Volcan Compañía Minera S.A.A. and Subsidiaries

Consolidated interim financial information (unaudited) as of March 31, 2014 and 2013

Volcan Compañía Minera S.A.A. and Subsidiaries

Consolidated Statement of Financial Position

As of March 31, 2014 (unaudited) and as of December 31, 2013 (audited)

Assets	Note	March 31, 2014	March 31, 2013
		US$ (000)	US$ (000)
Current Assets			
Cash and cash equivalents	4	55,943	182,864
Trade accounts receivable, net		149,190	139,907
Other accounts receivable		420,092	385,526
Other financial assets	6	77,053	82,806
Inventories, net	5	114,338	108,235
Total current assets		816,616	899,338
Non-Current Assets			
Other accounts receivable		12,367	12,212
Other financial assets	6	13,211	18,154
Investments in associates		66,957	67,517
Property, plant and equipment, net	7	1,094,545	1,030,051
Mining exploration and evaluation cost, net	8	880,399	865,060
Deferred income tax asset	9	28,643	18,914
Total non-current assets		2,096,122	2,011,908
Total assets		2,912,738	2,911,246
Liabilities and Net Stockholders' Equity			
Current Liabilities			
Overdrafts		9,691	14,024
Trade accounts payable		208,037	248,926
Other accounts payable		98,799	99,905
Other financial liabilities	6	89,163	102,206
Financial obligations		145,278	94,103
Total current liabilities		550,968	559,164
Non-Current Liabilities			
Financial obligations		613,949	612,444
Other financial liabilities	6	11,775	5,902
Deferred income tax liability	9	159,032	149,718
Provision for contingencies		13,177	13,235
Provision for closing of mining units		95,615	95,656
Total non-current liabilities		893,548	876,955
Total liabilities		1,444,516	1,436,119
Net Stockholders' Equity			
Issued capital	10	1,531,743	1,427,768
Treasury stock		(233,856)	(233,856)
Other capital reserves		118,731	110,736
Capital reserve		14,209	14,209
Unrealized gains (loss)		(7,491)	(3,074)
Retained earnings		44,886	159,344
Total net stockholders' equity		1,468,222	1,475,127
Total liabilities and net stockholders' equity, net		2,912,738	2,911,246

The accompanying notes are an integral part of this statement.

Volcan Compañía Minera S.A.A. and Subsidiaries

Consolidated Income Statement (unaudited)

	For the period from January 1 to March 31	
	2014	**2013**
	US$(000)	US$(000)
Sales, Note 11	244,442	232,762
Cost of Sales, Note 12	(199,575)	(167,107)
Gross Income	44,867	65,655
Operating income (expenses)		
Selling expenses	(11,785)	(8,417)
Administrative expenses	(10,782)	(13,514)
Other income	14,849	12,456
Other expenses	(13,808)	(11,927)
Total operating income (expenses)	(21,526)	(21,402)
Operating income	23,341	44,253
Financial income (expenses)		
Financial income	2,529	2,445
Financial expenses	(6,411)	(7,031)
Exchange difference, net	(948)	(145)
Total other income (expenses), net	(4,830)	(4,731)
Income before income tax	18,511	39,522
Income tax, Note 9(b)	(8,458)	(17,113)
Net income	10,053	22,409
Net earnings per share	0.003	0.007
Weighted average of outstanding shares (in thousands)	2,916,854	3,270,331

The accompanying notes are an integral part of this statement.

Volcan Compañía Minera S.A.A. and Subsidiaries

Consolidated Statement of Comprehensive Income (unaudited)

	For the period from January 1 to March 31	
	2014	**2013**
	US$(000)	US$(000)
Net income	10,053	22,409
Other comprehensive income (loss):		
Net change in gains (losses) unrealized on derivative instruments	(6,309)	20,075
Income Tax	1,892	(6,023)
Other comprehensive income (loss) net of income tax	(4,417)	14,052
Total comprehensive income	5,636	36,461

The accompanying notes are an integral part of this statement.

