Sociedad Minera El Brocal S.A.A.

Financial Statements as of December 31, 2011 and 2010
together with the Report of Independent Auditors

Ernst & Young

Sociedad Minera El Brocal S.A.A.

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Content

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, 2011 and 2010, and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the periods then ended, 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 the 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.

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

Report of Independent Auditors (continued)

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, 2011 and 2010; and its financial performance and cash flows for the years then ended, in accordance with the International Financial Reporting Standards as issued by International Accounting Standards Board.

Lima, Peru,
February 3, 2012

Countersigned by: Medina, Zaldivar, Paredes & Asociados

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

Sociedad Minera El Brocal S.A.A.

Statement of financial position

As of December 31, 2011 and 2010

	Note	2011 US$(000)	2010 US$(000)
Assets			
Current assets			
Cash, banks and time deposits	5	81,097	119,711
Trade accounts receivable, net	6	22,073	57,461
Other accounts receivable, net	7	13,659	2,415
Hedge derivate financial instruments current portion	16(a)	1,283	-
Embedded derivative for concentrates sale	16(c)	117	9,155
Inventories, net	8(a)	40,554	13,673
Prepaid expenses		2,116	129
Total current assets		160,899	202,544
Long term inventories	8(a)	48,845	27,160
Property, plant and equipment, net	9	174,100	80,099
Expansion operations project	10	68,791	111,699
Deferred income tax asset	14(b)	13,508	16,753
Other assets		1,988	367
Total assets		468,131	438,622

	Note	2011 US$(000)	2010 US$(000)
Liabilities and shareholders´ equity			
Current liabilities			
Trade accounts payable	11	31,027	23,104
Other accounts payable with related parties	25	375	287
Other current liabilities	12	15,148	19,127
Income tax payable		-	9,027
Provision for mine closure and environmental liabilities	13	5,468	-
Hedge derivate financial instruments current portion	16(a)	-	16,291
Current portion of long-term debt		4	4
Total current liabilities		52,022	67,840
Provision for mine closure and environmental liabilities	13	17,825	22,082
Hedge derivate financial instruments	16(a)	-	6,897
Deferred income tax liability	14(b)	6,652	8,840
Total liabilities		76,499	105,659
Shareholders' equity			
Capital stock	15	30,281	30,281
Investment shares		1,810	1,810
Legal reserve		6,418	6,418
Unrealized gain (loss) on valuation of hedge derivative financial instruments, net		844	(16,232)
Retained earnings		352,279	310,686
Total shareholders' equity		391,632	332,963
Total liabilities and shareholders' equity		468,131	438,622

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

Sociedad Minera El Brocal S.A.A.

Income Statement

For the years ended December 31, 2011 and 2010

	Note	2011 US$(000)	2010 US$(000)
Net sales	18	264,419	219,193
Cost of sales	19	(116,065)	(85,248)
Gross income		148,354	133,945
Operating expenses			
Exploration in non-operating areas	20	(11,094)	(8,963)
General and administrative	21	(18,056)	(15,624)
Royalties to the Peruvian State		(4,945)	(4,038)
Selling	22	(3,854)	(3,340)
Support to local communities		(1,520)	(2,349)
Voluntary and temporary contribution to the Peruvian State	23	-	(824)
Other, net		36	483
Total operating expenses		(39,433)	(34,655)
Operating income		108,921	99,290
Other revenues (expenses)			
Financial income		1,259	1,500
Gain (loss) from exchange difference, net		(70)	232
Accretion expense of the provision for closure of mining units		(1,365)	(1,295)
Total other revenues (expenses), net		(176)	437
Income before income tax		108,745	99,727
Income tax	14(a)	(30,817)	(28,067)
Net income		77,928	71,660
Net income per share, basic and diluted, stated in U.S. dollars	24	0.7078	0.6508
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.

Sociedad Minera El Brocal S.A.A.

Statement of comprehensive income

For the years ended December 31, 2011 and 2010

	Note	2011 US$(000)	2010 US$(000)
Net income		77,928	71,660
Other comprehensive income			
Net change in unrealized gain on hedge derivative financial instruments	16(b)	24,471	(16,345)
Income tax	16(b)	(7,395)	4,903
Other comprehensive income, net of income tax		17,076	(11,442)
Total comprehensive income		95,004	60,218

The accompanying notes are an integral part of this statement.

Sociedad Minera El Brocal S.A.A.

Statement of changes in shareholders' equity

For the years ended December 31, 2011 and 2010

	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, 2010	30,281	1,810	6,418	(4,790)	279,764	313,483
Net income	-	-	-	-	71,660	71,660
Net change in unrealized loss on hedge derivative financial instruments, note 16(b)	-	-	-	(11,442)	-	(11,442)
Total comprehensive income of the year	-	-	-	(11,442)	71,660	60,218
Dividend paid, note 15(d)	-	-	-	-	(40,738)	(40,738)
Balance as of December 31, 2010	30,281	1,810	6,418	(16,232)	310,686	332,963
Net income	-	-	-	-	77,928	77,928
Net change in unrealized gain on hedge derivative financial instruments, note 16(b)	-	-	-	17,076	-	17,076
Total comprehensive income of the year	-	-	-	17,076	77,928	95,004
Dividend paid, note 15(d)	-	-	-	-	(36,335)	(36,335)
Balance as of December 31, 2011	30,281	1,810	6,418	844	352,279	391,632

The accompanying notes are an integral part of this statement.

Sociedad Minera El Brocal S.A.A.

