

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

3RD QUARTER 2012 MANAGEMENT'S DISCUSSION AND ANALYSIS

| US\$ Millions | Jul - Sep 2012 | Jul - Sep 2011 | Var (%) | Jan - Sep 2012 | Jan - Sep 2011 | Var (%) |
|---------------|-------------------|-------------------|---------|-------------------|-------------------|---------|
| SALES | 280.7 | 322.3 | -12.9% | 811.7 | 921.8 | -11.9% |
| EBITDA | 121.3 | 166.1 | -27.0% | 351.3 | 504.8 | -30.4% |
| NET PROFIT | 50.6 | 89.7 | -43.6% | 156.5 | 258.0 | -39.3% |

This document represents a brief analysis of the most significant economic and financial results for Q3 2012.

The analysis of the Company's results presented below is based on accounting figures from Q3 2012 Financial Statements, prepared under International Financial Reporting Standards (IFRS). In addition, the 2011 figures presented in this section have been restated under IFRS so as they are comparable with those from 2012.

I. General Overview:

As they play a significant role in the explanation of the Company's results, it is important to describe the behavior of metal and oil quotes, as well as certain macroeconomic variables.

1. During Q3 2012, average international prices for Zinc (Zn), Lead (Pb), and Silver (Ag) declined by 15.1%, 19.6% and 23.1%, respectively, as compared to the same period of the previous year.

Table 1: Average prices

| | Jul - Sep 2012 | Jul - Sep 2011 | Var (%) | Jan - Sep 2012 | Jan - Sep 2011 | Var (%) |
|--------------|-------------------|-------------------|---------|-------------------|-------------------|---------|
| Zn (US\$/TM) | 1,889 | 2,226 | (15.1) | 1,947 | 2,292 | (15.1) |
| Pb (US\$/TM) | 1,980 | 2,462 | (19.6) | 2,015 | 2,541 | (20.7) |
| Ag (US\$/Oz) | 29.9 | 38.9 | (23.1) | 30.7 | 36.3 | (15.4) |

Source: MetalsWeek-Platts

2. Average exchange rate during Q3 2012 was S/. 2.619 per U.S. Dollar. This rate reflects a 4.5% appreciation of the Nuevo Sol if compared to the average rate during Q3 2011 (S/. 2.742 per U.S. Dollar).

Source: bcrp.gob.pe

3. At the end of Q3 2012, Brent Crude oil price was quoted at US\$ 112.22 per barrel, which represents a 9.9% increase with regard to the quote at the end of Q3 2011 (US\$ 102.15 per barrel).

Source: Investis

4. Inflation, measured on the basis of the variations in the Consumer Price Index, and annualized as of September 30, 2012, reached 3.74%. On the other hand, the Wholesale Price Index registered an annual variation of 0.39%.

Source: bcrp.gob.pe / inei.gob.pe

5. The domestic production of major metals increased during the first eight months of 2012 as compared to the same period of 2011. Lead registered the highest production increase (12.9%), from 149,373 MT to 168,712 MT.

Table 2: Peru's metal production

| Production (Fines) | Unit | Jan - Aug 2012 | Jan - Aug 2011 | Var (%) |
|--------------------|------|----------------|----------------|---------|
| Copper | MT | 834,297 | 795,195 | 4.9 |
| Gold | Kg | 111,343 | 109,960 | 1.3 |
| Zinc | MT | 865,931 | 859,018 | 0.8 |
| Silver | Kg | 2,296,562 | 2,242,140 | 2.4 |
| Lead | MT | 168,712 | 149,373 | 12.9 |

Source: Ministry of Energy and Mines

II. Analysis of Operating Results

1. Volume of ore treated in concentrating plants

The total volume of ore treated during Q3 2012 exceeded 2 million tons, increasing by 6.8% as compared to the volume treated during the same period of 2011. The volume of ore treated in Yauli, Chungar and Cerro de Pasco Mining Units increased by 1.4%, 4.1%, and 16.1%, respectively. Cerro de Pasco registered the highest increase, with an additional 103 thousand tons treated, due to greater amounts of ore available from the Raul Rojas Pit.

