VOLCAN

# VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES
# 1ST QUARTER 2013 MANAGEMENT'S DISCUSSION AND ANALYSIS

| US$ millions | Jan - Mar 2013 | Jan - Mar 2012 | Var (%) |
|---|---|---|---|
| Sales | 232.8 | 291.1 | -20.0% |
| EBITDA | 76.0 | 144.8 | -47.5% |
| Net Profit | 22.4 | 70.8 | -68.3% |

## I. Executive Summary

Q1 2013 results have been significantly affected by the following main reasons: 1.) The 7.8% fall in the price of Silver, metal that represents approximately 50% of the Company's sales, 2.) The decline in the production of fines due to the suspension of mining activities at the Raul Rojas open pit and the decrease in the ore contribution from the Paragsha underground mine, located in our Cerro de Pasco Mining Unit, and 3.) The increase in production costs, affected by mining sector inflation across the globe.

Additionally, International Financial Reporting Standards (IFRS) establish that any variations in future prices of our open sales transactions are reflected in the Company's net sales as provisions (Embedded Derivative and Sale Adjustments). During Q1 2013, such provisions were negative US$ 8.3 million, whereas in Q12012, they totaled positive US$ 24.8 million, an absolute negative difference of US$ 33.1 million in the net sales of the company.

In this context of lower metal prices, it should be noted that the Company is taking extreme measures in order to reduce costs and expense, improve its financial results and preserve its cash position. Such measures are currently being applied despite the fact that we perceive these price levels to be unsustainable in the medium term, due to the fact that average production costs in the mining sector are very close to the current price levels.

On the other hand, we are pleased to inform that the expansion from 4,200 to 5,200 tpd of the Animón Plant in our Chungar mining unit was completed successfully in this quarter. With this additional capacity Chungar will increase its annual silver production by more than 2 million ounces. In addition, the Silver Oxides (Cerro de Pasco) and Alpamarca – Río Pallanga projects are moving forward according to plan. We expect both projects to be completed in Q4, generating an additional annual silver production of more than 8 million ounces.

Finally, we would like to inform that between November 2012 and March 2013, the investment grade rating assigned to Volcan Compañia Minera S.A.A., as part of the bond issue that took place in February 2012, was reaffirmed by the 3 main international rating agencies (Fitch Ratings, Standard & Poors, and Moody's). This reflects the sound profile of the Company and the confidence on its growth plans, currently underway.

The remainder of this report presents a brief analysis of the most significant economic and financial results for Q1 2013.

## II. General Overview:

For a proper analysis of the Company's results, it is important to describe the behavior of certain quotes, macroeconomic variables and other relevant data that impact such results.

1. During Q1 2013, average international prices for Zinc (Zn) and Lead (Pb) increased by 0.4% and 9.8%, respectively, whereas the price for Silver (Ag), Cupper (Cu) and Gold (Au), decreased by 7.8%, 4.6% and 3.5%, respectively, compared to the same period of the previous year.

**Table 1: Average Prices**

| | Jan - Mar 2013 | Jan - Mar 2012 | Var (%) |
|---|---|---|---|
| Zn (US$/MT) | 2,033 | 2,024 | 0.4 |
| Pb (US$/MT) | 2,300 | 2,094 | 9.8 |
| Ag (US$/Oz) | 30.1 | 32.7 | (7.8) |
| Cu (US$/MT) | 7,928 | 8,308 | (4.6) |
| Au (US$/Oz) | 1,632 | 1,692 | (3.5) |

Source: Metals Week - Platts

2. The average exchange rate during Q1 2013 was S/. 2.575 per U.S. Dollar. This rate reflects a 4.0% appreciation of the Nuevo Sol if compared to the average rate during Q1 2012 (S/. 2.683 per U.S. Dollar).
Source: bcrp.gob.pe

3. At the end of Q1 2013, Brent Crude oil price was quoted at US$ 110.02 per barrel, which represents a 10.4% decline with regard to the quote at the end of Q1 2012 (US$ 122.8 per barrel), and a 6.1% decline with regard to the quote at the end of Q1 2011 (US$ 117.17 per barrel), and a 33.7% increase if compared to the quote of the same period in 2010 (US$ 82.27 per barrel).
Source: Invertis

4. Inflation, measured based on the variations in the Consumer Price Index, and annualized as of March 31, 2013, reached 2.59%. On the other hand, the Wholesale Price Index registered an annual variation of 1.22%.
Source: bcrp.gob.pe

5. During the first two months of 2013, domestic production of Zinc and Lead increased by 2.9% and 5.1%, respectively; meanwhile, Copper, Gold, and Silver production declined by 0.5%, 21.1%, and 2.3%, respectively, as compared to the production over the first two months of 2012.

