

ASSURANCE

Translation of financial statements originally issued in Spanish - See Note 12

**Sociedad Minera El Brocal S.A.A.**

Interim unaudited financial information as of September 30, 2007 and 2006 and for the three and nine-month periods then ended

 **ERNST & YOUNG**

## Report of Independent Auditors

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

We have reviewed the accompanying balance sheet of **Sociedad Minera El Brocal S.A.A.** (a Peruvian company) as of September 30, 2007, the related statements of income and cash flows for the three-month and nine-month periods ended September 30, 2007 and 2006 and the statements of changes in shareholders' equity for the nine-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with applicable auditing standards in Peru for interim reviews. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquire of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express such an opinion on the accompanying financial statements.

Based on our review, we are not aware of any material modification that should be made to the accompanying financial statements referred above to be in conformity with generally accepted accounting principles in Peru.

We have previously audited, in accordance with generally accepted auditing standards in Peru, the accompanying balance sheet of **Sociedad Minera El Brocal S.A.A.** as of December 31, 2006, and the related statements of income, changes in shareholders' equity and cash flows for the year then ended. Our report dated January 31, 2007 expressed an unqualified opinion on those financial statements.

Lima, Peru,  
October 11, 2007

*Medina, Zaldívar, Paredes & Asociados*

Countersigned by,



Víctor Burga  
C.P.C. Register 14859

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## **Sociedad Minera El Brocal S.A.A.**

### **Balance Sheet**

As of September 30, 2007 (unaudited) and December 31, 2006 (audited)

	<b>Note</b>	<b>2007</b> US\$(000)	<b>2006</b> US\$(000)
<b>Asset</b>			
<b>Current Asset</b>			
Cash and cash equivalents	4	164,053	100,341
Trade accounts receivable, net		46,845	52,739
Other accounts receivable, net		314	298
Inventories, net	5	9,188	4,609
Prepaid expenses		704	496
<b>Total current assets</b>		<u>221,104</u>	<u>158,483</u>
Property, plant and equipment, net		36,379	37,922
Deferred income tax and workers' profit sharing asset	10	<u>10,613</u>	<u>5,986</u>
<b>Total asset</b>		<u>268,096</u>	<u>202,391</u>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Trade accounts payable		6,030	5,293
Income tax payable	10	11,261	26,793
Other accounts payable		22,018	22,818
Derivative instruments	6	2,077	-
Current portion of accrual for mine closing costs		7,310	3,176
Current portion of long-term debt		205	491
<b>Total current liabilities</b>		<u>48,901</u>	<u>58,571</u>
Long-term debt		-	115
Accrual for mine closing costs		<u>12,448</u>	<u>15,786</u>
<b>Total liabilities</b>		<u>61,349</u>	<u>74,472</u>
<b>Shareholders' equity, net</b>			
Capital stock		30,281	30,281
Investment shares		1,810	1,810
Legal reserve		6,418	6,418
Unrealized loss on derivative instruments	6	(2,077)	-
Retained earnings	7	<u>170,315</u>	<u>89,410</u>
<b>Total shareholders' equity, net</b>		<u>206,747</u>	<u>127,919</u>
<b>Total liabilities and shareholders' equity, net</b>		<u>268,096</u>	<u>202,391</u>

The accompanying notes are an integral part of this balance sheet.

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**Sociedad Minera El Brocal S.A.A.**