Table 3: Treated ore (Thousand MTs)

| Operating Unit | Jul - Sep 2012 | Jul - Sep 2011 | Var (%) | Jan - Sep 2012 | Jan - Sep 2011 | Var (%) |
|---------------------|----------------|----------------|------------|----------------|----------------|------------|
| Yauli | 903 | 890 | 1.4 | 2,647 | 2,618 | 1.1 |
| Cerro de Pasco | 745 | 642 | 16.1 | 2,019 | 1,832 | 10.2 |
| Chungar | 407 | 391 | 4.1 | 1,196 | 1,127 | 6.1 |
| Total Volcan | 2,055 | 1,923 | 6.8 | 5,862 | 5,577 | 5.1 |

2. Production of fines

During Q3 2012, the production of Zinc fines decreased by 2.4% as compared to the same period of 2011, from 78,694 MT to 76,831 MT, due to the lower grades of ore processed in the concentrating plants of Chungar and Cerro de Pasco Units.

On the other hand, the production of Lead fines increased by 14.1%, from 16,146 MT in Q3 2011 to 18,416 MT in Q3 2012. Likewise, the production of Silver ounces registered a 12.2% increase, from 5.1 million ounces in 2011 to 5.7 million ounces in 2012. Finally, the production of Copper fines grew by 6.1%, from 680 MT in Q3 2011 to 722 MT in Q3 2012. Such increases are attributed to higher treatment grades and increased tonnage.

Table 4: Production of fines

| Unit | Jul - Sep 2012 | Jul - Sep 2011 | Var (%) | Jan - Sep 2012 | Jan - Sep 2011 | Var (%) |
|----------------------------|-------------------|-------------------|--------------|-------------------|-------------------|---------------|
| Zinc (MT) | | | | | | |
| Yauli | 40,036 | 37,829 | 5.8 | 112,924 | 115,595 | (2.3) |
| Cerro de Pasco | 11,500 | 15,226 | (24.5) | 41,246 | 45,979 | (10.3) |
| Chungar | 25,294 | 25,639 | (1.3) | 73,925 | 77,527 | (4.6) |
| Total Volcan | 76,831 | 78,694 | (2.4) | 228,095 | 239,101 | (4.6) |
| Lead (MT) | | | | | | |
| Yauli | 7,494 | 6,667 | 12.4 | 21,209 | 17,828 | 19.0 |
| Cerro de Pasco | 5,149 | 4,697 | 9.6 | 16,709 | 12,091 | 38.2 |
| Chungar | 5,773 | 4,782 | 20.7 | 16,511 | 13,350 | 23.7 |
| Total Volcan | 18,416 | 16,146 | 14.1 | 54,429 | 43,269 | 25.8 |
| Silver (Ounces 000) | | | | | | |
| Yauli | 2,915 | 2,718 | 7.2 | 8,173 | 8,076 | 1.2 |
| Cerro de Pasco | 1,443 | 1,233 | 17.1 | 4,178 | 3,905 | 7.0 |
| Chungar | 1,356 | 1,143 | 18.7 | 3,998 | 3,593 | 11.3 |
| Total Volcan | 5,714 | 5,094 | 12.2 | 16,348 | 15,573 | 5.0 |
| Copper (MT) | | | | | | |
| Yauli | 430 | 413 | 4.0 | 1,311 | 1,638 | (20.0) |
| Cerro de Pasco | 0 | 0 | | 0 | 0 | |
| Chungar | 292 | 267 | 9.4 | 813 | 764 | 6.5 |
| Total Volcan | 722 | 680 | 6.1 | 2,124 | 2,402 | (11.6) |

3. Operating Costs

Volcan's consolidated unit cost of production during Q3 2012 reached 54.1 US\$/MT, which represents a 4.9% increase with regard to the Q3 2011 unit cost of 51.6 US\$/MT. It should be noted that Q3 2012 unit cost of production is 2.3% lower than the one reported in Q2 2012 (55.4 US\$/MT), and similar to the accumulated production unit cost reported as of June 2012 (53.9 US\$/MT). This reflects a downward trend in the sector inflation registered over the past two years, as well as better results in our efforts to partially offset the above-mentioned impact.

