

Southern Peaks Mining Peru S.A.C.

Financial statements as of December 31, 2014 and 2013
together with the Independent auditors' report



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- Aumentar la disponibilidad de información sobre las actividades gubernamentales
- Apoyar la participación ciudadana
- Fomentar un gobierno y un sector privado responsables
- Fomentar los negocios y la prosperidad
- Apoyar la lucha contra la corrupción
- Aumentar el acceso a las nuevas tecnologías para la apertura y la rendición de cuentas
- Combatir los intentos de cualquier gobierno a limitar el acceso a la información pública
- Combatir los intentos de cualquier gobierno a vigilarnos

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Southern Peaks Mining Peru S.A.C.

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Independent auditors' report

To the Shareholders of Southern Peaks Mining Peru S.A.C.

We have audited the accompanying financial statements of Southern Peaks Mining Peru S.A.C. (a subsidiary of Southern Peaks Mining L.P., a Company based in Cayman Islands) which comprise the statement of financial position as of December 31, 2014 and 2013, and the related statement of income, statement of changes in equity and statement of cash flows for the years ended in those dates, and a summary of significant accounting policies and other explanatory information (see attached notes 1 to 21).

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with International Standards on Auditing approved for application in Peru by the Board of Deans of Institutes of Peruvian Certified Public Accountants. 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 misstatements.

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 the internal control relevant to the Company 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.



Independent auditors' report (continued)

Opinion

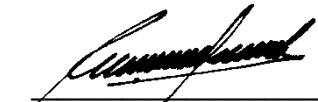
In our opinion, the financial statements present fairly, in all material respects, the financial position of Southern Peaks Mining Peru S.A.C. as of December 31, 2014 and 2013, its financial performance and its cash flows for the year ended as of December 31, 2014 and 2013, in accordance with International Financial Reporting Standards.

Lima, Peru
March 23, 2015

Countersigned by:

Paredes, Zeldimar, Burgos

& Asociado



Carlos Ruíz
C.P.C.C. Matrícula No. 8016

Southern Peaks Mining Peru S.A.C.

Statement of financial position

As of December 31, 2014 and 2013

	Note	2014 US\$	2013 US\$
Assets			
Current assets			
Cash and cash equivalents	6	8,349	58,554
Accounts receivables from related parties	8	2,435,219	6,243,982
Other receivables	7	155,917	227,163
Prepaid expenses		3,688	1,010
		<u>2,603,173</u>	<u>6,530,709</u>
Non-current assets			
Accounts receivables from related parties	8	3,872,640	-
Property, plant and equipment	9	837,147	945,077
Intangible, net	10	249,719	214,181
Deferred income tax	13	742,162	1,023,771
		<u>5,701,668</u>	<u>2,183,029</u>
Total assets		<u>8,304,841</u>	<u>8,713,738</u>
Liabilities and equity, net			
Current liabilities			
Trade payables	11	177,583	133,142
Other payables	12	847,644	585,521
Accounts payable to related parties	8	1,161,725	641,699
		<u>2,186,952</u>	<u>1,360,362</u>
Equity, net	14		
Capital stock		11,152,371	10,616,266
Additional capital		-	536,105
Accumulated deficit		(5,034,482)	(3,798,995)
Total equity, net		<u>6,117,889</u>	<u>7,353,376</u>
Total liabilities and equity, net		<u>8,304,841</u>	<u>8,713,738</u>

The accompanying notes are an integral part of this statement.

Southern Peaks Mining Peru S.A.C.

Statement of income

As of December 31, 2014 and 2013

	Note	2014 US\$	2013 US\$
Revenues for management fees	8(a)	3,000,000	2,303,505
Administrative expenses	16	(4,140,666)	(3,728,168)
Other operating income	17	33,194	960
Other operating expenses	17	<u>(78,310)</u>	<u>(37,086)</u>
Operating results		<u>(1,185,782)</u>	<u>(1,460,789)</u>
Finance income	18	223,291	329,763
Gain (loss) for exchange difference, net		<u>8,613</u>	<u>(183,798)</u>
Loss before income tax		(953,878)	(1,314,824)
Income tax benefit (expense)	13(b)	<u>(281,609)</u>	<u>1,023,771</u>
Loss of the year		<u>(1,235,487)</u>	<u>(291,053)</u>

The accompanying notes are an integral part of this statement.

