepared in accordance with generally accepted accounting principles in Peru.

Information responsibility -

The information contained in these financial statements is the Board of Directors' responsibility. The Board of Directors fully express the application of all the principles and practices included in the International Financial Reporting Standards ("IFRS") emitted by the IASB.

Measurement base -

The financial statements have been prepared on a historical cost basis, based on the accounting records held by the Company, except for derivative financial instruments that have been measured at fair value. The financial statements are presented in U.S. dollars and all value are rounded to the nearest million (US\$ million) except when otherwise indicated.

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Notes to the Financial Statements (continued)

2.2 Significant accounting estimates, judgments and assumptions -

The preparation of financial statements in conformity with International Financial Reporting Standards requires Management to make estimates and assumptions in order to determine the amounts of the assets and liabilities, the disclosure of contingent assets and liabilities and the amounts of revenues and expenses to be reported for the years ended December 31, 2010 and 2009.

In Management's opinion, these estimates were made on the basis of their best knowledge of the relevant facts and circumstances at the date of preparation of financial statements; however, the final results could be different from the estimates included in the financial statements. The Company's Management does not expect that these changes would have a significant effect on the financial statements.

Company's Management considers the following significant estimates to prepare the financial statements:

(i) Provisional adjustments of lead, copper, and zinc sales prices which are fixed according to the sales contracts and which are after the delivery date. (see note 16(c)) -
The Company's concentrates sales are based commercial contracts. The Company establishes a provisional value to these sales that is subject to a final price adjustment. The adjustment of sales is considered as an embedded derivative which required to be bifurcated from the host contract. The host contract is the sale of the metals contained in the concentrates at the current spot LME price. The embedded derivative, which does not qualify for hedge accounting, and the changes on the fair value are charge through earnings each period.

(ii) Hedge derivative financial instruments measurement (see note 16(a)) -
At the beginning of the hedge relation, the Company formally documents the relationship between the item hedged and the hedging instrument, including the nature of the risk, the objective and the strategy to be taken to carry out the hedging, and the method to be used to estimate the effectiveness of the hedge relation.

Also, a formal assessment is made upon beginning the hedge relation, to assure that the hedging instrument is highly effective in offsetting the risk designated in the item hedged. Hedges are formally assessed every half. A hedge is considered as highly effective if it is expected that the changes in cash flow attributed to the risk hedged during the period for which the hedge is designated are offset within a range from 80 to 125 percent.

(iii) Inventories (see note 8) -
The accrual for obsolescence is based on an item-by-item analysis completed by the Company's management (see note 2.3(h)). The related amounts are charged to expense in the period in which the obsolescence is deemed to have occurred.

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Notes to the Financial Statements (continued)

Stockpiles are measured by estimating the number of tones added and removed from the stockpile. The head grades are calculated based on assay data, and the estimated recovery percentage based on the expected processing method.

(iv) Units-of-production depreciation (see note 9) -

Estimated recoverable reserves are used in determining the depreciation and amortization of mine specific assets. This results in a depreciation and amortization charge proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both: i) its physical life limitations, and ii) the present assessments of economically recoverable reserves. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure.

(v) Determination of mineral reserves and resources -

Annually, the Company computes its reserves using methods generally applied by the mining industry in accordance with international guidelines. All reserves computed are audited by an independent third party (AMEC).

The reserves represent the estimated amounts of proved and probable ore that can be processed economically under the present conditions. The process of estimating the amount of reserves is complex and requires making subjective decisions at the time of evaluating all the geologic, geophysical, engineering and economic information that is available. Revisions could occur in estimated reserves due to, among other things, revisions of the geologic data or assumptions, changes in assumed prices, production costs and the results of exploration activities.

Changes in estimated reserves could affect mainly the depreciation of fixed assets related directly to mining activity, provision for mine closure, assessment of the deferred asset's recoverability and the amortization period for development costs. The Management hires international specialized companies to validate its mining unit reserves inventory.

(vi) Provision for closure of mining units (see note 13) -

The Company assesses its provision for closure of mining units annually. It is necessary to make significant estimates and assumptions in determining this provision, because there are numerous factors that will affect the ultimate liability for this obligation. These factors include estimating the scope and costs of closing activities, technological changes, changes in the regulations, increases in costs compared to inflation rates and changes in the discount rates. Such estimates or assumptions may result in actual expenses in the future that differ from the amounts provisioned at the time of establishing the provision. The provision at the date of this report, presents the best Management's estimate of the present value of future costs for closure of mining units.

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The Company records a provision for mine closure when a legally enforceable obligation arises, independently of the full depletion of the reserves. Once such obligation has been appropriately measured, which is presented at fair value, it is recorded by creating a liability equal to the amount of the obligation and recording a corresponding increase to the carrying amount of the related long-lived assets (mine development costs and property, plant and equipment). Subsequently, this liability is increased in each period to reflect the interest cost considered in the initial fair-value estimate and, in addition, the capitalized cost is depreciated or amortized based on the useful life of the related asset. When settling the liability, the Company will record any gain or loss that is generated. Changes in the obligation's fair value or in the useful life of the related asset that arise from revision of those initially estimated are recognized as an increase or decrease in the book value of the obligation and the related asset according to the IAS 16 Property, Plant and Equipment. Any reduction in a mine closure liability and, therefore, any reduction of the related asset, may not exceed the book value of such asset. If so, any excess over book value is immediately transferred to the statement of income.

If a change in estimate results in an increase in the closure liability and, therefore, an addition to the asset's book value, the Company must consider whether or not this is an indication of impairment of the asset as a whole, and conduct impairment testing pursuant to IAS 36. Furthermore, in the case of mature mines, if the revised mining assets net of the closure provisions exceed the recoverable value, such portion of the increase is charged directly to expense. In the case of mines already closed, changes in estimated costs are recognized immediately in the statement of income. Likewise, any closure liability that arises as a result of a mine's production phase must be included in expenses as and when incurred.

(vii) Allowance for doubtful accounts (see note 7(c)) -

The allowance for doubtful accounts corresponds to the difference between the book value of the account receivable and the fair value of the cash flows expected to be received in the future, discounted using a market discount rate.

(viii) Provision for legal and administrative process (see note 26) -

By their nature, contingencies will only be resolved when one or more future events do or do not occur. Determining contingencies inherently involves the exercise of judgment and calculation of the estimated results of future events.

(ix) Recovery of deferred tax assets (see note 14(b)) -

An assessment is required to determine whether deferred tax assets should be recognized in the statement of financial situation. Deferred tax assets, including those resulting from unused tax losses, require Management to assess the probability that the Company would generate taxable earnings in future periods to apply the deferred tax assets. Estimated future taxable income is based on projections of cash flows from operations and application

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of the tax law existing in each jurisdiction. To the extent to which future cash flows and taxable income differ significantly from those estimated; they could have an impact on the Company's capability to realize the deferred tax assets posted as of the reporting date.

In addition, future changes in the tax law in jurisdictions where the Company operates could limit the Company's capability to obtain tax deductions in future periods.

Any difference between the estimations and the real disbursement is recorded in the year incurred.

(x) Impairment of assets (see note 9(d)) -

The Company assesses each cash generating unit annually to determine whether any indication of impairment exists. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its use value and is determined for an individual asset, unless the asset does not generate cash inflows that are clearly independent of those from other assets or groups of assets. When the carrying amount of an asset or of a cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing use value, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, operating costs, and others.

Impairment losses are recognized in the statement of income in those expense categories consistent with the function of the impaired asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income.

(xi) Deferred stripping costs -

The costs to remove overburden and other waste material to gain access the ore body (stripping costs) incurred by the Company before the operation of a mining project, are capitalized as part of the mine development cost, and are shown in the "Expansion operations project " caption of the statement of financial situation. These costs subsequently will be amortized on units-of-production basis, using proven and probable reserves.

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Stripping costs incurred in the development of a mine before production commences are included in the operating cost. The operating cost is included as part of the inventory extracted during the period in which the stripping cost was incurred.

(xii) Production start date -

The Company assesses the stage of each mine under development to determine when a mine moves into the production stage. The criteria used to assess the start date are determined based on the nature of each mining project, the complexity of a plant and its location. The Company considers different relevant criteria for assessing when the mine is substantially complete and ready for its planned use. Some of the criteria used will include, but are not limited to, the following:

- Level of capital expenditure incurred compared to the original construction cost estimates.
- Completion of a reasonable period of testing of the mine plant and equipment.
- Ability to produce metal in saleable form (within specifications).
- Ability to sustain ongoing production of metal.

When a development project moves into the production stage, the capitalization of certain mine development costs ceases and costs are either regarded as forming part of the cost of inventory or expensed, except for costs that qualify for capitalization relating to mining asset additions or improvements, underground mine development or mineable reserve development. It is also at this point that depreciation or amortization commences.

(xiii) Fair value hierarchy (see note 29) -

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

2.3 Summary of significant accounting principles and policies -

(a) Financial assets -

Initial recognition and measurement -

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments. When financial assets are recognized initially, they are measured at fair value. The Company determines

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the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All financial assets are recognized initially at fair value plus, the direct costs initially attributed to the transaction, except for financial assets at fair value, for which any transaction costs derived are recognized in results.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (conventional transactions) are recognized on the date of the transaction, that is to say, on the date on which the Company commits to sell the asset.

The Company's financial assets include: cash, banks and time deposits, trade accounts receivable and other accounts receivable.

Subsequent measurement -

The subsequent measurement of financial assets depends on their classification, as detailed below:

Financial assets at fair value through profit or loss -

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Assets within this category are classified as current assets if they are held for trading or it is expected to realize them within the next twelve months counted as from the statement of financial situation. The Company did not maintain any assets at fair value through profit or loss as of December 31, 2010 and 2009.

Any embedded derivatives contained in commercial contracts are entered as a separated derivative and posted at their fair value if the directly associated economic features and risks are not related to the commercial contract and the contract has not been classified as a negotiable financial asset or at fair value with a charge to results. Any gains or losses from changes in the fair value of embedded derivatives are posted in the income statement.

Loans and receivables -

The Company has the following accounts: cash, banks and time deposits, trade accounts receivable and other accounts receivable, in this category; they are stated at the transaction value, net of an allowance for doubtful accounts when applicable.

All such instruments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and

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receivables are subsequently carried at amortized cost using the effective interest method less any provision for impairment.

The Company assesses whether as of the date of its financial statements, there is objective evidence of an impairment in the value of financial assets (such as the debtor's probability of insolvency, significant financial difficulties, failure to pay principal or interest or any observable evidence indicating that the estimated future flows associated with the loans or accounts receivable have decreased). The amount of the impairment is measured as the difference between the book value of the assets and the present value of the estimated future cash flows, discounted at an original effective interest rate or one applicable for similar transactions. The carrying amount of the receivable is reduced by means of an allowance account. The amount of the loss must be recognized in the statement of income. Impaired accounts receivable or loans are written off when they are considered uncollectible.

If the amount of the loss should decrease in a subsequent period, the Company reverses it with a credit entry to the statement of income.

Available-for-sale financial investments -

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories. After initial measurement, available for sale financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the statement of income.

(b) Financial liabilities -

Initial recognition and measurement -

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans or as derivatives designated as hedging instruments, as relevant.

The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value, plus directly attributable transaction costs, except in the case of loans, which are recognized initially at the fair value of the cash received, less any costs directly attributable to the transaction.

The Company's financial liabilities include trade accounts payable, other liabilities, long-term debt, derivative financial instruments and provision for mine closure and environmental liabilities.

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Notes to the Financial Statements (continued)

Subsequent measurement -

The subsequent measurement of financial liabilities depends on their classification, as detailed below:

Financial liabilities at fair value through profit or loss -

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments as defined in IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as cash-flow hedging instruments. Any gains or losses on liabilities held for trading are recognized in the statement of income. The Company has not designated any financial liability at fair value through profit or loss.

