



## Volcan Compañía Minera S.A.A. and Subsidiaries Management Analysis and Discussion First Quarter of 2014

Millions USD	Jan-Mar 2013	Jan-Mar 2014	var %
Sales	232.8	244.4	5.0
EBITDA	75.0	56.4	-24.8
Net Profit	22.4	10.1	-55.1

Source: Volcan Cia. Minera

### 1. Executive Summary

In the first quarter of 2014, Company sales totaled USD 244 million, 5.0% higher than sales in 1Q13. Sales were higher as a result of larger sales volumes of Volcan's own production and of third-party concentrate sales. This increase in sales occurred despite lower metal prices, particularly for silver, which fell from USD 30.5/oz. in 1Q13 to USD 20.6/oz. in 1Q14, a decline of -32.4%. Even though the company achieved a 13.0% reduction in production costs across all units, this was not enough to offset the effect lower metal prices and a higher share of third-party concentrates in total sales on Company margins. As a result, EBITDA<sup>1</sup> for 1Q14 was USD 56.4 million, 24.8% less than the USD 75.0 million figure in 1Q13. It is worth noting that the 32.4% fall in the price of silver resulted lower quarterly sales of USD 42.7 million. Net profits in 1Q14 were USD 10.1 million, 55.1% lower than the USD 22.4 million recorded in 1Q13.

It is important to consider that the profits generated by the Company's individual business units (Yauli, Chungar and Cerro de Pasco), reflect the results of each individual unit. In 1Q14, the individual business units Yauli and Chungar together generated net profits of USD 25.6 MM versus USD 29.3 MM generated in 1Q13. The business unit of Cerro de Pasco generated a net loss of USD 11.2 MM compared to a net loss of USD 6.6 MM for the same period one year ago.

In the last five, production at our Cerro de Pasco Unit declined significantly. Its production has fallen from approximately 131,000 FMT of zinc in 2008 to approximately 19,000 FMT in 2013. Silver production also declined from 7.4 MM ounces in 2008 to 2.9 MM ounces in 2013. This reduction in production has been managed by important efforts to reduce fixed costs; however, fixed costs remain elevated, mainly related to underground water-pumping systems and related water treatment. To confront this situation, the Company has been studying alternatives to revert operating losses at this unit. These plans will be defined in the coming months.

<sup>1</sup> EBITDA = Operating Profit + Depreciation + Amortization



Following is a summary of the principal consolidated operating and financial results that are analyzed in greater detail later in this report.

## 1.1. Production

**Table 1: Consolidated Production**

<b>Consolidated Production</b>	<b>Jan-Mar 2013</b>	<b>Jan-Mar 2014</b>	<b>var %</b>
<b>Mined Tons (MT)</b>	<b>1,334,666</b>	<b>1,416,214</b>	<b>6.1</b>
<b>Treated Tons (MT)</b>	<b>1,451,392</b>	<b>1,565,059</b>	<b>7.8</b>
<b>Fines Content</b>			
Zinc (FMT)	61,295	64,974	6.0
Lead (FMT)	15,901	13,124	-17.5
Copper (FMT)	710	873	23.0
Silver (Oz)	4,864,978	4,570,561	-6.1

Source: Volcan Cia. Minera

In 1Q14 Volcan increased the volume of mineral extracted from its mines by 6.1%, while the volume treated in its plants was 7.8% higher compared to the same period last year. These increases were achieved through productivity improvements at most of our mines, as well as the expansion of the Victoria plant from 4,000 tpd to 4,500 tpd and the Andaychagua plant from 2,850 tpd to 3,200 tpd. These two plants are located at our Yauli Unit. In addition, our Animon plant was expanded from 4,200 tpd to 5,200 tpd at our Chungar Unit. These expansions required a total investment of USD 28.0 MM.

The production of zinc fines rose 6.0% because of higher tonnage treated at Chungar. The production of lead fines fell by 17.5% due to lower production at Cerro de Pasco and decreased treatment of third-party mineral with high lead grades at Yauli. Production of silver ounces declined 6.1% due to lower production at Cerro de Pasco and lower silver grades at Chungar. Finally, production of copper fines increased by 23.0%, as a result of greater volume treated and improved recovery at Yauli and higher volume treated at Chungar.

## 1.2. Cost of Production

**Table 2: Consolidated Cost of Production**

<b>Consolidated Cost of Production*</b>	<b>Jan-Mar 2013</b>	<b>Jan-Mar 2014</b>	<b>var %</b>
<b>Cost of Production (MM USD)</b>	<b>104.9</b>	<b>97.6</b>	<b>-7.0</b>
Mining Cost	61.0	55.9	-8.5
Treatment Cost	43.9	41.7	-4.9
<b>Unit Cost (USD/MT)</b>	<b>76.0</b>	<b>66.1</b>	<b>-13.0</b>
Mining Cost	45.7	39.4	-13.7
Treatment Cost	30.2	26.7	-11.8

\* The reported cost of production does not include the cost of purchases of concentrate and mineral from third parties or extraordinary costs incurred from employee settlements.

Unit cost decreased by 13.0%, from 76.0 USD/MT in 1Q13 to 66.1 USD/MT in 1Q14, as a result of cost-reduction initiatives such as changes in mining methods to improve productivity, revision of the number and scope of specialized services contracts, renegotiation of prices of key supplies, the reduction of administrative expenses at operating units, and the suspension of minor works projects, among other measures. In addition, the company implemented a well-received incentive program to reduce personnel at Cerro de Pasco and Yauli.

The reduction of the cost of production required a great effort by our Company. Nonetheless, this cost savings was not sufficient to compensate for the fall in metals prices. Consequently, the Company is developing new initiatives to achieve greater cost reductions in the coming months.

