Fosfatos del Pacífico S.A.

Financial statements as of December 31, 2018 and 2017, together with the Independent Auditors' Report

Fosfatos del Pacífico S.A.

Financial statements as of December 31, 2018 and 2017, together with the Independent Auditors' Report

Contents

Independent Auditors' Report

Financial statements

Statements of financial position
Statements of profit or loss
Statements of changes in equity
Statements of cash flows
Notes to the financial statements

Independent Auditors' Report

To the Shareholders of Fosfatos del Pacífico S.A.

We have audited the accompanying financial statements of Fosfatos del Pacífico S.A. (a Peruvian corporation), subsidiary of Fossal S.A.A., which comprise the statements of financial position as of December 31, 2018 and 2017 and the statements of profit or loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information, presented in United States dollars (presentation currency, see note 2.2.3).

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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 accordance with International Auditing Standards approved for implementation in Peru by the Boarding Deans of Peruvian Board of Public Accountants Associations. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating 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 referred to above, present fairly, in all material respects, the financial position of Fosfatos del Pacífico S.A. as of December 31, 2018 and 2017, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Lima, Peru,
February 14, 2019

Signed by:

PAREDES, BURGA & ASOCIADOS

Carlos Valdivia Valladares
C.P.C.C. Register No.27255

Fosfatos del Pacífico S.A.

Statements of financial position

As of December 31, 2018 and 2017

	Note	2018 US$(000)	2017 US$(000)
Assets			
Current assets			
Cash and cash equivalents	6	1,646	1,348
Other receivables	7	20	9
Inventories, net	8	685	500
Prepayments		17	14
Income tax prepayments		774	435
		3,142	2,306
Non-current assets			
Other receivables	7	15,844	16,007
Property, plant and equipment, net	9	59,030	62,171
Intangible assets, net	10	19,862	19,073
Deferred income tax asset	12	8,098	7,776
		102,834	105,027
Total assets		105,976	107,333
Liabilities and equity			
Current liabilities			
Trade and other payables	11	748	425
Total liabilities		748	425
Net equity	13		
Capital stock		116,319	116,904
Additional paid-in capital		9,709	10,110
Accumulated losses		(20,800)	(20,106)
Total net equity		105,228	106,908
Total liabilities and net equity		105,976	107,333

The accompanying notes are an integral part of this statement.

Fosfatos del Pacífico S.A.

Statements of profit or loss

For the years ended December 31, 2018 and 2017

	Note	2018 US$(000)	2017 US$(000)
Sales of goods	14	-	6
Cost of sales	15	-	(37)
Gross loss		-	(31)
Operating expenses			
Administrative expenses	16	(1,362)	(1,736)
Other operating expenses, net	18	(930)	(1,150)
Total operating expenses, net		(2,292)	(2,886)
Operating loss		(2,292)	(2,917)
Other income (expenses)			
Finance income		35	16
Finance cost		(35)	(46)
Gain from exchange difference, net	5	25	54
Total other expenses, net		25	24
Loss before income tax		(2,267)	(2,893)
Income tax	12	641	784
Net loss		(1,626)	(2,109)
Basic and diluted loss per common stock (US$)	20	(0.004)	(0.006)

The accompanying notes are an integral part of this statement.

Fosfatos del Pacífico S.A.

Statements of changes in equity

For the years ended December 31, 2018 and 2017

	Number of Common shares (in thousands)	Capital stock US$(000)	Additional paid-in capital US$(000)	Accumulated losses US$(000)	Total US$(000)
Balance as of January 1, 2017	362,035	107,749	9,764	(17,348)	100,165
Loss for the year	-	-	-	(2,109)	(2,109)
Translation differences, note 2.2.3	-	3,818	346	(649)	3,515
Total comprehensive income	-	3,818	346	(2,758)	1,406
Capital contributions, note 13(a)	17,317	5,337	-	-	5,337
Balance as of December 31, 2017	379,352	116,904	10,110	(20,106)	106,908
Loss for the year	-	-	-	(1,626)	(1,626)
Translation differences, note 2.2.3	-	(4,636)	(401)	932	(4,105)
Total comprehensive income	-	(4,636)	(401)	(694)	(5,731)
Capital contributions, note 13(a)	13,689	4,051	-	-	4,051
Balance as of December 31, 2018	393,041	116,319	9,709	(20,800)	105,228

The accompanying notes are an integral part of this statement.

Fosfatos del Pacífico S.A.

Statements of cash flows

For the years ended December 31, 2018 and 2017

	Note	2018 US$(000)	2017 US$(000)
Operating activities			
Loss before income tax		(2,267)	(2,893)
Non-cash adjustment to reconcile loss before income tax to net cash flows			
Depreciation and amortization	9(a) and 10	1,290	1,327
Provision for inventory impairment	8(b)	-	298
Adjustment as a result of physical inventories		(28)	236
Finance cost	19(a)	35	46
Net gain on sale of property and equipment	18	(21)	(80)
Finance income		(35)	(16)
Working capital adjustments			
Decrease (increase) in other receivables		158	(1,394)
(Increase) decrease in prepayments		(3)	53
Increase in inventories		(122)	(218)
Increase (decrease) in trade and other payables		314	(318)
		(679)	(2,959)
Interests received		33	16
Interests paid		-	(46)
Income tax (paid) reimbursed		(339)	726
Net cash flows used in operating activities		(985)	(2,263)
Investing activities			
Sales of property and equipment		32	101
Purchase of machinery and equipment	9	(546)	(1,324)
Purchase of intangibles assets	10	(1,579)	(3,376)
Net cash flows used in investing activities		(2,093)	(4,599)
Financing activities			
Capital contributions	13	1,275	5,337
Proceeds from borrowings	19(a)	4,051	3,688
Payments of borrowings	19(a)	(1,253)	(3,688)
Net cash flows from financing activities		4,073	5,337

The accompanying notes are an integral part of this statement.

Statements of cash flows (continued)

	Note	2018 US$(000)	2017 US$(000)
Net decrease in cash		995	(1,525)
Effect on translation to the presentation currency		(697)	613
Cash as of January 1		1,348	2,260
Cash as of December 31		1,646	1,348
Transactions with no effect in cash flows:			
Translation to the presentation currency, note 2.2.3		697	(649)

The accompanying notes are an integral part of this statement.

Notes to the financial statements

As of December 31, 2018 and 2017

1. Economic activity

Fosfatos del Pacífico S.A. (hereinafter "the Company") was incorporated in September 1, 2009 and since March 2017 is a subsidiary of Fossal S.A.A. (hereinafter "the Parent"). The Company has the right to use a non-metal mining concession in Bayovar (Region of Piura), which contains phosphoric rock, diatomite and other minerals. The registered office is located at Calle La Colonia No.150, El Vivero, Santiago de Surco, Lima, Peru.