Statement of cash flows

For the years ended December 31, 2011 and 2010

	2011 US$(000)	2010 US$(000)
Operating activities		
Collection from customers	308,845	200,019
Collection on interest	1,259	1,500
Income tax payments	(46,337)	(21,416)
Payments to suppliers	(174,295)	(104,940)
Payments to employees	(19,308)	(16,728)
Payments of royalties to the Peruvian State	(6,036)	(3,879)
Other collections, net	(3,221)	(1,698)
Net cash and cash equivalents provided by operating activities	60,907	52,858
Investing activities		
Decrease (increase) in time deposits	16,573	(17,685)
Disbursements for the expansion operations project	(43,776)	(57,366)
Purchase of property, plant and equipment	(20,237)	(13,608)
Net cash and cash equivalents used in investing activities	(47,440)	(88,659)
Financing activities		
Dividends paid	(36,335)	(40,738)
Net cash and cash equivalents used in financing activities	(36,335)	(40,738)
Net cash and cash equivalents decrease during the year	(22,868)	(76,539)
Gain from exchange difference, net	827	490
Cash and cash equivalents at beginning of year, note 5	102,026	178,075
Cash and cash equivalents at year-end, note 5	79,985	102,026

Statement of cash flows (continued)

	2011 US$(000)	2010 US$(000)
Reconciliation of net income to cash and cash equivalents provided by operating activities		
Net income	77,928	71,660
Add (less) – Items that do not affect operating cash flows		
Depreciation	12,905	7,056
Valuation of embedded derivative on sale	(117)	(9,155)
Accretion expense of the provision for closure of mining units	1,365	1,295
Deferred income tax expense	(6,338)	(284)
Adjustment to provisional liquidations	5,629	(1,541)
Changes of net operating assets and liabilities		
Decrease (increase) in operating assets -		
Trade accounts receivable	44,543	(10,019)
Other accounts receivable	(2,397)	461
Inventory	(48,558)	(30,631)
Prepaid income tax	(8,575)	864
Increase (decrease) in operating liabilities -		
Trade accounts payable	4,131	9,743
Other accounts liabilities	(11,215)	6,474
Income tax payable	(8,394)	6,935
Net cash and cash equivalents provided by operating activities	60,907	52,858

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

As of December 31, 2011 and 2010

1. Identification and business activity

(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 48.18 percent of its common shares (see note 15(a)). Compañía de Minas Buenaventura S.A.A. owns direct and indirectly the 100.00 percent of Inversiones Colquijirca S.A.'s. 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 Huaraucaca plant) located in the district of Tinyahuarco, province of Cerro de Pasco, department of Pasco, Peru.

(c) Financial statements approval -

The financial statements as of December 31, 2011 were approved by Management on February 1, 2012 and will be presented for the approval of the Board of Directors and the Shareholders within the terms established by law. In Management's opinion, the accompanying financial statements will be approved without changes by the Board of Directors and Shareholders' Meetings that will be held in the first quarter of 2012.

2. Basis of presentation, accounting principles and practices

2.1 Basis of presentation -

Statement of compliance -

The financial statements have been prepared in accordance with the International Financial Reporting Standards (hereinafter "IFRS"), as issued by the International Accounting Standards Board (hereinafter "IASB"), effective as of December 31, 2011.

Information responsibility -

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

Measurement basis -

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 values are rounded to the nearest thousand (US$ thousand) except when otherwise indicated.

2.2 Significant accounting judgments, estimates and assumptions –

The preparation of financial statements in conformity with the 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, 2011 and 2010.

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) Fair value of financial instruments (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.

(ii) Inventories (see note 8) –

Net realisable value tests are performed annually and represent the estimated future sales price of the product based on prevailing spot metals prices at the reporting date, less estimated costs to complete production and bring the product to sale. For determining the long term inventories, the Management additionally considers that the time value of money reduce the net realisable value.

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

Inventories are classified in short and long-term according to the period of time in which Management estimates will begin the production stage of concentrate extracted of each mining unit.

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

Stockpile tonnages are verified by periodic surveys.

(iii) 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. Changes are recorded prospectively.

(iv) Determination of mineral reserves and resources –
The Company computes its reserves using methods generally applied by the mining industry in accordance with international guidelines. All reserves computed, which are audited by an independent third party, 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.

(v) Provision for closure of mining units (see note 2.3 (j) and 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.

(vi) Contingencies (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 estimates of the outcome of future events.

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.

(vii) 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 position. Deferred tax assets, including those resulting from unused tax losses, require Management to assess the likelihood 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 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.

Additionally, future changes in tax law in the jurisdictions in which the Company operates could limit the Company's ability to obtain tax deductions in future periods.

(viii) Impairment of non-financial 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.

(ix) Deferred stripping costs (see note 2.3.(k) and note 9)-
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.

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.

This calculation requires the use of judgments and estimates such as estimates of tonnes of waste to be removed over the life of the mining area and economically recoverable reserves extracted as a result. Changes in a mine's life and design will usually result in changes to the expected stripping ratio (waste to mineral reserves ratio). These changes are accounted for prospectively.

(x) Production start date (note 9) -
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.

(xi) Costs of exploration and costs of development (note 20) –
The application of the policy of the Company for the costs of exploration and development of mine, requires of the judgment of the Management to determine if it is probable that economic benefits enter to the Company product of future exploratory phases. The determination of the reserves and mineral resources is a complex process of estimation that involves levels of uncertainty following sub-classifications and these considered directly affect the classification between cost of exploration and development of mine and the method of amortization for the development cost. This policy requires that the Management of the Company realises certain considered and supposed about future events and specific circumstances to determine if is economically viable the mineral access, extraction, processing and sale. The considered ones and supposing can change if new information available is had. Reason why in case it is counted on information available that of indications on the no recoverability of certain payments that have been capitalized like development costs, these must be loaded to the results of the year in which the new information available is known.

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 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, other accounts receivable and derivative financial instruments.

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, 2011 and 2010 except for the embedded derivatives described below.

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.

Accounts 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 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 income statement. 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 income statement.

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 income statement.

The Company did not maintain any available-for-sale financial investment as of December 31, 2011 and 2010.

(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, other accounts payable with related parties, long-term debt and derivative financial instruments.

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 income statement. 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 income statement 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 income statement.

(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:

- The rights to receive cash flow from such asset have ended; or
- 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 pass throught agreement; and either:
  (i) The Company has transferred substantially all of its risks and benefits from the asset or;
  (ii) 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.

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 income statement.