Volcan Compañía Minera S.A.A. and Subsidiaries

Statement of changes in the Net Stockholders' Equity

For the period as of January 1 and March 31, 2014 and 2013 (unaudited)

	Capital	Treasury stock	Other capital reserves	Capital reserve	Unrealized gains (loss)	Retained earnings	Total
	US$(000)	US$(000)	US$(000)	US$(000)	US$(000)	US$(000)	US$(000)
Balances as of January 1, 2013	1,282,774	(224,538)	99,233	10,800	14,322	194,352	1,376,943
Net income	-	-	-	-	-	22,409	22,409
Net change in losses unrealized on derivative instruments	-	-	-	-	14,052	-	14,052
Comprehensive income for the period	-	-	-	-	14,052	22,409	36,461
Capitalization of earnings	144,994	-	-	-	-	(144,994)	-
Distribution of dividends for fiscal year 2012	-	-	-	-	-	(40,206)	(40,206)
Increase (decrease) in treasury stock transactions	-	(82)	-	(276)	-	-	(358)
Legal reserve allocation	-	-	11,503	-	-	(11,503)	-
Capital reserve application	-	-	-	(2,091)	-	2,091	-
Conversion effect	-	-	-	-	-	33	33
Balances as of March 31, 2013	1,427,768	(224,620)	110,736	8,433	28,374	22,182	1,372,873
Balances as of January 1, 2014	1,427,768	(233,856)	110,736	14,209	(3,074)	159,344	1,475,127
Net income	-	-	-	-	-	10,053	10,053
Net change in gains unrealized on derivative instruments	-	-	-	-	(4,417)	-	(4,417)
Comprehensive income for the period	-	-	-	-	(4,417)	10,053	5,636
Capitalization of earnings	103,975	-	-	-	-	(103,975)	-
Distribution of dividends for fiscal year 2013 outstanding	-	-	-	-		(17,847)	(17,847)
Increase (decrease) in treasury stock transactions	-	-	-	-	-		-
Legal reserve allocation	-	--	7,995	-	-	(7,995)	-
Conversion effect	-	-	-	-	-	5,306	5,306
Balances as of March 31, 2014	1,531,743	(233,856)	118,731	14,209	(7,491)	44,886	1,468,222

The accompanying notes are an integral part of this statement.

Volcan Compañía Minera S.A.A. and Subsidiaries

Consolidated Cash Flows Statement (unaudited)

For the period as of January 01 and March 31, 2014 and 2013 (Note 2-C)

	06-Jul-05	05-Jul-05
	US$(000)	US$(000)
Operating activities		
Collection of sales proceeds	227,336	246,819
Payments to suppliers and third parties	(266,827)	(200,481)
Payments to workers	(34,501)	(49,666)
Income tax payments	(4,564)	(10,949)
Royalties	(3,797)	(5,973)
Other collections (payments) from operating activities	45,428	64,327
Cash flows from operating activities	(36,925)	44,077
Investing activities		
Share purchase payments	1,013	(1,300)
Disbursements for the acquisition of mining rights or the acquisition of property, plant and equipment	(82,090)	(51,167)
Disbursements for exploration and development activities	(31,998)	(22,627)
Cash flows used in investment activities	(113,075)	(75,094)
Financing activities		
Increase in financial obligations	136,373	1,434
Purchase of treasury stock	-	(358)
Loan amortization or payments	(83,693)	(3,049)
Interest payment	(16,125)	(16,125)
Dividends	(13,476)	-
Cash flows from (used in) financing activities	23,079	(18,098)
Decrease in cash and cash equivalents for the period	(126,921)	(49,115)
Cash and cash equivalents at the beginning of the period	182,864	574,855
Cash and cash equivalents at the end of the period	55,943	525,740

The accompanying notes are an integral part of this statement.

1. Identification and economic activity

(a) Identification -

Volcan Compañía Minera S.A.A. (hereinafter “the Company”, “the Parent Company” or “Volcan”) was incorporated in Perú in the city of Lima on February 1, 1998 through the merger of Volcan Compañía Minera S.A., incorporated in June 1943, and Empresa Minera Mahr Túnel S.A., a company which had been acquired by the Company under a privatization process in 1997.

The shares which make up the capital stock of the Company are listed on the Lima Stock Exchange.

The legal seat and administrative offices of the Company and its subsidiaries are located on Av. Manuel Olguín No. 375, Urbanización Los Granados, Santiago de Surco, Lima.

(b) Economic activity -

The Company is engaged, on its own behalf, in the exploration for and exploitation of mining concessions and in the extraction, concentration, treatment and marketing of polymetallic ore. Until January 2011, it ran as part of its own structure two mining units located in the departments of Pasco and Junín, in the central highlands of Perú. In February, 2011, the Cerro de Pasco Unit was spun-off under a simple reorganization process, retaining control over this subsidiary. At these locations, the company produces zinc, copper, lead and silver concentrates.

The Company’s Management administers and runs all operations of the Company’s subsidiaries and those of the latter are subsidiaries.

(c) Approval of consolidated financial statements –

The consolidated interim financial statements as of March 31, 2014 were approved by the Company's Management on April 25, 2014. The consolidated financial statements as of December 31, 2013 were approved by the Shareholders' Meeting on March 20, 2014.