### 1.3. Sales

**Table 3: Fines Sales Volume**

Fines Sales		Jan-Mar 2013	Jan-Mar 2014	var %
Own	Zinc (thousands FMT)	51.5	69.4	34.6
	Lead (thousands FMT)	15.8	10.6	-32.8
	Copper (thousands FMT)	0.9	0.7	-13.4
	Silver (thousands Oz)	3,751	3,808	1.5
	Gold (thousands Oz)	2.3	2.2	-2.5
Third	Zinc (thousands FMT)	3.6	24.2	575.6
	Lead (thousands FMT)	0.5	5.0	816.1
	Copper (thousands FMT)	2.3	1.7	-26.7
	Silver (thousands Oz)	691	1,523	120.6
Total	Zinc (thousands FMT)	55.1	93.6	69.8
	Lead (thousands FMT)	16.3	15.5	-4.6
	Copper (thousands FMT)	3.1	2.4	-23.1
	Silver (thousands Oz)	4,442	5,332	20.0
	Gold (thousands Oz)	2.3	2.2	-2.5

Source: Volcan Cia. Minera

In terms of fines, Volcan's own concentrate sales increased by 18,000 FMT of zinc and 57,000 ounces of silver. However, the fall in metals prices had a strong impact on sales related to our own production, particularly because of the drastic 32.4% decline in the price of silver from 30.5 USD/oz. in 1Q13 to 20.6 USD/oz. in 1Q14, and in the lower price of lead, which declined 9.3%, from 2,322 USD/MT in 1Q13 to 2,106 USD/MT in 1Q14. As a result, during 1Q14 sales of Volcan's own production declined by 12.3% or nearly USD 24 million compared to the same period last year.

In terms of third-party concentrate sales, the volume of zinc fines rose by 20,600 FMT, lead rose by 4,500 FMT, and silver increased by 832,000 ounces, which translates into an increase of USD 39.2 million (117.2%) in sales of this category with respect to 1T13.

It is important to note that the Company has included third-party concentrates in its sales figures for the past four years. This business strategy optimizes value of concentrates sold by the company and reduces the cost associated with commercialization of our production. Value is optimized by improving the quality of concentrates sold, increasing sales volumes that enable greater diversification and better commercial terms through greater negotiation power in the market.

**Table 4: Sales**

Sales Prices		Jan-Mar 2013	Jan-Mar 2014	var %
Zinc (USD/MT)		2,038	2,012	-1.3
Lead (USD/MT)		2,322	2,106	-9.3
Copper (USD/MT)		7,811	6,945	-11.1
Silver (USD/Oz)		30.5	20.6	-32.4
Ventas (millions USD)		Jan-Mar 2013	Jan-Mar 2014	var %
Own Fines	Zinc	71.8	94.4	31.5
	Lead	26.8	15.7	-41.6
	Copper	2.9	1.9	-34.1
	Silver	91.8	57.4	-37.4
	Gold	1.4	1.5	3.9
			<b>194.8</b>	<b>170.9</b>
Thirds Fines	Zinc	4.9	33.0	566.0
	Lead	0.6	8.3	1192.0
	Copper	10.9	7.0	-35.7
	Silver	16.9	24.3	43.6
			<b>33.4</b>	<b>72.6</b>
Sales before adjust.	Zinc	76.7	127.3	66.0
	Lead	27.5	24.0	-12.8
	Copper	13.8	8.9	-35.4
	Silver	108.8	81.8	-24.8
	Gold	1.4	1.4	3.8
			<b>228.2</b>	<b>243.5</b>
Settlements of prior periods adjustment		7.7	-12.9	
Adj. open positions and embedded deriv.		-8.3	6.0	
<b>Sales before hedging</b>		<b>227.6</b>	<b>236.6</b>	<b>4.0</b>
Hedging		5.2	7.8	50.5
<b>Net Sales</b>		<b>232.8</b>	<b>244.4</b>	<b>5.0</b>

Source: Volcan Cia. Minera

Total sales before adjustments in 1Q14 were USD 243.5 million, 6.7% higher than 1Q13, which reached USD 228.2 million. In the most recent fiscal period, the Company recorded negative adjustments for final settlements from previous periods totaling USD 12.9 million, positive adjustments for open positions\*<sup>2</sup> of USD 6.0 million and positive hedging results of USD 7.8 million. Therefore, net sales in 1Q14 were USD 244.4 million, a 5.0% increase over the USD 228.2 million generated in 1Q13.

We should mention that the sales margin of third-party concentrates is much lower than the sales margin of Volcan's own production. As a consequence, while sales in 1Q14 were higher than in 1T13, lower metal prices and the greater share of third-party concentrates in total sales caused a significant decline in margins.

<sup>2</sup> The International Financial Reporting Standards (IFRS) indicate that a provision should be made to reflect the variations in estimates of the futures prices of our sales of concentrate that remain open (without final liquidation). These provisions are known as Embedded Derivatives and Adjustments to Sales. They are recorded on the last day of each month as a function of the futures prices of the metals that we sell for the quotation period of each operation that remains open.

## 1.4. Financial Results

**Table 5: Financial Results**

<b>Income Statement (Millions USD)</b>	<b>Jan-Mar 2013</b>	<b>Jan-Mar 2014</b>	<b>var %</b>
<b>Sales</b>	<b>232.8</b>	<b>244.4</b>	<b>5.0</b>
Own Sales	194.8	170.9	-12.3
Thirds Sales	33.4	72.6	117.2
Adjustments	4.6	1.0	-78.8
<b>Cost of Goods Sold</b>	<b>-167.1</b>	<b>-199.6</b>	<b>19.4</b>
Own Cost of Goods Sold	-137.1	-128.1	-6.5
Thirds Cost of Goods Sold	-27.2	-69.9	156.5
Workers Participation	-2.8	-1.6	-43.8
<b>Gross Profit</b>	<b>65.7</b>	<b>44.9</b>	<b>-31.7</b>
<b>Gross Margin</b>	<b>28%</b>	<b>18%</b>	<b>-10 p.p</b>
<b>Net Profit</b>	<b>22.4</b>	<b>10.1</b>	<b>-55.1</b>
<b>Net Margin</b>	<b>10%</b>	<b>4%</b>	<b>-6 p.p</b>
<b>EBITDA</b>	<b>75.0</b>	<b>56.4</b>	<b>-24.8</b>

Source: Volcan Cia. Minera

Gross margin fell from 28% in 1Q13 to 18% in 1Q14. Similarly, net profits in 1Q14 totaled USD 10.1 million, 55.1% less than the USD 22.4 million in 1Q13, while EBITDA was USD 56.4 million, down 24.8% from USD 75.0 million in 1Q13.