Southern Peaks Mining Peru S.A.C.

Statement of changes in equity

For the years ended December 31, 2014 and 2013

	Capital stock US\$	Additional capital US\$	Accumulated deficit US\$	Total US\$
Balance as of January 1, 2013	8,617,534	-	(3,507,942)	5,109,592
Capitalization of loans, note 14	1,998,732	-	-	1,998,732
Additional capital, note 14	-	536,105	-	536,105
Loss of the year	-	-	(291,053)	(291,053)
Balance as of December 31, 2013	<u>10,616,266</u>	<u>536,105</u>	<u>(3,798,995)</u>	<u>7,353,376</u>
Transfer, note 14	536,105	(536,105)	-	-
Loss of the year	-	-	(1,235,487)	(1,235,487)
Balance as of December 31, 2014	<u>11,152,371</u>	<u>-</u>	<u>(5,034,482)</u>	<u>6,117,889</u>

The accompanying notes are an integral part of this statement.

Southern Peaks Mining Peru S.A.C.

Statement of cash flows

For the years ended 31 December 2014 and 2013

	2014 US\$	2013 US\$
Operating activities		
Loss of the year	(1,235,487)	(291,053)
Adjustments to reconcile net result to cash flows from operating activities:		
Depreciation and amortization	113,638	112,357
Deferred income tax	281,609	(1,023,771)
Interest affiliates	(223,291)	-
Other	-	(245)
Changes in working capital accounts		
Other receivables	59,176	(77,865)
Accounts receivables from related parties	159,414	(774,937)
Prepaid expenses	(2,678)	5,847
Trade payables	44,441	25,352
Other payables	262,123	146,998
Accounts payables to related parties	(13,593)	641,699
Net cash used in operating activities	<u>(554,648)</u>	<u>(1,235,618)</u>
Investing activities		
Purchase of property, plant and equipment	(16,423)	(53,335)
Purchase of intangible assets	(39,872)	(1,850)
Sale of property, plant and equipment	27,119	-
Loans granted to related parties	-	(1,362,708)
Net cash used in investing activities	<u>(29,176)</u>	<u>(1,417,893)</u>
Financing activities		
Loans from related parties	533,619	2,534,837
Net cash provided by financing activities	<u>533,619</u>	<u>2,534,837</u>
Net decrease in cash and cash equivalents	(50,205)	(118,674)
Cash and cash equivalents at beginning of year	<u>58,554</u>	<u>177,228</u>
Cash and cash equivalents at end of year	<u>8,349</u>	<u>58,554</u>
Non-monetary transaction		
Capitalizations of loans	-	1,998,732
Additional capital	-	536,105

The accompanying notes are an integral part of this statement.

Southern Peaks Mining Peru S.A.C.

Notes to the financial statements

As of December 31, 2014 and 2013

1. General corporate information

(a) Identification -

Southern Peaks Mining Peru S.A.C. (hereinafter "the Company") is a Peruvian subsidiary of Southern Peaks Mining L.P., an entity based in Cayman Islands, which owns 99 percent of its shares. The Company was incorporated on August 11, 2009 and started operations on July 15, 2010.

Its legal address is Av. Manuel Olguin 501, office 803, Santiago de Surco, Lima.

(b) Business activity -

As of December 31, 2014 and 2013, the Company is mainly engaged in the exploitation of projects and all mining related activities to its related parties Compañía Minera Condestable S.A., Compañía Minera Quiruvilca S.A.C., Minera Tantaró S.A.C. and Ariana Operaciones Mineras S.A.C., as well as management services of Southern Peaks Mining L.P., and for all its related parties mentioned before.

Starting 2015, the Company will determine the corresponding administrative services fees granted to its related parties in order to recover the expenses incurred. The Company's Management expects that with this plan, they can resolve its operating losses results obtained as of December 31, 2014.

(c) Financial statements approval -

The financial statements as of December 31, 2014 have been approved by Management on February 10, 2015 and, in its opinion, they will be approved without modifications at the Board of Directors' and General Shareholders' meetings to be held during the first quarter of 2015. The financial statements as of December 31, 2013 were approved at the Shareholders' Meeting held on January 20, 2014.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise started.

2.1 Basis of preparation -

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

The financial statements have been prepared based on historical cost basis. The financial statements are presented in United States Dollars (U.S. Dollars), except when otherwise indicated.