**Table 2: Peru's metal production**

| Production (Fines) | Unit | Jan - Feb 2013 | Jan - Feb 2012 | Var (%) |
|---|---|---|---|---|
| Copper | MT | 186,353 | 187,344 | (0.5) |
| Gold | Fine Kg | 23,181 | 29,382 | (21.1) |
| Zinc | MT | 214,322 | 208,306 | 2.9 |
| Silver | Fine Kg | 541,136 | 554,075 | (2.3) |
| Lead | MT | 40,731 | 38,763 | 5.1 |

Source: Ministry of Energy and Mines

6. As a result of lower prices and higher costs in the mining industry, the main global mining companies have reported 2012 results that evidence a significant reduction in their net profits. The following table shows some of these results, that characterize the global context in which mining companies currently operate.

**Table 3: 2012 vs. 2011 profit variations for global mining companies**

| Large Mining Companies* | Average Variation 2012 / 2011 |
|---|---|
| Sales | -10% |
| EBITDA | -31% |
| EBIT | -42% |
| Net Profit | -85% |

Source: Bloomberg, companies' web pages.

*** Xstrata, Glencore, BHP Billiton, Vale do Rio Doce, Anglo American, Freeport McMoRan, Río Tinto**

# III. Analysis of Operating Results

## 1. Production

On a consolidated basis, the volume of ore treated during Q1 2013 decreased by 23.5% as compared to the volume of ore treated during Q1 2012. During such period, we can observe a significant 74.3% decline in the volume treated in our Cerro de Pasco Mining Unit, as compared to same period in 2012. This reduction is mainly explained by the suspension of mining activities at the Raul Rojas open pit since September 2012, a lower ore contribution from the Paragsha underground mine, and the end of the first phase of successful ore treatment tests involving Silver pyrite stockpiles during December 2012. It should be noted that at current production levels, our Cerro de Pasco mining unit has a participation of only 9% in the total sales of the Company, however, Volcan keeps evaluating new projects to be developed in the Raul Rojas open pit, and that the metallurgical feasibility studies referred to the Silver Pyrite project should be completed by the second half of the year. In the meantime, the Company is deploying great efforts in making the current structure of the Cerro de Pasco Mining Unit more efficient and bringing it to a suitable size.

The decrease in the volume treated in the Cerro de Pasco Mining Unit was partially offset by treatment increases in the Yauli and Chungar Mining Units (2.5% and 1.1%, respectively). We should note the increased volume of ore treated in the Chungar

Mining Unit during Q1 2013, despite the 10-day plant stoppage in January, needed to conduct the final configuration of the recent plant expansion. This expansion project has been successfully completed on schedule and according to the foreseen conditions, allowing the Animon Plant to increase its treatment capacity by 20%. This expansion will be fully evidenced in production volumes as of April 2013. In addition to the above, we should note that from December 27th to January 14th production at our Chungar mining unit was affected by the blockage of one of the main roads in the area, in the neiborhood of the Huaychao Community, and by the unplanned repair of a primary mill in March.

In the case of Yauli, we should mention that the expansion to 3,200 tpd of the Andaychagua plant was conluded and that we expecet the expansion to 4,500 tpd of the Victoria plant to be finished in june of this year.

**Table 4: Treated ore (thousand MT)**

| Unit | Jan - Mar 2013 | Jan - Mar 2012 | Var (%) |
|---|---|---|---|
| Yauli | 894 | 872 | 2.5 |
| Cerro de Pasco | 163 | 636 | (74.3) |
| Chungar | 394 | 390 | 1.1 |
| **Total Volcan** | **1,451** | **1,898** | **(23.5)** |

Regarding production of fines, it is worth mentioning that the production of Zinc fines declined by 19.0%, from 75,697 MT in 2012 to 61,294 MT in Q1 2013. This is the result of the above mentioned reduction in the Cerro de Pasco mining unit, and to lower Zinc treatment grades registered in Yauli and Chungar, which are expected to be reverted in the following months with production from new areas that have better grades, in our San Cristobal mine, and due to the normalizatoin of production at the Animón mine in Chungar, affected by pumping problems during Q12013.