Finally, it is important to mention that this negative trend in prices will be offset by higher production starting in 2Q14. As previously announced, in 1Q14 the Company completed construction of the Alpamarca plant at the new Alpamarca-Rio Pallanga Unit and the oxide plant at Cerro de Pasco. The Alpamarca plant is operating at 95% capacity since the second half of April, while the oxide plant produced its first silver bullion and is increasing its production according to the ramp-up program.

These two projects will increase the Company's annual silver production to approximately 27 million ounces. Likewise, the estimated increase in annual zinc production is between 280,000 and 300,000 FMT.

## 2. Details of Operating Results by Unit

### 2.1. Operating Results – Yauli Unit

**Table 6: Production – Yauli**

<b>Yauli Production</b>	<b>Jan-Mar 2013</b>	<b>Jan-Mar 2014</b>	<b>var %</b>
<b>Mined Tons (MT)</b>	<b>820,388</b>	<b>896,652</b>	<b>9.3</b>
<b>Treated Tons (MT)</b>	<b>894,195</b>	<b>917,479</b>	<b>2.6</b>
<b>Fines Content</b>			
Zinc (FMT)	36,410	36,673	0.7
Lead (FMT)	7,262	5,107	-29.7
Copper (FMT)	440	570	29.4
Silver (Oz)	2,670,264	2,871,560	7.5

Source: Volcan Cia. Minera

At Yauli, treated mineral increased by 2.6%, from 894,000 MT in 1Q13 to 917,000 MT in 1Q14 due to expansion of the Victoria and Andaychagua plants. Yauli's treatment capacity now stands at 10,500 tpd. Notable increases in tonnage mined came from the Ticlio mine (+30.5%) and the Carahuacra mine (+26.3%) that compensated for the reduction in third-party mineral treatment by 69.6%.

Production of silver increased by 7.5% (+201,000 ounces) because of higher tonnage treated and better head grades, while copper production rose 29.4% (+130 FMT), primarily due to improved recovery after the installation of a new lead-copper separation circuit. In contrast, lead fines production fell 29.7% (-2,155 FMT) due to a lower average grade for this metal as a result of a lower share of mineral purchased from third parties.

**Table 7: Cost of Production – Yauli**

<b>Yauli Cost of Production*</b>	<b>Jan-Mar 2013</b>	<b>Jan-Mar 2014</b>	<b>var %</b>
<b>Cost of Production (MM USD)</b>	<b>60.3</b>	<b>57.9</b>	<b>-3.9</b>
Mining Cost	37.3	35.1	-5.9
Treatment Cost	23.0	22.8	-0.7
<b>Unit Cost (USD/MT)</b>	<b>71.2</b>	<b>64.0</b>	<b>-10.0</b>
Mining Cost	45.5	39.1	-13.9
Treatment Cost	25.7	24.9	-3.2

Source: Volcan Cia. Minera

\* The reported cost of production does not include the cost of purchases of concentrate and mineral from third parties or extraordinary costs incurred from employee settlements.

In absolute terms, the cost of production decreased 3.9%, from USD 60.3 million in 1Q13 to USD 57.9 million in 1Q14. In unit terms, the cost of production fell 10.0% from 71.2 USD/MT in 1Q13 to 64.0 USD/MT in 1Q14. These cost reductions were the result of the initiatives mentioned previously in Section 1.2 of the report.

**Table 8: Investment in Operations – Yauli**

<b>Yauli Operative Inv. (MM USD)</b>	<b>Jan-Mar 2013</b>	<b>Jan-Mar 2014</b>	<b>var %</b>
Local Exploration and Development	11.2	9.1	-18.4
Plants and Tailings Facilities	2.6	6.3	139.8
Mine and Infrastructure	7.5	5.2	-30.5
Energy	0.5	0.6	27.9
Support and Others	0.4	0.6	65.9
<b>Total</b>	<b>22.2</b>	<b>21.9</b>	<b>-1.3</b>

Investment in operations at Yauli fell slightly, from USD 22.2 million in 1Q13 to USD 21.9 million in 1Q14. Most notably, the investment in tailings dams increased, which was offset by a reduction in investments in local exploration, mines and infrastructure.

We should mention the advance in the construction of the Roberto Letts Shaft at the Andaychagua mine, which will have a positive effect, reducing the cost of transportation of ore and increasing productivity at this mine.

For 1Q14, the net profit for the sociedad Volcan individual (Yauli) was USD 10.4 MM versus USD 11.1 MM in 1Q13.

## 2.2. Operating Results – Chungar Unit

**Table 9: Production – Chungar**

<b>Chungar Production</b>	<b>Jan-Mar 2013</b>	<b>Jan-Mar 2014</b>	<b>var %</b>
<b>Mined Tons (MT)</b>	<b>444,776</b>	<b>469,008</b>	<b>5.4</b>
<b>Treated Tons (MT)</b>	<b>393,873</b>	<b>481,663</b>	<b>22.3</b>
<b>Fines Content</b>			
Zinc (FMT)	21,560	25,016	16.0
Lead (FMT)	6,794	6,750	-0.6
Copper (FMT)	269	303	12.5
Silver (Oz)	1,581,490	1,418,804	-10.3

Source: Volcan Cia. Minera



Treated mineral at the Chungar Unit increased by 22.3%, from 394,000 MT in 1Q13 to 482,000 tons in 1Q14, as a consequence of the expansion of treatment capacity at the Animon plant from 4,200 tpd to 5,200 tpd. The plant began operating at 100% capacity in the second quarter of 2013. Both Animon and Islay mines increased their contributions by 21.1% and 27.7%, respectively.

Production of zinc and copper fines grew 16.0% (+3,000 FMT) and 12.5% (+34 FMT), respectively, due to greater tonnage even though grades were lower. Silver production fell by 10.3% (-163,000 ounces) largely due to the lower grade, despite the increased tonnage treated.