During Q3 2012 the unit cost of Yauli and Chungar Mining Units increased by 13.1% and 11.8%, respectively, while the unit cost of our Cerro de Pasco Unit decreased by 13.3% when compared to the same period of 2011. This is mainly explained by increased tonnage treated in the Paragsha processing plant..

Higher costs in Yauli and Chungar are mainly attributed to investing in raising safety, technology, communications, maintenance, accommodation, and food standards. In addition, personnel costs and third-party service rates registered an increase, mainly explained by the higher demand of mining operators due to the development of major mining projects in Perú. Moreover, we have experienced higher transportation, ventilation, and pumping costs as a result of the deepening of deposits in Yauli and the preparation of the Carahuacra Norte Pit.

In addition, the 4.5% appreciation of the Nuevo Sol with regard to the U.S. Dollar also had a negative impact on the total cost, given that approximately 40% of our operating costs are expressed in Nuevos Soles.

Finally, it should be noted that power costs have also increased due to energy rates growing by 9% as compared to the previous year, mainly as a result of increased interconnection rates and monthly readjustments in the unit price of active energy. On that topic, the startup of Baños V Hydroelectric Power Plant on July 31, 2012, is increasingly important. The capacity of such plant (9.2 MW) will enable us to entirely cover the energy needs of our Chungar Mining Unit, while also reducing energy costs in for the Company.

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

| Production Cost (US\$/MT)* | Jul - Sep 2012 | Jul - Sep 2011 | Var (%) | Jan - Sep 2012 | Jan - Sep 2011 | Var (%) |
|----------------------------|----------------|----------------|------------|----------------|----------------|------------|
| Yauli | 66.0 | 58.3 | 13.1 | 63.4 | 54.0 | 17.4 |
| Cerro de Pasco * | 35.8 | 41.3 | (13.3) | 39.6 | 40.1 | (1.3) |
| Chungar | 59.5 | 53.2 | 11.8 | 57.4 | 52.8 | 8.7 |
| Total Volcan | 54.1 | 51.6 | 4.9 | 54.0 | 49.2 | 9.6 |

* The calculation of Cerro de Pasco's production cost and Volcan's consolidated production cost includes the Pyrite ore treated in Cerro de Pasco's San Expedito Plant. The 2011 unit cost of Cerro de Pasco has been recalculated taking this into account.

4. Investments

During Q3 2012, investments made by Volcan on fixed and intangible assets totaled US\$ 90.5 million, a 20.9% increase compared to the investments made in the same period of the previous year (US\$ 74.9 million).

Operating investments made during Q3 2012 totaled US\$ 64.6 million, a 20% increase compared to the investments made during Q3 2011 (US\$ 53.9 million). Operating investments made during Q3 2012 were mainly allocated to: local exploration and development (US\$ 19.3 million), plants and tailing storage facilities (US\$ 18.1 million), mine investments (US\$ 9.2 million), operating projects (US\$ 9.5 million), as well as energy, camps, environment, safety, technology and communications (US\$ 8.5 million), aiming to raise our standards in various aspects of our operations.

On the other hand, regional exploration investments made during Q3 2012 totaled US\$ 3.8 million, an increase of 73.8% compared to the same period of the previous year. Meanwhile, investments made in corporate development and growth projects totaled US\$ 22.1 million, an increase of 17.4% compared to the same period of the previous

year. This increase is mainly explained by the execution of energy projects and the progress on other projects such as the Ag Oxides Project in Cerro de Pasco and the Alpamarca-Rio Pallanga Project. Startup of both of these is expected for Q3 2013, thus contributing to increase the Company's silver production.