Interest-bearing loans and borrowing -

After their initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate (EIR) method. Any profit or loss is recognized in the statement of income when the liability is terminated, as well as through the process of amortizing the effective interest rate. Amortized costs are calculated taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Amortization of the effective interest rate is included in financial cost in the statement of income.

(c) Derecognition of financial assets and liabilities -

Financial Assets -

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

- (i) The rights to receive cash flow from such asset have ended; or
- (ii) The Company has transferred its rights to receive cash flow from the asset or has assumed an obligation to pay all of the cash flow to a third party by virtue of a transfer agreement; ("pass through agreement"); and either:
- (iii) The Company has transferred substantially all of its risks and benefits from the asset or; not having transferred or retained substantially all of the risks and benefits from the asset it has transferred its control.

In the event that the Company transfers its rights to receive cash flows from an asset or has entered into a pass-through arrangement, but has not transferred substantially all the risks and rewards and still maintains control over of the asset, it must recognize the liabilities associated. Assets transferred and the liabilities associated are measured on a basis that reflects the rights and obligations that the Company has retained.

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Notes to the Financial Statements (continued)

Financial liabilities -

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another one from the same lender on substantially different terms, or the terms are substantially modified, such replacement or amendment is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in the statement of income.

(d) Offsetting financial instruments -

Financial assets and liabilities are offset and the net amount reported in the statement of financial position, if there is a currently enforceable legal right to set off the recognized amounts and there is an intention to settle on a net basis or to realize an asset and settle the liability simultaneously.

(e) Fair value of financial instruments -

The fair value of financial instruments that are traded in active markets is determined on each reporting date by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

In the case of financial instruments that are not traded in an active market, fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially same, an analysis of the adjusted flow of funds or other valuation models.

There have not been changes in the valuation models as of December 31, 2010 and 2009.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 29.

Current versus non-current classification -

Derivative instruments that are not designated as cash-flow hedging instruments are classified as current or non-current, or are separated into a current and a non-current portion based on an assessment of the facts and circumstances (for example, the underlying cash flows).

Embedded derivatives that are not closely related to the main contract are classified consistently with the cash flows of the host contract.

Derivative instruments designated as cash-flow hedging instruments are classified in accordance with the classification of the underlying element hedged. The derivative

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Notes to the Financial Statements (continued)

instrument is separated into a current and a non-current portion only if a reliable allocation can be made.

(f) Cash, banks and time deposits -

The "Cash, banks and time deposits" caption presented in the Company's statement of financial position includes all cash on hand and deposited in banks, including time deposits whose maturities are three months or more.

The "Cash, banks and time deposits" caption in the Company's statements of cash flows includes cash on hand, time deposits and highly liquid investments with original maturities of three months or less.

(g) Trade accounts receivable -

Trade accounts receivable are initially recognized at their fair value and subsequently measured at the amortized cost using the effective interest method, less the provision for impairment. The carrying amount of the receivable is reduced by means of an allowance account. The amount of the loss is recognized in the statement of income.

(h) Inventories -

Inventories, including inventories in process, are stated at the lower of cost or net realizable value. Cost is determined by the weighted average method, except the inventory in transit, which is presented at the specific acquisition cost. The finished and in process products cost comprises services provided by third parties, consumption of materials and supplies, direct labor, other manufacturing expenses (base in the actual capacity of production) and exclude the financial expenses and the exchange differences. Net realizable value is defined as the estimated sales price obtainable in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(i) Property, plant and equipment -

The "Property, plant and equipment, net" caption is stated at cost, net of accumulated depreciation and accumulated impairment in value. The initial cost of an asset comprises its purchase price or construction cost, including customs duties and non-reimbursable taxes, as well as any expense necessary to put such asset into operation, the initial estimates of any rehabilitation obligation and, in the case of qualifying assets, the cost of debt and any expense directly attributable to bringing the asset into operation.

The cost comprises also the cost incurred in replaced parts of the asset, only when recognition criteria are met. Any disbursement related to the major maintenance is recognized as part of the cost of the asset. Other repairs and maintenance costs are recorded as expenses when they are incurred.

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Notes to the Financial Statements (continued)

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognizing an asset (calculated as the difference between the proceeds from the sale and the book value of the asset) is included in the statement of income in the year when the asset is derecognized.

The asset's residual value, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Major maintenance and repairs -

Expenses on major maintenance refits or repairs comprise the cost of replacement assets or parts of assets and overhaul costs. The expense is capitalized when an asset or part of an asset that was depreciated separately is replaced and eliminated from the books and it is probable that the future economic benefits associated with such asset or part of an asset will flow to the Company during an additional period of useful life.

When the replaced part of the assets was not considered separately as a component, replacement value is used in order to estimate the book value of the assets replaced, which is immediately written off.

Depreciation -

The depreciation and amortization are calculated base on a unit-of-production basis over the economically recoverable reserves of the mine, except in the case of assets whose useful life is shorter than the life of the mine, in which case the straight-line method is applied.

The units of production are measured in recoverable metric tons of lead and zinc. The unit-of-production rate for the depreciation and amortization of mine development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure.

Straight-line method

Depreciation calculated under the straight-line method uses the following useful lives:

	Years
Buildings and other constructions	20
Machinery and equipment	Between 10 and 20
Transportation units	5
Furniture and fixtures	6
Other equipment	Between 5 and 6
Computing equipment	4

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Notes to the Financial Statements (continued)

(j) Leasing -

The determination of whether an arrangement is, or contains, a lease is based on the substance of the agreement on its inception date. It requires consideration as to whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease if one of the following applies:

- (i) There is a change in the contractual terms, other than a renewal or extension of the arrangement.
- (ii) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term.
- (iii) There is a change in the determination of whether fulfillment is dependent on a specific asset; or
- (iv) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease starting from the date when the change of circumstances gives rise to reassessment for scenarios (i), (iii) or (iv), and at the date of the renewal or extension period for scenario (ii).

Financial leases that transfer substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and the reduction of the lease liability so as to achieve a constant periodic rate of interest on the remaining balance of the liability. Financial charges are recognized in the statement of income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

A lease is classified as an operating lease if it does not transfer substantially all off the risk and rewards incidental to ownership.

Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

(k) Exploration and mine development costs -

Exploration costs are charged to expense as incurred. These costs primarily include costs for material and fuels used in exploration, costs of topographical surveys, drilling costs

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Notes to the Financial Statements (continued)

and payments made to contractors. When the Company determines that a mineral property can be economically developed by establishing the existence of proved and probable reserves, the costs incurred to develop the property, including the costs incurred to further delineate the ore body and remove topsoil, rocks and other mineral waste to initially expose the ore body, are capitalized. In addition, expenditures that increase significantly the economic reserves in the mining units under exploitation are capitalized. Mine development costs are amortized using the units-of-production method, based on proven and probable reserves. Disbursement regarding to cost that are exploratory in nature that are incurred after proven and probable reserves have been established are charged to expenses as incurred.

(l) Provisions -

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed periodically and are adjusted to reflect the best estimate available as of the date of the statement of financial situation. The expense relating to any provision is presented in the statement of income. When they are significant, provisions are discounted using a current rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a financial expense.

(m) Contingencies -

Contingencies liabilities are recorded in the financial statements when it is probable their occurrence and they can be fairly determined; in other case, they are only disclosed in notes to the financial statements.

Contingent assets are not recognized in the financial statements; however, they are disclosed in notes to the financial statements if it is probable that such contingent assets will be realized.

(n) Recognition of revenues -

Revenue is recognized to the extent that it is probable that the economic benefit will flow to the Company. The amount of revenue is measured at fair value of the consideration received excluding any discount. The following recognition criteria must also be met before revenue is recognized:

Sales of concentrates -

Income from sales of concentrates is recognized when the significant risks and benefits of ownership are transferred to the customer, which happens on delivery of the minerals, according to the commercial contracts.

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Notes to the Financial Statements (continued)

Interest received -

The revenue is recognized when the interest accrues using the effective interest rate.

Embedded derivative -

As far as the measurement of income from concentrate sales is concerned, concentrates sales are assigned a provisional value according to the commodities prices at that date. The final price is subject to a final future adjustment established in the contract signed with clients, which is normally between 30 and 180 days after delivery of the concentrate to the client; the final adjustment is based on the market prices set forth in the commercial contract. Exposure to change in the price of the metals is considered an implicit derivative which should be separated from the commercial contract. At the close of each period, the provisional sale value is adjusted in accordance with the forward price for the period of quotation stipulated in the contract.

The sales price for the quotation period can be measure due to the metals (lead, zinc, and copper) are active sold in the international markets. The sales adjustment is record as an increase or decrease in the net sales caption.

(o) Foreign currency translation -

Functional and presentation currency -

Financial statements are presented in U.S. dollars, which is the Company's functional and presentation currency.

Transactions and balances in foreign currency -

Transactions in foreign currency (any currency different from the functional currency) are initially recorded at the functional currency rate in force at the date of the transaction. The exchange rates issued by the Superintendent of Banks, Insurance and AFP (hereinafter "SBS" by its Spanish acronym) are used in translating foreign currency. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the statement of financial situation date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions.

Exchange differences resulting from the settlement of the transactions in foreign currencies and from the translation of the monetary assets and liabilities at the exchange rates at year-end are recognized in the statement of income.

(p) Income tax and workers' profit sharing -

Current portion of the Income Tax and workers' profit sharing -

Income Tax and employee profit sharing for the current period are measured at the amount expected to be paid to the taxation authorities and workers, respectively. The rates and laws used to compute the amount are those in force as of the date of the statement of financial situation. According to Law, the workers' profit sharing

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Notes to the Financial Statements (continued)

calculation use the same taxable base than income tax, and is presented in the statement of income in the "Cost of sales", "General and administrative", and "Selling" captions as correspond.

Deferred portion of income tax -

The income tax for future periods are recognized using the liability method, considering the temporary differences between the tax and accounting bases of assets and liabilities as of the date of the statement of financial situation.

Deferred income tax liabilities are recognized for all taxable temporary differences.

All deductible temporary differences and loss carryforwards generate the recognition of deferred assets to the extent that it is probable that they can be used in calculating taxable income in future years. Deferred income tax and workers' profit sharing liabilities are recognized for all deductible temporary differences and tax loss carry-forwards, to the extent that is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized. The carrying amount of the deferred income tax and workers' profit sharing assets is reviewed at each statement of financial situation date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred asset to be utilized. Unrecognized deferred assets are reassessed at each statement of financial situation date.

Deferred assets and liabilities are offset if there is a legal right to set them off and the taxes deferred relate to the same entity and the same tax authority.

(q) Derivative financial instruments -

Derivatives not designated as hedging instruments -

Derivative contracts are recognized as assets and liabilities at fair value in the statement of financial situation. Changes in the fair value of derivative contracts not qualifying as hedging instruments are recorded in the "Net sales" in the statement of income.

Derivatives designated as hedging instruments -

The Company uses derivative instruments to manage its exposure to changes in metals prices. In order to manage special risks, the Company applies hedge accounting for those transactions that meet the specific criteria applicable.

As of December 31, 2010 and 2009, the Company had contracted derivative instruments on metals quotes under the Asian swap and Collar option modes that qualify as cash-flow hedging instruments. For those cash flow hedges that qualify as such, any gain or loss from the effective portion of the hedging instrument is initially recognized in shareholders' equity. Any gain or loss from the ineffective portion of the hedging instrument is initially recognized in the statement of comprehensive income. When the cash flow hedged

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Notes to the Financial Statements (continued)

affects the statement of income, any gain or loss from the hedging instrument is posted in the statement of income.