As of December 31, 2016 Cementos Pacasmayo S.A.A. owned 70 percent of the shares of the Company. On March 1, 2017, a spin-off allowed the transfer of the interest of Cementos Pacasmayo S.A.A. in Fosfatos del Pacifico S.A. in favor of Fossal S.A.A. (subsidiary of Inversiones ASPI S.A.). The purpose of the spin-off was to allocate the assets and liabilities of Cementos Pacasmayo S.A.A. in accordance with the specialization of each business, creating greater flexibility to its shareholders and greater clarity in long-term operations. As a consequence, as of December 31, 2018 and 2017, Fossal S.A.A. holds 70 percent of the shares of the Company.

As of December 31, 2018 and 2017, the 30 percent of the shares of the Company belongs to MCA Phospates Pte.Ltd (subsidiary of Mitsubishi Corporation, hereinafter "Mitsubishi"). On December 29, 2011 the Company signed a commercial agreement "off-take agreement" with Mitsubishi, in which it assumes the compromise to buy future production of phosphoric rock from the Company once the production begins, see note 21. This agreement has a 20 years term, with the option for Mitsubishi to extend it for 5 years more.

During 2018 and 2017 the Company obtained net losses, because the phosphate project is in pre-operative stage. To develop the project's basic engineering; the Company hired Golder Associates to perform a study of the mine, the consortium conformed by FL Smidth Minerals, Jacobs and Golder Associates for the study of the plant, Berenguer Engineers for the port study, Pepsa Tecsult and Aecom for the study of electric transmission and water. In 2014, value engineering was developed to identify opportunities of improvement in the design, construction and operation of the project. Main internationally recognized engineering companies (Hatch, Ausenco and Worley Parsons) were hired according to their experience and knowledge in different areas. In March 2014, the Environmental Impact Study for the Phosphates Project was approved. The feasibility study of phosphate project was completed at the end of the year 2015 and the Company is currently evaluating next steps. In June 2017, the Company received the authorization for the Phosphates Cargo Terminal project in Bayóvar (Piura) granted by the National Port Authority. The works for this port infrastructure will last 23 months, the Company will maintain the ownership and private use of this terminal, as an essential activity in the loading of phosphates. The period of development of the project is estimated in 4-5 years.

The financial statements as of December 31, 2018 and for the year then ended, were approved by the Company's Management on February 14, 2019. The financial statements as of December 31, 2017 and for the year then ended, were approved by the General Shareholders' Meeting on February 28, 2018.

2. Summary of significant accounting policies

2.1 Basis for presentation -

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on a historical cost basis and are presented in United States dollars and all values are rounded to the nearest (US$) thousands, except as otherwise indicated.

The financial statements provide comparative information in respect of the previous period, except of certain standards and amendments applied for the first time by the Company during 2017 that do not required restatement of previous financial statements, explained in note 2.2.15.

2.2 Summary of significant accounting policies -

2.2.1 Cash and cash equivalents

Cash presented in the statements of cash flows comprise cash at banks and short-term deposits with original maturity of three months or less.

2.2.2 Financial instruments - Initial recognition and subsequent measurement -

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

(i) Financial assets -

Initial recognition and measurement -

Financial assets are classified, at initial recognition, 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 in an effective hedge, as appropriate.

All financial assets are recognized initially at fair value plus, in the case of assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial assets.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and other receivables, all classified in the category of loans and receivables.

Subsequent measurement -
The Company has all its financial assets classified in the category of loans and receivables, consequently, for the purpose of subsequent measurement the following criteria are considered:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of profit or loss. The losses arising from impairment are recognized in the statement of profit or loss in finance costs and sales expenses in the case of accounts receivables.

For more information on receivables, refer to note 7.

Derecognition -
A financial asset is derecognized when:

(i) The rights to receive cash flow from such asset have expired; or
(ii) The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all of the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

(ii) Impairment of financial assets -

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that have occurred since the initial recognition of the asset (an incurred "loss event") have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

(iii) Financial liabilities -

Initial recognition and measurement -

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans, and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables carried at amortized cost, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables.

Subsequent measurement -

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss -

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

The Company has not any financial liability classified as at fair value through profit or loss as of December 31, 2018 and 2017.

Loans and borrowings-

After their initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and loss are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

This category includes trade and other payables, for more information refer note 11.

Derecognition -

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

(iv) Offsetting of financial instruments -
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position: (i) if there is a currently enforceable legal right to offset the recognized amounts (ii) and if there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

(v) Fair value measurement -
The Company does not have financial instruments, neither non-financial assets measured at fair value as of the statement of financial position date. The fair values of financial instruments measured at amortized cost are disclosed in note 23.

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

The Company’s financial management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement.

At each reporting date, the financial management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company’s accounting policies. For this analysis, the financial management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

Management also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained previously.

2.2.3 Transactions in foreign currency -

Functional currency and presentation currency -

The Company has defined Peruvian Sol as its functional currency. The accompanying financial statements were prepared for information purposes to foreign investors and other stakeholders. For such reason the U.S. Dollar has been set as the presentation currency. Therefore, the accompanying financial statements and explanatory notes have been translated into U.S. Dollars following IAS 21 “The effects of changes in foreign exchange rates”, as explained below:

- Balances of assets and liabilities, monetary and non-monetary, and net equity have been translated at the closing rate for bid and ask, respectively, at the date of each balance sheet presented. The translation differences from the initial balances of the reporting currency at a different exchange rate as of the statement of financial position date are presented as a movement in each of the corresponding captions.

- Income and expense items and cash flows have been translated at the exchange rates at the dates of the transaction, otherwise at the average exchange rate for each month of the year.

- All resulting exchange differences have been recognized in the “Translation differences” caption in the statement of changes in equity.

Transactions and balances in foreign currency -

Transactions in foreign currency are those carried out in a currency different from the functional currency. Transactions in foreign currency are initially recorded in the functional currency using the exchange rates in effect on the transactions dates.

Monetary assets and liabilities denominated in foreign currencies are subsequently translated into the functional currency using the exchange rate in effect as of the financial position date. Any gains or losses from exchange currency monetary assets and liabilities at year-end exchange rates are recognized in the statements of income.

Non-monetary assets and liabilities acquired in a foreign currency are recorded at the exchange rates as at the dates of the initial transaction.

2.2.4 Inventories -

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Supplies and raw materials

- Purchase cost determined using the weighted average method.

Extracted diatomite

- Cost of direct materials and supplies, services provided by third parties, direct labour, excluding borrowing costs and exchange currency differences.

Inventory in transit

- Purchase cost.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated cost of completion and the estimated costs necessary to make the sale.

2.2.5 Leases -

The determination of whether an agreement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

The Company as a lessee:

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between financial charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statement of profit or loss.

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

An operating lease is a lease other than financial lease. Operating lease payments are recognized as an operating expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

2.2.6 Property, plant and equipment -

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciated them accordingly.