Notes to the financial statements (continued)

The Company has adopted those new IFRS and revised IAS mandatory for years beginning on or after January 1, 2014, as described below; however, due to the Company's structure and operations, the adoption of the new and revised accounting standards did not have any significant impact on its financial position or performance:

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.
- Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.
- Novation of Derivatives and Continuation of Hedge Accounting - Amendments to IAS 39
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.
- IFRIC 21 Levies
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.
- Annual Improvements 2010-2012 Cycle
In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

Notes to the financial statements (continued)

- Annual Improvements 2011-2013 Cycle
In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

2.2. Summary of significant accounting policies

(a) Fair value measurement

The Company measures financial instruments at fair value at each statement of financial position date.

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 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 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 above.

Notes to the financial statements (continued)

(b) Cash and cash equivalent -

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand, and short term deposits. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits with original maturities of three months or less, net of outstanding bank overdrafts.

(c) Financial instruments- initial recognition and subsequent measurement -

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

(c.1) 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 financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement -

The subsequent measurement of financial assets depends on their classification, as described follows:

(i) *Financial assets at fair value through profit or loss -*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instrument as defined by IAS 39. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net change in fair value) or finance income (positive net changes in fair value) in the statement of income.

As of December 31, 2014 and 2013, the Company does not have any financial asset at fair value through profit or loss.

(ii) *Loans and receivables -*

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 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

Notes to the financial statements (continued)

fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of income. The losses arising from impairment are recognized in the statement of income in finance costs.

This category generally applies to receivable from related parties and other receivables.

(iii) *Other financial assets -*

The Company has no held-to-maturity investments or available-for-sale financial investments as of December 31, 2014 and 2013.

Derecognition -

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

- (i) The rights to receive cash flows, from the 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 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 the asset of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the assets, 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.

(c.2) *Impairment of financial assets -*

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (a 'loss event'), has 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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to the financial statements (continued)

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 asset, whether significant or not, it includes the asset in a group of financial assets with similar characteristics of credit risk, 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. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statement of income. Interest income (recorded as finance income in the statement of income) 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 a write-off is later recovered, the recovery is credited to finance costs in the statement of income.

(c.3) Financial liabilities -

Initial recognition and measurement -

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, payables, loans and borrowings, 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 payables and loans and borrowings, net of directly attributable transaction costs.

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

Notes to the financial statements (continued)

Subsequent measurement -

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

(i) *Financial liabilities at fair value through profit or loss -*

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the statement of income.

As of December 31, 2014 and 2013, the Company has no designated any financial liability as at fair value through profit or loss.

(ii) *Loans and borrowings -*

After their initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the statement of income 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 income.

As of December 31, 2014 and 2013, the Company has no loans and borrowings .

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 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of income.

Notes to the financial statements (continued)

(c.4) Offsetting of financial instruments -

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

(d) Foreign currency balances and transactions -

The Company's financial statements are presented in U.S. Dollars, which is also its functional currency.

Foreign currency transactions (different currency than U.S. Dollar) are initially recorded in the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the spot rate of exchange ruling at the reporting date. All differences are taken to the statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

(e) Property, plant and equipment -

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the equipment and borrowing costs for long-term construction projects, if recognition criteria are met. When significant parts of equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, the 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 the statement of income as incurred.

The assets are depreciated using the straight-line method with the following useful lives:

	Years
Building and constructions	20
Vehicles	5
Furniture and fixtures	10
Computer equipment	4
Other equipment	10

Residual value, useful life and methods of depreciation are reviewed at each reporting date, and adjusted prospectively if appropriate.

An item of the building and equipment and any significant part is derecognized on sale or when no future economic benefits are expected from its use or sale. Any gain or loss at derecognition date of the asset (calculated as the difference between the net gain obtained

Notes to the financial statements (continued)

from the sale of the asset and its book value) is included in the statement of income when the asset is derecognized.

(f) Mining concessions -

The mining concessions represent the right of exploration and exploitation that the Company has over the mining properties that contain the mineral reserves acquired. The mining concessions are stated at cost and will be amortized using the unit of production method (UOP), using the proven and probable reserves, once the commercial production starts. In case the Company abandons these concessions, the associated costs are written-off.

The mining concessions are presented within the intangible caption in the statement of financial position.