For cash flow hedges that qualify as such, the effective part of profit or loss over the hedging instrument is initially recognized in equity, in the "Unrealized gain (loss) on valuation of derivative financial instruments, net" caption. The ineffective portion of gain or loss of the hedging instrument is initially recognized in the statement of income in the "Financial expenses, net" caption. When the cash flow covered is recognized as profit or loss, the gain or loss in the hedging instrument is recorded in the "Net sales" caption in the statement of income.

The embedded derivatives contained in the guest contracts are recorded as a separate derivative and recorded at fair value if the economic characteristics and related risks are not directly related to the guest contract and this contract has not been designated as a negotiable financial asset or designated at fair value through profit or loss. The gains and losses arising from changes in fair value of embedded derivatives are recorded in the statement of income.

(r) Basic and diluted earnings per share -

Basic and diluted earnings per share have been calculated based on the weighted average number of common and investment shares outstanding at the date of the statement of financial situation.

(s) Segments -

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments, see note 27.

2.4 New International Financial Reporting Standards (IFRS) issued but not effective to the date of the financial statements -

The following standards that will have an impact in the financial statements of the Company up to the date of issuance of the Company's financial statements are listed below:

- IAS 24 "Related Party Disclosures"- revised (effective for periods after January 1, 2011) - It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The Management's Company does not expect any significant impact for the application of this standard on the financial situation or performance.

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Notes to the Financial Statements (continued)

- IAS 32 "Financial Instruments: Presentation - Classification of Rights Issues" (Amendment) - The amendment to IAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Management's Company does not expect any significant impact for the application of this standard on the financial situation or performance.
- IFRS 9 "Financial Instruments: Classification and Measurement" (effective after January 1, 2013) - This standard modifies the classification and measurement of financial assets as defined in IAS 39 "Financial Instruments: Recognition and Measurement", and it is mandatory internationally. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011.
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" - IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The Management's Company does not expect any significant impact of this interpretation on its financial position or performance.
- "Modifications to IFRS's" (effective for annual periods on or after either July 1, 2010 or January 1, 2011) - the IASB published and approved modifications to several different international standards, covering a large number of accounting matters. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. To date, the Company's Management is analyzing the impact of these standards:
 - IFRS 1 "Accounting policy changes in the year of adoption"; the modification clarified that in the interim financial report the Company should explain any changes in its accounting policies or the IFRS 1 exemptions it applied and updated reconciliations required by this standard. Also, it clarified that the IAS 8 does not apply to the first financial statements under IFRS presented by the Company.
 - IFRS 7 "Clarification of disclosures"; clarifies the interaction between the qualitative and quantitative disclosures of the nature and extent of risks arising from financial

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Notes to the Financial Statements (continued)

instruments. This modification will contribute to disclosure of information in a way that better enables users to evaluate an entity's exposure.

- IAS 1 "Clarification of statement of changes in equity"; requires an entity to provide a reconciliation of changes in each component of equity either in the statement of changes in equity or in the notes to the financial statements.
- IAS 27 "Transition requirements for amendments arising as a result of IAS 27 Consolidated and Separate Financial Statements"; requires an entity apply most of the amendments of IAS 27 prospectively.
- IAS 34 "Significant events and transactions"; requires that companies should disclose in their interim financial statements information related to those events and transactions and shall update the relevant information presented in the most recent annual financial report.

3. First time adoption of International Financial Reporting Standards ("IFRS")

As part of the first adoption of the International Financial Reporting Standards (IFRS) in Peru, as of October 14, 2010, through Resolution N°102-2010-EF/94.01.1, CONASEV required to all legal entities under its supervision to adopt IFRS since the year 2011, with early adoption in 2010 permitted.

To comply with Peruvian legislation, the Company has adopted IFRS since January 1, 2010. The standards are apply retrospectively at the transition date, and all the adjustment to assets and liabilities held under generally accounting principles accepted in Peru are recorded against "Retained earnings" caption, less some exemptions to the standard.

Until the year ended December 31, 2009, the Company prepared its financial statement according to the generally accounting principles accepted in Peru. The financial statements for the year ended December 31, 2010 are the first financial statements of the Company prepared under the International Financial Reporting Standard (IFRS). In the preparation of these financial statements under IFRS, the Company has considered January 1, 2009 as transition date and, in consequence, the Company has restated the information for that year according to IFRS.

The IFRS 1 exemption that the Company has decided to apply in its IFRS adoption process is the follow:

- (i) Fair value or revaluation of the property, plant and equipment as deemed cost: the Company has considered as deemed cost the valuation performed by an independent appraiser at the transition date.

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Notes to the Financial Statements (continued)

The explanatory notes gives a detail description of the principal differences between the generally accounting principles accepted in Peru and the International Financial Reporting Standard (IFRS) applied by the Company, and their impact over the shareholders' equity as of December 31, 2010, December 31, 2009 and January 1, 2009, and over the net income as of December 31, 2009, see notes 3.1, 3.2, 3.3, 3.4 and 3.5. Also, as part of the process of IFRS adoption, the Company identify some adjustments that does not represent a difference between both standards, and that are classified as adjustments of the previous standard and are explained in the notes mentioned above.

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Notes to the Financial Statements (continued)

3.1 Reconciliation of the statement of financial situation -

(a) A reconciliation between the statement of financial situation under the generally accepted accounting principles in Peru and IFRS as of January 1, 2009 (transition date to IFRS) is provided below:

	As of January 1, 2009 US\$(000)	Adjustments US\$(000)	Notes	As of January 1, 2009 under IFRS US\$(000)
Assets				
Current assets				
Cash, banks and time deposits	193,080	-		193,080
Trade accounts receivable, net	17,184	-		17,184
Other accounts receivable, net	12,507	-		12,507
Current portion of hedge derivative financial instruments	52,873	-		52,873
Inventories, net	6,051	-		6,051
Prepaid income tax	6,274	-		6,274
Value added tax credit and others	2,942	-		2,942
Total current assets	290,911	-		290,911
Hedge derivative financial instruments	21,464	-		21,464
Property, plant and equipment, net	39,081	8,160	3.5(a)	47,241
Expansion operations project	21,611	-		21,611
Deferred income tax and workers' profit sharing asset	10,832	(1,703)	3.5(b)	9,129
Total assets	383,899	6,457		390,356
Liabilities and shareholders' equity				
Current liabilities				
Trade accounts payable	8,625	-		8,625
Other accounts payable with related parties	62	-		62
Other current liabilities	10,917	-		10,917
Embedded derivative on sale of concentrates	8,299	-		8,299
Total current liabilities	27,903	-		27,903
Provision for mine closure and environmental liabilities	21,031	-		21,031
Deferred income tax and workers' profit sharing liability	31,315	(2,478)	3.5(a) and (b)	28,837
Total liabilities	80,249	(2,478)		77,771
Shareholders' equity				
Capital stock	30,281	-		30,281
Investment shares	1,810	-		1,810
Legal reserve	6,418	-		6,418
Unrealized gain on valuation of hedge derivative financial instruments, net	47,873	4,163	3.3(a)	52,036
Retained earnings	217,268	4,772	3.3(a)	222,040
Total shareholders' equity	303,650	8,935		312,585
Total liabilities and shareholders' equity	383,899	6,457		390,356

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Notes to the Financial Statements (continued)

(b) A reconciliation between the statement of financial situation under the generally accepted accounting principles in Peru and IFRS as of December 31, 2009 is provided below:

	As of December 31, 2009 US\$(000)	Adjustments US\$(000)	Notes	As of December 31, 2009 under IFRS US\$(000)
Assets				
Current assets				
Cash, banks and time deposits	178,075	-		178,075
Trade accounts receivable, net	43,568	-		43,568
Other accounts receivable, net	2,876	-		2,876
Embedded derivative on sale of concentrates	3,874	-		3,874
Inventories, net	5,737	(31)		5,706
Value added tax credit and others	1,360	-		1,360
Total current assets	235,490	(31)		235,459
Long term inventories	4,602	(110)		4,492
Property, plant and equipment, net	44,430	10,471	3.5(a)	54,901
Expansion operations project	73,158	-		73,158
Deferred income tax and workers' profit sharing asset	13,472	(3,085)	3.5(b)	10,387
Total assets	371,152	7,245		378,397
Liabilities and shareholders' equity				
Current liabilities				
Trade accounts payable	13,193	-		13,193
Other accounts payable with related parties	455	-		455
Other current liabilities	13,098	-		13,098
Income tax payable	2,092	-		2,092
Current portion of derivate financial instruments	1,468	-		1,468
Current portion of long-term debt	4	-		4
Total current liabilities	30,310	-		30,310
Provision for mine closure and environmental liabilities	21,568	-		21,568
Hedge derivate financial instruments	5,375	-		5,375
Deferred income tax and workers' profit sharing liability	6,524	1,137	3.5(a) and (b)	7,661
Total liabilities	63,777	1,137		64,914
Shareholders' equity				
Capital stock	30,281	-		30,281
Investment shares	1,810	-		1,810
Legal reserve	6,418	-		6,418
Unrealized loss on valuation of hedge derivative financial instruments, net	(4,407)	(383)	3.3(b)	(4,790)
Retained earnings	273,273	6,491	3.3(b)	279,764
Total shareholders' equity	307,375	6,108		313,483
Total liabilities and shareholders' equity	371,152	7,245		378,397

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Notes to the Financial Statements (continued)

3.2 Reconciliation of the statement of income -

Reconciliation between the statement of income under the generally accepted accounting principles in Peru and IFRS for the year 2009 is provided below:

	As of December 31, 2009 US\$(000)	Adjustments US\$(000)	Notes	As of December 31, 2009 under IFRS US\$(000)
Net sales	220,728	-		220,728
Cost of sales	(88,619)	(3,331)	3.5(a) and (b)	(91,950)
Gross income	132,109	(3,331)		128,778
Operating expenses				
General and administrative	(9,131)	(1,367)	3.5(b)	(10,498)
Selling	(4,717)	(74)	3.5(b)	(4,791)
Exploration in non-operating areas	(3,997)	-		(3,997)
Royalties to the Peruvian State	(3,001)	-		(3,001)
Voluntary and temporary contribution to the Peruvian State	(819)	-		(819)
Support to neighboring communities	(544)	-		(544)
Other, net	(28)	-		(28)
Total operating expenses	(22,237)	(1,441)		(23,678)
Operating income	109,872	(4,772)		105,100
Other revenues (expenses)				
Financial income	2,327	-		2,327
Gain from exchange difference, net	1,675	-		1,675
Financial expense of the provision for closure of mining units	(1,265)	-		(1,265)
Financial expenses	(24)	-		(24)
Total other revenues, net	2,713	-		2,713
Income before workers' profit sharing and income tax	112,585	(4,772)		107,813
Workers' profit sharing	(7,271)	7,271	3.5(a) and (b)	-
Income tax	(25,086)	(781)	3.5(a) and (b)	(25,867)
Net income	80,228	1,718		81,946
Net income per share, basic and diluted, stated in U.S. dollars	0.7286			0.7443
Weighted average number of shares outstanding (in units)	110,105,236			110,105,236

Notas a los estados financieros (continuación)

3.3. Reconciliation of the statement of changes in Shareholders' equity -

Reconciliation between the statement of changes in Shareholders' Equity under the generally accepted accounting principles in Peru and IFRS for the year 2009 is provided below:

(a) Reconciliation between the statement of changes in Shareholders' Equity under the generally accepted accounting principles in Peru and IFRS as of January 1, 2009:

	Shareholders' equity	
	US\$(000)	
Shareholders' Equity under Peru GAAP as of January 1, 2009	303,650	
Effect in retained earnings for the adjustment of:		
Property, plant and equipment	3.5(a) 8,160	
Deferred income tax liability	3.5(a) (2,448)	
Workers' profit sharing	3.5(b) (940)	
	<hr/>	
	4,772	
Effect in unrealized loss in hedge derivative financial instruments for the adjustment of:		
Workers' profit sharing	3.5(b) 4,163	
	<hr/>	
Shareholders' Equity under IFRS as of January 1, 2009	<hr/>	312,585

(b) Reconciliation between the statement of changes in Shareholders' Equity under the generally accepted accounting principles in Peru and IFRS as of December 31, 2009:

	Shareholders' equity	
	US\$(000)	
Shareholders' Equity under Peru GAAP as of December 31, 2009	307,375	
Effect in retained earnings for the adjustment of:		
Property, plant and equipment	3.5(a) 10,471	
Deferred income tax liability	3.5(a) (2,155)	
Workers' profit sharing	3.5(b) (1,684)	
Inventories	(141)	
	<hr/>	
	6,491	
Effect in unrealized loss in hedge derivative financial instruments for the adjustment of:		
Workers' profit sharing	3.5(b) (383)	
	<hr/>	
Shareholders' Equity under IFRS as of December 31, 2009	<hr/>	313,483

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Notes to the Financial Statements (continued)

3.4. Reconciliation of the statement of cash flows-

The IFRS adoption has no effect upon the reported cash flows generated by the Company; nevertheless some insignificant movements in certain captions had occurred as consequence of the conversion adjustments.