(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, 2011 and 2010.

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 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 and cash equivalents" 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) 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.

(h) 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.

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 income statement 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 productions are measure 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

(i) 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.

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 income statement.

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 leasing is considered as operating lease if the Company does not transfer substantially all the risks and benefits incidental to ownership of the leased item. Operating lease payments are recognised as an operating expense in profit or loss on a straight-line basis over the lease term.

(j) 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 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.

(k) Deferred stripping costs -

The costs incurred the development of a mine before the beginning of the production are capitalized as it leaves from the cost of construction of the mine and they are amortized subsequently throughout the life of the mine on the base of production units.

When a mine operates several open edges that are considered like separated operations for the effects of the mining planning, the grubbing costs are entered separately by means of reference to the mineral of each separated edge. Nevertheless, if the subsequent edges are very integrated for the effects of the mining planning, the second edge and edges extensions of the first edge in the accounting of the grubbing costs are considered as. In such cases, the initial grubbing (for example, the removal of sterile material and another clearing) of the second edge and the subsequent edges, are considered as it clears of the phase of production related to the combined operation.

Stripping costs incurred subsequently during the production phase of its operation are deferred for those operations where this is the most appropriate basis for matching the cost against the related economic benefits and the effect is material. This is generally the case where there are fluctuations in stripping costs over the life of the mine. The amount of stripping costs deferred is based on the strip ratio obtained by dividing the tonnage of waste mined either by the quantity of ore mined or by the quantity of minerals contained in the ore. Stripping costs incurred in the period are deferred to the extent that the current period ratio exceeds the life of the mine strip ratio. Such deferred costs are then charged to profit or loss to the extent that, in subsequent periods, the current period ratio falls short of the life of mine (or pit) ratio. The life of mine (or pit) ratio is based on economically recoverable reserves of the mine (or pit). Changes are accounted for prospectively, from the date of the change.

Deferred stripping costs are included as part of 'Expansion operations project'. These form part of the total investment in the relevant cash generating units, which are reviewed for impairment if events or changes of circumstances indicate that the carrying value may not be recoverable.

(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 income statement. 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.

Provision for closure of mining units -

On initially entering the liability for this obligation, it is posted at its fair value, offset by a greater a book value for long-lived assets related to development costs and fixed assets.

The liability is subsequently increased in each period to reflect the cost of interest considered in the initial estimate of fair value and, in addition, the capitalized cost is depreciated or amortized based on the useful life of the related asset. When eliminating the liability, the Company posts any resulting gain or loss. Changes in the fair value of the obligation or the useful life of the related asset that arise from review of the initial estimates are recognized as an increase or decrease in the book value of the obligation and the related assets in accordance with 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 income statement.

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 income statement. Likewise, any closure liability that arises as a result of a mine's production phase must be included in expenses when incurred.

(m) 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.

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.

(n) 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 income statement.

(o) 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 calculation use the same taxable base than income tax, and is presented in the income statement in the "Cost of sales", "General and administrative","Selling" and "inventories" 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.

Mining Royalties and Special Mining Tax -

Mining Royalties and Special Mining Tax are accounted for under IAS 12 when they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is based on net amount (revenues less expenses after temporary differences adjustments), rather than based on quantity produced or as a percentage of income.

Therefore, payments made by the Company to government authority as Mining Royalties and Special Mining Tax are in the scope of IAS 12 and be considered as income tax. Both, Mining Royalties and Special Mining Tax generated deferred assets and liabilities which should be measured using average rates that have to be applied to operating income in those quarters in which the Company expects to reverse the temporary differences.

(p) 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 income statement.

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.

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 income statement 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 income statement.

As of December 31, 2011 and 2010, the Company had contracted derivative instruments on metals quotes under the "Asian swap" and Collar option modes that qualify as cash-flow hedging instruments.

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 income statement.

(q) 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.

(r) 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) internationally issued but not effective -

Standards issued but not yet effective up to the date of issuance of the Company's financial statements and the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date are:

- IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income - The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

- IAS 19 Employee Benefits (Amendment), the IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The Company is still assessing the impact, if any, of adopting this guidance.

- IAS 27 Separate Financial Statements (as revised in 2011), as a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Company does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The Company is still assessing the impact, if any, of adopting this guidance.

- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011), as a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The Company is still assessing the impact, if any, of adopting this guidance.

- IFRS 7 Financial Instruments - Enhanced Derecognition Disclosure Requirements; the amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Company's consolidated financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The Company is still assessing the impact, if any, of adopting this guidance.

- IFRS 9 Financial Instruments: Classification and Measurement, applicable for annual periods beginning on or January 1, 2015 - IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

  On December 2011, the IASB has issued amendments to IFRS 9 which move the mandatory effective date from January 1, 2013 to January, 1 2015. Earlier application continues to be permitted. The amendments no longer require restatement of comparative figures. Instead, IFRS 7 has been amended to require additional disclosures on transition from IAS 39 to IFRS 9. The new disclosures are either required or permitted on the basis of the entity's date of transition. The Company is still assessing the impact, if any, of adopting this guidance.

- IFRS 11 Joint Arrangements: IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 jointly –controlled Entities- Non-monetary Contribution by ventures. The standard addresses two forms of joint arrangements, i.e., joint operations and joint ventures. To assess whether there is joint control IFRS 11 uses the principles of control of IFRS 10. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The effective of this standard is January 1, 2013. The Company is still assessing the impact, if any, of adopting this guidance.

- IFRS 12 Disclosure of Involvement with Other Entities: IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangement, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Company is still assessing the impact, if any, of adopting this guidance.

- IFRS 13 Fair Value Measurement: IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have in the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013. The Company is still assessing the impact, if any, of adopting this guidance.

- IFRIC 20 "Stripping costs in the production phase of a surface mine", issued in October, 2011, clarifies the requirements for accounting stripping costs in the production phase of a surface mine. The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. The Interpretation is effective for annual periods beginning on or after January 1, 2013, and should be applied comparative for the year 2012. Anticipated application is permitted. The Company is still assessing the impact, if any, of adopting this guidance.

