VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES
2ND QUARTER 2012 MANAGEME DISCUSSION AND ANALYSIS

US$ Millions	Apr - Jun 2012	Apr - Jun 2011	Var (%)	Jan - Jun 2012	Jan - Jun 2011	Var (%)
SALES	241.2	336.5	-28.3%	531.1	599.4	-11.4%
EBITDA	86.5	187.3	-53.8%	230.1	338.7	-32.1%
NET PROFIT	35.2	92.1	-61.8%	105.9	168.3	-37.1%

This document presents a brief analysis of the most significant economic and financial results for Q2 2012.

The analysis of the Company's results presented below is based on accounting figures from Q2 2012 Financial Statements, prepared under International Financial Reporting Standards (IFRS). The 2011 figures presented in this section were restated under IFRS and are comparable with those from 2012.

I. General Overview:

For a proper analysis of the Company's results, it is important to describe the behavior of certain prices and macroeconomic variables that impact these results.

1. During Q2 2012, average international prices for zinc (Zn), lead (Pb), and silver (Ag) declined by 14.5%, 22.9%, and 22.7%, respectively, as compared to the same period of the previous year.

Table 1: Average prices

	Apr - Jun 2012	Apr - Jun 2011	Var (%)	Jan - Jun 2012	Jan - Jun 2011	Var (%)
Zn (US$/TM)	1,928	2,254	(14.5)	1,976	2,325	(15.0)
Pb (US$/TM)	1,973	2,558	(22.9)	2,034	2,581	(21.2)
Ag (US$/Oz)	29.5	38.2	(22.7)	31.1	34.9	(11.0)

Source: Metals Week – Platts

2. The average exchange rate during Q2 2012 was S/. 2.666 per U.S. Dollar. This rate reflects a 4.3% appreciation of the Nuevo Sol compared to the average exchange rate during Q2 2011 (S/. 2.786 per U.S. Dollar).
Source: bcrp.gob.pe

3. At the end of Q2 2012, Brent Crude oil was quoted at US$ 97.57 per barrel, which represents a 12.7% decrease with regard to the quote at the end of Q2 2011 (US$ 111.8 per barrel).
Source: Investis

4. Inflation, as measured by the variation of the Peruvian Consumer Price Index annualized as of June 31, 2012, reached 4.00%. The Peruvian Wholesale Price Index registered an annual variation of 2.05%.
Source:bcrp.gob.pe

5. During the first five months of 2012, production of Copper, Gold, Silver, and Lead in Peru increased by 2.4%, 6.9%, 6.5%, and 16.1%, respectively. Zinc production declined by 4.0% as compared to the first five months of 2011.

Table 2: Peruvian metal production

Production (Fines)	Unit	Jan - May 2012	Jan - May 2011	Var (%)
Copper	MT	498,170	486,483	2.4
Gold	Kg	67,722	63,361	6.9
Zinc	MT	529,282	551,211	(4.0)
Silver	Kg	1,440,878	1,352,953	6.5
Lead	MT	101,217	87,177	16.1

Source: Ministry of Energy and Mines

II. Analysis of Operating Results

1. Production

The total volume of ore treated during Q2 2012 increased by 2.1% compared to the volume treated during the same period in 2011. Ore treated during the second quarter at the Chungar and Cerro de Pasco Mining Units increased by 7.4% and 2.1%, respectively. The Yauli Mining Unit treated a similar volume as compared to the previous year. Chungar registered the largest increase, treating an additional 28 thousand tons due to improvements in the milling process, from 4,200 to 4,500 tons per day.

Table 3: Treated ore (000 MTs)

Unit	Apr - Jun 2012	Apr - Jun 2011	Var (%)	Jan - Jun 2012	Jan - Jun 2011	Var (%)
Yauli	872	874	(0.3)	1,744	1,727	1.0
Cerro de Pasco	638	625	2.1	1,274	1,190	7.1
Chungar	399	371	7.4	788	736	7.1
Total Volcan	**1,909**	**1,870**	**2.1**	**3,807**	**3,654**	**4.2**

As the table above indicates, consolidated production was not materially affected by the 51-day strike at the Cerro de Pasco Unit.