Likewise, when major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation of assets is determined using the straight-line method over the estimated useful lives of such assets as follows:

	Years
Machinery, equipment and related supplies	Between 10 and 40
Buildings and other constructions	30
Furniture and accessories	10
Transportation units	Between 5 and 10
Computer equipment and tools	Between 4 and 10

The asset’s residual value, useful lives and methods of depreciation are reviewed at each reporting period, and adjusted prospectively if appropriate.

An item of machinery and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized.

2.2.7 Mining concessions -

Mining concessions correspond to the exploration rights in areas of interest acquired. Mining concessions are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any; and are presented within the property, plant and equipment caption. Those mining concessions are amortized starting from the production phase following the units-of-production method based on proved reserves to which they relate. The unit-of-production rate for the depreciation of mining concessions takes into account expenditures incurred to the date of the calculation. In the event the Company abandons the concession, the costs associated are written-off in the statement of profit or loss.

As of December 31, 2018 and 2017 no depreciation under units-of-production method was determined since the mining concessions of the Company are not yet on operating phase.

2.2.8 Mine development costs and stripping costs -

Mine development costs

Mine development costs incurred are stated at cost and are the next step in development of mining projects after exploration and evaluation stage. Mine development costs are, upon commencement of the production phase, presented net of accumulated depreciation and/or accumulated impairment losses, if any, and are presented within the property, plant and equipment caption. The depreciation is calculated using the unit-of-production method based on proved reserves to which they relate. The unit-of-production rate for the amortization of mine development costs takes into account expenditures incurred to the date of the calculation. Expenditures that increase significantly the economic reserves in the mining unit under exploitation are capitalized.

As of December 31, 2018 and 2017, no depreciation under units-of-production method was determined since the projects of the Company are not yet on production phase.

Stripping costs

Stripping costs incurred in the development of a mine before production commences are capitalized as part of mine development costs and subsequently depreciated over the life of the mine on a units-of-production basis, using the proved reserves.

Stripping costs incurred subsequently during the production phase of its operation are recorded as part of cost of production.

2.2.9 Intangibles assets-

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of identified resources. Exploration and evaluation activities include:

- Researching and analyzing historical exploration data.
- Gathering exploration data through geophysical studies.
- Exploratory drilling and sampling.
- Determining and examining the volume and grade of the resource.
- Surveying transportation and infrastructure requirements.
- Conducting market and finance studies.

License costs paid in connection with a right to explore in an existing exploration area are capitalized and amortized over the term of the license.

Once the legal right to explore has been acquired, exploration and evaluation expenditures are charged to the statement of profit or loss, unless management concludes that a future economic benefit is more likely than not to be realized. These costs include directly attributable employee remuneration, materials and fuel used, surveying costs, drilling costs and payments made to contractors.

In evaluating if expenditures meet the criteria to be capitalized, several different sources of information are used. The information that is used to determine the probability of future benefits depends on the extent of exploration and evaluation that has been performed.

Exploration and evaluation costs are capitalized when the exploration and evaluation activity is within an area of interest for which it is expected that the expenditure will be recouped by future exploitation and active and significant operations in relation to the area of interest are continuing or planned for the future.

The main estimates and assumptions the Company uses to determine whether is likely that future exploitation will result in future economic benefits include: expected operational costs, committed capital expenditures, expected mineral prices and mineral resources found. For this purpose, the future economic benefit of the project can reasonably be regarded as assured when mine-site exploration is being conducted to confirm resources, mine-site exploration is being conducted to convert resources to reserves or when the Company is conducting a feasibility study, based on supporting geological information.

As the capitalized exploration and evaluation costs asset is not available for use, it is not amortized. These costs are amortized in accordance with the estimated useful life of the mining property from the time the commercial exploitation of the reserves begins. All capitalized exploration and evaluation expenditure is monitored for indications of impairment. Where a potential impairment is indicated, assessment is performed for each area of interest in conjunction with the group of operating assets (representing a cash generating unit) to which the exploration is attributed.

Exploration areas in which resources have been discovered but require major capital expenditure before production can begin, are continually evaluated to ensure that commercial quantities of resources exist or to ensure that additional exploration work is under way or planned. To the extent that capitalized expenditure is no longer expected to be recovered it is charged to the income statement. The Company assesses at each reporting date whether there is an indication that an exploration and evaluation assets may be impaired. The following facts and circumstances are considered in this assessment:

(i) The period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.

(ii) Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.

(iii) Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.

(iv) Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

If any of these indicators exist, the Company shall make an assessment of impairment for these assets.

The rights of access and easement that grant the right to use an asset owned by a third party are capitalized and amortized over the term of the contract.

2.2.10 Ore reserve and resource estimates -

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Company's mining properties and concessions. The Company estimates its ore reserves and mineral resources, based on information compiled by appropriately qualified persons relating to the geographical data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may impact upon the carrying value of exploration and evaluation assets, provision for rehabilitation and depreciation and amortization charges.

2.2.11 Impairment of non-financial assets -

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset do not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset of CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately of the Company's CGUs to which the individual assets are allocated.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the statement of profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss.

Exploration and evaluation assets are tested for impairment annually, either individually or at the cash-generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

2.2.12 Provisions -

General -

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. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance cost in the statement of profit or loss.

Rehabilitation provision -

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. Rehabilitation costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of that particular asset. The cash flows are discounted at a current risk free pre-tax rate. The unwinding of the discount is expensed as incurred and recognized in the statement of profit or loss as a finance cost. The estimated future costs of rehabilitation are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

As of December 31, 2018 and 2017, the Company has no obligations for rehabilitation, since the projects of the Company are not yet on operating phase.

Environmental expenditures and liabilities -

Environmental expenditures that relate to current or future revenues are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and do not contribute to current or future earnings are expensed.

Liabilities for environmental costs are recognized when a clean-up is probable and the associated costs can be reliably estimated. Generally, the timing of recognition of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites.

The amount recognized is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure.

2.2.13 Employee benefits -

The Company has short-term obligations for employee benefits including salaries, severance contributions, legal bonuses and performance bonuses. These obligations are monthly recorded on an accrual basis.

2.2.14 Revenue recognition -

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The Company has concluded that it is acting as a principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

Sales of goods -

Revenue from sales of goods is recognized when the significant risks and rewards of ownership have passed to the buyer, on delivery of the goods. Revenue from the sale of goods is measured at fair value of the consideration received or receivable, net of returns and trade discounts.

2.2.15 Taxes -

Current income tax -

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in Peru, where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax -

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Deferred tax related to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority, see note 12.

Mining royalties -
Mining royalties 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 taxable income rather than based on quantity produced or as a percentage of revenue after adjustment for temporary differences. For such arrangements, current and deferred tax is provided on the same basis as described above for income tax. Obligations arising from royalty arrangements that do not satisfy these criteria are recognized as current provisions and included in results of the year.