The Company is still assessing the impact, if any, of adopting this amendments and new International Financial Reporting Standards (IFRS) issued which are not effective at the date of financial statements.

3. Uniformity

The statement of financial situation as of December 31, 2011 and 2010; the income statement, comprehensive income, changes in shareholders' equity and cash flows as of December 31, 2011 and 2010, included for comparative purposes, have been prepared under IFRS, using the same accounting principles and practices.

4. Foreign currency transactions

Translations to foreign currency (New Soles) are completed using exchange rates published by the Superintendent of Banks, Insurance and AFP. As of December 31, 2011, the exchange rates published by this Institution were US$0.3711 for buying and US$0.3708 for selling (US$0.3561 for buying and US$0.3560 for selling as of December 31, 2010) and have been applied for the assets and liabilities accounts, respectively.

As of December 31, 2011 and 2010, the Company had the following assets and liabilities denominated in foreign currency:

	2011	2010
	S/.(000)	S/.(000)
Assets		
Cash, banks and time deposits	52,232	58,112
Trade accounts receivable, net	20,033	1,254
	72,265	59,366
Liabilities		
Trade accounts payable	8,442	2,618
Other current liabilities	36,999	42,709
Tax income payable	-	24,202
	45,441	69,529
Net asset (liability) position	26,824	(10,163)

As of December 31, 2011 and 2010, Management has decided to assume the currency risk set by this position. Consequently, hedging operations with derivatives to cover the currency risk did not have been taken.

5. **Cash, banks and time deposit**

(a) This item is made up as follows:

	2011 US$(000)	2010 US$(000)
Cash	29	23
Bank accounts (b)	8,900	7,108
Time deposits (c)	71,056	94,895
Cash and cash equivalents considered in the statement of cash flows	79,985	102,026
Time deposits with original maturity greater than 90 days (d)	1,112	17,685
	81,097	119,711

(b) As of December 31, 2011 and 2010, the Company maintains its demand deposit accounts mainly in foreign currency. These funds are unrestricted, are deposited in both, local and foreign banks with high risk-ratings and earn interest at prevailing market rates.

(c) As of December 31, 2011, the Company holds deposits in U.S. dollars of US$54,000,000 which accrue interest rates calculated with annual rates that fluctuate between 0.85% and 1.15% and have original maturities between 16 and 63 days. Similarly, the Company holds time deposits in New Soles of S/.46,000,000 (equivalent to US$17,056,000), which accrue interest rates calculated with annual rates that fluctuate between 4.05% and 4.35% and have original maturities between 42 and 90 days.

(d) As of December 31, 2011, the Company holds time deposits in New Soles of S/.3,000,000 (equivalent to US$1,112,000), which accrue interest rates calculated with annual rates of 4.37% and have original maturities of 106 days.

6. **Trade accounts receivable, net**

(a) This item is made up as follows:

	2011 US$(000)	2010 US$(000)
Louis Dreyfus Commodities Metals	19,874	46,893
Doe Run Peru	4,132	4,132
Consorcio Minero S.A. - CORMIN	1,112	-
Glencore International AG	631	4,166
Votorantim Metais Cajamarquilla	-	6,402
Other	456	-
	26,205	61,593
Provision for doubtful accounts (b)	(4,132)	(4,132)
	22,073	57,461

Trade accounts receivable are denominated in U.S. dollars and the maturity date is at issuance.

(b) As of December 31, 2011 and 2010, the Company's Management believes that the Company has no impaired debt in addition to the accounts receivable accrued as doubtful accounts, since its main customers have recognized strong financial position 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 allowance for doubtful accounts does not present any movement during the period 2011 (US$4,132,000 as of December 31, 2011 and 2010). In the process of estimating the allowance for doubtful accounts, the Company's Management periodically 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, 2011 and 2010 is sufficient to cover the credit risk of these parties to those dates.

7. Other accounts receivable, net

This item is made up as follows:

	2011 US$(000)	2010 US$(000)
Value added tax credit	4,180	-
Advances to suppliers	3,880	29
Other accounts receivable to suppliers	2,664	1,790
Mining royalty credit	1,057	-
Income tax credit	787	-
Other minors	1,091	596
	13,659	2,415

8. Inventories, net

(a) This item is made up as follows:

	2011 US$(000)	2010 US$(000)
Current mineral (b)	18,748	7,989
Classified mineral (c)	62,052	28,559
Concentrates	2,973	344
Supplies and spare parts	5,502	3,682
Inventory in transit	-	268
Others	125	-
	89,400	40,842
Provision for supplies and spare parts obsolescence	(1)	(9)
	89,399	40,833
Non-current portion	48,845	27,160
Current portion	40,554	13,673

(b) The distribution of current mineral for 2011 and 2010 is as follow:

	2011		2010	
	US$(000)	TMS	US$(000)	TMS
Zinc – lead (i)	4,407	69,368	4,407	69,368
Copper (ii)	14,341	558,398	3,582	174,082
	18,748	627,766	7,989	243,450

(i) According to the operation plans of the Company, current zinc-lead mineral extracted from Tajo Norte, will be processed since February 2012.

(ii) Copper current mineral extracted from Marcapunta Norte has been processed during copper campaign in the period January to March and October to December 2011. According to the Management's opinion, this current mineral balance as of December 31, 2011 will be treated during the first quarter of 2012.

(c) The detail of long-term inventory corresponding to classified mineral that is kept in transition and south deposit fields as of December 31, 2011 and 2010 is presented below:

	2011		2010	
	US$(000)	DMT	US$(000)	DMT
Classified mineral				
Type I and II (zinc and copper mineral)	8,584	859,556	5,392	1,176,898
Type III (lead/zinc mineral)	53,468	2,828,274	23,167	2,623,264
	62,052	3,687,830	28,559	3,800,162
Non-current portion	48,845		27,160	
Current portion	13,207		1,399	

As part of the mining unit preparation to extract and treat mineral to a 18,000 DMT/per day, the Management decided to accumulate the material with metal content in stock nearby to Tajo Norte in order to be treated when the expansion operation plant, which is estimated to be in the first semester of 2013.