Company production of fine ore during Q2 2012 grew by 29.7% in lead, from 14,174 MT in 2011 to 18,390 MT in 2012. Zinc production declined by 3.5%, from 78,284 MT in 2011 to 75,566 MT in 2012. The production of silver declined by 3.1%, from 5.4 MM Oz to 5.2 MM Oz. Fine Copper production declined by 14.9%, from 783 MT to 666 MT. These decreases in production are mainly due to lower grades processed at the concentrating plants.

Table 4: Production of fines

Unit	Apr - Jun 2012	Apr - Jun 2011	Var (%)	Jan - Jun 2012	Jan - Jun 2011	Var (%)
Zinc (MT)						
Yauli	36,068	37,672	(4.3)	72,888	77,766	(6.3)
Cerro de Pasco	14,893	14,340	3.9	29,745	30,753	(3.3)
Chungar	24,606	26,272	(6.3)	48,630	51,888	(6.3)
Total Volcan	**75,566**	**78,284**	**(3.5)**	**151,264**	**160,407**	**(5.7)**
Lead (MT)						
Yauli	6,650	5,965	11.5	13,714	11,161	22.9
Cerro de Pasco	5,870	3,716	58.0	11,560	7,394	56.4
Chungar	5,870	4,492	30.7	10,738	8,569	25.3
Total Volcan	**18,390**	**14,174**	**29.7**	**36,013**	**27,123**	**32.8**
Silver (Ounces 000)						
Yauli	2,488	2,626	(5.2)	5,258	5,358	(1.9)
Cerro de Pasco	1,373	1,467	(6.4)	2,734	2,672	2.3
Chungar	1,348	1,285	4.9	2,642	2,450	7.8
Total Volcan	**5,209**	**5,378**	**(3.1)**	**10,634**	**10,480**	**1.5**
Copper (MT)						
Yauli	376	508	(26.0)	881	1,225	(28.1)
Cerro de Pasco	0	0		0	0	
Chungar	291	275	5.7	521	497	5.0
Total Volcan	**666**	**783**	**(14.9)**	**1,403**	**1,722**	**(18.5)**

2. Operating Costs

During Q2 2012, Volcan's consolidated unit-cost of production reached 55.4 US$/MT, as compared to 49.2 US$/MT in the same period of the previous year, an increase of 12.7%. The principal cause of increasing costs across all company mining units is the inflationary trend that the mining industry is experiencing, which result in higher personnel costs and increased prices of supplies. Higher energy costs and the appreciation of the Nuevo Sol increase the burden. In addition, costs increased across operating units as a result of an effort to improve operating standards in aspects like safety, maintenance, technology, communications, housing and nutrition.

In the case of the Yauli unit, costs also increased because of the increasing depth of the mines, resulting in higher transportation, ventilation, and pumping costs, and because of mine preparation expenses for the Carahuacra Norte Pit that are aimed at increasing future production.

It is important to highlight the increase in third-party service rates experienced by Volcan, which is mainly explained by the rise in labor costs due to higher demand for mining operators as a result of the development of new mining projects in Peru. Inflation is evidenced in the cost of supplies, such as explosives, fuel, lime, copper sulfate, timber, steel balls and diesel. We estimate that regional inflation in the mining industry during 2011 ranged from 18% to 23%.

Additionally, when compared to the previous year, energy rates increased by 9%, mainly as a result of increased connection rates and monthly readjustments to the unit price of energy.

Finally, the 4.3% appreciation of the Nuevo Sol compared to the U.S. Dollar also had a negative impact on the total cost, given that approximately 40% of our operating costs are in Nuevos Soles.