On the other hand, the production of Lead fines declined by 9.7%, moving from 17,623 MT in 2012 to 15,907 MT in 2013. This decline is lower than that of Zinc, given that the lower production in Cerro de Pasco was partially offset by a greater production in Yauli, and particularly in Chungar, due to higher head grades of the ore treated.

In regards to silver production, ounces produced declined by 10.4%, from 5.4 million in 2012 to 4.9 million in 2013. In addition to the decline in production at the Cerro de Pasco Unit, Yauli's production also declined, due to lower head grades, which are also expected to be reverted during the months to come through increased treatment volumes thanks to the expansions on the Andaychagua and Victoria plants. These declines were partially offset by a significant increase in the silver production of Chungar, which is mainly explained by higher head grades, particularly in the ore coming from the Islay mine.

Lastly, the production of Copper fines has slightly decreased by 3.6%, from 736 MT in 2012 to 710 MT in 2013.

## Table 5: Production of Fines

| Unit | Jan - Mar 2013 | Jan - Mar 2012 | Var (%) |
|---|---|---|---|
| **Zinc (MT)** | | | |
| Yauli | 36,410 | 36,820 | (1.1) |
| Cerro de Pasco | 3,324 | 14,853 | (77.6) |
| Chungar | 21,560 | 24,025 | (10.3) |
| **Total Volcan** | **61,294** | **75,697** | **(19.0)** |
| | | | |
| **Lead (MT)** | | | |
| Yauli | 7,262 | 7,065 | 2.8 |
| Cerro de Pasco | 1,851 | 5,690 | (67.5) |
| Chungar | 6,794 | 4,869 | 39.5 |
| **Total Volcan** | **15,907** | **17,623** | **(9.7)** |
| | | | |
| **Silver (Oz 000)** | | | |
| Yauli | 2,670 | 2,770 | (3.6) |
| Cerro de Pasco | 609 | 1,362 | (55.3) |
| Chungar | 1,581 | 1,294 | 22.3 |
| **Total Volcan** | **4,861** | **5,426** | **(10.4)** |
| | | | |
| **Copper (MT)** | | | |
| Yauli | 440 | 505 | (12.9) |
| Chungar | 270 | 231 | 16.9 |
| **Total Volcan** | **710** | **736** | **(3.6)** |

In Q4, the startup of the new Alpamarca - Río Pallanga Mining Unit, in addition to the Silver Oxides Project in Cerro de Pasco, will allow us to increase the treatment volumes and production of silver fines, reducing unit costs and positively impacting the Company's profitability.

*Progress in Silver Oxides Plant in Cerro de Pasco:*

*Progress in Alpamarca Plant in new Alpamarca – Río Pallanga Operating Unit:*


## 2. Operating Costs

During the period ended on March 31, 2013, the unit costs of Yauli and Chungar Units increased by 18.2% and 15.4%, respectively, compared to the same period of the previous year. This increase lies below the estimated average sector inflation for the industry of around 20%

Cost increases in our mining units are explained mainly by higher labor costs due to the increasing demand of skilled personnel, higher energy rates due to greater nationwide demand, increased prices of certain supplies such as explosives, oils and lime, and more importantly, due to higher costs incurred in raising safety and maintenance standards in our mining units.

On the other hand, the 74.3% decline in the volume treated at our Cerro de Pasco mining unit had a significant impact on the calculation of unit production costs, since fixed costs cannot be reduced in the same proportion in the short term. Even though the Company has taken steps to adjust the structure of the Cerro de Pasco mining unit and the absolute costs in dollars have already been reduced during Q1 2013, the significant drop in treatment volume resulted in a 327% increase in the cost per ton of this mining unit, from 38.7 US$/MT in Q1 2012 to 165.4 US$/MT in Q1 2013, although the ore value is higher than the one reported last year. Even though the unit production costs of the Cerro de Pasco mining unit underwent a significant increase, it should be noted that the lower production volume at this unit results in a lower share of the Company's total production volume, thus preventing a greater impact on the consolidated unit cost.