**Statement of Income (unaudited)**

For the three and nine-month periods ended September 30, 2007 and 2006

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2007 US\$(000)	2006 US\$(000)	2007 US\$(000)	2006 US\$(000)
Net sales, note 8	70,178	51,645	196,867	135,403
Cost of sales	(12,795)	(8,545)	(34,206)	(24,446)
<b>Gross margin</b>	<b>57,383</b>	<b>43,100</b>	<b>162,661</b>	<b>110,957</b>
<b>Operating expenses</b>				
Exploration in non-operational mining sites, note 9	(3,222)	(2,363)	(8,901)	(5,068)
Royalties to the Peruvian Government	(2,274)	(1,057)	(4,215)	(2,141)
General and administrative	(1,150)	(1,771)	(3,400)	(4,804)
Selling	(1,259)	(829)	(3,425)	(2,539)
<b>Total operating expenses</b>	<b>(7,905)</b>	<b>(6,020)</b>	<b>(19,941)</b>	<b>(14,552)</b>
<b>Operating income</b>	<b>49,478</b>	<b>37,080</b>	<b>142,720</b>	<b>96,405</b>
<b>Other income (expenses)</b>				
Financial income	1,322	482	3,972	647
Financial expenses	(11)	(14)	(29)	(116)
Accretion expense	(282)	(81)	(830)	(191)
Exchange difference gain (loss), net	2,911	21	3,190	(253)
Voluntary and temporary mining contribution "Programa Minero de Solidaridad con el Pueblo"	(385)	-	(1,137)	-
Other, net	(1,195)	(275)	(3,201)	478
<b>Total other income (expenses), net</b>	<b>2,360</b>	<b>133</b>	<b>1,965</b>	<b>565</b>
<b>Income before workers' profit sharing and income tax</b>	<b>51,838</b>	<b>37,213</b>	<b>144,685</b>	<b>96,970</b>
Workers' profit sharing, note 10	(3,849)	(2,788)	(11,116)	(7,684)
Income tax, note 10	(13,278)	(9,619)	(38,350)	(26,509)
<b>Net income</b>	<b>34,711</b>	<b>24,806</b>	<b>95,219</b>	<b>62,777</b>
<b>Net income per share, basic and diluted, stated in U.S. dollars</b>	<b>0.3153</b>	<b>0.2253</b>	<b>0.8648</b>	<b>0.5702</b>
<b>Weighted average number of shares outstanding</b>	<b>110,105,236</b>	<b>110,105,236</b>	<b>110,105,236</b>	<b>110,105,236</b>

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**Sociedad Minera El Brocal S.A.A.**

**Statement of Changes in Shareholders' Equity (unaudited)**

For the three and nine-month periods ended September 30, 2007 and 2006

	<b>Capital stock</b> US\$(000)	<b>Investment shares</b> US\$(000)	<b>Legal reserve</b> US\$(000)	<b>Unrealized loss on derivative instruments</b> US\$(000)	<b>Retained earnings</b> US\$(000)	<b>Total</b> US\$(000)
<b>Balance as of January 1, 2006</b>	30,281	1,810	-	-	(8,193)	23,898
Declared dividends, note 7	-	-	-	-	(5,512)	(5,512)
Net income	-	-	-	-	62,777	62,777
<b>Balance as of September 30, 2006</b>	<b>30,281</b>	<b>1,810</b>	<b>-</b>	<b>-</b>	<b>49,072</b>	<b>81,163</b>
<b>Balance as of January 1, 2007</b>	30,281	1,810	6,418	-	89,410	127,919
Dividends paid, note 7	-	-	-	-	(14,314)	(14,314)
Unrealized loss on derivative instruments, note 6	-	-	-	(2,077)	-	(2,077)
Net income	-	-	-	-	95,219	95,219
<b>Balance as of September 30, 2007</b>	<b>30,281</b>	<b>1,810</b>	<b>6,418</b>	<b>(2,077)</b>	<b>170,315</b>	<b>206,747</b>

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**Sociedad Minera El Brocal S.A.A.**