Table 5: Unit Cost of Production (US$/MT)

Production Cost (US$/MT)*	Apr - Jun 2012	Apr - Jun 2011	Var (%)	Jan - Jun 2012	Jan - Jun 2011	Var (%)
Yauli	64.0	53.9	18.6	62.1	51.9	19.8
Cerro de Pasco *	42.5	40.2	5.8	41.7	39.4	5.6
Chungar	57.3	52.6	9.0	56.3	52.6	7.0
Total Volcan	**55.4**	**49.2**	**12.7**	**53.9**	**48.0**	**12.3**

* The calculation of Cerro de Pasco's production cost and Volcan's consolidated production cost includes the Pyrite ore treated at Cerro de Pasco's San Expedito Plant.

3. Investments

During Q2 2012, investments made by Volcan in fixed and intangible assets totaled US$ 74.4 million, a 28.9% increase compared to the US$ 57.8 million in investments in the same period of the previous year.

Operating investments made during Q2 2012 totaled US$ 54.5 million, while the amount invested during the same period in 2011 totaled US$43 million. Operating investments made during Q2 2012 were mainly focused on the following areas: brownfield exploration and development (US$ 21.2 million), plant and tailings storage facilities (US$ 11.3 million), mine development (US$ 9.6 million), operating projects (US$ 5.6 million), operating power, camps, environment, safety, technology and communications (US$ 6.8 million).

Investment in regional exploration during Q2 2012 reached US$ 2.8 million, a 58.9% increase with regard to the same period of the previous year. The company also invested US$17.2 in corporate development and growth projects, representing a 32.3% increase with regard to the same period of the previous year. This increase is related mainly to the progress in the execution of a number of development projects, such as the Silver Oxides Project at Cerro de Pasco, the Alpamarca-Río Pallanga Project and the energy projects.

Table 6: Investments*

US$ (000)	Apr - Jun 2012	Apr - Jun 2011	Var (%)	Jan - Jun 2012	Jan - Jun 2011	Var (%)
Investments in Mining Units	54,503	43,040	26.6	94,554	82,963	14.0
Regional Explorations	2,776	1,747	58.9	4,704	3,841	22.5
Growth Projects and Others	17,164	12,975	32.3	26,666	26,757	(0.3)
Total	**74,442**	**57,762**	**28.9**	**125,923**	**113,562**	**10.9**

* The total indicated in this table does not reflect the same amount reported in the Cash Flow Statement of the quarterly Financial Statements, given that the latter includes other items such as advances, goodwill, municipal agreements, among others, and excludes investments made at Vichaycocha.

III. Analysis of Economic and Financial Results

1. Sales and Profits

During Q2 2012, Volcan's sales reached US$ 241.2 million, which represents a 28.3% decrease with regard to the same period in 2011. This is mainly explained by lower international prices for zinc (-14.5%), lead (-22.9%), and silver (-22.7%). It should be noted that these sales figures were subject to adjustments related to the application of IFRS. During Q2 2012, IFRS adjustments reduced sales by US$ 10.9 million. IFRS adjustments during Q2 2011 were negative US$ 4.6 million.

The volumes of zinc and lead concentrates sold during Q2 2012 were similar to those sold during Q2 2011. During that same period, copper concentrates increased by 10.5%, while silver concentrate sales declined by 27.7%. The decline in silver production is explained by the temporary disruption in the treatment of silver pyrite treatment at Cerro de Pasco's San Expedito Plant, for approximately one month, as a preventive measure on account of the above-mentioned strike.

Table 7: Sales Volume (DMT)

Product	Apr - Jun 2012	Apr - Jun 2011	Var (%)	Jan - Jun 2012	Jan - Jun 2011	Var (%)
Zinc Concentrate	143,174	147,745	(3.1)	306,321	306,135	0.1
Lead Concentrate	28,161	28,242	(0.3)	55,866	51,128	9.3
Copper Concentrate	7,687	6,954	10.5	12,425	11,690	6.3
Silver Concentrate	3,153	4,358	(27.7)	7,526	5,370	40.1