Table 6: Investments*

| US\$ (000) | Jul - Sep 2012 | Jul - Sep 2011 | Var (%) | Jan - Sep 2012 | Jan - Sep 2011 | Var (%) |
|-----------------------------|-------------------|-------------------|-------------|-------------------|-------------------|-------------|
| Investments in Mining Units | 64,616 | 53,862 | 20.0 | 158,283 | 136,825 | 15.7 |
| Regional Explorations | 3,757 | 2,162 | 73.8 | 9,832 | 6,003 | 63.8 |
| Growth Projects and Others | 22,140 | 18,864 | 17.4 | 48,333 | 45,622 | 5.9 |
| Total | 90,513 | 74,889 | 20.9 | 216,449 | 188,450 | 14.9 |

* The total indicated in the investments 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 through Vichaycocha.

It should be noted that the figures indicated in the above table exclude any purchases of subsidiaries or interest in other corporations such as, for example, the purchase of Huanchor Hydroelectric Power Plant during Q1 2012, for US\$ 47 million.

III. Analysis of Economic and Financial Results

1. Sales

Volcan's sales reached US\$ 280.7 million during Q3 2012, representing a 12.9% decrease with regard to the same period of 2011. This is mainly explained by lower international prices for Zinc (-15.1%), Lead (-19.6%), and Silver (-23.1%). It should be pointed out that these sales figures have been adjusted for the application of IFRS. During Q3 2012, the amount referred to IFRS adjustments was positive US\$ 15.1 million, while the amount related to IFRS adjustments during Q3 2011 was negative US\$ 6.7 million.

Zinc, Lead, Copper, and Silver concentrate volumes sold during Q3 2012 increased by 3.5%, 15.3%, 54.0%, and 39.8%, respectively, as compared to the volumes sold during the same period of 2011.

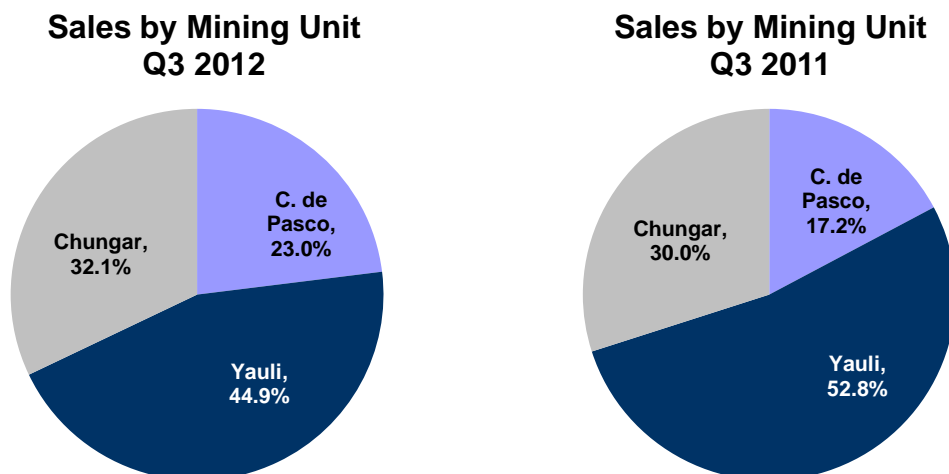
Table 7: Sales Volume (DMT)

| Product | Jul - Sep 2012 | Jul - Sep 2011 | Var (%) | Jan - Sep 2012 | Jan - Sep 2011 | Var (%) |
|--------------------|-------------------|-------------------|---------|-------------------|-------------------|---------|
| Zinc Concentrate | 146,297 | 141,386 | 3.5 | 452,757 | 447,906 | 1.1 |
| Lead Concentrate | 33,800 | 29,321 | 15.3 | 89,755 | 80,595 | 11.4 |
| Copper Concentrate | 7,239 | 4,701 | 54.0 | 18,996 | 16,392 | 15.9 |
| Silver Concentrate | 3,793 | 2,714 | 39.8 | 11,312 | 8,085 | 39.9 |

It should be mentioned that, at the end of Q3 2012, the book value of the final concentrate stocks totaled US\$ 76.7 million, which represents a US\$ 47.6 million increase with regard to the US\$ 29.1 million reported as concentrate stocks at the end of Q3 2011. Steps are being taken to reduce said stocks in the following months to reach the average levels reported in 2011.