**Statement of Cash Flows (unaudited)**

For the three and nine-month periods ended September 30, 2007 and 2006

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2007 US\$(000)	2006 US\$(000)	2007 US\$(000)	2006 US\$(000)
<b>Operating activities</b>				
Collections from customers	55,514	53,133	202,761	133,735
Collection of interest	1,322	478	3,972	563
Income tax payments	(14,105)	(6,032)	(57,469)	(17,554)
Payments to suppliers	(12,015)	(10,468)	(40,698)	(30,316)
Payments to employees and third parties	(1,747)	(1,249)	(20,363)	(6,283)
Payments of royalties to the Peruvian Government	(1,615)	(1,187)	(4,061)	(2,044)
Payments of the voluntary and temporary mining contribution	-	-	(1,288)	-
Payments of interest	(11)	(10)	(29)	(32)
<b>Cash flows from operating activities</b>	<b>27,343</b>	<b>34,665</b>	<b>82,825</b>	<b>78,069</b>
<b>Investing activities</b>				
Decrease (increase) on time deposits	8,068	7,362	(56,257)	-
Purchase of property, plant and equipment	(1,542)	(6,885)	(4,511)	(10,158)
Proceed from sale of property, plant and equipment	-	4	113	67
<b>Cash flows provided by (used in) investing activities</b>	<b>6,526</b>	<b>481</b>	<b>(60,655)</b>	<b>(10,091)</b>
<b>Financing activities</b>				
Payment of dividends	-	-	(14,314)	-
Payments of long-term debt	(84)	(164)	(401)	(104)
<b>Cash flows used in financing activities</b>	<b>(84)</b>	<b>(164)</b>	<b>(14,715)</b>	<b>(104)</b>
Net cash increase during the period	33,785	34,982	7,455	67,874
Cash at beginning of the period	29,770	38,934	56,100	6,042
<b>Cash at period-end, note 4</b>	<b>63,555</b>	<b>73,916</b>	<b>63,555</b>	<b>73,916</b>

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**Statement of Cash Flows (unaudited) (continued)**

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2007 US\$(000)	2006 US\$(000)	2007 US\$(000)	2006 US\$(000)
<b>Reconciliation of net income to net cash provided by operating activities</b>				
Net income	34,711	24,806	95,219	62,777
<b>Add (less) – Items that did not affect operating cash flows</b>				
Depreciation	1,769	750	4,911	2,163
Accretion expense	282	81	830	191
Deferred income tax and workers' profit sharing benefit	(3,284)	(105)	(4,627)	(530)
Exchange difference loss (gain), net	(2,911)	(21)	(3,190)	253
Net cost of plant and equipment sold	-	-	46	37
<b>Changes of net assets and liabilities</b>				
Decrease (increase) of operating assets -				
Trade accounts receivable	(14,664)	1,488	5,894	(1,668)
Other accounts receivable	108	(63)	(16)	18
Inventories	(1,884)	(1,576)	(3,482)	(3,549)
Prepaid expenses	180	225	(208)	84
Increase (decrease) of operating liabilities -				
Trade accounts payable	(1,024)	1,964	737	2,679
Income tax payable	1,719	3,668	(15,532)	9,366
Other accounts payable	12,341	3,448	2,243	6,248
<b>Net cash provided by operating activities</b>	<b>27,343</b>	<b>34,665</b>	<b>82,825</b>	<b>78,069</b>
<b>Significant transactions that do not affect cash flows</b>				
Increase of the book value of long-lived asset due to the accrual for mine closing costs	-	10,608	-	10,608
Declared and unpaid dividends, Note 7	-	5,512	-	5,512

The accompanying notes are an integral part of these statements.

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## **Sociedad Minera El Brocal S.A.A.**

### **Notes to the interim financial statements (unaudited)**

As of September 30, 2007 and 2006

#### **1. Business activity**

Sociedad Minera El Brocal S.A.A. (hereafter, "the Company") is a public company incorporated in Peru in 1956. The Company is engaged in the extraction, concentration and commercialization of polymetallic ores, mainly zinc, silver and lead, and operates the Colquijirca mining unit (which comprises the Colquijirca mine and the Huarauca Plant) located in the district of Tinyahuarco, province of Cerro de Pasco, department of Pasco, Peru.

#### **2. Basis of presentation, significant accounting principles and practices**

Basis of presentation -

The interim unaudited financial statements for the three-month and nine-month periods ended September 30, 2007 and 2006 have been prepared in conformity with IAS 34 "Interim Financial Reporting".

The interim financial statements do not include all the information and disclosures required in the Company's annual financial statements and should be read together with the 2006 financial statements.