**Table 10: Cost of Production – Chungar**

<b>Chungar</b>	<b>Jan-Mar</b>	<b>Jan-Mar</b>	
<b>Cost of Production*</b>	<b>2013</b>	<b>2014</b>	<b>var %</b>
<b>Cost of Production (MM USD)</b>	<b>27.2</b>	<b>27.1</b>	<b>-0.4</b>
Mining Cost	18.7	18.0	-3.5
Treatment Cost	8.6	9.1	6.4
<b>Unit Cost (USD/MT)</b>	<b>63.7</b>	<b>57.3</b>	<b>-10.0</b>
Mining Cost	41.9	38.4	-8.5
Treatment Cost	21.7	18.9	-13.0

Source: Volcan Cia. Minera

The cost of production in absolute terms fell 0.4% from USD 27.2 million in 1Q13 to USD 27.1 million in 1Q14, but declined 10.0% in unit terms from 63.7 USD/MT in 1Q13 to 57.3 USD/MT in 1Q14, due to cost-reduction measures and the dilution of fixed costs resulting from higher treatment volumes.

**Table 11: Investment in Operations – Chungar**

<b>Chungar Operative Inv.</b>	<b>Jan-Mar</b>	<b>Jan-Mar</b>	
<b>(MM USD)</b>	<b>2013</b>	<b>2014</b>	<b>var %</b>
Local Exploration and Development	4.3	4.3	-1.0
Plants and Tailings Facilities	6.8	3.4	-50.7
Mine and Infrastructure	4.0	4.6	15.1
Energy	1.0	0.8	-19.8
Support and Others	1.0	0.4	-55.8
<b>Total</b>	<b>17.2</b>	<b>13.5</b>	<b>-21.2</b>

Source: Volcan Cia. Minera

Investment in operations declined from USD 17.2 million in 1Q13 to USD 13.5 million in 1Q14, primarily because of the completion of the Animon plant expansion last year.

It is important to highlight that the construction of the Jacob Timmers Shaft at the Animon Mine was completed during 1Q14 with an investment of USD 25.0 MM. The operation of this shaft will allow for a reduction in operating costs at this mine in the following months.

The 1Q14 net profit of the Empresa Administradora Chungar S.A.C. was USD 15.2 MM versus USD 18.1 MM for 1Q13.

### 2.3. Operating Results – Cerro de Pasco Unit

**Table 12: Production – Cerro de Pasco**

<b>Cerro de Pasco Production</b>	<b>Jan-Mar 2013</b>	<b>Jan-Mar 2014</b>	<b>var %</b>
<b>Mined Tons (MT)</b>	<b>35,075</b>	<b>51,475</b>	<b>46.8</b>
<b>Treated Tons (MT)</b>	<b>163,324</b>	<b>165,917</b>	<b>1.6</b>
<b>Fines Content</b>			
Zinc (FMT)	3,324	3,285	-1.2
Lead (FMT)	1,846	1,267	-31.4
Silver (Oz)	613,225	280,197	-54.3

Source: Volcan Cia. Minera

Mineral treated at the Cerro de Pasco Unit grew by 1.6%, from 163,324 MT in 1Q13 to 165,917 MT in 1Q14, with a larger share of mineral production from Cerro de Pasco itself, which increased by 48.8%) and compensated for the 96.8% reduction in production from the Vinchos mine and 15.3% reduction from the Islay mine.

The production of lead and silver fines fell 31.4% (-579 FMT) and 54.3% (-333,028 ounces), respectively, due to lower grades resulting from smaller contributions from Vinchos and Islay mines.

It is necessary to mention that production at the Vinchos Mine was halted from the beginning of January 2014 until the end of March because of issues with the Comunidad La Merced de Jarria.



**Table 13: Cerro de Pasco Cost of Production**

<b>Cerro de Pasco Cost of Production*</b>	<b>Jan-Mar 2013</b>	<b>Jan-Mar 2014</b>	<b>var %</b>
<b>Cost of Production (MM USD)</b>	<b>15.0</b>	<b>12.0</b>	<b>-20.0</b>
Mining Cost	3.3	2.3	-28.9
Treatment Cost	11.7	9.6	-17.5
<b>Unit Cost (USD/MT)</b>	<b>165.4</b>	<b>103.5</b>	<b>-37.4</b>
Mining Cost	94.0	45.5	-51.5
Treatment Cost	71.4	58.0	-18.7

Source: Volcan Cia. Minera

\* The reported cost of production does not include intercompany purchases from Vinchos and Islay mines.

Cost of production in absolute terms fell 20.0% from USD 15.0 million in 1Q13 to USD 12.0 million in 1Q14, and dropped 37.4% in unit terms, from 165.4 USD/MT in 1Q13 to 103.5 USD/MT in 1Q14, as a result of Company efforts to lower fixed costs because of declining production at Cerro de Pasco.

**Table 14: Investment in Operations – Cerro de Pasco**

<b>Cerro de Pasco Operative Inv. (MM USD)</b>	<b>Jan-Mar 2013</b>	<b>Jan-Mar 2014</b>	<b>var %</b>
Local Exploration and Development	0.4	0.1	-76.0
Plants and Tailings Facilities	0.7	0.1	-85.2
Mine and Infrastructure	0.2	0.1	-74.1
Energy	0.1	0.0	-100.0
Support and Others	0.2	0.1	-27.0
<b>Total</b>	<b>1.5</b>	<b>0.4</b>	<b>-75.4</b>

Source: Volcan Cia. Minera

Operational investments at the Cerro de Pasco Unit remained low. In 1Q13 USD 1.5 million was invested compared to USD 400,000 invested in 1Q14.

Production at our Cerro de Pasco Unit declined significantly during the last five years, producing 131,000 FMT of zinc in 2008 and 19,000 FMT in 2013. Silver production also declined from 7.4 MM ounces in 2008 to 2.9 MM ounces in 2013. In recent years, the Company made important efforts to reduce fixed costs; however, fixed costs remain elevated, mainly related to underground water-pumping systems and related water treatment. As a consequence, the Cerro de Pasco Unit realized operational losses, given current price levels (USD -14.3 MM in 1Q14). The Company has been studying alternatives to revert these losses. Plans will be defined in the coming months.

During 1Q14, net profit at the Empresa Administradora Cerro S.A.C. was USD -11.2 MM versus USD -6.6 MM in 1Q13.