3.5. Notes to the reconciliation of the statement of financial situation and income -

Beginning balance -

The beginning balance is based in the financial statement according to generally accepted accounting principles in Peru, that corresponds to the International Financial Reporting Standards (IFRS), approved by resolutions emitted at the date of the financial statements by the Peruvian Accounting Standards Board (hereinafter "CNC" by its Spanish acronym). The IFRS includes the International Accounting Standards (IAS) and the pronouncement of the Interpretation Committee (IFRIC).

Adjustments -

The IFRS adoption has required adjustments to the existence balance in the previous financial statements under generally accepted accounting principles in Peru. The principal adjustments are:

(a) Property, plant and equipment -

Until 2004, the companies in Peru had calculated and recorded adjustments for inflation on no monetary assets. The fixed asset caption had been adjusted by inflation to reflect the effect of the variation of the acquisition power of the Nuevo Sol, even though Peruvian economy have not accomplished the hyperinflation characteristic according to IAS 29 - "Financial Reporting in Hyperinflationary Economies", as a result, the carry amount of fixed asset represent the real cost plus the inflation adjustment until 2004.

As part of the first-time adoption, the Company had chosen to measure its fixed asset at fair value based in the valuation performed by an independent appraiser. The Company uses this value as deemed cost in accordance with the IFRS 1 exemption. The revaluated assets are mainly buildings, machinery and plant equipments. Also, the Company performs a revision of the cost and the componentization of the principal assets of the Company. As a result, the Company has review the componentization of its main assets, which residual values, useful lives and depreciation methods will be revised at the end of each year.

In consequence, the Company recorded an increase in the "Property, plant and equipment, net" caption as of January 1, 2009 of US\$8,160,000 (US\$10,471,000 as of December 31, 2009) as an IFRS transition adjustment against "Retained earnings" caption in the statement of changes in Shareholders' equity in US\$5,712,000 (US\$8,316,000 as of December 31, 2009) this amounts are net of the deferred income tax of US\$2,448,000 as of January 1, 2009 (US\$2,155,000 as of December 31, 2009).

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Notes to the Financial Statements (continued)

(b) Workers' profit sharing -

At the November 2010 IFRS IFRIC meeting, the IFRIC concluded that employee profit sharing must be accounted for in accordance with IAS 19 "Employee Benefits" and not according to IAS 12 "Income Taxes". Consequently, an entity is only required to recognize a liability when an employee has provided service; deferred profit sharing must not be recorded for timing differences because this is a future service that cannot be considered an obligation or right under IAS 19. In Peru, the practice was to calculate and record deferred profit sharing in the financial statements.

As a result of the IFRS conversion, the Company recorded an negative adjustment to the deferred workers' profit sharing and income tax asset and liability caption of US\$1,703,000 and US\$4,926,000 as of January 1, 2009, respectively (US\$3,085,000 and US\$1,018,000 as of December 31, 2009, respectively). This negative adjustment was recorded against the "Retained earnings" caption in US\$940,000 (US\$1,684,000 as of December 31, 2009) and "Unrealized gain (loss) in hedge derivative financial instruments, net" in US\$4,163,000 (negative adjustment of US\$383,000 as of December 31, 2009) in the statement of changes in Shareholders' equity.

As a consequence of the application of IAS 19, the current workers' profit sharing expense is allocated in the captions of the statement of income for the year 2009 as follow:

- The "Cost of sales" caption increased in US\$5,501,000 by the direct labor cost related to the production, see note 19.
- The "General and administrative" caption increased in US\$1,367,000 by the cost related to the workers in the administrative area, see note 21.
- The "Selling" caption increased in US\$73,000 by the cost related to the workers in the selling area, see note22.

4. Uniformity

The statement of financial situation as of December 31, 2010 and 2009 and January 1, 2009; the statement of income, comprehensive income, changes in shareholders' equity and cash flows as of December 31, 2010 and 2009, included for comparative purposes, have been prepared under IFRS, using the same accounting principles and practices.

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Notes to the Financial Statements (continued)

5. Foreign currency transactions

Translations to foreign currency (Nuevos Soles) are completed using exchange rates published by the Superintendent of Banks, Insurance and AFP. As of December 31, 2010, the exchange rates published by this Institution were US\$0.3561 for buying and US\$0.3560 for selling (US\$0.3463 for buying and US\$0.3459 for selling as of December 31, 2009) and have been applied for the assets and liabilities accounts, respectively.

As of December 31, 2010 and 2009, the Company had the following assets and liabilities denominated in foreign currency:

	2010 S/.(000)	2009 S/.(000)
Assets		
Cash, banks and time deposits	58,112	41,656
Trade accounts receivable, net	1,254	787
	<hr/>	<hr/>
	59,366	42,443
Liabilities		
Trade accounts payable	2,618	1,090
Other current liabilities	42,709	34,588
Tax income payable	24,202	6,048
	<hr/>	<hr/>
	69,529	41,726
Net liability (asset) position	<hr/>	<hr/>
	(10,163)	717

As of December 31, 2010 and 2009, Management has decided to assume the currency risk set by this position. As of December 31, 2010 and 2009, hedging operations with derivatives to cover the currency risk have been taken.

6. Cash, banks and time deposit

(a) This item is made up as follows:

	2010 US\$(000)	2009 US\$(000)
Cash	23	38
Bank accounts (b)	7,108	4,412
Time deposits (c)	94,895	173,625
	<hr/>	<hr/>
Cash and cash equivalents considered in the statement of cash flows	102,026	178,075
	<hr/>	<hr/>
Time deposits with original maturity greater than 90 days (d)	17,685	-
	<hr/>	<hr/>
	119,711	178,075

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Notes to the Financial Statements (continued)

- (b) As of December 31, 2010 and 2009, the Company maintains its demand deposit accounts mainly in foreign currency. These funds are unrestricted, are deposited in domestic and foreign banks and earn interest at prevailing market rates.
- (c) As of December 31, 2010, the Company holds deposits in U.S. dollars of US\$90,000,000 which accrue interest rates calculated with annual rates that fluctuate between 1.00% and 1.45% and have original maturities between 30 and 63 days. Similarly, the Company holds time deposits in Nuevos Soles of S/.13,750,000 (equivalent to US\$4,894,980), which accrue interest rates calculated with annual rates that fluctuate between 2.50% and 3.05% and have original maturities between 78 and 90 days.
- (d) As of December 31, 2010, the Company holds a deposit in U.S. dollars of US\$3,000,000 which accrue interest rates calculated with annual rates that fluctuate of 1.30% have an original maturity of 91 days. Similarly, the Company holds time deposits in Nuevos Soles of S/.41,250,000 (equivalent to US\$14,684,941), which accrue interest rates calculated with annual rates that fluctuate between 2.75% and 3.40% and have original maturities between 91 and 123 days.

7. Trade accounts receivable, net

- (a) This item is made up as follows:

	2010 US\$(000)	2009 US\$(000)
Louis Dreyfus Commodities Metals	46,893	9,016
Votorantim Metais Cajamarquilla	6,402	3,306
Glencore International AG	4,166	11,144
Doe Run Peru	4,132	4,132
Consorcio Minero S.A. - CORMIN	-	18,070
Other	-	2,032
	<hr/> 61,593	<hr/> 47,700
Provision for doubtful accounts (b)	<hr/> (4,132)	<hr/> (4,132)
	<hr/> 57,461	<hr/> 43,568

Trade accounts receivable are denominated in U.S. dollars and have the issue date of the proof of payment as maturity.

- (b) In accordance with the analysis conducted by Management, an account receivable is deemed as impaired when it has been classified as an uncollectible account and, therefore, has been included in the provision for doubtful accounts caption. As of December 31, 2010 and 2009, the Company's Management believes that the Company has no bad debt in addition to the accounts receivable provisioned as doubtful accounts, since its main customers have recognized prestige

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Notes to the Financial Statements (continued)

in the international market and did not show financial problems at the period's close. Also, even though it holds some accounts receivable aged between 90 and 180 days, these are not considered as overdue since they are in the normal process of confirming the final grades of the concentrated sold, which process could take between three and six months starting from issuance of the provisional settlement.

(c) The movement of the allowance for doubtful trade accounts receivable for the years ended December 31, 2010 and 2009 was the following:

	2010 US\$(000)	2009 US\$(000)
Opening balance	4,132	295
Additions, note 21	-	4,132
Deductions	-	(295)
Closing balance	<u>4,132</u>	<u>4,132</u>

In the process of estimating the allowance for doubtful accounts, the Company's Management constantly evaluates market conditions, for which it uses analysis of aging and risk-rating reports for commercial operations.

In Management's opinion, the allowance for doubtful accounts as of December 31, 2010 and 2009 adequately covers the credit risk of these parties to those dates.

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Notes to the Financial Statements (continued)

8. Inventories, net

(a) This item is made up as follows:

	2010 US\$(000)	2009 US\$(000)
Current mineral	7,989	1,518
Classified mineral (b)	28,559	4,492
Supplies and spare parts	3,682	3,344
Inventory in transit	268	590
Concentrates	344	267
	<hr/>	<hr/>
	40,842	10,211
Provision for supplies and spare parts obsolescence	(9)	(13)
	<hr/>	<hr/>
	40,833	10,198
Non-current portion	<hr/>	<hr/>
Current portion	<hr/>	<hr/>

(b) The detail of long-term inventory corresponding to classified mineral that is kept in transition and south deposit fields as of December 31, 2010 and 2009 is presented below:

	2010	2009	
	US\$(000)	DMT	US\$(000)
Classified mineral			
Type I (zinc mineral)	1,399	614,137	-
Type II (copper mineral)	3,993	562,761	3,310
Type III (lead/zinc mineral)	<hr/>	<hr/>	<hr/>
	23,167	2,623,264	1,182
	<hr/>	<hr/>	<hr/>
	28,559	<hr/>	4,492
	<hr/>	<hr/>	<hr/>
Non-current portion	<hr/>	<hr/>	<hr/>
Current portion	<hr/>	<hr/>	<hr/>

The classified mineral corresponds to the material (3,800,162 DMT) of copper, zinc, and lead mineral from Tajo-Norte in 2010. According to Management's operations plan, the classified mineral is being treated since the start-up of the treatment level expansion of the refining plant. During the twelve months period ended as of December 31, 2010, it had been treated 136,091; 12,865 and 240,689 metric tons of mineral type I, II and III, respectively.