(g) Software and technology patents -

Software and technology patents are recorded at the acquisition cost which includes expenses incidental to the acquisition, less accumulated amortization and any impairment in value. These costs are carried at cost and are amortized over periods that range between 1 and 10 years.

These costs are presented within the intangible caption in the statement of financial position.

(h) 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 assets' or cash-generating units (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or a 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.

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

For assets, an assessment is made at each reporting date to determine whether there is any indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the assets or CGU'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

Notes to the financial statements (continued)

would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income.

(i) 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 the statement of income 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, when 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.

(j) 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 being made. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, and sales taxes or duty. The Company has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in most of the revenue arrangements, has pricing latitude and is also exposed to credit risks.

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

Management services -

Revenue from services is recognized when the services is provided in accordance to a fee rate.

Interest income -

Interest income is recorded using the effective interest rate. Interest income is included in finance income in the statement of income.

(k) 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 tax authority. The tax rates and tax laws used to compute the amounts are those that are enacted or substantially enacted at the reporting date.

Notes to the financial statements (continued)

Deferred income tax -

Deferred income 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 any 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 relating 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 other comprehensive income 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.

Sales tax -

Expenses and assets are recognized net of the amount of sales tax (eg. value added tax), except:

- When 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.
- 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.

Notes to the financial statements (continued)

3. Significant accounting judgments, estimates and assumptions -

The preparation of the Company 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, and the disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods.

The significant judgment, estimate and assumption identified by management are:

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 such indication exists, the Company makes a formal estimate of the asset's recoverable amount. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, operating costs, and others. These assumptions and estimates are under risks and uncertain.

The fair value of the mining assets is determined, usually, by the present value of the future cash flows provided from the continuing use of the asset, which include estimates such as future capital expenditure, using certain assumptions that a third party can use. The future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Company have determined to each cash-generating unit, considering the operations of each cash-generating unit as individual base.

Recovery of deferred tax assets -

Judgement is required to determine whether deferred tax assets are recognized in the consolidated statement of financial position. Deferred tax assets, including those arising from unused tax losses, require Management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and judgement about the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets recorded at the reporting date could be impacted.

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

Contingencies -

By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence and potential quantum of contingencies inherently involves the exercise of significant judgment and the use of estimates regarding the outcome of future events.

Notes to the financial statements (continued)

4. New International Financial Reporting Standards (IFRS) issued but not effective on the date of the financial statements-

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

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- Annual improvements 2010-2012 Cycle
These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:
 - *IFRS 2 Share-based Payment*
 - *IFRS 3 Business Combinations*
 - *IFRS 8 Operating Segments*
 - *IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*
 - *IAS 24 Related Party Disclosures*
- Annual improvements 2011-2013 Cycle
These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Company. They include:
 - *IFRS 3 Business Combinations*
 - *IFRS 13 Fair Value Measurement*
 - *IAS 40 Investment Property*
- IFRS 14 Regulatory Deferral Accounts
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- IFRS 15 Revenue from Contracts with Customers
- IFRS 9 Financial Instruments

The Company is in process of assessing the impact, if any, that the application of these standards may have on its financial statements.

Notes to the financial statements (continued)

5. Foreign currency transactions

The foreign currency transactions are carried out at market exchange rates published by the Superintendencia de Banca y Seguros y AFP. As of December 31, 2014, the exchange rates US\$ 0.3355 for buying and US\$ 0.3345 for sale (US\$ 0.3579 for the purchase and US\$ 0.3576 for sale as of December 31, 2013) and have been applied by the Company for the accounts of assets and liabilities, respectively.

As of December 31, 2014 and 2013, the Company had the following assets and liabilities in Nuevos Soles:

	2014 US\$	2013 US\$
Assets		
Cash	8,349	163,598
Other accounts receivable	138,310	158,676
	<u>146,659</u>	<u>322,274</u>
Liabilities		
Trade accounts payable	(70,025)	(104,593)
Other accounts payable	(847,659)	(695,037)
Total liabilities	<u>(917,684)</u>	<u>(799,630)</u>
Net liabilities, position	<u>(771,025)</u>	<u>(477,356)</u>

6. Cash and cash equivalents

(a) This caption is made up as follows:

	2014 US\$	2013 US\$
Cash	1,006	940
Bank accounts (b)	7,343	57,614
	<u>8,349</u>	<u>58,554</u>

(b) The Company maintains its bank accounts in local banks, earns interest at market rate and are unrestricted.