**Graph 1: Evolution of Silver & Zinc Production at the Cerro de Pasco Unit**



Source: Volcan Cia. Minera

\* Includes the production of silver pyrites treated during 2011 and 2012 at a rate of 1.3 million ounces of silver per year. This production was discontinued.

## 2.4. Energy

**Cuadro 15: Volcan´s Electric Balance**

Electric Balance (MW)	Jan-Mar 2013	Jan-Mar 2014	var %
<b>Energy Consumption</b>	<b>76</b>	<b>79</b>	<b>4.5</b>
<b>Energy Production</b>	<b>42</b>	<b>42</b>	<b>0.0</b>
Chungar	22	22	0.0
Huanchor	20	20	0.0
<b>Energy Purchase</b>	<b>54</b>	<b>57</b>	<b>6.3</b>

Source: Volcan Cia. Minera

During 1Q14, total energy consumption of the Company was 143 GWh, with a maximum demand of 79 MW, as a consequence of the startup of the new operations of the silver oxides plant at Cerro de Pasco and the Alpamarca – Río Pallanga Unit. The 10 hydroelectric plants at Chungar that together have an installed capacity of 22 MW, generated 42 GWh of energy, which represented 29.4% of total company consumption. Of the 143 GWh consumed during 1Q14, the Company purchased 101 GWh from the Sistema Eléctrico Interconectado Nacional (SEIN) at an average cost of USD 81 MWh. It is noteworthy that the 20 MW Central Hidroeléctrica Huanchor, acquired in 2012, sells all of its energy to the SEIN.

Furthermore, during 1Q14 S.E. Animon began Operating at the Chungar Unit with an investment of USD 5 MM. Similarly, in April 2014, the new 50 kV transmission line, Pomacocha – San Antonio – San Cristobal, began operating at our Yauli Unit with an Investment of USD 10 MM. This new transmission line assures greater certainty of energy supplied to our largest operating unit. In addition, the 45 km 220 kV

transmission line project, Paragsha II – Francoise, is 95% complete, and the 50 kV 5 km transmission line project, Francoise – Animon, is 90% complete. The total investment for these two projects is USD 29 MM.

Finally, we should indicate that the hydroelectric plant projects Rucuy (20 MW) and Chancay (Two 30 MW plants) continue as planned. The definitive concession for Rucuy is being finalized.

### 3. Analysis of Total Investments

**Table 16: Consolidated Investment**

<b>Consolidated Investments* (MM USD)</b>	<b>Jan-Mar 2013</b>	<b>Jan-Mar 2014</b>	<b>var %</b>
<b>Mining Units</b>	<b>41.9</b>	<b>36.1</b>	<b>-13.7</b>
Local Exploration and Development	16.9	13.6	-19.4
Plants and Tailings Facilities	10.1	9.9	-2.1
Mine and Infrastructure	11.7	9.9	-15.8
Energy	1.6	1.7	4.5
Support and Others	1.6	1.1	-29.7
<b>Regional Explorations</b>	<b>2.3</b>	<b>1.1</b>	<b>-51.5</b>
<b>Growth and Others</b>	<b>31.9</b>	<b>66.7</b>	<b>108.9</b>
<b>Total</b>	<b>76.1</b>	<b>103.9</b>	<b>36.6</b>

Source: Volcan Cia. Minera

\* The total shown in this consolidated investment table does not reflect the same amount presented in the Cash Flow Statement in the quarterly financial statements, because the latter also includes other items such as advances, goodwill, municipal contracts, etc., but does not include investments in Vichaycocha.

In 1Q14, investments amounted to USD 103.9 million, 36.6% higher than the USD 76.1 million invested in 1Q13. This increase was mainly associated with investments for USD 66.7 million in the completion of silver oxide plant and Alpamarca-Río Pallanga growth projects. Investments in operations fell 13.7%, from USD 41.9 million in 1Q13 to USD 36.1 million in 1Q14, primarily explained by lower investment in local exploration and development (USD -3.3 million) and mines and infrastructure (USD -1.8 million). Regional exploration investment was reduced from USD 2.3 million in 1Q13 to USD 1.1 million in 1Q14.

## 4. Details of Financial Results

### 4.1. Income Statement

Table 17: Income Statement

Income Statement (Millions USD)	Jan-Mar 2013	Jan-Mar 2014	var %
<b>Sales</b>	<b>232.8</b>	<b>244.4</b>	<b>5.0</b>
Own Sales	194.8	170.9	-12.3
Thirds Sales	33.4	72.6	117.2
Adjustments	4.6	1.0	-78.8
<b>Cost of Goods Sold</b>	<b>-167.1</b>	<b>-199.6</b>	<b>19.4</b>
Own Cost of Goods Sold	-137.1	-128.1	-6.5
Thirds Cost of Goods Sold	-27.2	-69.9	156.5
Workers Participation	-2.8	-1.6	-43.8
<b>Gross Profit</b>	<b>65.7</b>	<b>44.9</b>	<b>-31.7</b>
<b>Gross Margin</b>	<b>28%</b>	<b>18%</b>	<b>-10 p.p</b>
Administrative Expenses	-13.5	-10.8	-20.2
Sales Expenses	-8.4	-11.8	40.0
Other Income (Expenses)	0.5	1.0	96.8
<b>Operative Profit</b>	<b>44.3</b>	<b>23.3</b>	<b>-47.3</b>
<b>Operative Margin</b>	<b>19%</b>	<b>10%</b>	<b>-9 p.p</b>
Financial Income (Expenses)	-4.7	-4.8	2.1
Royalties	-6.0	-3.8	-36.4
Income Tax	-11.1	-4.7	-58.2
<b>Net Profit</b>	<b>22.4</b>	<b>10.1</b>	<b>-55.1</b>
<b>Net Margin</b>	<b>10%</b>	<b>4%</b>	<b>-6 p.p</b>
<b>EBITDA</b>	<b>75.0</b>	<b>56.4</b>	<b>-24.8</b>

Source: Volcan Cia. Minera

In 1Q14, the Company's gross profits declined 31.7%, from USD 65.7 million in 1Q13 to USD 44.9 million. This decline is explained primarily by lower sales margins resulting from the fall in metal prices, particularly the price of silver by -32%. Also, the commercialization of third-party concentrates, which offers lower margins than the mining business, represented a larger share of overall sales. As a result, gross margin declined from 28% in 1Q13 to 18% in 1Q14.