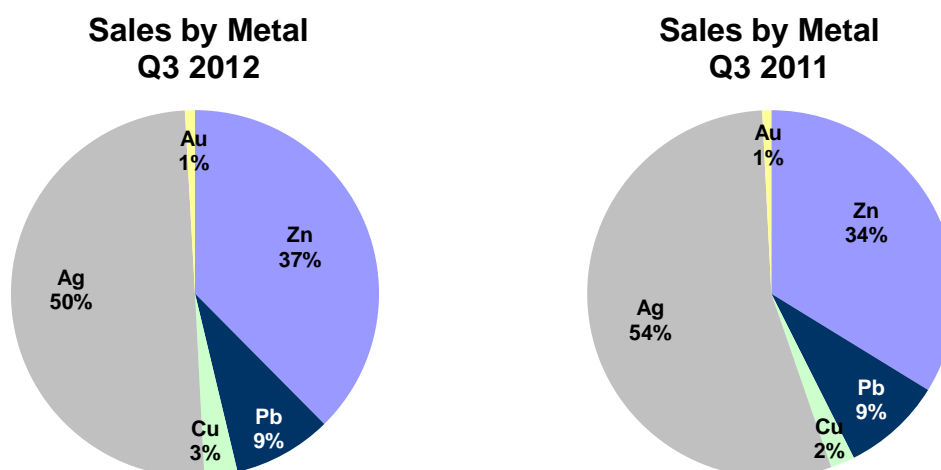
During Q3 2012, Yauli mining unit continued having the largest share of Volcan's sales (44.9% of the total), followed by Chungar with 32.1%, and Cerro de Pasco with 23.0%¹.

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



Regarding the composition of sales by metal during Q3 2012, Silver represented 50% of Volcan's sales, while Zinc represented 37%, Lead 9%, Copper 3%, and Gold 1%. It should be noted, however, that the share of Silver in the total sales of the Company declined 4 percentage points compared to Q3 2011, This was the result of a 23.1% decline in its international price, compared to a 15.1% decline in the price Zinc.

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



2. Profitability

The consolidated gross profit of the Company also decreased from US\$ 158.1 MM in Q3 2011 to US\$ 115.0 MM in Q3 2012. This is attributed to overall lower Zinc, Lead,

¹ Los cálculos de participación de las ventas por Unidad Minera y por metal no consideran los derivados implícitos.

and Silver prices and the aforementioned higher production costs. Accordingly, gross margin declined from 49.0% during Q3 2011 to 41.0% in the same period of 2012.

Likewise, Q3 2012 operating profit totaled US\$ 91.9 MM, a 33.2% decline when compared to the US\$ 137.6 MM operating profit reported for the same period of 2011. It should be noted that this operating profit decline was partially offset by a US\$ 2.3 MM reduction in administrative expenses.

On the other hand, during Q3 2012 the Company reported net finance costs totaling US\$ 6.9 MM, related mainly to interest expenses on the bonds issued this February. Likewise, during Q3 2012, the Company registered a US\$ 1.5 MM loss related to its derivative instruments, whereas in the same period of 2011 a US\$ 5.5 MM loss was registered related to the same instruments.

Finally, Q3 2012 net profit totaled US\$ 50.6 MM, a 43.6% decline compared to the US\$ 89.7 MM reported for Q3 2011.