During the twelve months period ended as of December 31, 2011, it had been extracted and treated 195,941 and 513,283 metric tons of mineral type I, respectively. Also, it had been extracted and treated 1,047,815 and 842,805 metric tons of mineral type III, respectively.

(d) Accrual for spare parts and supplies obsolescence had the following movements during 2011 and 2010:

	2011 US$(000)	2010 US$(000)
Beginning balance	9	13
Allowance for the year	-	9
Write-off	(8)	(13)
Ending balance	1	9

In Management's opinion, the reserve above created is sufficient to cover the risks of spare parts and supplies obsolescence as of December 31, 2011 and 2010.

9. **Property, plant and equipment, net**

(a) The movement with the cost and accumulated depreciation accounts during the years 2011:

	Beginning balance US$(000)	Additions US$(000)	Transfers of "Expansion Operations Project" US$(000)	Transfers and adjustments US$(000)	Retirements US$(000)	Ending balance US$(000)
Cost						
Land	296	-	-	1,034	-	1,330
Building and other constructions	48,383	-	-	56,966	(765)	104,584
Machinery and equipment	44,757	-	-	21,105	(190)	65,672
Transportation units	1,887	-	-	20	(30)	1,877
Furniture and mixtures	382	-	-	1	-	383
Other equipment	1,700	-	-	1,643	-	3,343
Units in transit	245	7,657	68,856	(71,624)	-	5,134
Work in progress (c)	25,633	12,580	-	(9,145)	-	29,068
Deferred stripping costs (e), note 10	-	-	17,828	-	-	17,828
Mine closure costs	11,128	-	-	-	-	11,128
	134,411	20,237	86,684	-	(985)	240,347
Accumulated depreciation						
Buildings and other constructions	21,427	5,006	-	-	(760)	25,673
Machinery and equipment	24,870	6,207	-	-	(181)	30,896
Transportation units	1,563	80	-	-	(29)	1,614
Furniture and fixture	354	10	-	-	-	364
Other equipment	1,296	360	-	-	-	1,656
Deferred stripping costs (e)	-	891	-	-	-	891
Mine closure costs	4,802	351	-	-	-	5,153
	54,312	12,905	-	-	(970)	66,247
Net cost	80,099					174,100

(b) The distribution of the annual depreciation expenses for 2011 and 2010 is as follow:

	2011 US$(000)	2010 US$(000)
Cost of sales, note 19	12,665	6,860
General and administrative, note 21	240	177
Exploration costs in non-operational mining sites	-	19
	12,905	7,056

(c) The table below presents the composition of the works in progress for 2011 and 2010:

	2011 US$(000)	2010 US$(000)
Expansion of tailings fields N° 6 and 7	27,708	15,913
Complementary works in factories and others	850	587
Expansion of tailings fields N° 8 and 9	329	202
Río Blanco – Jupayragra Hydroelectric Power Station	9,326	8,629
Implementation of Oracle System	716	302
	38,929	25,633
Transfers to property, plant and equipment	(9,145)	-
Implementation of Oracle System	(716)	-
	29,068	25,633

The Company's Management expects these works in progress will be completed during the year 2012.

(d) In Management's opinion, during 2011 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.

(e) Deferred stripping costs, net

As of December 31, 2011, the Company has transferred the deferred stripping costs (see notes 2.2 (ix) and note 2.3. (k) from the caption "Expansion operations project" to the caption "Property, plant and equipment "net by US$17,828,000. Also, in this period had been amortized US$891,000 on unit of production basis.

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 31, 2011, the Company concluded the first and second stage of the project.

As of December 31, 2011 and 2010, 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:

	2011 US$(000)	2010 US$(000)
Expansion of refining plant capacity to 18,000 DMT / day	103,337	86,189
Optimization of crushing plant and conveyor belt	17,018	13,110
Expansion of Tajo Norte – Marcapunta Norte	16,429	16,127
New offices and camping	13,350	478
Expansion of power grid	7,941	7,174
Construction of Huachacaja tailings fields	7,825	3,217
Area of support	3,067	1,782
Management of program	2,476	2,327
Other minor activities	2,857	120
	174,300	130,524
Partial transfers from optimization of the current plant to property, plant and equipment	(87,681)	(18,825)
Deferred stripping costs, nota 9 (e)	(17,828)	-
	68,791	111,699

11. Trade accounts payable

This item is made up as follows:

	2011 US$(000)	2010 US$(000)
Domestic suppliers	28,999	22,602
Foreign suppliers	2,028	502
	31,027	23,104

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:

	2011 US$(000)	2010 US$(000)
Worker's profit sharing, note 30	10,406	8,218
other remunerations	1,389	1,005
Board members' remuneration payable	750	750
Value added tax and other taxes	588	4,098
Mining royalty payable	633	1,091
Provision for labor contingencies, note 26 (b)	380	339
Dividends payable	228	191
Hedge derivatives ,note 16 (a)	58	2,227
Voluntary and temporal contribution to Peruvian State, note 23	-	824
Others	716	384
	4,742	10,909
	15,148	19,127

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 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$18,313,000 as of December 31, 2011 (US$17,102,000 as of December 31, 2010).

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. 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.

As a result of the expansion operations project, described in note 9, Management 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 Company has delegated to a specialized firm, 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 the provision for closure of the Colquijirca mining unit, amounting to US$14,109,000 should be disclosed as a non-current provision and US$4,204,000 as a 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 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 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, 2011 and 2010.

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 the provision for closure of the Colquijirca mining unit, amounting to US$3,716,000 should be disclosed as a non-current provision and the US$1,264,000 as a current provision.