Significant accounting principles and practices -

- (a) The criteria and accounting basis used by the Company in preparing the accompanying interim financial statements are consistent to those used in the preparation of the Company's annual financial statements.
- (b) Effective January 1, 2006, the functional and reporting currency of the Company is the U.S. dollar (Nuevos Soles until December 31, 2005). The change of the functional and reporting currency has been made prospectively effective January 1, 2006.

Transactions in foreign currency (any currency different to the functional currency) are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Exchange differences resulting from the settlement of the transactions in foreign currencies and from the translation of the monetary assets and liabilities at the exchange rates at year-end, are recognized in the statement of income.

#### **3. Seasonality of operations**

The Company and its subsidiaries operate continuously without fluctuations due to seasonality.

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Notes to the interim financial statements (continued)

**4. Cash and cash equivalents**

(a) This item is made up as follows:

	<b>2007</b> US\$(000)	<b>2006</b> US\$(000)
Cash and petty cash	34	20
Demand deposit accounts (b)	1,747	4,108
Time deposits (c)	<u>61,774</u>	<u>51,972</u>
 Cash balances included in the statements of cash flows	 63,555	 56,100
 Time deposits with original maturity greater than 90 days (d)	 <u>100,498</u>	 <u>44,241</u>
  <b>164,053</b>	  <b><u>100,341</u></b>	

As a consequence of the higher sales explained in note 8, the Company has made higher collections from customers during the nine-month period ended September 30, 2007 in comparison with the same period of 2006.

(b) As of December 31, 2006 and September 30, 2007 the Company maintains its demand deposit accounts mainly in U.S. dollars. These funds are unrestricted, are deposited in domestic and foreign banks and earn interest at prevailing market rates.

(c) As of September 30, 2007, the Company maintains time deposits by US\$54,000,000, with annual interest rates ranging from 5.00% to 5.30% and original maturities from 50 to 90 days. In addition, the Company has time deposits in Nuevos Soles by S/24,000,000 (equivalent to US\$7,774,000), with annual interest rates ranging from 5.20% to 5.25% and original maturities of 90 days.

(d) As of September 30, 2007, it corresponds to time deposits in Nuevos Soles by S/226,300,000 (equivalent to US\$73,308,000), in U.S. dollars by US\$15,000,000 and in euros by €9,000,000 (equivalent to US\$12,190,000), with interest annual rates ranging from 3.70% to 5.30% and original maturities from 92 to 271 days.

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## Notes to the interim financial statements (continued)

### 5. Inventories, net

Inventories' balance increased by US\$4,579,000 compared to the balance as of December 31, 2006, was mainly originated by the increase of mineral in plant from 186,267 MST to 308,061 MST and by a higher stock of zinc and lead which corresponds to current operation stocks.

### 6. Derivative instruments

During July and August, 2007, in order to hedge the fluctuations in metal prices, the Company entered into derivatives contracts that qualified as cash flows hedge; these are recorded as assets or liabilities in the balance sheet and are measured at their fair value. To the extent these hedges are effective in offsetting forecasted cash flows from the sale of production, changes in the fair value are deferred in an equity account. Deferred amounts are reclassified to sales when the underlying production is sold.

Hedge operations as of September 30, 2007 are:

Metal	Broker	Quantity	Fixed price US\$	Period
Zinc	Sempra Metal Limited	6,000 MT	3,050	July 2008 - June 2009
Zinc	Standard Bank	1,500 MT	2,960	July 2009 - December 2009
Zinc	Standard Bank	1,500 MT	2,845	January 2010 - June 2010
Lead	BNP Paribas	3,750 MT	2,835	October 2007 – December 2008
Lead	Sempra Metal Limited	2,100 MT	2,710	January 2009 - June 2009
Lead	Sempra Metal Limited	1,800 MT	2,595	July 2009 - December 2009
Lead	Sempra Metal Limited	2,100 MT	2,525	January 2010 - June 2010

As of September 30, 2007 the Company has recorded a charge of US\$2,077,000 to the equity account "unrealized loss on derivative instruments" due to the changes in fair value of these contracts occurred at such date.