Table 8: Main items of the Income Statement

| Thousands US\$ | Jul - Sep 2012 | | Jul - Sep 2011* | | Var (%) | Jan - Sep 2012 | | Jan - Sep 2011* | | Var (%) |
|-----------------------------|----------------|--------------|-----------------|--------------|---------------|----------------|------------|-----------------|------------|---------------|
| Sales | 280,656 | 100% | 322,320 | 100% | (12.9) | 811,727 | 100% | 921,764 | 100% | (11.9) |
| Cost of Sales | (165,607) | -59% | (164,258) | -51% | 0.8 | (488,342) | -60% | (441,260) | -48% | 10.7 |
| Gross Profit | 115,049 | 41.0% | 158,062 | 49.0% | (27.2) | 323,386 | 40% | 480,504 | 52% | (32.7) |
| Administrative Expenses | (14,092) | -5% | (16,379) | -5% | (14.0) | (40,161) | -5% | (45,508) | -5% | (11.7) |
| Selling Expenses | (10,900) | -4% | (5,172) | -2% | 110.8 | (25,405) | -3% | (17,805) | -2% | 42.7 |
| Other Income/(Expenses) | 1,801 | 1% | 1,085 | 0% | 66.0 | 4,775 | 1% | 1,000 | 0% | 377.6 |
| Operating Earnings | 91,858 | 33% | 137,597 | 43% | (33.2) | 262,594 | 32% | 418,191 | 45% | (37.2) |
| Financial Income/(Expenses) | (6,909) | -2% | 2,808 | 1% | (346.0) | (25,640) | -3% | 3,210 | 0% | (898.6) |
| Options and Hedging | (1,472) | -1% | (5,497) | -2% | (73.2) | 7,157 | 1% | (33,636) | -4% | (121.3) |
| Taxes | (27,464) | -10% | (36,454) | -11% | (24.7) | (72,781) | -9% | (108,550) | -12% | (33.0) |
| Royalties | (5,417) | -2% | (8,785) | -3% | (38.3) | (14,823) | -2% | (21,200) | -2% | (30.1) |
| Net Profit | 50,596 | 18% | 89,668 | 28% | (43.6) | 156,508 | 19% | 258,015 | 28% | (39.3) |

* Restated under IFRS

Q3 2012 EBITDA² totaled US\$ 121.3 MM, a 27.0% decline compared to the EBITDA reported for the same period in 2011. This decline is explained mainly by a lower gross margin due to lower metal prices and higher production costs, as well as by higher sales expenses resulting from increased concentrate volumes sold and increased transportation and storage costs. Accordingly, EBITDA margin decreased from 52% in Q3 2011 to 43% in the same period of 2012.

²EBITDA: Operating Profit + Depreciation and Amortization + Exceptional Expenses.

Table 9: EBITDA

| | Jul - Sep 2012 | Jul - Sep 2011 | Var (%) | Jan - Sep 2012 | Jan - Sep 2011 | Var (%) |
|---------------------|-------------------|-------------------|---------|-------------------|-------------------|---------|
| Net Profit | 50,596 | 89,668 | (43.6) | 156,508 | 258,015 | (39.3) |
| EBITDA* (US\$ '000) | 121,259 | 166,087 | (27.0) | 351,311 | 504,820 | (30.4) |
| EBITDA/Sales | 43% | 52% | | 43% | 55% | |