Sales tax -
Expenses and assets are recognized net of the amount of sales tax, except:

(i) Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

(ii) When receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.2.16 Current versus non-current classification

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

- Expected to be realized or intended to sold or consumed in normal operating cycle.
- Held primarily for the purpose of trading.
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when it is:

- Expected to be settled in normal operating cycle.
- Held primarily for the purpose of trading.
- Due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.2.17 New amended standards and interpretations -

The Company applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

- IFRS 9 Financial Instruments

  IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments:
  Recognition and Measurement for annual periods beginning on or after January 1, 2018, which brings together the three aspects of accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

  The Company has applied IFRS 9 prospectively, with the date of initial implementation of January 1, 2018. There was no impact on cash flows or earning per share as a result of the adoption of IFRS 9.

- IFRS 15 Revenue from Contracts with Customers
  IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Income and related interpretations and applies to all income arising from contracts with customers, unless such contracts are within the scope of other standards. The new standard establishes a five-step model for accounting for the income derived from contracts with customers. Under IFRS 15, income is recognized for an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

  The standard requires entities to judge, taking into account all relevant facts and circumstances when applying each step of the model to contracts with their clients. The standard also specifies the accounting for incremental costs related to obtaining a contract and costs directly related to the fulfillment of a contract. In addition, the standard requires extensive disclosures.

  The Company adopted IFRS 15 using the total retroactive adoption method and there was no impact of adopting IFRS 15.

3. Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Company exposure to risks and uncertainties includes:

- Capital management, note 22.
- Financial instruments risk management and policies, note 22.
- Sensitivity analyses disclosures, note 22.

Estimates and assumptions -

The main assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur. The main areas are summarized below:

- Determination of useful lives of assets for depreciation and amortization purposes – notes 2.2.6, 2.2.7, 2.2.8 and 2.2.9
- Recognition of exploration and evaluation assets and mine development costs – notes 2.2.8, 2.2.9, 2.2.10 and note 10
- Reserve and resource estimates – note 2.2.10.
- Review of asset carrying values and impairment charges – notes 2.2.2 and 2.2.11.

- Income tax – note 2.2.15 and note 12.

4. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective:

- *Amendments to IFRS 9: Prepayment Features with Negative Compensation*

  Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

  The amendments must be applied retrospectively and are applicable since January 1, 2019, allowing early application. These modifications have no impact on the Company's financial statements

- *IFRS 16 Leases*

  IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain exemptions.

Transition to IFRS 16
The Company will elect to use the exemptions proposed by the standard in the lease agreements ending within 12 months after the date of initial adoption, and the lease agreements for which the asset is of low value.

During the year 2018, the Company has estimated that there is no impact on the application of IFRS 16.

- *IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*
  The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The Interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition exemptions are available. The Company will apply interpretation from its effective date. Since the Company operates in a complex tax environment, applying the Interpretation may affect its financial statements and the required disclosures. In addition, the Company may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

The Management of the Company are analyzing the possible effects of this rule.

- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
  The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Company will apply these amendments when they become effective.

Amendments to IAS 28: Long-term interests in associates and joint ventures -
The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures. The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Company does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its financial statements.

- *Annual improvements to IFRS - 2015-2017 Cycle*

  The IASB has made the following amendments to the rules:

  IFRS 3 Business Combinations – Interest previously held in a joint operation

  These amendments clarify that, when an entity obtains control of a business that was previously a joint operation, it must apply the requirements of the business combinations carried out in stages, reassessing the fair value of the shares previously held in the assets and liabilities of the joint operation. These changes will be applied to business combinations whose acquisition date is in the periods beginning on January 1, 2019 or later, allowing early application.

  IFRS 11 Joint arrangements - Units previously held in a joint operation

  These amendments clarify that, when an entity participates, but has no control, in a joint operation and obtains joint control of that joint operation, which is a business in accordance with IFRS 3, it will not revalue previously held participation in the assets and liabilities of the joint operation to fair value. These modifications will be applied to transactions in which joint control is obtained for the periods beginning on or after January 1, 2019, allowing early application.

  IAS 12 Income tax - Consequences of payments of financial instruments classified in equity

  The amendments clarify that the tax consequences of the dividends depend more on the transactions or past events that generated that distributable profit than on the distribution to the owners. Therefore, an entity recognizes the tax consequences of a dividend in results, in other comprehensive income or in equity depending on how the entity recorded those transactions or past events. These modifications will be applied to the periods beginning on January 1, 2019 or later, allowing early application. When an entity applies these amendments for the first time, it will do so from the start date of the oldest comparative period.

  IAS 23 Interest costs - Capitalized interest costs

  The amendments clarify that an entity considers part of its general interest costs any interest costs originally incurred to develop a qualified asset when substantially all the activities necessary to prepare the asset for its use or sale have been completed. These modifications will be applied to the interest costs incurred in the periods beginning on January 1, 2019 or later, allowing early application.

- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

  The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The changes take effect since January 1, 2019, with early application allowed. However, the Company's Management considers that it would not have an impact on the financial statements.

5. Transactions in foreign currency

Transactions in foreign currency take place at the open-market exchange rates published by the Superintendence of Banks, Insurance and Pension Funds Administration. As of December 31, 2018, the weighted average open-market exchange rates for transactions in United States Dollars were S/3.369 for purchase and S/3.379 for sale (S/3.238 for purchase and S/3.245 for sale as of December 31, 2017).

As of December 31, 2018 and 2017, the Company had the following assets and liabilities denominated in United States dollars:

	2018 US$(000)	2017 US$(000)
Assets		
Cash and cash equivalents	260	254
Advances to suppliers	-	67
	260	321
Liabilities		
Trade and other payables	(13)	(13)
	(13)	(13)
Net monetary position	247	308

As of December 31, 2018 and 2017, the Company had no derivative financial instruments in effect to hedge its exchange risk.

During 2018, the net gain originated by assets and liabilities in foreign currency was approximately US$25,000 (net gain of US$54,000 during 2017) and it is presented in "Gain from exchange difference, net" caption in the statement of profit or loss.

6. Cash and cash equivalents

(a) The composition of this caption at the date of the statement of financial position is presented below:

	2018 US$(000)	2017 US$(000)
Cash at banks (b)	459	1,348
Short-term deposits (c)	1,187	-
	1,646	1,348

(b) Cash at banks is denominated in local and foreign currencies, is deposited in local and foreign banks and is freely available. The demand deposits interest yield is based on daily bank deposit rates.

(c) As of December 31, 2018, the short-term deposits held in local banks were freely available and earned interest at the respective short-term deposits rates. These short-term deposits, with original maturities of less than three months, were collected in February 2019.