In addition, the 4.0% appreciation of the Nuevo Sol with regard to the U.S. Dollar had a negative impact on the total cost of the Company, given that approximately 40% of our operating costs are expressed in Nuevos Soles.

Consequently, as a result of all of the above, Volcan's consolidated unit cost of production registered a 49.5% increase during Q1 2013, from 50.5 US$/MT in 2012 to 75.5 US$/MT in 2013.

During 2013, in addition to our constant quest for embracing efficiency improvement opportunities and increasing productivity throughout the Company, the investments made in Chungar Unit such as the Animon Plant expansion, the Baños V Hydroelectric Power Plant and the Jacob Timmers Shaft, which is expected to start operations in mid-year 2013, will help us offset certain factors that have been resulting in increased production costs. In our Yauli unit, the expansions of the Andaychagua and Victoria plants are additional exampes of the improvement initiatives that we have underway.

**Table 6: Unit Cost of Production (US$/MT)**

| Costs | Absolute Production Cost (US$ millions) | | | Cost per MT (US$/MT) | | |
|---|---|---|---|---|---|---|
| | Jan - Mar 2013 | Jan - Mar 2012 | Var (%) | Jan - Mar 2013 | Jan - Mar 2012 | Var (%) |
| Yauli | 60.3 | 49.9 | 20.9 | 71.1 | 60.2 | 18.2 |
| Cerro de Pasco * | 15.0 | 24.2 | (38.1) | 165.4 | 38.7 | 327.0 |
| Chungar | 27.2 | 22.8 | 19.2 | 63.7 | 55.2 | 15.4 |
| Vinchos | 1.9 | 1.9 | (1.3) | 54.3 | 69.7 | (22.1) |
| **Total Volcan** | **104.3** | **98.8** | **5.6** | **75.5** | **50.5** | **49.5** |

* Cerro de Pasco's production cost and Volcan's consolidated production cost have been recalculated so as to include the Silver Pyrite ore treated in the San Expedito Plant.

## 3. Investments

During Q1 2013, investments made by Volcan on fixed and intangible assets amounted to US$ 76.1 million, representing a 47.8% increase with regard to the investments made in the same period of the previous year (US$ 51.5 million).

Investments made in the mining units during Q1 2013 totaled US$ 41.9 million. This figure represents a slight increase compared to Q1 2012 investments, which totaled US$ 40.1 million. Such operating investments made during Q1 2013 were mainly addressed to mine development (US$ 13.4 million), equipment and mine infrastructure (US$ 11.7 million), expansion and upgrades of concentrator plants (US$ 7.3 million), explorations (US$ 3.4 million), construction of tailing storage facilities (US$ 2.7 million), energy (US$ 1.7 million), and camps, environment, IT and other areas (US$ 1.2 million).

On the other hand, investments in regional explorations totaled US$ 2.3 million, a 16.8% increase compared to the same period of the previous year. These investments are focused on the prospects with the greatest potential within the Company's portfolio, in silver, polymetallic and copper, such as Zoraida, Palma, Río Pallanga Noreste, Pillcocha, Mijaigui and El Muki.

Finally, investments made on growth projects reached US$ 31.9 million during Q1 2013, which represents a 236.1% increase if compared to Q1 2012. Such an increase is mainly attributed to the progress on the execution of the Silver Oxides Project in Cerro de Pasco and the Alpamarca - Río Pallanga Project.

**Table 7: Investments***

| US$ (thousands) | Jan - Mar 2013 | Jan - Mar 2012 | Var (%) |
|---|---|---|---|
| Investments in Mining Units | 41,881 | 40,051 | 4.6 |
| Regional Explorations | 2,251 | 1,928 | 16.8 |
| Growth Projects and Others | 31,930 | 9,501 | 236.0 |
| **Total** | **76,062** | **51,480** | **47.7** |

* 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 in Vichaycocha.