### 7. Retained earnings

The Extraordinary Shareholders' Meeting held on March 28, 2007 agreed to distribute retained earnings of 2006 by approximately US\$14,314,000, equivalent to US\$0.13 per share. Those dividends were paid to the shareholders on April 30, 2007.

In addition, the Extraordinary Shareholders' Meeting held on August 21, 2006 agreed to distribute retained earnings of 2006 by approximately US\$5,512,000, equivalent to US\$0.05 per share.

### 8. Net sales

The sales in the nine-month period ended September 30, 2007 increased by 45 percent compared with the same period in 2006, due mainly to: (i) an increase in the international market quotations of those metals that are commercialized by the Company, see note 11, and (ii) a higher production of concentrates and a higher lead content in them, which allowed to increase volume sold of lead and zinc from 16,278 and 36,688 metric

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## Notes to the interim financial statements (continued)

tons of lead and zinc as of September 30, 2006, respectively, to 23,811 and 49,741 metric tons of lead and zinc as of September 30, 2007, respectively.

### 9. Exploration costs in non-operational mining sites

This item is made up as follows:

	2007 US\$(000)	2006 US\$(000)
Marcapunta Oeste	2,925	949
Marcapunta Norte	2,989	3,521
La Llave	2,230	-
Other	757	598
	<hr/>	<hr/>
	8,901	5,068
	<hr/>	<hr/>

During the second semester of 2006, the Company started diamond drilling workings in Tajo Norte area in order to analyze the continuity of the mineralized structure in La Llave flank. During the nine-month period ended September 30, 2007, the expenditures related to this project amounted to US\$2,230,000.

### 10. Income tax and workers' profit sharing

The current and deferred portions of the income tax and workers' sharing benefit (expense) included in the statements of income for the three-month and nine-month period ended September, 30, 2007 and 2006 are made up as follows:

	2007 US\$(000)	2006 US\$(000)
<b>Workers' profit sharing</b>		
Current	(12,156)	(7,803)
Deferred	1,040	119
	<hr/>	<hr/>
	(11,116)	(7,684)
<b>Income tax</b>		
Current	(41,937)	(26,920)
Deferred	3,587	411
	<hr/>	<hr/>
	(38,350)	(26,509)
	<hr/>	<hr/>
	(49,466)	(34,193)

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## Notes to the interim financial statements (continued)

The current workers' profit sharing and income tax expenses have increased in the nine-month period ended September 30, 2007 in comparison with the same period in 2006, mainly due to the higher sales explained in note 8.

On the other hand, in March 2007, the Company made a payment of US\$ 26,793,000 related to the final 2006 income tax.

In addition, during the nine-month period ended September 30, 2007, the Company has recorded a higher net deferred income tax and workers' profit sharing asset by US\$4,627,000. Such increase is mainly explained by the corresponding price adjustment to provisional billings by US\$2,528,000 and the effect of using higher depreciation rates by US\$1,149,000.

### 11. Statistical data

Statistical data related to the volume of inventories sold and average sales prices by product for the three-month and nine-month period ended September 30, 2007 and 2006 are as follows:

(a) Volumes sold:

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2007	2006	2007	2006
Silver	1,504,213 Oz	1,667,830 Oz	4,284,169 Oz	4,865,374 Oz
Lead	7,932 MT	5,303 MT	23,789 MT	16,278 MT
Zinc	17,369 MT	11,951 MT	49,741 MT	36,688 MT

(b) Average sales prices:

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2007	2006	2007	2006
Silver	12.68 /Oz	11.75/Oz	13.04/Oz	11.34/Oz
Lead	3,154.14 /MT	1,266.63/MT	2,705.23/MT	1,097.78/MT
Zinc	3,147.79 /MT	3,798.15/MT	3,481.97/MT	2,980.41/MT

### 12. Explanation added for English language translation

The accompanying financial statements are presented on the basis of generally accepted accounting principles in Peru. Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Peru may differ, in certain respects, to generally accepted accounting principles in other countries.