Notes to the financial statements (continued)

7. Other receivables

(a) This caption is made up as follows:

	2014 US\$	2013 US\$
Value added tax recoverable (b)	78,993	68,338
Loans to employees	52,133	44,517
Guarantee deposit	16,891	16,943
Advances to suppliers	166	72,500
Other	7,734	24,865
	<u>155,917</u>	<u>227,163</u>

(b) As of December 31, 2014 and 2013 corresponds to the amount of value added tax paid by the Company monthly, which will be recovered in the current period.

(c) In Management's opinion, it is not necessary to record an allowance for doubtful account as of December 31, 2014 and 2013.

8. Transactions with related parties

(a) During the years 2014 and 2013, the Company engaged in the following transactions with its affiliates:

	2014 US\$	2013 US\$
Revenues		
Management fees	3,000,000	2,303,505
Interest earned, note 18	223,291	328,651
	<u>3,223,291</u>	<u>2,632,156</u>
 Loans and funds received		
	<u>516,454</u>	<u>2,534,837</u>

Notes to the financial statements (continued)

- (b) As a result of transactions with affiliates previously mentioned, the Company had the following balances as of December 31, 2014 and 2013:

	2014 US\$	2013 US\$
Accounts receivable:		
Compañía Minera Quiruvilca S.A.C. (b.1)	5,642,449	5,184,458
Ariana Operaciones Mineras S.A.C. (b.2)	341,421	331,492
Minera Tantar S.A.C. (b.2)	321,497	549,695
Compañía Minera Condestable S.A.	2,221	149,237
Compañía Minera Ariana S.A.C.	271	2,254
Corporacin de gestin Minera S.A.	-	26,846
	<u>6,307,859</u>	<u>6,243,982</u>
Accounts payables:		
Compañía Minera Condestable S.A. (b.3)	1,033,619	500,000
Southern Peaks Mining L.P.	117,568	117,568
Corporacin de gestin Minera S.A.	10,538	3,048
Ariana Operaciones Mineras S.A.C.	-	11,383
Minera Tantar S.A.C.	-	9,700
	<u>1,161,725</u>	<u>641,699</u>

- (b.1) Accounts receivable from Compañía Minera Quiruvilca S.A.C. corresponds to the financing for operating activities. These accounts receivable does not have current maturity, bear interest at annual rate of 5.30 percent (7.00 percent in 2013) and have no specific guarantees.
- (b.2) Accounts receivable from Minera Tantar S.A.C. and Ariana Operaciones Mineras S.A.C. correspond mainly to labor services from management of La Virreyna and Ariana Projects, respectively made in previous years.
- (b.3) Accounts payable to Compañía Minera Condestable S.A. corresponds mainly to payments received in advanced related to management and consulting services for January to April 2015.
- (c) The salary expenses of the Management of the Company were US\$323,804 and US\$312,137 as of December 31, 2014 and 2013.

Notes to the financial statements (continued)

9. Property, plant and equipment

(a) The balance and movement of this caption for the years 2014 and 2013 are shown below:

	Balance as of January 1, 2013 US\$	Additions US\$	Transfers US\$	Other adjustments US\$	Balance as of December 31, 2013 US\$	Additions US\$	Sales/ withdrawals US\$	Transfers US\$	Balance as of December 31, 2014 US\$
Cost -									
Buildings and constructions	609,314	-	-	-	609,314	-	-	-	609,314
Vehicles	202,549	-	-	-	202,549	-	(63,539)	-	139,010
Furniture and fixtures	162,587	3,254	19,282	-	185,123	-	-	1,585	186,708
Computer equipment	93,908	3,657	-	-	97,565	-	-	1,653	99,218
Other equipment	71,135	46,424	(19,282)	-	98,277	16,423	-	(3,238)	111,462
	<u>1,139,493</u>	<u>53,335</u>	<u>-</u>	<u>-</u>	<u>1,192,828</u>	<u>16,423</u>	<u>(63,539)</u>	<u>-</u>	<u>1,145,712</u>
Accumulated depreciation -									
Buildings and constructions	29,501	19,831	-	(5)	49,327	19,831	-	-	69,158
Vehicles	55,059	40,510	-	672	96,241	35,836	(48,490)	-	83,587
Furniture and fixtures	23,524	16,805	-	(4)	40,325	18,552	-	-	58,877
Computer equipment	23,227	24,040	-	(910)	46,357	23,046	-	-	69,403
Other equipment	6,812	8,687	-	2	15,501	12,039	-	-	27,540
	<u>138,123</u>	<u>109,873</u>	<u>-</u>	<u>(245)</u>	<u>247,751</u>	<u>109,304</u>	<u>(48,490)</u>	<u>-</u>	<u>308,565</u>
Net cost	<u>1,001,370</u>				<u>945,077</u>				<u>837,147</u>