# IV. Analysis of Economic and Financial Results

## 1. Sales and Profits

The analysis of results presented below is based on the accounting figures reported in Q1 2013 and Q1 2012 Financial Statements, which have been prepared according to International Financial Reporting Standards (IFRS). It is worth mentioning that, as of Q1 2013, the Company's Financial Statements and the Analysis of Results include the impact of price hedging in the net sales figures. In the past, such impact was presented as Options and Hedging, below the Operating Profit. The sales figure for 2012 has been similarly restated so as to allow for a consistent comparison.

During Q1 2013, Volcan's sales reached US$ 232.8 million, a 20.0% decline with regard to the US$ 291.1 million reported for the same period in 2012. This is explained primarily by lower production in Cerro de Pasco, due to the suspension of mining activities at the Raúl Rojas open pit, a 7.8% reduction in the price of silver and because of the important negative effect of provisions resulting from variations in the forward prices of our open sales transactions, which based on IFRS standards, have to be included in our net sales figures. Such provisions are known as *Embedded Derivatives* and *Sales Adjustments,* and are recorded on the last day of each month based on forward prices of the metals sold by the Company, for the quotation periods of each sale transaction that remains open. In addition, and as noted above, the net sales figures in our Financial Statements will from now on also include the impact of price hedging.

The table below shows a summary of the above-described items, both for Q1 2013 and Q1 2012:

**Table 8: Variations as a result of the effect of pricing on sales (US$ thousands)**

| US$ (thousands) | Jan - Mar 2013 | Jan - Mar 2012 | Var (%) |
|---|---|---|---|
| Concentrate Sales | 227,353 | 274,948 | (17.3) |
| Final Invoice adjustement[1] | 8,538 | (9,942) | (185.9) |
| **Sales before price adjustmen** | **235,891** | **265,006** | **(11.0)** |
| Hedges[2] | 5,200 | 1,269 | 309.6 |
| Embedded Derivative[3] | -6,654 | 9,757 | (168.2) |
| Sales Adjustment[4] | -1,675 | 15,075 | (111.1) |
| **Price adjustments** | **-3,130** | **26,101** | **(112.0)** |
| **Net Sales** | **232,762** | **291,107** | **(20.0)** |

Notes:

**1 Final Settlement Adjustment:** Referred to real adjustments that take place in order to close sales transaction with customers, definitely.

**2 Hedges:** The result of price hedging activities throughout the period.

**3 Embedded Derivatives:** Provision for sale transactions yet to be settled (open), which is determined by comparing the price at the time of sale against the forward price on the estimated date of closing of such sale transaction.

**4 Sales Adjustments:** Provision for such sale transactions yet to be settled (open) but having a defined closing date, and which is determined by comparing the price at the time of sale against the forward price at the time of closing of such sale transaction.

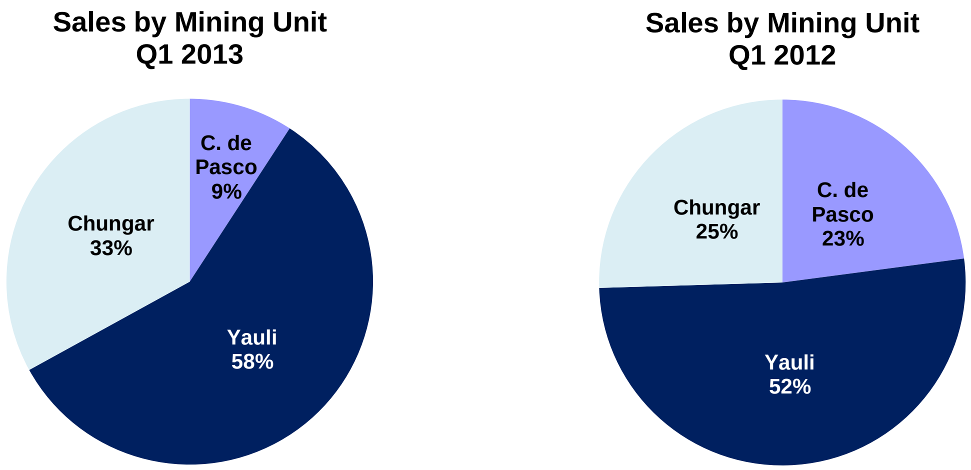
Regarding the volume of concentrates sold, we can mention that Lead and Copper concentrate sold (in Dry MT) during Q1 2013 increased by 4.5% and 127.5%, respectively, as compared to the same period in 2012. However, copper concentrates represent less than 3% of total concentrates sold by Volcan. On the other hand, Zinc and Silver concentrate volumes sold declined by 38.6% and 11.0%, respectively. These declines are mainly explained by the suspension of mining activities at the Raul Rojas open pit in Cerro de Pasco.