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Notes to the Financial Statements (continued)

(c) Accrual for spare parts and supplies obsolescence had the following movements during 2010 and 2009:

	2010 US\$(000)	2009 US\$(000)
Beginning balance	13	35
Allowance for the year	9	13
Write-off	(13)	(35)
 Ending balance	 9	 13

In Management's opinion, the reserve above created is sufficient to cover the risks of spare parts and supplies obsolescence as of December 31, 2010 and 2009.

Notes to the Financial Statements (continued)

9. Property, plant and equipment, net

(a) The movement with the cost and accumulated depreciation accounts as of 2009 and 2010:

	Beginning balance US\$(000)	Additions US\$(000)	Transfers and adjustments US\$(000)	Retires US\$(000)	Ending balance US\$(000)
Cost					
Land	296	-	-	-	296
Building and other constructions	31,750	-	16,317	316	48,383
Machinery and equipment	33,182	-	12,861	(1,286)	44,757
Transportation units	1,887	-	-	-	1,887
Furniture and mixtures	389	-	10	(17)	382
Other equipment	1,871	-	182	(353)	1,700
Units in transit	240	20,231	(20,226)	-	245
Work in progress (c)	22,576	12,202	(9,144)	(1)	25,633
Mine closure costs	11,128	-	-	-	11,128
	<u>103,319</u>	<u>32,433</u>	<u>-</u>	<u>(1,341)</u>	<u>134,411</u>
Accumulated depreciation					
Buildings and other constructions	19,512	2,343	-	(428)	21,427
Machinery and equipment	21,337	3,950	-	(417)	24,870
Transportation units	1,482	81	-	-	1,563
Furniture and fixture	319	51	-	(16)	354
Other equipment	1,317	280	-	(301)	1,296
Mine closure costs	4,451	351	-	-	4,802
	<u>48,418</u>	<u>7,056</u>	<u>-</u>	<u>(1,162)</u>	<u>54,312</u>
Net cost	<u>54,901</u>				<u>80,099</u>

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Notes to the Financial Statements (continued)

(b) The distribution of the annual depreciation expenses for 2010 and 2009 is as follow:

	2010 US\$(000)	2009 US\$(000)
Cost of sales, note 19	6,860	6,874
General and administrative, note 21	177	327
Exploration costs in non-operational mining sites	19	23
	<hr/>	<hr/>
	7,056	7,224
	<hr/>	<hr/>

(c) The table below presents the composition of the works in progress:

	2010 US\$(000)	2009 US\$(000)
Expansion of tailings fields Nos. 6 and 7	14,428	5,419
Río Blanco - Jupayragra Hydroelectric Power Station	8,629	6,942
Diversion project Rio San Juan	1,486	42
Implementation of the lead - copper separation circuit	-	3,561
Optimization of the pumping system of the Lead and Zinc processing plant	-	2,899
Drainage System	-	1,263
Installation of reactive distribution and dosage system	-	914
Other minor	1,090	1,536
	<hr/>	<hr/>
	25,633	22,576
	<hr/>	<hr/>

The Company's Management expects these works in progress to be completed during the year 2011.

(d) As of December 31, 2010 and 2009, under the application of the IAS 36 "Impairment of Assets," the Company's Management performed an evaluation of the value of its fixed assets through the present value of the future cash flows in U.S. dollars expected to arise from these assets. In Management's opinion, during 2010 there have not been indicators of impairment of the Company's fixed assets. As a result, Management has concluded that it is not required to record a loss due to impairment of long term assets.

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Notes to the Financial Statements (continued)

10. Expansion operations project

On August 15, 2008, the El Brocal Board of Directors approved a project to expand its operations in order to reach a treatment level of 18,000 MT per day of ore from its Tajo Norte and Marcapunta mines. This project will allow processing ore with a lower lead-zinc grade from the La Llave zone and copper from Marcapunta Norte previously classified, divided in three stages:

- (a) First stage: Optimization of the current plant of 5,000 DMT/day to 7,000 DMT/day.
- (b) Second stage: New concentrate plant 2,490 DMT/day.
- (c) Third stage: Expansion of the new plant from 2,490 DMT/day to 11,000 DMT/day.

As of December 31, 2010, the Company concluded the first stage and start-up the optimization phase of the current plant. At the end of the year 2010, the Company initiated the second stage of the project.

As of December 31, 2010 and 2009, the Company had executed the following works related to the project to expand operations the cost of which, based on the project economic feasibility study carried out by Management, have been capitalized:

	2010 US\$(000)	2009 US\$(000)
Expansion of refining plant capacity to 18,000 DMT / day	92,892	47,605
Expansion of Tajo Norte - Marcapunta Norte	16,246	15,801
Expansion of power grid	7,174	1,510
Optimization of crushing plant and conveyor belt	4,766	2,741
Construction of Huachacaja tailings fields	3,217	1,389
Feasibility study	2,582	2,082
Other minor activities	3,647	2,030
	<hr/> 130,524	<hr/> 73,158
Partial transfers from optimization of the current plant to property, plant and equipment	<hr/> (18,825)	<hr/> -
	<hr/> 111,699	<hr/> 73,158

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Notes to the Financial Statements (continued)

11. Trade accounts payable

This item is made up as follows:

	2010 US\$(000)	2009 US\$(000)
Domestic suppliers	22,602	10,653
Foreign suppliers	502	2,540
	<hr/>	<hr/>
	23,104	13,193

Trade accounts payable arise mainly from the acquisition of material, supplies and spare parts. These trade accounts payable are mainly denominated in U.S. dollars, have current maturities and accrue no interest. No specific guarantees have been granted for these obligations.

12. Other current liabilities

The table below presents the composition of the caption:

	2010 US\$(000)	2009 US\$(000)
Worker's profit sharing and other remunerations	9,223	7,934
Value added tax and other taxes	4,098	1,835
Hedge derivatives	2,227	-
Mining royalty payable	1,091	917
Voluntary and temporal contribution to Peruvian State, note 23	824	819
Board members' remuneration payable	750	750
Provision for labor contingencies	339	401
Dividends payable	191	103
Other minor	266	339
	<hr/>	<hr/>
	19,009	13,098

13. Environmental liabilities

(a) Provision for mine closing - In order to comply with the in force environmental legislation related to the current operation mine closing, in August 2006 the Company hired an independent firm authorized by the Peruvian State to elaborate the mine closing plan for its mining unit of Colquijirca. The objectives of the study were:

- Guarantee the adequate environmental protection around the area that surrounds the mining units through the execution of measures and works, applying technologies aimed

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Notes to the Financial Statements (continued)

at risk control, land stabilization and the retention of physical and chemical discharges, with pollution prevention being the primary consideration.

- To achieve sustainability of the economic and social environment in the zone and enabling the land to be used profitably once closure has been completed.
- Fulfill with current environmental protection regulations adopting international parameters about environmental protection.
- Estimating the useful life of the mine, in order to regulate the obligations and procedures that mine owners must comply with, and making the respective annual environmental guarantee provisions to cover the estimated cost of the closure plan and ensure that no environmental liabilities are left to affect the surroundings or the socioeconomic component.

Base on this study the Company estimates that the provision for closure of the mining unit (currently operating) amounts to approximately US\$17,102,000 as of December 31, 2010 (US\$16,588,000 as of December 31, 2009).

On August 15, 2006, the closure plan of the Colquijirca production unit was presented to the Ministry of Energy and Mines (MEM) for its revision and approval. To date, the MEM has performed some formal observations to the closure plan presented by the Company, which have been answered by the Company's Management. On March 20, 2009, the Ministry of Energy and Mines issued a Directorial Resolution No 064-2009-MEM/AAM, which approves the Closure Plan of the Colquijirca Mining Unit. Nevertheless, as a result of the expansion operations project, described in note 10, Management is obliged to present to MEM an environmental impact study that will include an update of the Colquijirca production mine site closing plans. As a consequence, the budget and the schedule of execution will be updated. The study has been delegated to a specialized firm, and is expected to be completed during the first semester of the year 2011, in which, has mentioned, the provision for closure of mining units recorded to date will be updated. Taking into account that Management expects the schedule of execution of activities related to the mine site closure to be done starting 2012, it has decided that all the provision for closure of the Colquijirca mining unit, amounting to US\$17,102,000 must be disclosed as a non-current provision.

(b) Mining environmental liability - In compliance with existing legislation governing the restoration of areas affected by environmental liabilities, in October 2006 the Company hired a specialist company authorized by the Peruvian state to draw up a closure plan for the Santa Barbara mine environmental liabilities.

The Santa Barbara mine has not been operative for many years now, so there is no environmental impact study (EIS) or Environment Program (PAMA). Thus it is deemed necessary

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Notes to the Financial Statements (continued)

to draw up a "Santa Barbara Mine Environmental Liabilities Closure Plan", a technical document that will determine not only the strategies, criteria and most viable measures for remedying the environmental liabilities; but will also determine the exact investment that these activities will require. The Santa Barbara mine environmental liabilities involve the physical and chemical stabilization of open pits, tailings ponds, spoil dumps, mine entrances, camps, etc., as well as the recovery of soils and replanting. The estimated value of this liability amounts to US\$4,980,000 as of December 31, 2010 and 2009.

On December 11, 2006, the closure plan for Santa Barbara mine environmental liabilities was submitted to the Ministry of Energy and Mines (MEM) for review and approval. On January 27, 2009, the Ministry of Energy and Mines issued a Directorial Resolution No 011-2009-MEM/AAM which approves the Closure Plan of the environmental liability of the mining unit Santa Bárbara. Management expects the schedule of execution of activities related to the mine site closure to be done starting 2012, it has decided that all the provision for closure of the Colquijirca mining unit, amounting to US\$4,980,000, must be disclosed as a non-current provision.

(c) The movement of the provision for mine closing and environmental liabilities is as follow:

	US\$(000)
Balance as of January 1, 2009	21,031
Financial expense of the provision	1,265
Payments	<u>(728)</u>
Balance as of December 31, 2009, note 26(a)	21,568
Financial expense of the provision	1,295
Payments	<u>(781)</u>
Balance as of December 31, 2010, note 26(a)	<u>22,082</u>

The provision for closure of mining units and exploration projects represents the present value of the closure costs that are expected to be incurred between the years 2012 and 2020. Estimates of the costs for closure of mining units are based on studies prepared by independent advisers that meet the environmental regulations in effect. The provision for closure of mining units and exploration projects corresponds mostly to activities that must be carried out for restoring the mining units and areas affected by operation and production activities. The principal works to be performed correspond to earthworks, re-vegetation efforts and dismantling of the plants.

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Notes to the Financial Statements (continued)

Closure budgets are reviewed regularly to take into account any significant change in the studies conducted. Nevertheless, the closure costs of mining units will depend on the market prices for the closure works required, which would reflect future economic conditions. Also, the time when the disbursements will be made depends on the useful life of the mine, which will be based on future metals prices.

As of December 31, 2010, the future value of the provision for closure of mining units and environmental liabilities was US\$20,204,000, which has been discounted using the annual risk-free rate of 8 per cent, resulting in an updated liability of US\$22,082,000 (US\$20,204,000 which was discounted using the annual risk-free rate of 8 per cent, resulting in an updated liability of US\$21,568,000 as of December 31, 2009). The Company believes that this liability is sufficient to meet the current environmental protection laws approved by the Ministry of Energy and Mines.