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

	US$(000)
Balance as of January 1, 2010	21,568
Accretion expense	1,295
Payments	(781)
Balance as of December 31, 2010	22,082
Accretion expense	1,365
Payments	(154)
Balance as of December 31, 2011, note 26(a)	23,293

The provision for closure of mining units represents the present value of the closure costs that are expected to be incurred between the progressive and final of the mine. 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. 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 reserves of metals.

As of December 31, 2011, the future value of the provision for closure of mining units and environmental liabilities was US$25,184,000, which has been discounted using the annual risk-free rate of 8 per cent, resulting in an updated liability of US$23,293,000(US$25,184,000 which was discounted using the annual risk-free rate of 8 per cent, resulting in an updated liability of US$22,082,000 as of December 31, 2010). 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 income statement for the years 2011 and 2010 is made up as follows:

	2011 US$(000)	2010 US$(000)
Income tax		
Current	(35,944)	(28,351)
Deferred	6,335	284
	(29,609)	(28,067)
Mining royalties and special mining tax		
Current	(1,211)	-
Deferred	3	-
	(1,208)	-
Total	(30,817)	(28,067)

(b) The deferred income tax asset and liability movement, mining royalties and special mining tax are made up as follows:

	Balance as of January 1, 2010 US$(000)	Credit (debit) to the income statement US$(000)	Debit to the statement of changes in shareholders' equity US$(000)	Balance as of December 31, 2010 US$(000)	Credit (debit) to the income statement US$(000)	Debit to the statement of changes in shareholders' equity US$(000)	Balance as of December 31, 2011 US$(000)
Deferred asset for income tax							
Unrealized loss on derivative financial instruments	2,054	-	4,903	6,957	-	(6,957)	-
Difference in depreciation rates	3,517	1,238	-	4,755	2,324	-	7,079
Provision for mine closure	2,973	260	-	3,233	468	-	3,701
Environmental liability of the mining unit Santa Bárbara	1,494	-	-	1,494	-	-	1,494
Fair value of unrealized hedge derivatives	-	447	-	447	42	-	489
Mining royalties	275	52	-	327	(137)	-	190
Other minors	74	(534)	-	(460)	776	-	316
	10,387	1,463	4,903	16,753	3,473	(6,957)	13,269
Deferred assets for mining royalties and special mining tax							
Open provisional liquidations	-	-	-	-	239	-	239
	-	-	-	-	239	-	239
Total deferred asset	10,387	1,463	4,903	16,753	3,712	(6,957)	13,508
Deferred liability for income tax							
Amortization of mine development costs	(3,852)	(386)	-	(4,238)	(93)	-	(4,331)
Embedded derivative for selling of concentrates	(1,451)	(1,295)	-	(2,746)	2,710	-	(36)
Deemed cost of fixed assets	(2,358)	502	-	(1,856)	245	-	(1,611)
Unrealized loss on derivative financial instruments	-	-	-	-	-	(384)	(384)
	(7,661)	(1,179)	-	(8,840)	2,862	(384)	(6,362)
Deferred liability for mining royalties and special mining tax							
Embedded hedge derivatives not realized	-	-	-	-	-	(54)	(54)
Deemed cost of fixed assets	-	-	-	-	(236)	-	(236)
	-	-	-	-	(236)	(54)	(290)
Total deferred liability	(7,661)	(1,179)	-	(8,840)	2,626	(438)	(6,652)
		284			6,338		

(c) The reconciliation of the legal combined rate with the effective rate of income tax, royalties and special mining tax for the years 2011 and 2010:

	2011 US$(000)	%	2010 US$(000)	%
Income before income tax	108,745	100	99,727	100
Expected income tax according to the legal combined rate	(32,624)	(30)	(29,918)	(30)
Effect for translation of the tax basis held in New Soles into U.S. Dollars	3,372	3.1	1,782	1.8
Royalties and special mining tax	(362)	(0.1)	-	-
Tax exempted financial income	-	-	450	0.5
Loss on currency exchange difference not tax deductible	(21)	(0.1)	70	0.1
Other minor	26	(0.1)	(451)	(0.5)
Income tax expense	(29,609)	(27.2)	(28,067)	(28.1)
Royalties and special mining tax	(1,208)	(1.1)	-	-
Total	(30,817)	(28.3)	(28,067)	(28.1)

15. Shareholders' equity, net

(a) Capital stock –

As of December 31, 2011 and 2010, 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, 2011 and 2010:

	Number of shareholders		Ownership	
	2011	2010	2011	2010
Percentage				
Less than 0.20%	3,227	3,458	4.24	5.49
From 0.20 to 1.00%	12	17	6.88	9.47
From 1.01 to 5.00%	13	10	29.59	25.66
From 5.01 to 10.00%	1	1	8.23	8.32
From 10.01 to 100.00%	1	1	51.06	51.06
Total	3,254	3,487	100.00	100.00

The market value of the common shares is S/.48 per share as of December 31, 2011 (S/.56.60 per share as of December 31, 2010) and presents a negotiation frequency rate of 90 per cent (95 per cent as of December 31, 2010).

(b) Investment shares -
As of December 31, 2011 and 2010, 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/.32 per share as of December 31, 2011 (S/.37.15 per share as of December 31, 2010) and presents a negotiation rate of 62 per cent (82 per cent as of December 31, 2010).

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 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.

The General Shareholders' Meeting held on March 24, 2011 approved the distribution of retained earnings of the year 2010 in approximately US$36,335,000, equivalent to US$0.33 per share. This dividends where place to free disposal of the shareholders in April 2011.

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).

(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, 2011 are the following:

Metal	Monthly average volume MT	Total Amount MT	Fixed average price per MT US$	Periods	Fair value US$(000)
Zero cost collar-option contracts					
Copper	250	2,750	7,500 - 8,415	February 2012 – December 2012	638
Copper	250	2,750	7,500 - 8,425	February 2012 – December 2012	645
Total fair value of hedging instruments					1,283

The fair value of the derivative hedging instruments held as of December 31, 2010 was US$23,188,000 which is presented in the "Derivative financial instruments" caption of the statement of financial position (US$16,291,000 and US$6,897,000 current and non-current composition, respectively).