**Table 9: Sales Volume (DMT)**

| Product | Jan - Mar 2013 | Jan - Mar 2012 | Var (%) |
|---|---|---|---|
| Zinc Concentrate | 100,621 | 163,754 | (38.6) |
| Lead Concentrate | 28,601 | 27,361 | 4.5 |
| Copper | 10,777 | 4,738 | 127.5 |
| Silver Concentrate | 3,876 | 4,356 | (11.0) |
| **Total** | **143,875** | **200,209** | **(28.1)** |

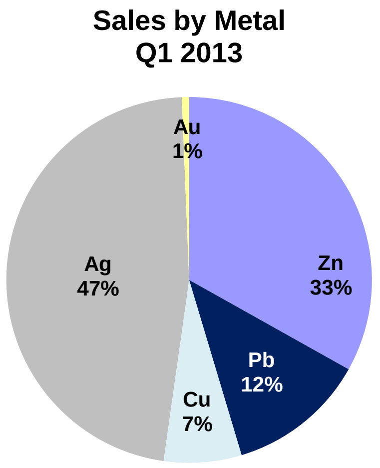
It is evident that during Q1 2013 the share of the Yauli and Chungar mining units in the Company's sales increased as a result of the decline in the production volume of Cerro de Pasco. During the first quarter of the year, Yauli contributed 58% to the total sales of the Company, followed by Chungar with 33% and by Cerro de Pasco with 9%.

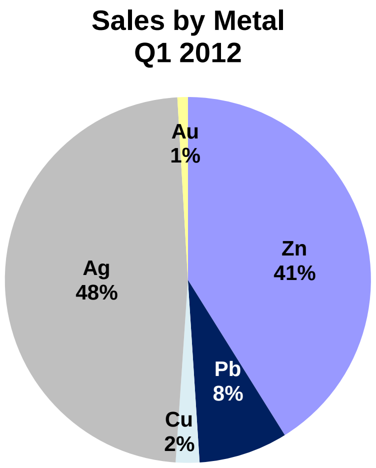
**Chart 1: Sales by Mining Unit (% of value in US$)**




In regards to the composition of sales by metal, it is worth noting the stability of the participation of silver in the Company's total sales, as it decreased only by one percentage point quarter-to-quarter 47%, despite its price declining by 7.8%. At the same time, the share of Zinc in the sales of the Company declined from 41% to 33%, while the share of Lead increased from 8% to 12%. Even though the decrease in the production volume of Cerro de Pasco had an impact on the Zinc and Lead concentrate volumes sold, in the case of Lead, such decline was offset by higher grades. In addition, the participation of Copper in the sales of the Company represented 7%, while the share of Gold represented 1% of such sales during Q1 2013.

## Chart 2: Sales by metal (%of value in US$)




## 2. Profitability

During Q1 2013, gross profit declined by 52% compared to the same period of the previous year, from US$ 137.4 million to US$ 65.7 million. As a result, the gross margin decreased from 47.2% during Q1 2012 to 28.2% during the same period in 2013. Such declines are mainly explained by the following reasons:

1.) Negative effect of provisions resulting from variations in the forward prices of our open sales transactions, which based on IFRS standards, have to be included in our net sales figures (see definitions of Embedded Derivatives and Sales Adjustments in the notes to Table 7). During Q1 2013, such provisions were negative US$ 8.3 million, whereas in Q12012, they totaled positive US$ 24.8 million, **an absolute negative difference of US$ 33.1 million in the net sales of the company**

2.) A 7.8% fall in the price of Silver, the metal with the largest participation in the sales of the Company