(b) As of December 31, 2014 and 2013, the Company's management conducted an assessment of its property, plant and equipment and found no indicators of impairment on these assets. Therefore, the carrying value of property, plant and equipment is recoverable with future profits to be generated by the Company.

Notes to the financial statements (continued)

10. Intangibles, net

(a) The balance and movement of this caption for the years 2014 and 2013 are show below:

	Balance as of January 1, 2013 US\$	Additions US\$	Balance as of December 31, 2013 US\$	Additions US\$	Transfer US\$	Balance as of December 31, 2014 US\$
Cost -						
Mining concessions (b)	192,618	-	192,618	39,872	-	232,490
Software	25,191	-	25,191	-	1,850	27,041
Work in progress	-	1,850	1,850	-	(1,850)	-
	<u>217,809</u>	<u>1,850</u>	<u>219,659</u>	<u>39,872</u>	<u>-</u>	<u>259,531</u>
Accumulated amortization						
Software	<u>2,994</u>	<u>2,484</u>	<u>5,478</u>	<u>4,334</u>	<u>-</u>	<u>9,812</u>
Net cost	<u>214,815</u>		<u>214,181</u>			<u>249,719</u>

(b) Correspond to mining rights for several mining concessions that were acquired to explore in the mid-term.

Notes to the Financial Statement (continued)

11. Trade payables

As of December 31, 2014 and 2013, this item includes invoices related to operating activities. These payables have current maturities, accrue no interest and have no specific guarantees.

12. Other payables

(a) This caption is made up as follows:

	2014 US\$	2013 US\$
Wages and vacations (b)	579,717	190,330
Taxes	49,208	177,856
Contributions payable	25,994	18,192
Provision (c)	192,725	199,143
	<u>847,644</u>	<u>585,521</u>

(b) Correspond mainly to personal bonus provision for US\$ 403,000, for the period 2014.

(c) Correspond to provision for recurring expenses, mainly related to mining claim validity fees for US\$68,563.

Notes to the Financial Statement (continued)

13. Income tax

(a) The composition and movement of the caption is as follows:

	As of January 1, 2013 US\$	Operating results Income (expenses) US\$	As of December 31, 2013 US\$	Operating results Income (expenses) US\$	As of December 31, 2014 US\$
Income tax					
Deferred asset					
Tax loss (c)	-	958,947	958,947	(292,504)	666,443
Vacations	-	52,325	52,325	(9,133)	43,192
Projects	-	-	-	28,184	28,184
Provisions	-	12,499	12,499	(8,156)	4,343
	<u>-</u>	<u>1,023,771</u>	<u>1,023,771</u>	<u>(281,609)</u>	<u>742,162</u>

(b) The current and deferred portion of the income tax provision showed in the statement of income for the years 2014 and 2013, comprises the following:

	2014 US\$	2013 US\$
Current portion		
Income tax	<u>-</u>	<u>-</u>
Deferred portion		
Income tax	(166,928)	1,023,771
Effect change tax rate	(52,780)	-
Effect non-deductible expenses	<u>(61,901)</u>	<u>-</u>
Total	<u>(281,609)</u>	<u>1,023,771</u>

(c) For the year 2014, the Company generated tax income amounting to US\$644,000 approximately, which was offset from the tax loss carry forward accumulated as of December 31, 2013 that was amounting to US\$3,081,000. As is explained in note 1, through the recovering of the administrative expenses, the Company's management expects to offset the tax loss carry forward using the system choosen.