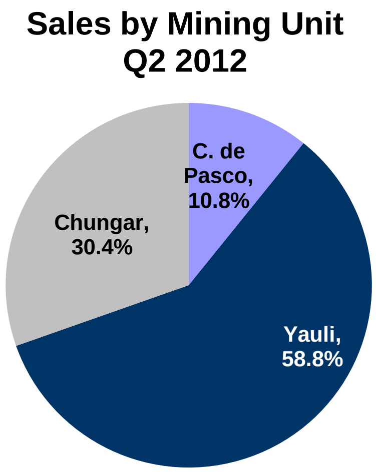
At the close of 2Q 2012, inventory of concentrates totaled US$ 51.4 million, US$ 29.4 million more than the US$ 22.0 million registered at the close of 2Q 2011. While this increase in inventory affected second-quarter sales, management expects inventories to return to 2011 levels during in the following months.

During Q2 2012, the Yauli mining unit remained the largest contributor to Volcan's sales with 58% of the total, followed by Chungar with 30%, and Cerro de Pasco with 11[1]%.

During Q2 2012, the composition of sales by metal was as follows: silver represented 48% of Volcan's sales, exceeding the contribution of Zinc (39%), lead (8%), copper (3%), and gold (2%). However, it should be noted that because of the decline in international silver prices, the share of silver in total sales declined by four percentage points as compared to Q2 2011. International silver prices declined 22.7%, compared to the 14.5% decline in the price decline of zinc.

Chart 1: Sales by Mining Unit (% of value in US$)

[1] The calculation of sales participation by Operating Unit and metal mix do not consider implicit derivate.



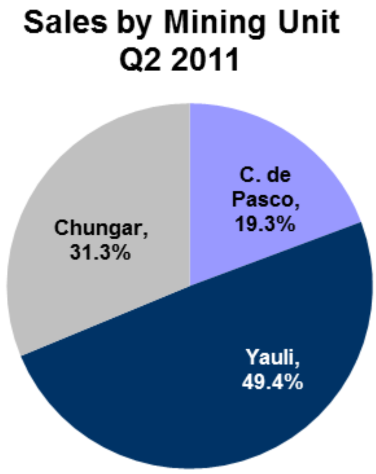
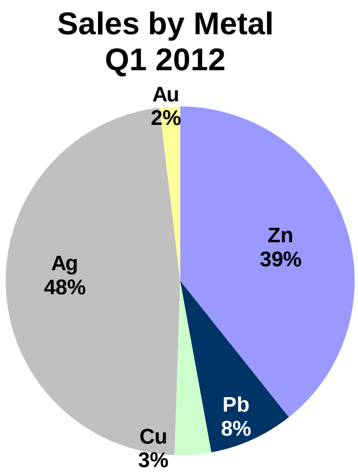
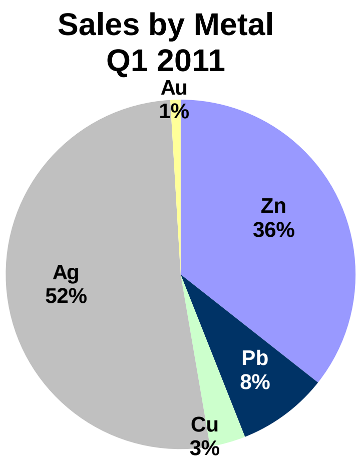


Chart 2: Sales by Metal (% of Value in US$)





Consolidated gross profit also decreased from US$ 181.6 MM in Q2 2011 to US$ 72.2 MM in Q2 2012. This is explained by lower zinc, lead, and silver prices and by the previously explained higher production costs, which caused gross margin to decline from 53.9% in Q2 2011 to 29.9% in the same period of 2012.

Likewise, the operating profit for Q2 2012 reached US$ 55.5 MM, a figure which represents a 65.6% decline when compared to the US$ 161.1 MM operating profit for the same period of 2011. This decline in operating profit was partially offset by a US$ 3.5 MM reduction in administrative expenses.

During Q2 2012, the Company reported net finance costs of US$ 10 MM, mainly related to interest paid on bonds issued in February 2012. During Q2 2012, the Company registered a US$ 7.4 MM gain related to its derivative instruments, whereas in the same period of 2011 the company registered a US$ 18.8 MM.