As of December 31, 2018, these term deposits generated interest for approximately US$35,000.

7. Other receivables

(a) The composition of this caption at the date of the statement of financial position is presented below:

	2018 US$(000)	2017 US$(000)
Other receivables		
Value added tax credit (b)	15,844	16,007
Accounts receivable from related party	4	-
Others	16	9
	15,864	16,016
Classification by maturity:		
Current	20	9
Non-current	15,844	16,007
	15,864	16,016

(b) According to Peruvian current tax rules, the Company has the right to compensate this value added tax credit against the value-added tax to be generated from the future sales of the Company, see note 21. This kind of tax credit never expires.

8. Inventories, net

(a) The composition of this caption to the date of the statement of financial position is presented below:

	2018 US$(000)	2017 US$(000)
Goods and finished products	211	220
Work in progress	920	771
Supplies	278	332
Raw material	133	70
Inventory in transit	1	-
	1,543	1,393
Less - Provision for inventory impairment (b)	(858)	(893)
Total inventories	685	500

(b) Movement in the provision for inventory impairment as of December 31, 2018 and 2017 is set forth below:

	2018 US$(000)	2017 US$(000)
Opening balance	(893)	(595)
Translation effect, note 2.2.3	35	-
Additions, notes 18	-	(298)
Final balance	(858)	(893)

9. Property, plant and equipment, net

(a) The composition and movement in this caption as of the date of the statement of financial position is presented below:

	Mining concessions US$(000)	Preparation and development costs (c) US$(000)	Buildings and other constructions US$(000)	Machinery, equipment and related supplies US$(000)	Furniture and accessories US$(000)	Transportation units US$(000)	Computer equipment and tools US$(000)	Work in progress and units in transit (d) US$(000)	Total US$(000)
Cost									
Balance as of January 1, 2017	903	26,837	6,001	19,548	210	511	777	8,601	63,388
Additions	-	393	-	-	-	-	3	631	1,027
Sales/retirements	-	-	-	(7)	-	(361)	-	-	(368)
Transfers	(813)	-	127	398	-	-	2	(527)	(813)
Translation effect, note 2.2.3	33	944	211	688	7	18	28	303	2,232
Balance as of December 31, 2017	123	28,174	6,339	20,627	217	168	810	9,008	65,466
Additions	-	94	-	17	-	-	-	422	533
Sales/retirements	-	-	-	(1)	(4)	(63)	(4)	-	(72)
Transfers, note 10	-	-	-	-	-	1	-	(1)	-
Translation effect, note 2.2.3	(5)	(1,095)	(247)	(802)	(9)	(7)	(31)	(349)	(2,545)
Balance as of December 31, 2018	118	27,173	6,092	19,841	204	99	775	9,080	63,382
Accumulated depreciation									
Balance as of January 1, 2017	55	-	183	1,135	75	451	414	-	2,313
Additions, notes 16 and 18	-	-	210	980	21	15	79	-	1,305
Sales/retirements	-	-	-	(1)	-	(346)	-	-	(347)
Transfers, note 10	(57)	-	-	-	-	-	-	-	(57)
Translation effect, note 2.2.3	2	-	7	40	2	15	15	-	81
Balance as of December 31, 2017	-	-	400	2,154	98	135	508	-	3,295
Additions, notes 16 and 18	-	-	203	946	20	5	68	-	1,242
Sales/retirements	-	-	-	(1)	(3)	(51)	(2)	-	(57)
Translation effect, note 2.2.3	-	-	(16)	(83)	(4)	(5)	(20)	-	(128)
Balance as of December 31, 2018	-	-	587	3,016	111	84	554	-	4,352
Net book value									
As of December 31, 2018	118	27,173	5,505	16,825	93	15	221	9,080	59,030
As of December 31, 2017	123	28,174	5,939	18,473	119	33	302	9,008	62,171

(b) As of December 31, 2018, and 2017, there are no assets pledged as collateral or mortgage, or acquired under leasing contracts.

(c) Preparation and development costs mainly include the engineering design for the future construction of a phosphates plant.

(d) Work in progress mainly include the work related with the construction and implementation of initial facilities for the phosphates project.

(e) As of December 31, 2018 and 2017, the Company has assessed the use conditions of its long-term assets and did not find any indicator that these assets may be impaired.

(f) As of December 31, 2018, the operations of the diatomite brick production plant are suspended. The depreciation generated during the year 2018 and 2017 were amounted to US$1,026,000 and US$1,036,000, respectively.

(g) As of December 31, 2017 the Company maintains accounts payable related to the acquisition of property, plant and equipment for US$13,000.

10. Intangibles assets, net

(a) The composition and movement of this caption as of the date of the statements of financial position is presented below:

	Exploration and evaluation costs US$(000)	Access rights and easement US$/(000)	Total US$/(000)
Cost			
As of January 1, 2017	14,455	-	14,455
Additions (b)	1,722	1,654	3,376
Transfers, note 9	-	813	813
Translation effect, note 2.2.3	509	-	509
As of December 31, 2017	16,686	2,467	19,153
Additions (b)	1,579	-	1,579
Translation effect, note 2.2.3	(648)	(97)	(745)
As of December 31, 2018	17,617	2,370	19,987
Accumulated amortization			
As of January 1, 2017	-	-	-
Additions, note 16	-	22	22
Transfers, note 9	-	57	57
Translation effect, note 2.2.3	-	1	1
As of December 31, 2017	-	80	80
Additions, note 16	-	48	48
Translation effect, note 2.2.3	-	(3)	(3)
As of December 31, 2018	-	125	125
Net book value			
As of December 31, 2018	17,617	2,245	19,862
As of December 31, 2017	16,686	2,387	19,073

(b) During 2018 and 2017, these additions are related to the phosphate mining project, located in Bayovar (Piura Region), and correspond to the costs that were incurred during the mining exploration and evaluation, as well as payments for rights of access and easement (see note 21). The Company obtained a report of mineral resources prepared by an independent professional institution that indicates a high level of phosphoric rock resources.

(c) Management has assessed that it is highly probable to obtain future economic benefits from these assets due to the high level of phosphoric rock resources found. As a result, in Management's opinion, there is no indicator that these assets may be impaired as of December 31, 2018 and 2017.

11. Trade and other payables

(a) The composition of this caption to the date of the statement of financial position is presented below:

	2018 US$(000)	2017 US$(000)
Accounts payable to affiliate, note 19(b)	440	68
Trade accounts payable	247	297
Taxes payable	23	21
Remuneration payable	18	36
Guarantee deposits	3	3
Other accounts payable	17	-
	748	425

(b) Trade accounts payable result from the purchases of fixed assets and supplies for the Company, and mainly correspond to invoices payable to domestic and foreign suppliers and normally due between 30 and 90 days. The other payable accounts are non-interest bearing and are due in 3 months. For explanations on the Company's liquidity risk management processes, refer to note 22.