3.) Higher volumes sold of third-party concentrates, increasing from 6,251 Dry MT in Q1 2012 to 16,252 Dry MT in Q1 2013, thus increasing by 160%. It should be mentioned that the profit margin obtained on sales of third-party concentrates is typically lower than the one obtained from the sale of our own concentrates

4.) **A 9.4% increase in depreciation and amortization expense, from US$ 28.1 million during Q1 2012 to US$ 30.8 million during Q1 2013**, as a result of greater investments made on fixed and intangible assets

5.) Increased production costs, partly as a result of generalized mining sector cost increases, but also as a result of the new operating scenario in our Cerro de Pasco mining unit, where unit production costs rose by 374%. As noted above, such increase is the result of the suspension of mining activities at the Raul Rojas open pit and the reduced production volume in the Paragsha underground mine.

At the same time, Q1 2013 operating profit reached US$ 44.3 million, a 62% decline compared to the US$ 116.5 million reported during Q1 2012. It should be noted that administrative expenses declined by 2.1% from quarter-to-quarter.

Finally, net profit for Q1 2013 totaled US$ 22.4 million, a 68.3% decrease with regard to the results obtained during Q1 2012.

**Table 10: Main items of the Income Statement**

| US$ (thousands) | Jan - Mar 2013 | | Jan - Mar 2012 * | | Var (%) |
|---|---|---|---|---|---|
| Sales | 232,762 | 100% | 291,108 | 100% | (20.0) |
| Cost of Goods Sold | (167,107) | -72% | (153,708) | -53% | 8.7 |
| **Gross Profit** | **65,655** | **28%** | **137,400** | **47%** | **(52.2)** |
| Administrative Expenses | (13,514) | -6% | (13,799) | -5% | (2.1) |
| Selling Expenses | (8,417) | -4% | (7,465) | -3% | 12.7 |
| Other Income/(Expenses) | 529 | 0% | 410 | 0% | 29.1 |
| **Operating Earnings** | **44,253** | **19%** | **116,545** | **40%** | **(62.0)** |
| Financial Income / Expenses | (4,732) | -2% | (8,725) | -3% | (45.8) |
| Taxes | (11,140) | -5% | (32,863) | -11% | (66.1) |
| Royalties | (5,973) | -3% | (4,195) | -1% | 42.4 |
| **Net Profit** | **22,409** | **10%** | **70,763** | **24%** | **(68.3)** |

*** For detail on the composition of sales, please refer to Table No. 8**

Q1 2013 EBITDA[1] totaled US$ 76.0 million, a 47.5% decline compared to EBITDA reported during the same period in 2012. Such decline is mainly explained by the reduction in the gross margin, as noted in the above paragraphs. As a result, the EBITDA margin over sales fell from 50% during Q1 2012 to 33% during the same period in 2013.

**Table 11: EBITDA**

| | Jan - Mar 2013 | Jan - Mar 2012 | Var (%) |
|---|---|---|---|
| Net Profit (thousands US$) | 22,409 | 70,763 | (68.3) |
| EBITDA (thousands US$) | 75,963 | 144,827 | (47.5) |
| EBITDA/Sales | 33% | 50% | |

[1] EBITDA: Operating Profit + Depreciation and Amortization + Exceptional Expenses.

## 3. Liquidity and Creditworthiness

During Q1 2013, the operating cash flow generated by Volcan totaled US$ 28.0 million, similar to the cash flow generated during the same period of the previous year. It should be noted that, during the first quarter of each year, there is a concentration of significant disbursements related to tax payments and workers' profit-sharing. In addition, in February 2013, the Company paid US$ 16-million in interest on the US$ 600 million bonds issued in February 2012