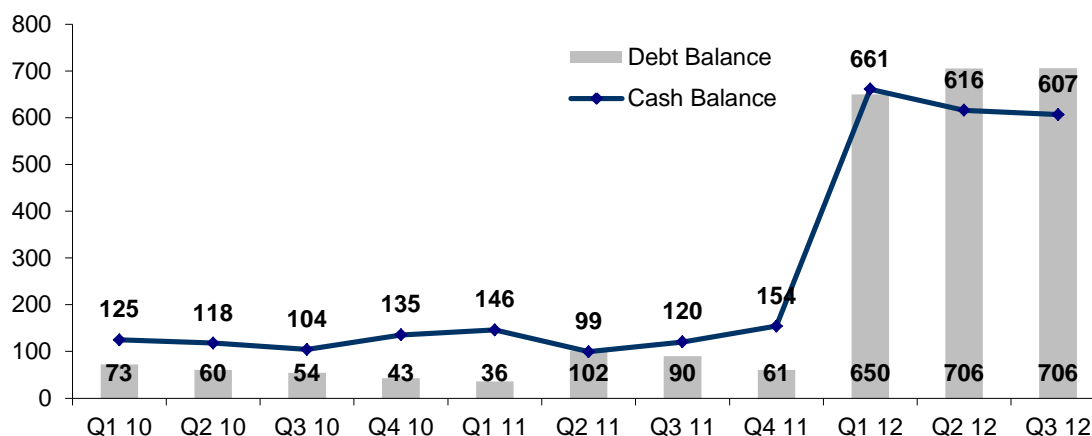
3. Liquidity and Creditworthiness

Despite the fall in the prices of the metals we produce, we were able to generate US\$ 30.0 million in operating cash flow, without taking into account the investments made in regional exploration and growth projects. After considering the total investments made and after the payment of bond interest expenses totaling US\$ 16.1 MM, the net cash flow for the period was negative US\$ 9.3 MM. It should be noted that our growth projects are backed by our February 2012 US\$ 600 million bond issuance. As of September 30, 2012, our cash balance was US\$ 606.7 MM.

Annualizing the EBITDA obtained from January to September 2012, and taking into account all other Company's financial obligations in addition to the bonds (leasing and other loans), Volcan's leverage ratio (Financial Debt / EBITDA) at the end of Q3 2012 was 1.51x.

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

Chart 3: Cash Position and Debt Balance³ (US\$ million)



³The financial debt includes loans granted by financial institutions, leasing agreements, and others

IV. Final Comments

1. Similarly to last quarter, Q3 2012 sales were affected by lower zinc, lead and silver prices, which were 15.1%, 19.6% and 23.1%, respectively, lower than the price levels of the same period in 2011. In the case of zinc, third quarter prices were even 2% lower than the price registered in the Q2 2012, while the prices of lead and silver remained almost at the same levels. We want to emphasize that even though there is consensus on the fact that base metals have solid long term fundamentals, prevailing global economic uncertainty typically generates volatility and pushes prices of commodities downward.
2. It is well known that the mining industry in general bases its competitiveness on cost, and that this fact becomes more relevant in times of low metals' prices. In this aspect Volcan has a significant advantage, considering that its cash cost remains below that of the industry. This is due to the by-product credits and the natural hedge that the Company has as a result of the composition of its metal portfolio, which combines production of base metals with production of precious metals, like Silver.

Additionally, with the aim of maintaining and improving its competitive position, Volcan continuously makes important investments in operating projects that will result in higher productivity and efficiency, such as the expansions of its concentrator plants Chungar, Victoria and Andaychagua, the construction of shafts in Chungar, Andaychagua and Carahuacra, and the Victoria Ramp in San Cristobal.

In that regard it is also important to highlight the completion and startup of the Baños V Hidroelectric Station Project, which came online at the end of July, and has a generation capacity of 9.2MW. This will allow us to reduce the energy costs of the Company, while allowing us now to meet 100% of the energy demand of our Chungar Operating Unit.

3. As far as the future goes, we can say that we will soon see the completion of three important projects that will contribute to increase the production and sales of the Company: 1.) the expansion from 4,200 to 5,200 tpd of the Animón Processing Plant, in the Chungar Operating Unit toward the end of 2012⁴, 2.) the new Silver Oxides Processing Plant in our Cerro de Pasco Operating Unit in the third quarter of 2013, and 3.) the new Alpamarca Operating Unit, which includes the Alpamarca open pit and the Río Pallanga underground mine, also planned for Q3 2013. These projects will contribute 8 – 10 million ounces of silver annually, and will be fully evident in the sales figures of the Company in 2014. We should also note that this increase in Silver production will be partially offset by a production decrease associated to the end of the current phase of the Raul Rojas Open Pit in Cerro de Pasco, which in 2012 produces an average of 2 million ounces per year.

In addition to the above mentioned projects, it is important to mention that as part of its strategy and in line with its long term vision, Volcan continuously evaluates new growth opportunities, in Perú and in the Region, with the goal of consolidating its metal portfolio and strengthening its key player status in the global mining context.

⁴ As of September 2012, the Animón Concentrator Plant was already testing production at a capacity of 4,700 tpd