12. Deferred income tax asset

As of December 31, 2018 the deferred tax asset of US$8,098,000 (US$7,776,000 as of December 31, 2017), mainly corresponds to the effect originated by the tax loss carryforward. As of December 31, 2018 and 2017, the tax loss carryforward determined by the Company amounted to US$ 21,967,000 and US$21,593,000, respectively. The Company has chosen system B as its tax loss carry forward system, to apply the tax losses up to 50 percent of the taxable profit, calculated since the subsequent year to the year when the tax loss was generated, the balance that is not offset can be applied to taxable income in future years with no expiration date.

In Management's opinion, this asset will be fully recovered from the future taxable income generated by the Company as a result of the operation of the phosphate project. See note 1.

The reconciliation of the effective rate of the income tax for the years 2018 and 2017 is presented below:

	2018 US$(000)	2017 US$(000)
Loss before income tax	(2,267)	(2,893)
At statutory income tax rate of 29.5%	669	853
Permanent differences		
Adjustment as a result of physical inventories	2	(70)
Non-deductible expenses, net	(30)	1
Income tax with effective rate of 28% (2017: 27%)	641	784

The income tax is shown in the statement of profit or loss consists only of deferred income tax.

13. Net equity

(a) Capital stock -

As of December 31, 2018, fully subscribed and paid capital stock is represented by 393,041,270 common shares (379,352,020 as of December 2017), which are fully subscribed and paid. The nominal value is one Sol per share. The common shares representing the Company's share are listed on the Lima Stock Exchange.

During 2018 and 2017, the common stocks have not been traded.

The General Shareholders' Meeting of Fosfatos del Pacífico S.A. held on April 18, 2018, agreed a contribution of S/13,689,000 (equivalent approximately to US$4,051,000) trough capitalization of debt (see note 19) and cash contribution of MCA Phospates Pte. Ltda. for S/4,106,000 (equivalent approximately to US$1,275,000). The General Shareholders' Meeting of Fosfatos del Pacífico S.A. held on April 26, 2017, agreed a contribution of S/17,317,000 (equivalent approximately to US$5,337,000).

14. Sales of goods

For the year ended December 31, 2017, this concept includes revenue from the sale of bricks from the diatomite plant, which amounts a total of US$6,000.

15. Cost of sales

This caption is made up as follows:

	2018 US$(000)	2017 US$(000)
Beginning balance of goods and finished products, note 8(a)	220	234
Beginning balance of work in progress, note 8(a)	771	632
Extraction costs	140	-
Consumption of miscellaneous supplies	-	160
Maintenance and third-party services	-	2
Ending balance of goods and finished products, note 8(a)	(211)	(220)
Ending balance of work in progress, note 8(a)	(920)	(771)
	-	37

16. Administrative expenses

This caption is made up as follows:

	2018 US$(000)	2017 US$(000)
Services from the affiliate, note 19	366	477
Depreciation, note 9	216	269
Royalties, note 21	242	240
Third-party services	228	351
Taxes	82	79
Amortization, note 10	48	22
Personnel expenses, note 17	47	212
Rentals	3	18
Other operative expenses	130	68
	1,362	1,736

17. Employee benefits expenses

(a) Employee benefit expenses are made up as follow:

	2018 US$(000)	2017 US$(000)
Wages and salaries	26	76
Legal bonuses	5	14
Social contributions	3	11
Long-term compensation	2	9
Vacations	2	7
Other	9	95
	47	212

18. Other operating expenses, net

This caption is made up as follows:

	2018 US$(000)	2017 US$(000)
Depreciation of machinery and equipment stoppage, note 9	(1,026)	(1,036)
Adjustment as a result of physical inventories	28	(236)
Net gain on sale of property and equipment	21	80
Provision for inventory impairment, note 8(b)	-	(298)
Longstanding payables write-off	-	291
Insurance indemnization	-	47
Other	47	2
	(930)	(1,150)

19. Transactions with the Parent and affiliates

(a) During the years 2018 and 2017, the Company carried out mostly the following transactions with the Parent and affiliates:

	2018 US$(000)	2017 US$(000)
Income		
Distribuidora Norte Pacasmayo S.R.L.		
Sales of fixed assets, note 14	4	-
Sales of bricks, note 14	-	6
Expenses		
Cementos Pacasmayo S.A.A.		
Management and administrative services received, note 16	358	465
Rental services received, note 16	8	12
Interests on loans received (c)	-	32
Fossal S.A.A.		
Interests on loans received (c) and (d)	35	14
Other transactions		
Borrowing from Parent (d)	4,051	1,918
Capitalization of loan and interest payable to the Parent (d)	2,798	-
Loan paid to the Parent (d)	1,253	-
Capital contribution from the Parent Borrowing from related party (c)	-	3,736
Borrowing from related party (c)	-	1,770

(b) As a result of these and other minor transactions, the Company had the following rights and obligations with its affiliate as of December 31, 2018, and 2017:

	As of December 31, 2018		As of December 31, 2017	
	Trade receivables US$(000)	Trade payables US$(000)	Trade receivables US$(000)	Trade payables US$(000)
Cementos Pacasmayo S.A.A., note 11	-	440	-	68
Distribuidora Norte Pacasmayo SRL, note 7(a)	4	-	-	-
	4	440	-	68

(c) In January 2017, the Company received a loan from Cementos Pacasmayo S.A.A. for US$1,770,000, used mainly as working capital this loan accrued an interest rate of 6 percent. On March 1, 2017, product of the execution of the spin-off project, Cementos Pacasmayo S.A.A. transferred the rights on this loan to Fossal S.A.A., see note 1. The Company has paid the full amount of this loan in April 2017.

(d) In the first quarter of 2018, the Company received a loan from Fossal S.A.A. for S/13,678,000 (equivalent approximately to US$4,051,000) this loan accrued an interest rate of 6 percent. This loan generated a financial expense of S/113,000 (equivalent approximately to US$35,000) during 2018. In April 2018, the Company capitalized the debt amounted of S/9,583,000 (equivalent approximately to US$2,798,000) and paid the rest to the Parent for S/4,228,000 (equivalent approximately to US$1,253,000).

In March of 2017, the Company received a loan from Fossal S.A.A. for S/6,234,000 (equivalent approximately to US$1,918,000), used mainly as working capital, this loan accrued an interest rate of 6 percent. The Company has paid the full amount of this loan in April 2017.

(e) Transactions with related parties are made at market conditions equivalent to those applied to transactions between unrelated and interest free parties and are paid in cash. Balances receivable and payable are free of guarantees given and received. For the years ended as of December 31, 2018, and 2017, the Company has not recorded impairment of receivables relating to amounts owed by relating parties. This assessment is made annually by evaluating the relating party's commercial position and the market in which it operates.