14. Income tax

(a) The Income tax expense shown in the statement of income for the years 2010 and 2009 is made up as follows:

	2010 US\$(000)	2009 US\$(000)
Income tax		
Current	(28,351)	(23,947)
Deferred	284	(1,920)
	<hr/>	<hr/>
	(28,067)	(25,867)
	<hr/>	<hr/>

Notes to the Financial Statements (continued)

(b) The deferred income tax asset and liability movement is made up as follows:

	Balance as of January 1, 2009 US\$(000)	Credit (debit) to the statement of income US\$(000)	Debit to the statement of changes in shareholders' equity US\$(000)	Balance as of December 31, 2009 US\$(000)	Credit (debit) to the statement of income US\$(000)	Debit to the statement of changes in shareholders' equity US\$(000)	Balance as of December 31, 2010 US\$(000)
Deferred asset							
Unrealized loss on derivative financial instruments	-	-	2,054	2,054	-	4,903	6,957
Difference in depreciation rates	2,330	1,187	-	3,517	1,238	-	4,755
Provision for mine closure	2,707	266	-	2,973	260	-	3,233
Environmental liability of the mining unit Santa Bárbara	1,494	-	-	1,494	-	-	1,494
Fair value of unrealized hedge derivatives	-	-	-	-	447	-	447
Mining royalties	67	208	-	275	52	-	327
Embedded derivative for selling of concentrates	2,490	(2,490)	-	-	-	-	-
Others	40	34	-	74	(534)	-	(460)
	<u>9,128</u>	<u>(795)</u>	<u>2,054</u>	<u>10,387</u>	<u>1,463</u>	<u>4,903</u>	<u>16,753</u>
Deferred liability							
Amortization of mine development costs	(3,807)	(45)	-	(3,852)	(386)	-	(4,238)
Embedded derivative for selling of concentrates	-	(1,451)	-	(1,451)	(1,295)	-	(2,746)
Deemed cost of fixed assets	(2,729)	371	-	(2,358)	502	-	(1,856)
Unrealized loss on derivative financial instruments	(22,301)	-	22,301	-	-	-	-
	<u>(28,837)</u>	<u>(1,125)</u>	<u>22,301</u>	<u>(7,661)</u>	<u>(1,179)</u>	<u>-</u>	<u>(8,840)</u>
			<u>(1,920)</u>		<u>284</u>		

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Notes to the Financial Statements (continued)

(c) The reconciliation of the legal combined rate with the effective rate of income tax for the years 2010 and 2009:

	2010 US\$(000)	%	2009 US\$(000)	%
Income before income tax	<u>99,845</u>	<u>100</u>	<u>107,813</u>	<u>100</u>
Expected income tax according to the legal combined rate	(29,954)	(30)	(32,344)	(30)
Effect for translation of the tax basis held in Nuevos Soles into U.S. Dollars	1,782	1.8	4,677	4.3
Tax exempt financial income	450	0.5	698	0.6
Loss on currency exchange difference not deductible	70	0.1	502	0.5
Other minor	<u>(451)</u>	<u>(0.5)</u>	<u>600</u>	<u>0.6</u>
Income tax expense	<u>(28,103)</u>	<u>(28.1)</u>	<u>(25,867)</u>	<u>(24.0)</u>

15. Shareholders' equity, net

(a) Capital stock -

As of December 31, 2010 and 2009, the Company's capital stock is represented by 103,893,888 fully subscribed and paid common shares, with a nominal value of one Peruvian Nuevo Sol each.

The capital stock structure as of December 31, 2010 and 2009:

	Number of shareholders		Participation	
	2010	2009	2010	2009
Percentage				
Less than 0.20%	3,458	3,458	5.49	5.49
From 0.20 to 1.00%	17	17	9.47	9.47
From 1.01 to 5.00%	10	10	25.66	25.66
From 5.01 to 10.00%	1	1	8.32	8.32
From 10.01 to 100.00%	<u>1</u>	<u>1</u>	<u>51.06</u>	<u>51.06</u>
Total	<u>3,487</u>	<u>3,487</u>	<u>100.00</u>	<u>100.00</u>

The market value of the common shares is S/.56.60 per share as of December 31, 2010 (S/.41.43 per share as of December 31, 2009) and presents a negotiation frequency rate of 95 per cent (100 per cent as of December 31, 2009).

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Notes to the Financial Statements (continued)

(b) Investment shares -

As of December 31, 2010 and 2009, this caption corresponds to 6,211,348 investment shares, with a nominal value of one Peruvian Nuevo Sol each.

The market value of the common shares is S/.37.15 per share as of December 31, 2010 (S/.31.84 per share as of December 31, 2009) and presents a negotiation rate of 82 per cent (52 per cent as of December 31, 2009).

The owners of investment shares have rights to the dividend distribution according to the by-laws of the Company and Law 27028 "Law that replaces the work shares by investment shares".

(c) Legal reserve -

According to the *Ley General de Sociedades* (General Corporations Law), a minimum of 10 percent of distributable income in each year, after deducting income tax, shall be transferred to a legal reserve, until such reserve is equal to 20 percent of capital stock. This legal reserve may be used to offset losses or may be capitalized; however, if used to offset losses or if capitalized, the reserve must be replenished with future profits.

(d) Dividend distribution -

The General Shareholders' Meeting held on March 24, 2009 approved the distribution of retained earnings of the year 2008 in approximately US\$24,222,000, equivalent to US\$0.28 per share. This dividends where place to free disposal of the shareholders in April 2009.

The General Shareholders' Meeting held on March 26, 2010 approved the distribution of retained earnings of the year 2009 in approximately US\$40,738,000, equivalent to US\$0.37 per share.

This dividends where place to free disposal of the shareholders in April 2010.

16. Hedge derivative financial instruments

The Company's policy is to carry out metal price hedging operations using any of the derivatives instruments existing in the financial market, for a period of up to 3 years and a total not more than 25% of the estimated metal production each year. In the session held on February 23, 2007, the Company's Board of Directors appointed a Hedging Committee to be responsible for approving all hedging operations before contracting and/or executing. To carry out its price hedging operations, the Company has credit lines with the brokers in the London Metals Exchange (LME).

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Notes to the Financial Statements (continued)

(a) Mineral price hedging operations

Hedging contracts: Zero cost collar options -

During 2010, the Company subscribed three price-hedging zero cost option contracts to insure future flows originating from its sales of 2011 a 2012. The critical terms of hedging transactions have been negotiated with the brokers so as to agree with the terms negotiated in the related commercial contracts.

These hedging options establish a maximum and a minimum price. When the average price for the quotation period is above the maximum price established, the purchase option in favor of the counterpart is activated, generating a payment to the Company of the difference between the two prices. On the other hand, when the average price for the quotation period is below the minimum price established, the sale option in favor of the Company, resulting in receipt of the difference between the two prices.

The hedging operations in effect as of December 31, 2010 are the following:

Metal	Monthly average amount	Total Amount	Fixed average price	Period	Fair value US\$(000)
	MT	MT	per MT US\$		
Zero cost collar-option contracts					
Copper	150	1,650	5,500 - 7,063	February 2011 - December 2011	(4,249)
Copper	150	1,650	6,000 - 7,050	February 2011 - December 2011	(4,236)
Copper	150	1,650	5,500 - 8,020	February 2011 - December 2011	(2,993)
Copper	193	2,126	7,500 - 8,750	February 2011 - December 2011	(2,413)
Copper	250	3,000	7,500 - 8,415	January 2012 - December 2012	(3,456)
Copper	193	2,126	7,500 - 8,760	February 2011 - December 2011	(2,400)
Copper	250	3,000	7,500 - 8,425	January 2012 - December 2012	<u>(3,441)</u>
Total fair value of hedging instruments					
					(23,188)
Less - noncurrent portion					
					<u>6,897</u>
Current portion					
					<u>(16,291)</u>

The fair value of the derivative hedging instruments held as of December 31, 2009 was US\$6,843,000 which is presented in the "Derivative financial instruments" caption of the statement of financial position (US\$1,468,000 and US\$5,375,000 current and non-current composition, respectively).

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Notes to the Financial Statements (continued)

Price hedge operations for cash flow from the next few years' sales have been evaluated by the Management and found to be highly effective. The effectiveness of hedging operations was measured using the flow-compensation method, a method that the Company's management considers best reflects the risk management aim relating to the hedging operations.

As of December 31, 2010, as a result of the hedging transactions settled as of December 31, 2010, the Company held accounts payable of US\$2,227,000 from London Metal Exchange brokers which is presented in the "Other current liabilities" caption of the statement of financial position (US\$1,703,000 as of December 31, 2009 is presented in the "Other accounts receivable, net" caption of the statement of financial position).

(b) The change in the "Unrealized gain (loss) on hedge derivative financial instruments, net" equity account is as follows:

	Hedge derivative financial instruments US\$(000)	Income tax US\$(000)	Unrealized gain (loss) on hedge derivative financial instruments, net US\$(000)
Balance as of January 1, 2009	74,337	(22,301)	52,036
Gains from hedging transactions settled during the period, note 18 (a)	(28,005)	8,402	(19,603)
Unrealized losses on derivative financial instruments for hedging	<u>(53,175)</u>	<u>15,952</u>	<u>(37,223)</u>
Total change in derivative financial instruments for hedging	<u>(81,180)</u>	<u>24,354</u>	<u>(56,826)</u>
Balance as of December 31, 2009	(6,843)	2,053	(4,790)
Gains from hedging transactions settled during the period, note 18 (a)	(1,884)	565	(1,319)
Unrealized losses on derivative financial instruments for hedging	<u>(14,461)</u>	<u>4,338</u>	<u>(10,123)</u>
Total change in derivative financial instruments for hedging	<u>(16,345)</u>	<u>4,903</u>	<u>(11,442)</u>
Balance as of December 31, 2010, (see 16(a))	<u>(23,188)</u>	<u>6,956</u>	<u>(16,232)</u>

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Notes to the Financial Statements (continued)

(c) Embedded derivatives from changes in the provisional prices of commercial settlements - As indicated in note 2.3(n), exposure to risk by price variations of zinc, lead and copper is considered as an embedded derivative and is separated from the commercial contract.

As of December 31, 2010 and 2009, the provisional settlements (in dry metric tons of zinc, lead and copper) maintained on that date, their final liquidation periods of final settlement and the fair value of the embedded derivatives are as follows:

As of December 31, 2010:

Metal	Quantity MT	Maturity 2011	Prices		
			Provisional US\$	Futures US\$	Fair value US\$(000)
Copper	40,819	March - June	9,167	9,560 - 9,705	9,068
Zinc	5,920	January	2,292	2,435	87
	<u>46,739</u>				<u>9,155</u>

As of December 31, 2009:

Metal	Quantity MT	Maturity 2010	Prices		
			Provisional US\$	Futures US\$	Fair value US\$(000)
Copper	17,211	January - February	5,216 - 6,982	7,399 - 7,389	2,549
Zinc	40,671	January - February	1,884 - 2,376	2,585 - 2,574	1,260
Lead	15,893	January - February	1,900 - 2,329	2,455 - 2,445	65
	<u>73,775</u>				<u>3,874</u>

As of December 31, 2010 and 2009, the fair value of the embedded derivative is a gain of US\$9,155,000 and US\$3,874,000, respectively, is shown in the "Net sales" caption of the statement of income. Forward prices on the dates on which it is expected to settle the open positions as of December 31, 2010 and 2009 are taken from publications of the London Metals Exchange.

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Notes to the Financial Statements (continued)

(d) Fair value hierarchy -

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments which are measured at fair value by valuation technique:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: Other techniques for which all inputs, different from those quoted prices included in the level 1, are observable either directly or indirectly.
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The financial instruments measured at fair value used by the Company, use level 1 valuation techniques in the periods ended as of December 31, 2010 and 2009.

There has been no transfer between fair value levels during the year 2010.

17. Taxation

- (a) The Company is subject to Peruvian Tax Law. As of December 31, 2009, the statutory income tax rate in Peru was 30 percent of taxable income.