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 measure 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, 2011, as a result of the hedging transactions settled as of December 31, 2011, the Company held accounts payable of US$58,000 from London Metal Exchange brokers which is presented in the "Other current liabilities" caption of the statement of financial position (US$2,227,000 al 31 as of December 31, 2010 is presented in the "Other accounts receivable, net" caption of the statement of financial position). See note 12.

(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, 2010	(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	(14,461)	4,338	(10,123)
Total change in derivative financial instruments for hedging	(16,345)	4,903	(11,442)
Balance as of December 31, 2010	(23,188)	6,956	(16,232)
Loss from hedging transactions settled during the period, note 18 (a)	8,681	(2,604)	6,077
Unrealized gain on derivative financial instruments for hedging	15,790	(4,791)	10,999
Total change in derivative financial instruments for hedging	24,471	(7,395)	17,076
Balance as of December 31, 2011, note 16(a)	1,283	(439)	844

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

As of December 31, 2011 and 2010, 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, 2011:

Metal	Real quantity MT	Maturity 2010	Prices Provisional US$	Prices Futures US$	Fair value US$(000)
Lead	6,947	January - February	1,945 - 2,088	2,016 - 2,025	(494)
Copper	17,883	January - April	7,348 - 7,568	7,594 - 7,603	611
	24,830				117

As of December 31, 2010:

Metal	Quantity MT	Maturity 2011	Prices Provisional US$	Prices 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
	46,739				9,155

As of December 31, 2011 and 2010, the fair value of the embedded derivative is a gain of US$117,000 and US$9,155,000, respectively, is shown in the "Net sales" caption of the income statement. See note 18(a). Forward prices on the dates on which it is expected to settle the open positions as of December 31, 2011 and 2010 are taken from publications of the London Metals Exchange.

17. Taxation

(a) The Company is subject to Peruvian Tax Law. As of December 31, 2011, 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$849,840) 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$127,476, without considering interest) has not been accepted by the Company and is under claim. On November 30, 2010, the tax authorities issued 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.

The Company's income tax return and of 2007 to 2011 and value added tax returns of December 2007 to December 2011 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, 2011 and 2010.

(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, 2011 and 2010.

(d) In September 29, 2011, the Peruvian Government approved the Law that modifies the Mining Royalties, and created the Mining Tax, in order to increase the fiscal revenue from the mining companies that produce and sell metallic and nonmetallic minerals. The new rules came into effect from October 1, 2011. See note 14 (a) the effect of these new changes in tax legislation.

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 2011 and 2010:

	2011 MT	2010 MT	2011 US$(000)	2010 US$(000)
Net sales by concentrates				
Cooper	97,599	63,457	176,166	108,760
Zinc	60,149	83,950	56,614	63,508
Lead	17,532	23,427	52,608	37,950
	175,280	170,834	285,388	210,218
Embedded derivative, note 16(c)			117	9,155
Adjustment to open provisional liquidations			(5,629)	1,539
Prior-period settlements			(6,776)	(3,603)
Unrealized net gain on hedge derivative financial instruments; note 16(b)			(8,681)	1,884
			264,419	219,193

(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):

	2011 US$(000)	2010 US$(000)
Peru	273,245	198,335
Asia	9,276	7,944
Europe	2,867	3,939
	285,388	210,218

19. Cost of sales

This item is made up as follows:

	2011 US$(000)	2010 US$(000)
Beginning balance of concentrates, note 8(a)	344	267
Beginning balance of ore in tailing field, note 8(a)	7,989	1,518
Beginning balance of products in process, note 8(a)	28,559	4,492
	36,892	6,277
Production cost		
Services provided by third parties	84,754	62,557
Consumption of materials and supplies	24,103	13,807
Depreciation, note 9(b)	12,665	6,860
Electricity and water	8,152	5,658
Direct labor	7,198	5,656
Workers' profit sharing, note 30	6,673	5,069
Rentals	2,323	3,491
Other manufacturing expenses	161	24
Purchase of concentrate from third parties	16,917	12,741
	162,946	115,863
Less - final balance of concentrates, note 8(a)	(2,973)	(344)
Less - final balance of ore in tailing field, note 8(a)	(18,748)	(7,989)
Less - final balance of products in process, note 8(a)	(62,052)	(28,559)
	(83,773)	(36,892)
	116,065	85,248

20. Exploration in non-operating areas

The expenses incurred in 2011 and 2010 by exploration area:

	2011 US$(000)	2010 US$(000)
Marcapunta Oeste	6,213	5,017
San Gregorio	3,015	2,837
Yanamina	853	-
Marcapunta Norte	576	873
Others	437	236
	11,094	8,963

21. General and administrative expenses

This item is made up as follows

	2011 US$(000)	2010 US$(000)
Personnel expenses	4,344	3,977
Workers' profit sharing, note 30	3,515	3,074
Services provided by third parties	5,100	3,916
Various expenses	2,792	2,731
Board members' remuneration	750	750
Depreciation, note 9(b)	240	177
Taxes	235	663
Others	1,080	336
	18,056	15,624

22. Selling expenses

This item is made up as follows:

	2011 US$(000)	2010 US$(000)
Transport and freight concentrates	3,095	2,672
Supervision and assays	177	149
Personnel expense	135	120
Storage of concentrates	138	120
Workers' profit sharing, note 30	93	75
Loading and unloading of concentrate	42	104
Custom duties	-	57
Others	174	43
	3,854	3,340

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. These agreements were effective until December 31, 2010 and the economic contribution amounted to US$824,000.