In management's opinion, accounts receivable and accounts payable classified as current as of December 31, 2018, will be collected and paid during 2019.

20. Loss per share

Basic and diluted loss per share are calculated by dividing the net loss of the year by the weighted average number of ordinary shares outstanding during the year. The Company has not potential ordinary shares with dilutive effect as of December 31, 2018, and 2017.

Below is the calculation of loss of basic and diluted earnings per share:

	2018 US$(000)	2017 US$(000)
Numerator		
Net loss	(1,626)	(2,109)
	Thousands of shares	Thousands of shares
Denominator		
Weighted average common shares for the loss per basic and diluted share (thousands)	389,163	373,849
	US$	US$
Basic and diluted loss for common shares	(0.004)	(0.006)

There have been no other transactions involving ordinary shares between the reporting date and the date of authorization of these financial statements.

21. Commitments and contingencies

Lease commitments

During 2015, Cementos Pacasmayo S.A.A. transferred the Company a 30-year contract with a third party regarding the use of a land located by a sea area in the north of Peru in accordance with the established in such contract and the Peruvian Civil Code. This lease accrues an annual income of US$ 200,000 from 2012 to 2015, and from 2016 until the end of the lease; the rent will be equivalent to 0.64 percent of the sales of phosphate rock made by the Company and may not be less than US$ 1,600,000 annually. As of December 31, 2018 and 2017 these payments have been recognized as part of the "Exploration and evaluation assets" caption in the statement of financial position.

Future minimum rentals payable under operating leases as of December 31, 2018 and 2017 are as follows:

	2018 US$(000)	2017 US$(000)
Less than a year	1,600	1,600
More than one and less than three years	3,200	3,200
More than three and less than five years	3,200	3,200
More than five years	28,800	30,400
	36,800	38,400

Rights of access and easement-

In November 2017, the Company signed an agreement with a third party for the rights of access and easement for the use of a highway and surrounding areas that will be in effect for twenty years since the date of payment of the full value agreed. Under this agreement, the Company disbursed US$1,500,000 on 2017, and must disburse for access rights US$1,500,000 three years after signing the contract and US$11,880,000 eight years after signing the contract; in addition, the Company must disburse for easement rights US$120,000 at the date of the sign and public register of the easement contract. The first disbursement made on 2017, related to this transaction, has been recognized as part of the "Intangible assets" caption in the statement of financial position.

Other commitments

As mentioned in note 1, the Company has a commitment of future sales of phosphoric rock to Mitsubishi Corporation when the project starts production.

Since November 2013, the Company has a five-year period natural gas supply agreement for its diatomite brick plant, which billings are determined taking into account consumption of natural gas and other market variables. Also, the volumes are subject to take or pay clauses that establish minimum levels of natural gas consumption. As of December 31, 2018, this contract is suspended.

Mining royalty

Peruvian government

According to the Royalty Mining Law in force since October 1, 2011, the royalty for the exploitation of metallic and nonmetallic resources is payable on a quarterly basis in an amount equal to the greater of: (i) an amount determined in accordance with a statutory scale of rates based on operating profit margin that is applied to the quarterly operating profit, adjusted by certain items, and (ii) 1% of net sales, in each case during the applicable quarter. These amounts are estimated based on the financial statements of the Company, prepared in accordance with IFRS. Mining royalty payments will be deductible for income tax purposes in the fiscal year in which such payments are made.

Third Parties

The Company signed an agreement for the transfer of mining concession with the Peruvian Government, Fundación Comunal San Martin de Sechura and Activos Mineros S.A.C. related to the use of the Bayovar concession, which contains phosphoric rock and diatomites. As part of this agreement, the Company is required to pay to Fundación Comunal San Martin de Sechura and Activos Mineros S.A.C. an equivalent amount to US$3 for each metric tons of diatomite extracted. The annual royalty may not be less than the equivalent to 40,000 metric tons during the first and second year of production and 80,000 metric tons since the third year of production. The related royalty expense amounted to US$242,000 and US$240,000 for the years ended December 31, 2018 and 2017 respectively.

Tax situation

The Company is subject to Peruvian tax law. As of December 31, 2018 and 2017 the rate of income tax was 29.5 percent on taxable income.

For purposes of determining income tax, transfer pricing transactions with related companies and Companies resident in territories with low or no taxation, must be supported with documentation and information on the valuation methods used and the criteria considered for determination. Based on the analysis of operations of the Company, Management and its legal advisors believe that as a result of the application of these standards will not result in significant contingencies for the Company as of December 31, 2018 and 2017.

Tax authorities have the power to review and, if necessary, adjust the income tax calculated by the Company in the four years following the year of filling the tax return. Statements of income tax from the years 2014 to 2018, and general tax corresponding to the monthly periods between December 2014 and 2018 are subject to review by the tax authorities.

Due to possible interpretations that the tax authorities may give to legislation in effect, it is not possible to determine whether or not any of the tax audits will result in increased liabilities for the Company. For that reason, tax or surcharge that could arise from future tax audits would be applied to the income of the period in which it is determined. However, in management's opinion and legal advisors, any possible additional payment of taxes would not have a material effect on the financial statements as of December 31, 2018 and 2017.

Environmental matters

The exploration and mining activities of the Company are subject to environmental protection standards.

Safety and security management -

Law No. 28271, which regulates environmental liabilities in mining activities, has the objective of regulate the identification of mining activity's environmental liabilities and financing the remediation of the affected areas. According to the regulations of environmental liabilities of mining (DS 059-2005-EM), environmental liabilities refer to those facilities, effluents, emissions, remains or deposits of waste produced by abandoned or inactive mining operations.

In compliance the law mentioned above, the Company has adopted the following approved environmental instruments:

- Environmental Impact Statement (EIS) for the exploration in the mining concession "Bayovar 9" which was approved in 2010 by Official Letter No. 07213-2010 PRODUCE/DVMYPE-I/DGI-DAAI.
- Environmental Impact Assesment (EIA) for the quarry of diatomite and the diatomite brick manufacturing plant - Concession "Bayovar 9" approved during 2010 by Official Letter No. 06981-2010/PRODUCE/DVMYPE-I/DGI-DAAI.
- Environmental Impact Statement (DIA) for the Clay Exploitation Project at the Duna 2011 Concession, which was approved in August 2013 by R.D. No. 035-2013-PRODUCE / DVMYPE-I / DGAMM.
- Environmental Impact Statement (EIS) for the Transmission Line in 22.9 Kv S.E. Bayovar constant, which was approved in 2012 by Official Letter No. 05322-2012PRODUCE/DVMYPE-I/DGI-DAAI.

- Environmental Impact Study (EIS) for the phosphate project, which was approved in March 2014 by RD.N° 119-2014-MEM-DGAAM. In September 2017 the Modification of the Environmental Impact Study of Phosphates project was approved by RD No. 269-2017-MEM-DGAAM.
- Supported Technical Report (STR) for exploration activities in order to locate new reserves, approved in august 2014 by RD No. 428-2014-MEM-DGAAM.