Non - domiciled companies in Peru and individuals must pay an additional tax of 4.1 percent over received dividends.

- (b) The tax authorities are legally entitled to review and, if necessary, adjust the income tax calculated by the Company during the four years subsequent to the year of the related tax return filing. During 2006, the tax authorities reviewed the income tax for 2003 and determined additions to the book income by S/.2,292,018 (equivalent to US\$729,477) by omission of sales (undue deductions of freights and insurances when exporting concentrates), resulting in a reduction of the tax loss carry forward of that year. The tax assessment of S/.343,803 (equivalent to US\$118,922, without considering interest as of December 31,) has not been accepted by the Company and is under claim. As of November 30, 2010, the tax authorities emitted the Tax Resolution No. 0150140009380, which declared that the claim has no legal basis. The Company did not agree with the scope and contents of the Tax Resolution, and on January 10, 2011, the Company appealed to the Constitutional Tribunal in the periods established by Tax Code.

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Notes to the Financial Statements (continued)

The Company's income tax return and value added tax returns of 2006 to 2010 are still subject to review by the tax authorities. Due to various possible interpretations of current legislation, it is not possible to determine whether or not future reviews will result in tax liabilities for the Company. In the event that additional taxes payable, interest and surcharges result from tax authority reviews, they will be charged to expense in the period assessed and paid. However, in Management's and legal advisors' opinion, any additional tax assessment would not be significant to the financial statements as of December 31, 2010 and 2009.

(c) With the purpose of determining the income tax and the value added tax, the transfer prices among related parties and for transactions with companies domiciled in countries considered tax havens, prices should be supported by documentation containing information about the valuation methods applied and criteria used in its determination. Based on an analysis of the Company's operations, Management and its legal advisors do not believe that the new regulations will result in significant contingencies for the Company as of December 31, 2010 and 2009.

18. Net sales

(a) The Company's revenues are mostly from sales of zinc, lead and copper concentrates. The table below presents the net sales to customers by concentrate for the years 2010 and 2009:

	2010 MT	2009 MT	2010 US\$(000)	2009 US\$(000)
Net sales by concentrates				
Cooper	63,457	37,271	108,760	47,835
Zinc	83,950	133,914	63,508	82,245
Lead	23,427	39,026	37,950	57,267
	<u>170,834</u>	<u>210,211</u>	<u>210,218</u>	<u>187,347</u>
Prior-period settlements			(3,603)	538
Embedded derivative, note 16(c)			9,155	3,874
Adjustment to open provisional liquidations			1,539	964
Unrealized net gain on hedge derivative financial instruments; note 16(b)			<u>1,884</u>	<u>28,005</u>
			<u>219,193</u>	<u>220,728</u>

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(b) The table below presents the net sales to customers by geographic region (without include the effect of the valuation of embedded derivative on sale, unrealized gain on hedge derivative financial instruments and others):

	2010 US\$(000)	2009 US\$(000)
Peru	198,335	160,825
Asia	7,944	26,522
Europe	<u>3,939</u>	<u>-</u>
	<u>210,218</u>	<u>187,347</u>

(c) Concentration of sales -

In 2010, the Company's three largest customers accounted for 56%, 18% and 12% of total sales (38%, 31% and 9% of total sales in 2009). As of December 31, 2010, 93% of the trade accounts receivable is related to these customers (90% as of December 31, 2009).

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19. Cost of sales

This item is made up as follows:

	2010 US\$(000)	2009 US\$(000)
Beginning balance of concentrates, note 8(a)	267	245
Beginning balance of ore in tailing field, note 8(a)	1,518	2,514
Beginning balance of products in process, note 8(a)	4,492	-
	<hr/>	<hr/>
	6,277	2,759
Production cost		
Services provided by third parties	62,619	41,403
Consumption of materials and supplies	13,543	11,794
Direct labor	7,679	4,992
Depreciation, note 9(b)	6,860	6,874
Workers' profit sharing, note 30	6,563	5,501
Electricity and water	5,798	2,930
Rentals	3,768	1,516
Securities	2,439	1,852
Other manufacturing expenses	3,278	4,487
Purchase of concentrate from related party, note 25(c)	-	14,120
Purchase of concentrate from third parties	12,741	-
	<hr/>	<hr/>
	125,288	95,469
Less - final balance of concentrates, note 8(a)	(344)	(267)
Less - final balance of ore in tailing field, note 8(a)	(7,989)	(1,518)
Less - final balance of products in process, note 8(b)	(28,559)	(4,493)
	<hr/>	<hr/>
	(36,892)	(6,278)
	<hr/>	<hr/>
	<hr/>	<hr/>
	94,673	91,950

20. Exploration in non-operating areas

The expenses incurred in 2010 and 2009 by exploration area:

	2010 US\$(000)	2009 US\$(000)
Marcapunta Oeste	5,017	3,196
San Gregorio	2,837	26
Marcapunta Norte	873	308
Others	236	467
	<hr/>	<hr/>
	8,963	3,997

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21. General and administrative expenses

This item is made up as follows

	2010 US\$(000)	2009 US\$(000)
Personnel expenses	2,016	2,850
Workers' profit sharing, note 30	1,580	1,367
Services provided by third parties	1,129	449
Board members' remuneration	750	750
Taxes	300	298
Depreciation, note 9(b)	177	327
Allowance for doubtful accounts, note 7(c)	-	4,132
Various expenses	247	325
	<hr/>	<hr/>
	6,199	10,498
	<hr/>	<hr/>

22. Selling expenses

This item is made up as follows:

	2010 US\$(000)	2009 US\$(000)
Transport and freight concentrates	2,672	3,876
Supervision and assays	149	173
Personnel expense	120	98
Storage of concentrates	120	193
Loading and unloading of concentrate	104	210
Workers' profit sharing, note 30	75	73
Custom duties	57	71
Service fees	3	37
Others	40	60
	<hr/>	<hr/>
	3,340	4,791
	<hr/>	<hr/>

23. Voluntary and temporary contribution to Peruvian State

On January 16, 2007 the Company signed an agreement entitled "Mining Program Involving the People" with the Peruvian State, assuming a commitment to create private funds from extraordinary and temporary voluntary economic contributions to promote welfare and social development and to help to improve the living conditions of the population and communities located principally in the areas of influence of mining projects, through works, projects and/or projects.

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In year 2010, the economic contribution amounted to US\$824,000 (US\$819,000 as of December 31, 2009).

On April 7, 2010 the Company handed over to "Asociación Civil sin Fines de Lucro Don Eulogio Fernandini" a voluntary contribution corresponding to fiscal year 2009, US\$163,000 (equivalent to S/.475,000) for the creation of a Local Mining Fund and US\$656,000 (equivalent to S/.1,900,000) for the creation of a Regional Mining Fund. Details of the voluntary, temporary economic contribution to the mining fund are given below:

	2010 US\$(000)	2009 US\$(000)
Voluntary and temporary contribution to "Programa Minero de Solidaridad con el Pueblo"		
Local Mining Fund	165	163
Regional Mining Fund	659	656
	<hr/>	<hr/>
	824	819
	<hr/>	<hr/>

24. Basic and diluted earnings per share

The computation of basic and diluted earnings per share for the years ended December 31, 2010 and 2009 (in thousands of U.S. dollars, except for the number of common and investment shares) are presented below:

	2010	2009
Net income US\$(000)	71,660	81,946
Common and investment shares - units	110,105,236	110,105,236
Basic and diluted earnings per share - US\$	0.6508	0.7443

There has not been any other transaction related to common and potential shares occurred between the reporting date and the financial statement date.

25. Transactions with related parties

(a) During 2010 and 2009, the Company contracted a storage service of supplies to Compañía de Minas Buenaventura S.A.A for approximately US\$27,000 per year. Similarly, during 2010 and 2009, the Company contracted the services of supervision of the "Expansion operations project" to Buenaventura Ingenieros S.A. for approximately US\$1,960,000 and US\$1,092,000, respectively.

The Company maintains liabilities with related parties as of December 31, 2010 and 2009 for an approximate amount of US\$287,000 and US\$455,000 respectively.

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- (b) The Board members' remuneration and Management's remuneration were approximately US\$1,251,047,000 during 2010 (approximately US\$2,228,544 during 2009), and include current benefits, labor benefits and others. The Company does not pay in the long term its Directors and key personnel.
- (c) For the year 2009, the Company signed a commercial contract with Compañía de Minas Buenaventura S.A.A. for the purchase of gold and silver concentrates from the Orcopampa mining unit. The provisional sales value are estimated based on the average price of the month of delivery, whereas the final price adjustments are adjusted based on the average price of the quotation period, which normally is the month after the delivery. The concentrate value purchased by Compañía de Minas Buenaventura S.A.A. during 2009 for US\$14,120,000, has been mixed with the copper concentrate and is part of the production cost, see note 19.

As of December 31, 2010, there is no any other transaction with related parties.

26. Commitments and contingencies

- (a) Environmental matters -
The Company's mining and exploration activities are subject to environmental protection standards. In order to comply with these standards, the Company has presented the preliminary studies covering Environmental Assessment (EVAP) and the Environmental Adjustment and Management Program (PAMA) for Colquijirca Mining Unit. In 1996, the Ministry of Energy and Mines approved the PAMA submitted by the Company, as required by the Supreme Decree No. 016-93-PM and Supreme Decree No. 059-93-EM (Regulations for Environmental Protection in the Mining-Metallurgical Industry). The activities as defined in the PAMA were completed as of December 31, 2003.

On October 14, 2003, the Congress issued the Law 28090 which regulates the procedures and commitments that the mining activities must follow in order to elaborate, file and implement a mining site closing plan, as well as establishes the constitution of a guarantee to assure the compliance of the committed plan in connection with protection, conservation and recovery of the environment. On August 15, 2005 the corresponding ruling was approved.

In relation with the environmental monitoring procedures, the Company continues with the development of permanent activities of environmental adjustment and management program - PAMA executing proactive activities over the areas affected by environmental liabilities and the treatment of acid water.

As of December 31, 2010, the Company has recognized liabilities of US\$22,082,000 (US\$21,568,000 as of December 31, 2009) in connection with its future obligations for the closing of the mining unit, see note 13(c).

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(b) Legal proceedings -

As of December 31, 2010 and 2009, the Company has diverse labor demands and civil, constitutional and tax proceedings which are management by the legal advisors of the Company. Management of the Company has recorded, based on the available information, accruals for the labor demands, which are considered sufficient to cover the related risks as of December 31, 2010 and 2009.

27. Disclosure of information on segments

International Financial Reporting Standard (IFRS) 8 - "Operating Segments" requires that corporations present financial information by line of business and by business or geographic area. Corporations should take into account their organizational structure and internal reporting system to identify reportable segments. A business segment is a component of a corporation that provides a single product or service or a group of related products and services and that is subject to risks and returns that are different from those of other business segments. A geographic segment is a component of a corporation that provides products and services within a particular economic ambit and that is subject to risks and returns that are different from those of components operating in other economic ambits.

The Company's only reportable segment is mining.

28. Financial-risk management objectives and policies

The Company's activities expose it to a variety of financial risks. The principal risks that could adversely affect the Company's financial assets and liabilities and its future cash flows are exchange-rate risk, risk of changes in the prices of minerals, interest-rate risk, liquidity risk and credit risk. The Company's risk management program deals with minimizing the potential adverse effects on its financial performance.

The Company's Management is expert as to the conditions existing in the market and, based on its knowledge and experience, reviews and decides on policies to manage each of these risks, which are described in the following paragraphs. This also includes analyses seeking to reveal sensitivity in the Company's financial instruments to changes in market variables and show the impact on the statement of income or equity, if necessary. Financial instruments that are affected by market risks include accounts receivable, accounts payable, embedded derivatives and derivative financial instruments for hedging.