(d) The reconciliation of the tax expense and the accounting loss determined based on the application of the tax rate to the statement of income is a follows:

	2014 US\$	2013 US\$
Loss for the year	<u>(953,878)</u>	<u>(1,314,823)</u>
Theoric benefit of Income tax	286,163	394,447
Deferred portion		
Effect non-deductible expenses	(453,091)	629,324
Effect of translation to U.S. Dollars	(61,901)	-
Effect change tax rate	<u>(52,780)</u>	<u>-</u>
Total	<u>(281,609)</u>	<u>1,023,771</u>

Notes to the financial statements (continued)

14. Equity, net

Capital stock -

As of December 31, 2014, the subscribed and paid capital amounts to US\$11,152,371 (equivalent to S/.29,039,400), which is represented by 29,039,400 common shares subscribed and paid, with a nominal value of S/.1.00 per share.

The Shareholders' Meeting held on December 30, 2014 approved the subscribed for shares for US\$536,105 (equivalent to S/. 1,439,589) which is represented by 1,493,589 common shares, with a nominal value of S/.1.00 per share.

In 2013, the Company received funds by the major shareholder of US\$2,534,837, which were capitalized. The General Shareholders' Meeting held on December 30, 2013 capitalized US\$1,998,732 (equivalent to S/. 5,377,000) from the funds received. These shares were subscribed by the Principal and the difference was subscribed as we mentioned before.

15. Tax situation

(a) The Company is subject to taxation in Peru. As of December 31, 2014 and 2013, the income tax rate was 30 percent on taxable income.

Until December 31, 2014, Peruvian statutory Income Tax rate is 30 percent on taxable income after calculating the workers' profit sharing, which is determined using a 5 percent rate. Through Law N°30296, published in December 31, 2014 the income tax rate was reduced according to the following terms:

Effective for year	%
2015 and 2016	28
2017 and 2018	27
From 2019 onward	26

In compliance with local tax laws, Management decided to use system "A") to offset tax losses, by which the tax laws generated over the period can be offset with the taxable profits to be obtained in the following 4 years after the tax loss was generated; once such a term is due, any remaining tax loss cannot be offset with the profits to be obtained in subsequent periods. As of December 31, 2014 and 2013, the tax loss carryforward amounts to US\$2,380,150 and US\$3,196,489 respectively.

Legal persons not domiciled in Peru and citizens must pay an additional tax on dividends received. In this regard, attention to Law No. 30296, the additional tax on dividends on profits generated is as follows:

- 4.1 percent of the profits generated until December 31, 2014.
- By the profits generated from 2015, whose distribution it carried after that date will be:
 - 2015 and 2016: 6.8 percent.
 - 2017 and 2018: 8 percent.
 - 2019 onwards: 9.3 percent.

Notes to the Financial Statement (continued)

- (b) The tax authorities have the right to review and, if necessary, adjust the income tax calculated by the Company in a range of four years since the filing of the tax return. The Income Tax and Value Added Tax returns for the periods 2010 to 2014 are pending of audit by tax authorities. Due to various possible interpretations of current legislation, it is not possible to determine whether or not future reviews will result in tax liabilities for the Company. In the event that additional taxes payable, interest and surcharges result from Tax Authority reviews, they will be charged to expense in the period assessed and paid. However, in the Management's and its legal advisors' opinion, any additional tax assessment would not be significant to the financial statements as of December 31, 2014 and 2013.
- (c) For purposes of determining income tax and general sales tax, transfer pricing of transactions with related companies and companies residing in areas of low or no taxation, must be supported with documentation and information on the valuation methods used and the criteria used for its determination. Based on the analysis of the operations of the Company, the Company's management and its legal counsel believe that, as a result of the application of these standards will not result in significant contingencies for the Company as of December 31, 2014 and 2013.
- (d) As of December 31, 2014 and 2013 the deferred income tax mainly corresponds to the effect of tax loss carryforward amounts US\$666,443. In Management opinion, this deferred asset will be recovered with the taxable income that the Company will continue generating in the next years according to the plan and projects approved by Management.

16. Administrative expenses

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

	2014 US\$	2013 US\$
Personnel expenses	2,516,893	2,336,495
Miscellaneous (b)	532,652	506,833
Professional fees	379,306	189,174
Utilities	167,093	95,321
Depreciation and amortization	113,638	112,357
Vehicles and office rental	108,026	96,694
Energy and mines ministry contributions	82,301	82,301
Insurance	54,040	117,972
Office and assets maintenance	56,626	90,432
Computing services	53,819	10,481
Found management affiliates	39,200	9,700
Travel and housing expenses	37,072	64,864
Exploration expenses	-	15,544
	<u>4,140,666</u>	<u>3,728,168</u>

- (b) This caption includes various expenses incurred in the projects related to investigation, community, travels.