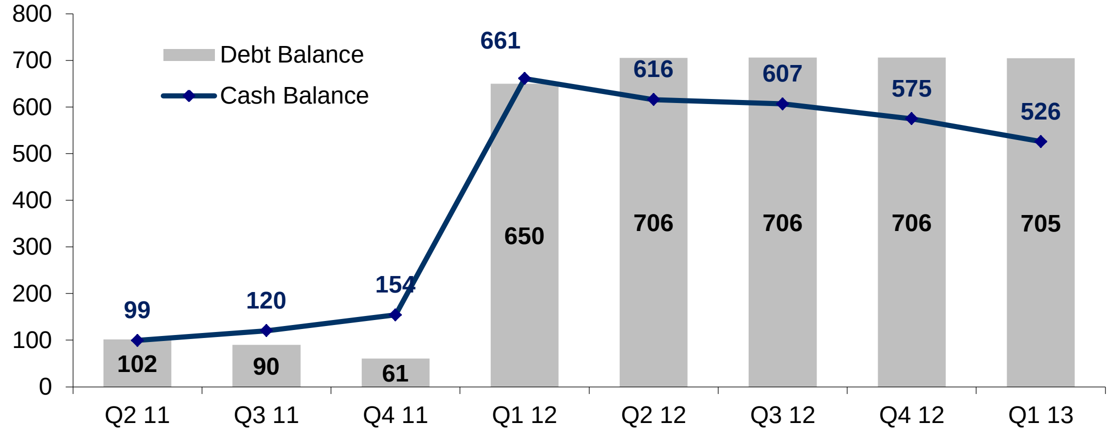
As a result thereof, the cash balance decreased from US$ 574.9 million at the end of 2012 to US$ 525.7 million at the end of Q1 2013.

Taking into consideration current debt levels and using Last Twelve Month's EBITDA, Volcan's leverage ratio (Financial Debt / EBITDA) at the end of Q1 2013 was around 1.7x.

It is also important to mention that, between November 2012 and March 2013, the investment grade rating assigned to Volcan Compañia Minera S.A.A., as part of the bond issue that took place in 2012, was reaffirmed by the 3 main international rating agencies (Fitch Ratings, Standard & Poors, and Moody's). This reflects the sound profile of the Company and the confidence on its growth plans, currently underway.

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

**Chart 3: Cash Position and Debt Balance[2] (US$ million)**




[2] The financial debt includes loans granted by financial institutions, leasing agreements, and others.

## V. Final Comments

1. During Q1 2013 a number of factors associated with the fluctuations in the international prices of the metals we produce had a significant impact on the net sales of the Company. On one hand, the price of Silver, metal that represents around 50% of the Company's sales, had a quarterly average 7.8% lower than in the same period of the previous year. Furthermore, the price of this metal also registered a 20% decline in the first three weeks of April. Based on IFRS standards, this downward trend, already evident at the end of March and present in the forward prices of these metals, needed to be registered as a provision that negatively affects our net sales figure for the period. The negative impact in Q1 2013 totaled US$ 8.3 million, compared to a positive impact of US$ 24.8 million in Q1 2012. Based on available information, we believe that these price levels are unsustainable in the medium term, due to the fact that average production costs in the mining sector are very close to the current price levels

2. In addition, the sales volume registered by the Company during Q1 2013 was lower than the one registered in the similar period of the previous year, with Zinc and Silver concentrate volumes falling by 38.6% and 11%, respectively. Such lower volumes were partially offset by greater sales of Lead and Copper concentrates, which have a lower participation in the Company's sales

3. The above-noted lower price situation was fueled by higher costs, both as a result of the decrease in the production volume of our Cerro de Pasco mining unit, as well as by the inflationary pressured still prevailing in the sector. In such a scenario of higher costs and current price levels, it is essential that mining companies are implacable in their quest for cost optimization opportunities and the rigor with which capital is allocated to investment projects. Volcan is aware of this situation and has already taken extreme austerity measures that guarantee an optimal use of its cash flow, giving priority to funding growth and cost reduction projects, as well as production and all other safety and environment related matters.

4. During Q1 2013 the Animón Plant expansion in the Chungar mining unit was completed, thus ramping up its production capacity from 4,200 tpd to 5,200 tpd. Such expansion will allow us to generate additional silver production of approximately 2 million ounces a year. The Silver Oxides project in Cerro de Pasco, as well as the flotation plant aimed at treating the ore coming from the Alpamarca open pit and the Río Pallanga underground mine are on schedule. Both projects are expected to be completed in Q4 2013, thus contributing nearly 8 million ounces of silver to the Company's production in 2014, and helping Volcan become a more profitable and competitive company

5. In parallel, the Company will remain focused on evaluating growth opportunities, both, through its own projects, located in its concessions encompassing more than 340 thousand hectares, as well as through other options, which may be based either in Peru or in other countries of the region