Operating profits in 1Q14 totaled USD 23.3 million, 47.3% lower than the same quarter last year (USD 44.3 million), and this resulted in lower net profit from USD 22.4 million in 1Q13 to USD 10.1 million in 1Q14. In 1Q14, EBITDA totaled USD 56.4 million, 24.8% lower than the same quarter the year before, when EBITDA was USD 75 million.

## 4.2. Sales Analysis

**Table 18: Concentrate Sales Volume**

Concentrates Sales (thousands TMS)		Jan-Mar 2013	Jan-Mar 2014	var %
Own	Zinc	94,937	127,196	34.0
	Lead	26,779	21,745	-18.8
	Copper	4,850	3,308	-31.8
		<b>126,566</b>	<b>152,277</b>	<b>20.3</b>
Third	Zinc	6,921	46,238	568.1
	Lead	1,131	6,536	478.1
	Copper	9,771	7,572	-22.5
		<b>17,822</b>	<b>60,345</b>	<b>238.6</b>
Total	Zinc	101,858	173,434	70.3
	Lead	27,910	28,280	1.3
	Copper	14,621	10,880	-25.6
	Silver	0	28	
		<b>144,389</b>	<b>212,622</b>	<b>47.3</b>

Source: Volcan Cia. Minera

During 1Q14, sales volume of concentrates increased 47.3%, as a consequence of both sales volume of Volcan's own concentrates by 20.3% and third-party concentrates 238.6%. With respect to Volcan's own production, the Company recorded 34.0% higher sales volume for zinc concentrates and lower sales volumes for lead and copper concentrates, which declined 18.8% and 31.8%, respectively.

**Table 19: Fines Sales Volume**

Fines Sales		Jan-Mar 2013	Jan-Mar 2014	var %
Own	Zinc (thousands FMT)	51.5	69.4	34.6
	Lead (thousands FMT)	15.8	10.6	-32.8
	Copper (thousands FMT)	0.9	0.7	-13.4
	Silver (thousands Oz)	3,751	3,808	1.5
	Gold (thousands Oz)	2.3	2.2	-2.5
Third	Zinc (thousands FMT)	3.6	24.2	575.6
	Lead (thousands FMT)	0.5	5.0	816.1
	Copper (thousands FMT)	2.3	1.7	-26.7
	Silver (thousands Oz)	691	1,523	120.6
Total	Zinc (thousands FMT)	55.1	93.6	69.8
	Lead (thousands FMT)	16.3	15.5	-4.6
	Copper (thousands FMT)	3.1	2.4	-23.1
	Silver (thousands Oz)	4,442	5,332	20.0
	Gold (thousands Oz)	2.3	2.2	-2.5

Source: Volcan Cia. Minera

In terms of fines, sales volume grew by 18,000 FMT of zinc and 57,000 ounces of silver. However, the fall in metals prices had a strong impact on sales related to our own production, particularly because of the drastic 32.4% decline in the price of silver from 30.5 USD/oz. in 1Q13 to 20.6 USD/oz. in 1Q14, and in the lower price of lead, which declined 9.3%, from 2,322 USD/MT in 1Q13 to 2,106 USD/MT in 1Q14. As a result, during 1Q14 sales of Volcan's own production declined by 12.3% or USD 23.9 million compared to the same period last year.

In terms of third-party concentrate sales, the volume of zinc fines rose by 20,600 FMT, lead rose by 4,500 FMT) and silver increased by 832,000 ounces, which translates into an increase of USD 39.2 million (117.2%) in sales of this category with respect to 1T13.

**Table 20: Sales**

Sales Prices		Jan-Mar 2013	Jan-Mar 2014	var %
Zinc (USD/MT)		2,038	2,012	-1.3
Lead (USD/MT)		2,322	2,106	-9.3
Copper (USD/MT)		7,811	6,945	-11.1
Silver (USD/Oz)		30.5	20.6	-32.4
Ventas (millions USD)		Jan-Mar 2013	Jan-Mar 2014	var %
Own Fines	Zinc	71.8	94.4	31.5
	Lead	26.8	15.7	-41.6
	Copper	2.9	1.9	-34.1
	Silver	91.8	57.4	-37.4
	Gold	1.4	1.5	3.9
		<b>194.8</b>	<b>170.9</b>	<b>-12.3</b>
Thirds Fines	Zinc	4.9	33.0	566.0
	Lead	0.6	8.3	1192.0
	Copper	10.9	7.0	-35.7
	Silver	16.9	24.3	43.6
		<b>33.4</b>	<b>72.6</b>	<b>117.2</b>
Sales before adjust.	Zinc	76.7	127.3	66.0
	Lead	27.5	24.0	-12.8
	Copper	13.8	8.9	-35.4
	Silver	108.8	81.8	-24.8
	Gold	1.4	1.4	3.8
		<b>228.2</b>	<b>243.5</b>	<b>6.7</b>
Settlements of prior periods adjustment		7.7	-12.9	
Adj. open positions and embedded deriv.		-8.3	6.0	
<b>Sales before hedging</b>		<b>227.6</b>	<b>236.6</b>	<b>4.0</b>
Hedging		5.2	7.8	50.5
<b>Net Sales</b>		<b>232.8</b>	<b>244.4</b>	<b>5.0</b>

Source: Volcan Cia. Minera



Sales before adjustments increased by 6.7% on an increase in sales of third-party concentrates by +117.2%, which was partially offset by lower sales of Volcan’s own concentrates by -12.3% as a consequence of the reduction in metals prices.

In 1Q14, adjustments for settlements from previous periods of USD 12.9 million as well as for open positions and implicit derivatives of USD 6.0 million, resulted in a negative adjustment of USD 6.9 million, which represented a significant increase with respect to this same adjustment in 1Q13 of USD -0.6 million.