As a result of all the above, the Company generated a net profit for Q2 2012 of US$35.2 MM, a 61.8% decline when compared to the US$92.1 net profit for Q2 2011.

Table 8: Main items of the Income Statement

Thousands US$	Apr - Jun 2012		Apr - Jun 2011*		Var (%)	Jan - Jun 2012		Jan - Jun 2011*		Var (%)
Sales	241,233	100%	336,526	100%	(28.3)	531,071	100%	599,445	100%	(11.4)
Cost of Goods Sold	(169,027)	-70%	(154,974)	-46%	9.1	(322,735)	-61%	(277,003)	-46%	16.5
Gross Profit	**72,206**	**29.9%**	**181,552**	**53.9%**	**(60.2)**	**208,336**	**39%**	**322,442**	**54%**	**(35.4)**
Administrative	(12,261)	-5%	(16,064)	-5%	(23.7)	(26,070)	-5%	(29,129)	-5%	(10.5)
Selling Expenses	(7,040)	-3%	(6,464)	-2%	8.9	(14,505)	-3%	(12,633)	-2%	14.8
Other	2,564	1%	2,077	1%	23.4	2,974	1%	(85)	0%	(3,580.3)
Operating Earnings	**55,469**	**23%**	**161,101**	**48%**	**(65.6)**	**170,735**	**32%**	**280,595**	**47%**	**(39.2)**
Finance	(10,006)	-4%	53	0%	(18,814.3)	(18,730)	-4%	402	0%	(4,754.9)
Options and Hedging	7,359	3%	(18,831)	-6%	(139.1)	8,628	2%	(28,139)	-5%	(130.7)
Taxes	(12,453)	-5%	(43,094)	-13%	(71.1)	(45,316)	-9%	(72,096)	-12%	(37.1)
Royalties	(5,211)	-2%	(7,127)	-2%	(26.9)	(9,406)	-2%	(12,415)	-2%	(24.2)
Net Profit	**35,158**	**15%**	**92,103**	**27%**	**(61.8)**	**105,911**	**20%**	**168,347**	**28%**	**(37.1)**

*** Restated under** IFRS

2. Profitability

Q2 2012 EBITDA[2] reached US$ 86.5 MM, a 53.8% decline compared to EBITDA registered in the same period of 2011. As previously explained, this decline is mainly explained by lower prices for zinc, lead, and silver, and higher production costs. Accordingly, EBITDA margin over sales decreased from 56% in Q2 2011 to 36% in the same period of 2012.

Table 9: EBITDA

	Apr - Jun 2012	Apr - Jun 2011	Var (%)	Jan - Jun 2012	Jan - Jun 2011	Var (%)
Net Profit	35,158	92,103	(61.8)	105,911	168,347	(37.1)
EBITDA* (US$ '000)	86,504	187,251	(53.8)	230,051	338,733	(32.1)
EBITDA/Sales	36%	56%		43%	57%	