The expenses of implementation of the safety and environmental measures incurred during 2018 amounted to US$ 3,000 (US$3,000 during 2017), this expense has been recognized in the statement of profit or loss. As of December 31, 2018 and 2017 the Company did not have liabilities in connection to these expenditures since they were settled before year end.

On March 2015, the Company presented the mine closure plan of the phosphates project to the General Directorate of Mining Environmental Matters, which was approved on October 2015 by RD 409-2015-MEM-DGAAM, this plan has not been implemented because the phosphate project is still in pre-operative stage.

22. Financial risk management, objectives and policies

The Company's main financial liabilities comprise trade payables and other payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company has not started the production stage of phosphates and the operations development mainly depends of its shareholders and third parties financing.

The Company is exposed to market risk, credit risk and liquidity risk.

The Company's senior management oversees the management of these risks. The Company's senior management is supported by financial management that advises on financial risks and the appropriate financial risk governance framework for the Company. The financial management provides assurance to the Company's senior management that the Company's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Company's policies and risk objectives.

Management reviews and agrees policies for managing each of these risks which are summarized below.

Market risk -

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market risk. Market risk comprise three types of risk: interest rate risk, currency risk and other price risks (such as commodity price risk and equity price risk). The financial instruments affected by market risks include deposits.

The sensitivity analysis shown in the following sections relate to the position as of December 31, 2018 and 2017.These analyses have been prepared on the basis that the amount of net liabilities, the ratio of fixed to floating interest rate debt and the proportion of financial instruments in foreign currencies are all constant as of December 31, 2018 and 2017.

Interest rate risk

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

As of December 31, 2018 and 2017, the Company does not have any borrowings with third parties.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange relates primarily to the Company's operating activities (when revenue or expense is denominated in a different currency from the Company's functional currency).

The Company does not hedge its exposure to the currency risk.

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, the impact on the Company's loss before income tax is due to changes in the fair value of monetary assets and liabilities.

2018 U.S. Dollar	**Change in US$ rate** %	**Effect on loss before income tax** US$(000)
	+5	12
	+10	25
	-5	(12)
	-10	(25)
2017 U.S. Dollar		
	+5	15
	+10	31
	-5	(15)
	-10	(31)

Raw materials price risk -

Due the Company is in pre-operative stage, it does not require a constant supply of raw materials, as consequence, as of December 31, 2018 and 2017, it is not affected by the volatility of raw materials prices.

Credit risk -

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Company's treasury department in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Management on an annual basis, and may be updated throughout the year subject to approval of the Company's financial management. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through potential counterparty's failure. The Company's maximum exposure to credit risk for the components of the statement of financial position is the carrying amounts as showed in note 6.

Liquidity risk -

The Company monitors its risk of shortage of funds using a recurring liquidity planning tool.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of loans, financial obligation and leases contracts. Access to sources of funding is sufficiently available and the debt maturing within 12 months can be rollover with existing lenders, if necessary.

Excessive risk concentration –

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Company's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

	On demand US$(000)	**Less than 3 months** US$(000)	**3 to 12 months** US$(000)	**1 to 5 years** US$(000)	**Total** US$(000)
As of December 31, 2018					
Accounts payable (trade and non-trade)	440	285	-	-	725
As of December 31, 2017					
Accounts payable (trade and non-trade)	68	334	-	-	402

Changes in liabilities arising from financing activities:

	Balance as of January 1, 2018 US$(000)	Movement of foreign currency US$(000)	Cash flows US$(000)	Balance as of December 31, 2018 US$(000)
2017				
Borrowings from related parties	-	(202)	202	-

Capital management -

For the purpose of the Company's capital management, capital includes capital stock and additional paid-in capital. The primary objective of the Company's capital management is to maximize shareholder's value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions.

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2018 and December 31, 2017.

23. Financial assets and liabilities

(a) Financial assets and liabilities -

Financial assets -

Financial assets include cash and other receivables. All financial assets are classified in the category of loans and receivables are held to maturity and generate fixed or variable interest income for the Company. The carrying value may be affected by changes in the credit risk of the counterparties.

Financial liabilities -

Financial liabilities include trade and other payables. All financial liabilities are classified as loans and borrowings and carried at amortized cost.

(b) Fair values -

The management assessed that cash, other receivables and trade and other payables, approximate their carrying amounts largely due to the short-term maturities of these instruments.

(c) Fair value hierarchy -

At December 31, 2018 and 2017, the Company has no financial assets and liabilities measured at fair value or whose fair values are disclosed.

Nº 0073552

COLEGIO DE CONTADORES PÚBLICOS DE LIMA

AV. AREQUIPA Nº 998 Y AV. ALEJANDRO TIRADO Nº 181 - SANTA BEATRIZ - LIMA
TELEF.: 230-3000

R.U.C. 20106620106

Nº 73552

Constancia de Habilitación

La Decana y el Director Secretario del Colegio de Contadores Públicos de Lima, que suscriben, declaran que en base a los registros de la institución, se ha verificado que

PAREDES, BURGA & ASOCIADOS SOC. CIVIL DE RESPONSABILIDAD LIMITADA

MATRICULA : S0761

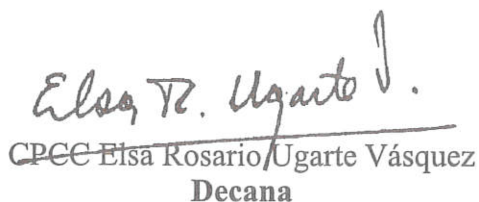
FECHA DE COLEGIATURA : 05/11/2002

Se encuentra, hábil a la fecha, para el ejercicio de las funciones profesionales que le faculta la Ley Nº 13253 y su modificatoria Ley Nº 28951 y conforme al Estatuto y Reglamento Interno de este Colegio; en fe de lo cual y a solicitud de parte, se le extiende la presente constancia para los efectos y usos que estime conveniente. Esta constancia tiene vigencia hasta el

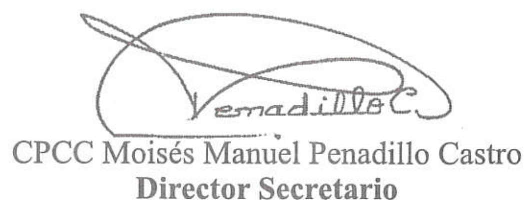
31/03/2019

Lima,

19 de Enero de 2018



CPCC Elsa Rosario Ugarte Vásquez
Decana



CPCC Moisés Manuel Penadillo Castro
Director Secretario

Verifique su validez en: www.ccpl.org.pe

Comprobante de Pago: 113-00000246

Verifique la validez del comprobante de pago en: www.sunat.gob.pe