Notes to the Financial Statement (continued)

17. Other income and expenses

This caption is made up as follows:

	2014 US\$	2013 US\$
Other income		
Sales of vehicles and equipment	27,119	-
Others	<u>6,075</u>	<u>960</u>
	<u>33,194</u>	<u>960</u>
Other expenses		
Expenditure of mining concessions	39,768	-
Cost of vehicles and equipment sold	15,049	-
Others	<u>23,493</u>	<u>37,086</u>
	<u>78,310</u>	<u>37,086</u>

18. Finance income

This caption is made up as follows:

	2014 US\$	2013 US\$
Finance income		
Interest from affiliates	223,291	328,651
Other	<u>-</u>	<u>1,112</u>
	<u>223,291</u>	<u>329,763</u>

19. Contingencies and commitments

Management considers that no significant lawsuits judgments pending resolution or other contingencies would arise against the Company with respect to the years, 2014 and 2013.

20. Financial risk management objectives and policies

The Company's principal financial liabilities comprise other payables. The main purpose of these financial liabilities is to finance a specific acquisition transaction. The Company's principal financial assets include other receivables and receivables from related parties, and cash that derives directly from its operations.

The Company is not highly 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 a financial risk committee that advises on financial risks and the appropriate financial risk governance framework for the Company. The financial risk committee provides assurance to the Company's senior management that the Company's financial risk activities are governed by appropriate policies and

Notes to the Financial Statement (continued)

procedures and that financial risk are identified, measured and managed in accordance with the Company's policies and risk objectives.

The Board of Directors reviews and agrees policies for managing each of these risks as follows:

(a) Liquidity risk-

The Company monitors its shortage risk of funds by monitoring its debt rating and the maturity dates of existing debts and other payables. Therefore, it uses a short-term cash flows projection to determine any short-term cash deficiencies, and a long-term cash flow projection to determine any structural cash gaps and investments possibilities both cash flows are being input on a continual basis to enable management to monitor or mitigate any liquidity risk, programming all future payments according to estimated available cash.

The maturities of the obligations of the Company, based on contractual undiscounted payments are as follows:

	Less than 3 months US\$	3 to 12 months US\$	Total US\$
Year 2014:			
Trade payables	177,583	-	177,583
Other payables	327,331	520,313	847,644
Accounts payables to related parties	-	1,161,725	1,161,725
	<u>504,914</u>	<u>1,682,038</u>	<u>2,186,952</u>
Year 2013:			
Trade payables	133,142	-	133,142
Other payables	202,049	383,472	585,521
Accounts payable to related parties	-	641,699	641,699
	<u>335,191</u>	<u>1,025,171</u>	<u>1,360,362</u>

(b) Credit Risk-

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for other receivables and accounts receivables from related parties) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The maximum exposition to credit risk for the components of financial statements as of December 31, 2014 and 2013, comprise the total of cash and cash equivalents, other receivables and accounts receivables from related parties.

Notes to the Financial Statement (continued)

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. Counterparty credit limits are reviewed by the Board of Directors. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through potential counterparty's failure.

Trade receivables -

Customer credit risk is managed by the Company subject to established policy, procedures and controls properly established. The Company has credit risk concentration mainly with its related parties. Management together with the Principal monitor the financial and economic situation of the Group. Moreover, the outstanding balances of receivables are regularly reviewed to ensure their recovery and an assessment is made on debts whose collection is estimated as remote to determine the required allowance for doubtful accounts.

(c) Capital management -

The objective is to safeguard the Company ability to continue as a going concern in order to provide returns for shareholders and benefits for stakeholders and maintain an optimal structure that would reduce the cost of capital.

To maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

During the year ended December 31, 2014, there were no changes in the objectives, policies, or processes related to capital management.

21. Fair value of financial instruments

Fair value is defined as the amount at which assets would be exchanged or liabilities settled between knowledgeable and willing parties, in a current transaction. Assuming, the Company is an ongoing business.

The management assessed that cash and short-term deposits and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

As of December 31, 2014 and 2013 the Company has not assets and liabilities measured at fair value. There have been no transfers between fair value levels during the reporting period.

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