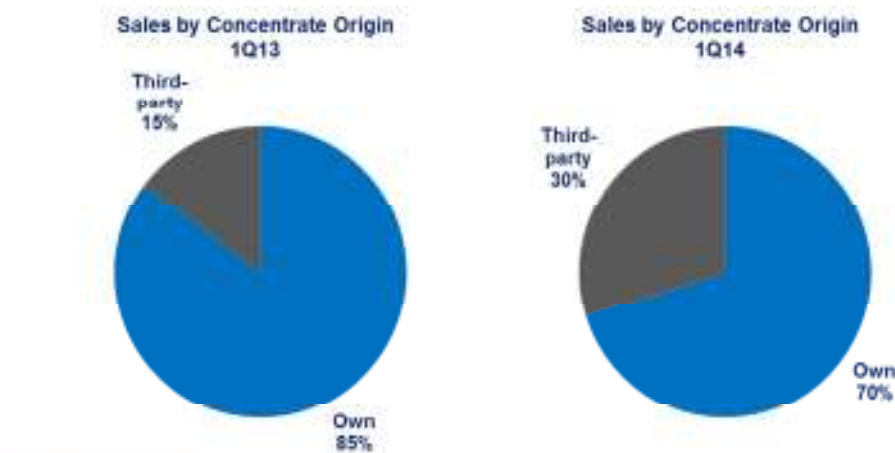
In addition, in 1Q14 the company recorded a positive result from hedging of USD 7.8 million, representing a 50.5% increment with respect to income from hedging of USD 5.2 million recorded in 1Q13. It should be noted that at present, the Company does not maintain price hedges related to its production of zinc, lead and silver. Hedging in 1Q14 was related mainly to trading operations.

Finally, considering concentrate sales, settlements from previous periods, adjustments for open positions and hedging results, in 1Q14 net sales totaled USD 244.4.

**Distribution of Total Sales by Origin, by Unit and by Metal**

The distribution of sales by origin reflects an important increase in the participation of third-party concentrates in total sales, increasing from 15% in 1Q13 to 30% in 1Q14.

**Graph 2: Sales by Origin (% of value in USD)**



Source: Volcan Cia. Minera

In the distribution by Operating Unit of Volcan’s own sales, one can observe a reduction in the contribution of Cerro de Pasco associated with the reduction in the production of silver and of lead at this unit.

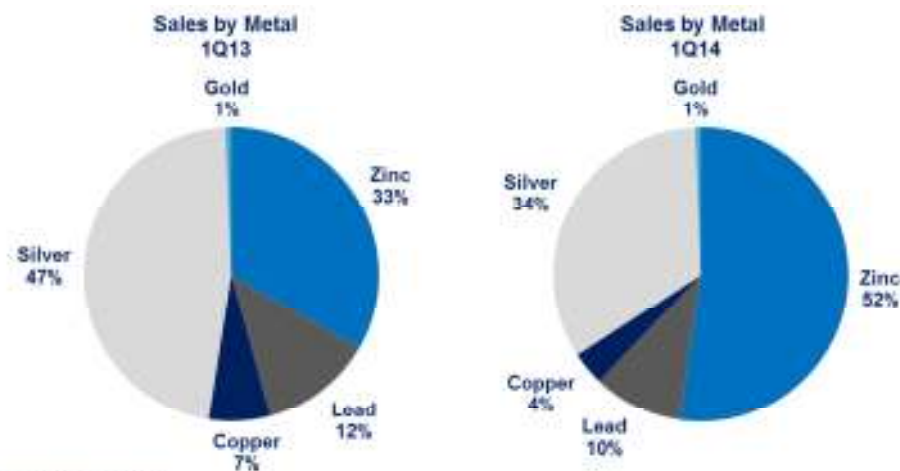
**Graph 3: Sales by Unit of Volcan Production (% of value in USD)**



Source: Volcan Cia. Minera

The distribution of sales by metal reflects a reduction in the contribution of silver and an increase in the contribution of zinc, principally due to the 32.4% fall in the price of silver.

**Graph 4: Sales by Metal (% of Value in USD)**



Source: Volcan Cia. Minera

### 4.3. Cost of Sales

**Table 21: Cost of Sales**

<b>Cost of Goods Sold (millions USD)</b>	<b>Jan-Mar 2013</b>	<b>Jan-Mar 2014</b>	<b>var %</b>
<b>Own Cost of Goods Sold</b>	<b>137.1</b>	<b>128.1</b>	<b>-6.5</b>
Own Cost of Production	104.9	97.6	-7.0
D&A of Cost of Production	28.9	31.1	7.3
Ore Purchase	11.7	2.8	-75.7
Extraordinary Costs	1.1	0.4	-65.7
Own Inventories Change	-9.6	-3.7	-60.8
<b>Thirds Cost of Goods Sold</b>	<b>27.2</b>	<b>69.9</b>	<b>156.5</b>
Concentrates Purchase	32.7	68.5	109.6
Thirds Inventories Change	-5.4	1.4	-125.0
<b>Workers Participation</b>	<b>2.8</b>	<b>1.6</b>	<b>-43.8</b>
<b>Total</b>	<b>167.1</b>	<b>199.6</b>	<b>19.4</b>

Source: Volcan Cia. Minera

The cost of sales increased 19.4% from USD 167.1 million in 1Q13 to USD 199.6 million in 1Q14 as a result of a 109.6% increase in purchases of third-party concentrates, a 7.3% increase in depreciation and amortization, and lower inventory accumulation. The cost of Volcan's own production fell 7.0%.

### 4.4. Operating Expenses

Administrative expenses declined 20.2% in 1Q14 as a result of steps taken by the Company to mitigate the impact of falling metal prices and the corresponding reduction in workers profit sharing. However, sales expenses rose 40.0% due mainly to higher transport and cargo costs for the higher sales volumes, principally from the commercialization of third-party concentrates.

### 4.5. Net Financial Expenses

Net financial expenses in 1Q14 rose to USD 4.8 million, similar to the amount recorded in 1Q13. Lower financial expenses for the greater capitalization of the oxide plant and Alparmarca-Río Pallanga projects of the interest from the bonds emitted were offset by a larger exchange rate loss caused by the 9.1% depreciation of the sol versus the U.S. Dollar.