The sensitivity analysis has been prepared as of December 31, 2010 and 2009 based on the amounts of the financial assets and liabilities held to those dates.

In accordance with the Company's policies, derivative instruments must not be held for speculative purposes. With respect to the points mentioned in note 16 of the financial statements the Company performs hedging operations over the prices of metals using some of the derivative instruments present in the financial markets.

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The Board of Directors reviews and approves policies to manage each of these risks, which are described below:

(a) Market risk

Market risk is the risk that the fair value of the future cash flows from financial instruments should fluctuate as a result of changes in market prices. The market risks that apply to the Company include three types of risk: exchange-rate risk, risk of changes in the prices of minerals and interest-rate risk. Financial instruments affected by market risks include loans, deposits and derivative financial instruments.

The sensitivity analysis in this section relates to the positions as of December 31, 2010 and 2009, and has been prepared considering that the proportion of financial instruments in foreign currency remains constant.

(a.1) Exchange risk

The Company bills the sale of its products (locally and abroad) mostly in United States dollars. Exchange-rate risk arises mainly from deposits and other accounts payable in Nuevos Soles. The Company mitigates the effect of exposure to exchange-rate risk by carrying out almost all of its transactions in its functional currency. Management retains smaller amounts in Nuevos Soles in order to cover its needs (taxes and compensation) in this currency.

As of December 31, 2010, the Company had posted a net gain of US\$232,000 from exchange differences (in the 2009 period, a net gain of US\$1,675,000 from exchange differences), from the translation of balances in Nuevos Soles to the functional currency.

A table showing the effect on results of a reasonable change in foreign-currency exchange rates is presented below, with all other variables kept constant:

	Exchange-rate increase / decrease	Effect on earnings US\$(000)
2010		
Exchange rate	+10%	400
Exchange rate	-10%	(400)
 2009		
Exchange rate	+10%	10
Exchange rate	-10%	(10)

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(a.2) Risk of changes in the prices of minerals

The international price of minerals has an important impact on the results of the Company's operations. In order to cover the risk resulting from a drop in the prices of metals to be marketed, the Company signed derivative contracts that qualify as cash-flow hedges, see note 16.

In order to control and follow up on hedges, the Company approved a hedging policy "Policy for Hedging Metals Prices", which is carried out and enforced together with the Policy for Management of Financial Risks. Likewise, the Company has a Hedging Committee with the objective of mitigating the risks associated with the changes and volatility taking place in metals prices.

As of December 31, 2010, the fair value of the embedded derivatives contained in the commercial contracts amount to US\$9,155,000 (see note 16(c)). The estimate corresponding to the provisional sales value, pending final adjustments, which were closed on January 2011 were reduced by 4 percent with respect to the real adjusted value. In the case of the settlements that are still held at provisional value as of December 31, 2009 their estimate was also reduced by 4 percent due to the decrease in the quotation of the metals produced from the second half of the month of January.

With respect to future prices (copper, lead and zinc) as of December 31, 2010 and 2009, and the fair value as of those dates of the position in derivative financial instruments for hedging contracted by the Company, a sensitivity analysis of the position's fair value is presented considering a change on the order of 10 per cent for the relevant prices, while all other variables remain constant:

		Effect on unrealized gain (loss) on derivative financial instruments for hedging, net US\$(000)
2010		
Increase of 10 percent in future quotes		
Hedges in effect for 2011		(7,785)
Hedges in effect for 2012		<u>(4,950)</u>
		(12,735)
Decrease of 10 percent in future quotes		
Hedges in effect for 2011		7,190
Hedges in effect for 2012		<u>4,875</u>
		12,065

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	Effect on unrealized gain (loss) on derivative financial instruments for hedging, net US\$(000)
2009	
Increase of 10 percent in future quotes	
Hedges in effect for 2010	(3,580)
Hedges in effect for 2011	<u>(2,201)</u>
	<u>(5,781)</u>
Decrease of 10 percent in future quotes	
Hedges in effect for 2010	3,059
Hedges in effect for 2011	<u>2,439</u>
	<u>5,498</u>

(a.3) Interest-rate risk

The Company has significant assets such as time deposits that are placed with leading financial institutions, they accrue interest at rates in effect in the market; the Company's income and operating cash flows are independent of changes in market interest rates.

If the interest rates to which the time deposits and long-term debt are subject would have been 10% higher (or lower) as of December 31, 2010, the effect on earnings before income tax and workers' profit sharing would have been US\$29,135,000 higher (lower).

(b) Credit risk -

The Company's credit risk arises from the inability of debtors to be able to fulfill their obligations, to the extent to which they are overdue. Therefore, the Company deposits its excess funds in leading financial institutions, establishes conservative credit policies and constantly evaluates conditions of the market in which it is involved, for which it uses risk-rating reports for commercial and credit transactions and conducts hedging transactions with London Metal Exchange brokers of recognized prestige. Therefore, the Company does not expect to incur significant losses from credit risk.

There is concentration-of-credit risk when there are changes in the economic, industrial or geographic factors that equally affect the counterparts related to the Company. The Company's gold and concentrate sales are made to investment banks and companies of recognized national and international prestige. Transactions are executed with various counterparts with credit solvency, which mitigates any significant concentration of credit.

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Notes to the Financial Statements (continued)

Trade accounts receivable are denominated in United States dollars; their due dates are the dates of emission on the proof of payment, which amounts becomes cash in days following their due dates, the Company's sales of the Company are made to domestic and foreign customers; as of December 31, 2010 it had a portfolio of 7 customers (8 customers as of December 31, 2009). As of December 31, 2010 the Company's three largest customers accounted for 56, 18 and 12 per cent of total sales (38, 31 and 9 of total sales in 2009). The Company performs an assessment on those debts whose collection is estimated as a variable to determine the allowance for doubtful accounts.

Collections in January 2011 amounted to US\$47,949,000, which represents 83 per cent of the balances receivable as of December 31, 2010, for which reason the credit risk would be mitigated.

(c) Liquidity risk -

Prudent management of liquidity risk implies maintaining sufficient cash and cash equivalents and the possibility of committing or having financing committed through an adequate number of credit sources. The Company maintains suitable levels of cash and cash equivalents; its shareholders also include companies with economic backing and it has sufficient credit capacity to allow it to have access to lines of credit in leading financial entities.

The Company continually monitors its liquidity reserves based on cash flow projections.

An analysis of the Company's financial liabilities classified according to their aging is presented below, considering the period from their due date to the statement of financial position date:

	Less than 1 year US\$(000)	Between 1 and 2 years US\$(000)	Total US\$(000)
As of December 31, 2010			
Trade accounts payable	23,104	-	23,104
Other accounts payable	19,009	-	19,009
Financial hedging instruments	16,291	6,887	23,178
Total	58,404	6,887	65,291
As of December 31, 2009			
Trade accounts payable	13,648	-	13,648
Other accounts payable	13,098	-	13,098
Financial hedging instruments	1,468	5,375	6,843
Total	28,214	5,375	33,589

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Notes to the Financial Statements (continued)

(d) Capital management -

The objective is to safeguard the Company's capacity to continue as a going concern for the purpose of providing returns for shareholders, benefits for the stakeholders and maintaining an optimal structure that allows reducing the cost of capital.

The Company manages its capital structure and makes adjustments to confront changes in the market's economic conditions. The Company's policy is to finance all its short- and long-term projects with its own operating resources. In order to maintain or adapt the capital structure, the Company may amend the policy for dividend payments to shareholders, return capital to its shareholders or issue new shares. There were no changes in objectives, policies or procedures during the years ending December 31, 2010 and 2009.

29. Fair value of financial instruments

Fair value is defined as the amount at which assets would be exchanged or liabilities settled between knowing and willing parties to an ordinary transaction, under the assumption that the entity is a going concern.

When a financial instrument is traded in a liquid and active market, its price as set in a real market transaction offers the best evidence of its fair value. When no price is set in the market or the latter may not be indicative of the instrument's fair value, the market value of another substantially similar instrument, the analysis of discounted flows or other applicable techniques may be used to determine this fair value, which is materially affected by the assumptions used. Although Management has used its best judgment in estimating the fair values of its financial instruments, any technique for making these estimates entails a certain level of inherent fragility. As a result, fair value may not be indicative of the net realizable or liquidation value of financial instruments.

The following methods and assumptions were used in order to estimate fair values:

Financial instruments whose fair value is similar to their book value -

For financial assets and liabilities such as cash, banks and time deposits, accounts receivable, accounts payable and other current liabilities that are liquid or have short-term maturities (less than three months), it is estimated that their book value is similar to their fair value.

The Company carries out derivative financial instrument transactions with financial entities having investment grade credit ratings. These derivative financial instruments products are estimated using market valuation techniques; the majority of contracts are derivative instruments for hedging metals prices.

The valuation technique most frequently applied includes the projections of flows using models and the calculation of present value. These models incorporate numerous variables such as the counterpart entity's credit-risk rating and future quotes for the prices of minerals.

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Notes to the Financial Statements (continued)

Financial instruments at fixed and variable rates -

The fair value of financial assets and liabilities at fixed and variable rates at amortized cost is determined by comparing the market interest rates at the time of their initial recognition to the current market rates with regard to similar financial instruments. The estimated fair value of deposits that accrue interest is determined by means of cash flows discounted using the prevailing market interest rates in the currency with similar maturities and credit risks.

Based on the foregoing, a comparison of the carrying values and the fair values of the financial instruments of the Company presented in the statement of financial position is presented below. The table does not include the fair values of the non financial assets and liabilities:

	2010		2009	
	Book value US\$(000)	Fair value US\$(000)	Book value US\$(000)	Fair value US\$(000)
Financial Assets				
Cash, banks and time deposits	119,711	119,711	178,075	178,075
Trade accounts receivable, net	57,461	57,461	43,568	43,568
Other accounts receivable, net	2,415	2,415	2,876	2,876
Financial Liabilities				
Trade accounts payable	23,387	23,387	13,648	13,648
Accounts payable to affiliates	287	287	455	455
Other accounts payable	19,009	19,009	13,098	13,098
Long-term debts	4	4	4	4

30. Workers' profit sharing

According to the Legislative Decree No 892, the current workers' profit sharing is measured at the amount expected to be paid to the Company's workers (which is equivalent to 8 per cent of net taxable income in Nuevos Soles). The resulting amount, converted to U.S. dollars, has been distributed according to the nature of the service rendered by each Company's worker on the accounts of the statement of income as follow:

	2010 US\$(000)	2009 US\$(000)
Workers' profit sharing		
Cost of sales, note 19	6,563	5,501
General and administrative, note 21	1,580	1,367
Selling, note 22	75	73
	<hr/>	<hr/>
	8,218	6,941

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Notes to the Financial Statements (continued)

31. Statistical sales data

Statistical data related to the volume sold and the net average sales prices of ore reserves of the Company for the years ended December 31, 2010 and 2009 are shown below:

(a) The metal volumes sold base on the payable metallic content were:

	2010	2009
Silver	2,088,600 Oz	2,955,917 Oz
Zinc	36,224 MT	57,003 MT
Lead	10,968 MT	19,099 MT
Copper	16,087 MT	7,815 MT
Gold	3,344 Oz	18,820 Oz

(b) The net average prices of the sales were:

	2010	2009
Silver	21.10 US\$/Oz	14.67 US\$/Oz
Zinc	2,125.92 US\$/MT	1,661.37 US\$/MT
Lead	2,035.76 US\$/MT	1,805.83 US\$/MT
Copper	8,100.94 US\$/MT	5,348.48 US\$/MT
Gold	1,274 US\$/Oz	991 US\$/Oz

32. Explanation added for English language translation

The accompanying financial statements are presented in accordance with International Financial Reporting Standards.

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