3. Liquidity and Creditworthiness

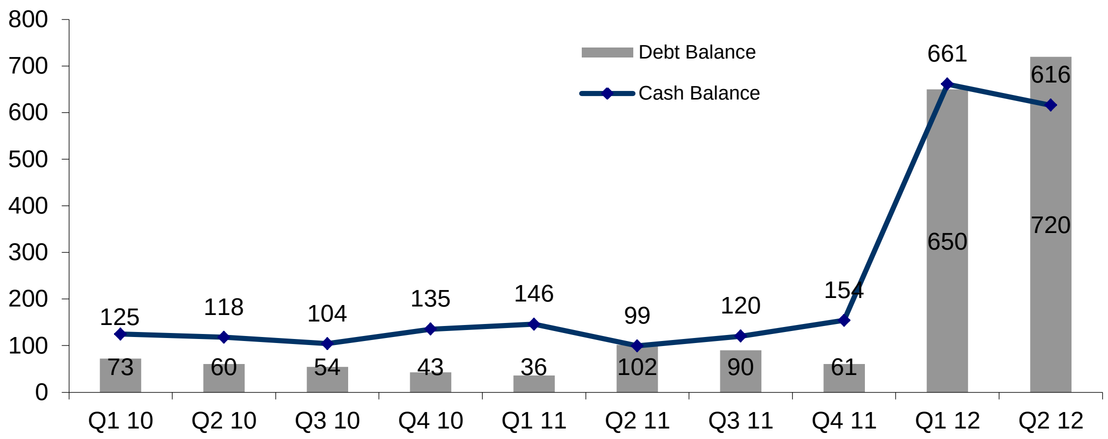
During Q2 2012 Volcan generated operating cash flow of US$ 34.8MM[3]. After considering operating investments amounting to US$54.5 million and the US$19.9 million invested in growth and other projects , net cash flow for the period amounted to US$-44.9 MM. It should be noted that the Company's growth projects are supported by the US$ 600 million worth of bonds issued this past January. However, we must recognize that the decline in the prices of the metals we produce negatively affect the operating cash flow when compared to the same period of the previous year. The June 30, 2012 ending cash balance was US$ 616.0 MM.

Annualizing EBITDA obtained from January through June 2012, and taking into account bonds and all other Company's financial obligations (leasing and other loans), Volcan's leverage ratio (Financial Debt / EBITDA) at the end of Q2 2012 was 1.53x.

[2] EBITDA: Operating Profit + Depreciation and Amortization + Exceptional Expenses.
[3] The operating cash flow reported in this document differs from the figure shown in the cash flow statement as cash from operating activities, given that the latter includes other items such as advances and investments in Vichaycocha.

The chart below shows the evolution of the Company's cash position and debt balance.

Chart 3: Cash Position and Debt Balance[4] (US$ million)



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IV. Final Comments

1. Unlike Q1 2012, Volcan's sales during Q2 2012 were negatively affected by a significant fall in zinc, lead, and silver prices (-4.8%, -5.8% and -9.6% compared to Q1 2012), as well as by temporary adjustments related to the application of IFRS. Price declines shouldn't come as a surprise, considering that it is well known that during periods of economic uncertainty, as in the case of Europe's recession and the slow economic recovery of the United States, price volatility of metals increases. The medium and long-term consensus view on metal prices remains positive.

2. During periods of lower metal prices it is key for any mining company to be able to keep costs at their lowest. In this regard, Volcan has a cost advantage, because of its cost structure and the credits it gets for its production of by-products, which make it more competitive, especially when compared to other mining companies engaged only in the production of base metals, such as zinc and lead. Having said that, Volcan's unit-cost of production during Q2 2012 was higher than the unit-cost for the same period of the previous year. The company believes that it is taking the necessary steps to minimize the impact of this inflationary trend, as well as that of other external aspects, such as the appreciation of the Nuevo Sol, the increase in energy rates, among others.

3. Looking to the future, Volcan is positioning itself as a global player. Projects aimed at increasing our silver production are developing according to our initial projections. At present, we estimate that the Chungar plant expansion from 4,200 to 5,200 tons per day should be completed by the end of the year. The Cerro de Pasco Oxide Plant and the Plant for the Alpamarca-Río Pallanga Project should begin production

[4] Financial debt includes loans granted by financial institutions, leasing agreements, and others.

during Q3 2013. These projects will allow Volcan to increase its 2014 silver production by approximately 8-10 million ounces, an increase of approximately 50% compared to current production levels. In addition to these projects, both our Silver Pyrite Project, currently undergoing metallurgical evaluation, and the Rondoní Copper Project are on schedule.

4. Along with cost containment efforts and progress with our growth projects, we are investing considerable time and resources in improving our operating standards in all relevant aspects. In addition to enhancing our human resources during the past two years by recruiting highly-skilled personnel, there are several internal initiatives underway in order to maximize efficiency, reliability, and safety in our operations. All this will allow us to reduce costs and lay the foundations for an orderly and sustainable growth, thus guaranteeing a proper use of company assets and the generation of value for all stakeholders.