#### 4.6. Royalties and Income Tax

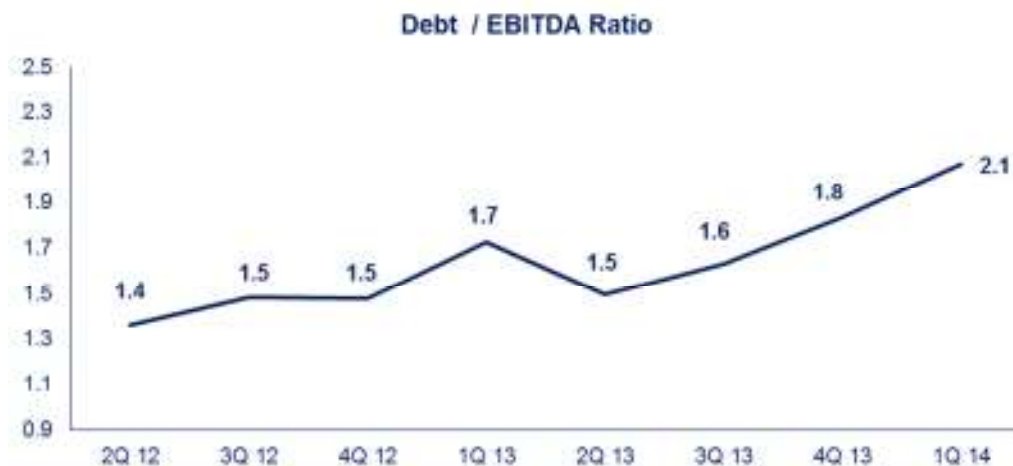
In 1Q14 royalty expenses were USD 3.8 million, 36.4% less than in 1Q13, and income tax totaled USD 4.7 million, a reduction of 58.8% with respect to 1Q13.

#### 5. Liquidity and Solvency

In 1Q14 the Company recorded negative cash flow of USD 126.9 million, due to disbursements related to investments in growth projects, mainly Alpamarca, the oxide plant, transmission lines and the Rucuy hydroelectric plant; purchases of properties, and the payment of interest on bonds. As a result, the cash balance at the close of 1Q14 was USD 55.9 million. In the coming months, the start of operations of the oxide plant and Alpamarca-Río Pallanga projects will improve the Company's cash generation.

Considering current debt levels and based on the total EBITDA for the last 12 months, Volcan's leverage ratio (financial debt / EBITDA) as of 1Q14 was 2.1.

#### Graph 5: Debt/EBITDA Ratio



Source: Volcan Cía. Minera



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## 6. Final Comments

- Since the second half of April, the Alpamarca plant at the new Alpamarca-Río Pallanga Unit is operating at 95% of its 2,000 tpd capacity. The new silver oxide plant at the Cerro de Pasco Unit began operating in April, producing its first silver bullion and is ramping up its production as planned. The investment in these two projects was more than USD 420 million, and their operation will improve the Company's results and cash generation beginning in 2Q14, contributing between 7 and 8 million ounces of silver annually. The Alpamarca-Río Pallanga Unit will also contribute additional polymetallic production estimated to be 8,000 FMT of zinc, 5,000 FMT of lead and 600 FMT of copper.
- Volcan continues to develop mining projects in the West Wall of the Raul Rojas pit of the Cerro de Pasco Unit, where there are more than 15 million tons of polymetallic reserves (Zn-Pb-Ag) and approximately 60 million tons of copper-silver pyrite resources. The evaluation of the economic feasibility of these projects is expected to be finalized in 2014.
- Volcan's large exploration portfolio within its 346,000 hectares of mining concessions supports a positive outlook for the Company's organic growth. Currently, five very interesting brownfield explorations are underway: Zoraida (Yauli), Oyama (Yauli), Carhuacayán Mine (Alpamarca), Islay (Chungar) and Rio Pallanga (Alpamarca) and two greenfield exploration projects with important potential: Palma (Lima) and Carhuacayán Pórfido (Alpamarca).
- It is important to mention the significant progress made in our program to foster a culture of safety, health and environment, through joint efforts from all areas of the Company. This progress is reflected in a favorable evolution of our accident rate<sup>3</sup> (From 2.6 in 1Q13 to 0.3 in 1Q14). In addition, the Mining Safety Institute of Peru (Instituto de Seguridad Minera, ISEM) awarded our Carahuacra Mine for being the third safest underground mine in the nation. These results are an incentive for the Company to continue moving towards its goal of zero accidents.
- In the complicated environment of metals prices that we are experiencing at this moment, the Company is committed to continue the search and implementation of opportunities for reductions in costs and secondary investments in order to improve our margins and preserve cash.
- Volcan is a diversified company producing both base and precious metals, which permits a reduction in its exposition to the variation of metals prices due to the low correlation that exists between the changes in the price of silver versus zinc and lead.

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<sup>3</sup> Index of Accidentability = Frequency Index (# of accidents per million man hours worked) x Severity Index (# of lost work days per million man hours worked)

## 7. Annexes

**Table 22: Spot Prices**

Spot Prices	Jan-Mar 2013	Jan-Mar 2014	var %
Zinc (USD/MT)	2,033	2,029	-0.2
Lead (USD/MT)	2,300	2,105	-8.5
Copper (USD/MT)	7,928	7,038	-11.2
Silver (USD/Oz)	30.1	20.5	-31.9
Gold (USD/Oz)	1,632	1,294	-20.7

Source: London Metal Exchange

**Table 23: Macroeconomic Indicators**

Macroeconomic Indicators	Jan-Mar 2013	Jan-Mar 2014	var %
Exchange Rate (S/. x USD)	2.57	2.81	9.1
Inflation	2.59	3.38	

Source: Central Reserve Bank of Peru

**Table 24: National Production of Principal Metals**

National Production	Jan - Feb 2013	Jan - Feb 2014	var %
Silver (Thousands Oz)	17,414	17,857	2.5
Zinc (FMT)	214,481	196,087	-8.6
Lead (FMT)	41,303	41,437	0.3
Copper (FMT)	186,090	224,750	20.8
Gold (Thousands Oz)	747	713	-4.5

Source: Ministry of Energy and Mines