On April 11, 2011, the Company gave to "Asociación Civil sin Fines de Lucro Don Eulogio Fernandini" a voluntary contribution corresponding to fiscal year 2010, US$165,000 (equivalent to S/.464,000) for the creation of a Local Mining Fund and US$659,000 (equivalent to S/.1,856,000) for the creation of a Regional Mining Fund. Details of the voluntary, temporary economic contribution to the mining fund are given below:

	2011 US$(000)	2010 US$(000)
Voluntary and temporary contribution to "Programa Minero de Solidaridad con el Pueblo"		
Local Mining Fund	-	165
Regional Mining Fund	-	659
	-	824

24. Basic and diluted earnings per share

The computation of basic and diluted earnings per share for the years ended December 31, 2011 and 2010 (in thousands of U.S. dollars, except for the number of common and investment shares) are presented below:

	2011	2010
Net income US$(000)	77,928	71,660
Common and investment shares – units	110,105,236	110,105,236
Basic and diluted earnings per share - US$	0.7078	0.6508

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 2011 and 2010, 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 2011 and 2010, the Company contracted the services of supervision of the "Expansion operations project" to Buenaventura Ingenieros S.A. for approximately US$2,500,000 and USS$1,960,000, respectively.

The Company maintains liabilities with related parties as of December 31, 2011 and 2010 for an approximate amount of US$375,000 and US$287,000 respectively.

(b) The Board members' remuneration and Management's remuneration were approximately US$1,293,316 during 2011 (approximately US$1,251,047 during 2010), and include current benefits, labor benefits and others. The Company does not pay in the long term its Directors and key personnel.

(c) 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 2011 for US$1,802,000.

As of December 31, 2011, 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-Metallurgic al 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, 2011, the Company has recognized liabilities of US$23,293,000 (US$22,082,000 as of December 31, 2010) in connection with its future obligations for the closing of the mining unit, see note 13(c).

(b) Legal proceedings -

As of December 31, 2011 and 2010, 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, 2011 and 2010. See note 12.

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 income statement 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, 2011 and 2010 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.

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, 2011 and 2010, 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 New 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 New Soles in order to cover its needs (taxes and compensation) in this currency.

As of December 31, 2011, the Company had posted a net loss of US$70,000 from exchange differences (in the 2010 period, a net gain of US$232,000 from exchange differences), from the translation of balances in New 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)
2011		
Exchange rate	+10%	1,007
Exchange rate	-10%	(1,007)
2010		
Exchange rate	+10%	400
Exchange rate	-10%	(400)

(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, 2011, the fair value of the embedded derivatives contained in the commercial contracts amount to US$117,000 (see note 16(c)). The estimate corresponding to the provisional sales value, pending final adjustments, which were closed on January 2012 were reduced by 10 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, 2010 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, 2011 and 2010, 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)
2011	
Increase of 10 percent in future quotes	
Hedges in effect for 2012	(2,047)
Decrease of 10 percent in future quotes	
Hedges in effect for 2012	4,661
2010	
Increase of 10 percent in future quotes	
Hedges in effect for 2010	(7,785)
Hedges in effect for 2011	(4,950)
	(12,735)
Decrease of 10 percent in future quotes	
Hedges in effect for 2010	7,190
Hedges in effect for 2011	4,875
	12,065

(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$19,500,000 higher (lower)(US$29,135,000 as of December 31,2010).

(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.

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, 2011 it had a portfolio of 7 customers (7 customers as of December 31, 2010). As of December 31, 2011 the Company's 2 largest customers accounted for 91 per cent of total sales (56 of total sales in 2010). 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 2012 amounted to US$13,800,000, which represents 89 per cent of the balances receivable as of December 31, 2011, 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$(000)	Between 1 and 3 years US$(000)	Total US$(000)
As of December 31, 2011			
Trade accounts payable	31,027	-	31,207
Accounts receivable from associates	375	-	375
Environmental liability	1,264	3,716	4,980
closure of mining units	4,204	14,109	18,313
Other accounts payable	15,148	-	15,148
Total	52,018	17,825	69,843
As of December 31, 2010			
Trade accounts payable	23,104	-	23,104
Accounts receivable from associates	287	-	287
Environmental liability	-	4,980	4,980
closure of mining units	-	17,102	17,102
Other accounts payable	19,127	-	19,127
Financial hedging instruments	16,291	6,887	23,178
Total	58,809	28,969	87,778

(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, 2011 and 2010.

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.

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:

	2011		2010	
	Book value US$(000)	Fair value US$(000)	Book value US$(000)	Fair value US$(000)
Financial Assets				
Cash, banks and time deposits	81,097	81,097	119,711	119,711
Trade accounts receivable, net	22,073	22,073	57,461	57,461
Other accounts receivable, net	13,659	13,659	2,415	2,415
Financial Liabilities				
Trade accounts payable	31,027	31,027	23,104	23,104
Accounts payable to affiliates	375	375	287	287
Other accounts payable	15,148	15,148	19,127	19,127
Long-term debts	4	4	4	4

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.

As of December 31, 2011 and 2010, the Company maintained the following financial instrument at fair value in its statement of financial position:

	2011 US$(000)	**2010** US$ (000)
Derivative financial instruments:		
Inventory, net		
Level 1	117	9,155
hedging derivative financial instruments:		
level 2	1,283	(23,188)
Total	1,400	(14,033)

There has been no transfer between fair value levels during 2011 neither 2010.

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 New 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 income statement as follow:

	2011 US$(000)	**2010** US$(000)
Workers' profit sharing		
Cost of sales, note 19	6,673	5,069
General and administrative, note 21	3,515	3,074
Selling, note 22	93	75
Inventory	125	-
	10,406	8,218

31. Statistical sales data (unaudited)

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, 2011 and 2010 are shown below:

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

	2011	2010
Silver	2,535,735 Oz	2,088,600 Oz
Zinc	25,651 TMF	36,224 MT
Lead	8,887 TMF	10,968 MT
Copper	22,509 TMF	16,087 MT
Gold	5,174 Oz	3,344 Oz

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

	2011	2010
Silver	35.58 US$/Oz	21.10 US$/Oz
Zinc	2,283.65 US$/TMF	2,125.92 US$/MT
Lead	2,367.22 US$/TMF	2,035.76 US$/MT
Copper	8,753.95 US$/TMF	8,100.94 US$/MT
Gold	1,549.15 US$/Oz	1,274 US$/Oz

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