(d) The consolidated financial statements include the financial statements from the following subsidiaries:

	Percentage of direct or indirect interest in the capital	
	March 31, 2014	December 31, 2013
Name of the subsidiaries:		
Empresa Administradora Chungar S.A.C	99.99	99.99
Empresa Explotadora de Vinchos Ltda. S.A.C	99.99	99.99
Empresa Minera Paragsha S.A.C.	99.99	99.99
Compañía Minera El Pilar S.A.C	100	100
Compañía Minera Alpamarca S.A.C. (*)	100	100
Shalca Compañía Minera S.A.C. (*)	100	100
Minera Aurífera Toruna S.A.C. (*)	80	80
Compañía Minera Huascarán S.A.C. (*)	100	100
Empresa Administradora de Cerro S.A.C.	99.99	99.99
Minera San Sebastián AMC S.R.L.	100	100
Compañía Energética del Centro S.A.C. (**)	100	100
Hidroeléctrica Huanchor S.A.C (***)	100	-

(*) These are, in turn, subsidiaries of Empresa Minera Paragsha S.A.C.

(**) This is, in turn, a susidiary of Empresa Administradora Chungar S.A.C.

(***) Subsidiary engaged in the energy generation, was purchased by the Company in February 2012.

(e) Issuance of bonds –

By resolution of the Company's Shareholders Meeting held on November 4, 2011, approval was provided to the issuance of bonds in the aggregate amount of US$1,100,000,000 (One Thousand One Hundred Million United States Dollars), or its equivalent in nuevos soles, to be placed at the international and/or local markets, with a first tranche in the amount of US$600,000,000 (Six Hundred Million United States Dollars), to finance mining and power projects within the next five years. Furthermore, the Board of Directors was vested, in the broadest manner permitted by applicable laws and the Company's bylaws, with all powers necessary for its determination of each and all terms, characteristics and conditions applicable to the issuance of bonds.

At the Company's Board Meeting held on January 16, 2012, it was agreed to approve an issuance of bonds under Regulation 144A and Regulation S of the U.S. Securities Act of the United States of America, in the aggregate amount of US$600,000,000 (Six Hundred Million U. S. Dollars), subject to the terms and conditions determined by the attorneys-in-fact designated by the Parent Company for such purpose, and at market conditions.

On February 2, 2012, bonds were issued and all of the so-called “Senior Notes due 2022” were placed for US$600,000,000 at the international market, at an annual rate of 5.375%, with a ten- year maturity and half-yearly installments payable from August 2, 2012 through February 2, 2022. It is worth noting that the demand for such bonds from investors interested in their acquisition reached US$4,809 million U.S. Dollars.

2. Basis of presentation, accounting principles and practices

Basis of presentation –
The consolidated interim financial statements (unaudited) for the three-month periods ended March 31, 2014 and 2013 were prepared in accordance with IAS 34 “Interim Financial Reporting”.

The consolidated interim financial statements do not include all information and disclosures required from annual consolidated financial reports and should be read together with annual consolidated financial statements for year 2013.

Accounting principles and practices –

(a) In the preparation of the attached consolidated interim financial statements, the Company has used the same accounting criteria and principles as for its consolidated annual financial statements.

The Company has not adopted in advance any standard, interpretation or modification which had been issued but not made effective as of the date of the consolidated interim financial statements.

(b) The functional and presentation currency used by the Company is the United States Dollar Transactions in foreign currency (i.e. any currency other than the functional currency) are initially translated into functional currency using the exchange rates in force on the date of the transactions. Monetary assets and liabilities expressed in foreign currency are subsequently adjusted to functional currency using the exchange rate prevailing on the date of the consolidated statement of financial position. Non-monetary assets and liabilities in foreign currency, recorded at historical costs, are translated into functional currency using the exchange rates in force on the original dates of transactions. Any gains or losses from the exchange rate differential resulting from the liquidation of such transactions and the translation of monetary assets and liabilities into foreign currency at the exchange rates prevailing as of fiscal year closing are recognized in the consolidated income statement.

The standard issued and not applicable on the Company's financial statements issue date, which is anticipated to apply to such statements, is:

- IFRS 9, Financial Instruments: Classification and measurement, applicable to annual periods beginning on January 1, 2015. It amends the treatment and classification of financial assets defined in IAS 39: Financial Instruments, Recognition and Measurement.

The Company will assess the impact, if any, of the adoption of this modification and of the new International Financial Reporting Standards (IFRS) issued but not yet effective as of the date of the separate financial statements.

(c) Cash and cash equivalents

This heading included in the Company's statement of financial position comprises all balances of cash, term deposits, mutual funds and financial assets with maturities of three or more months.

Furthermore, for purposes of their presentation in the cash flows statement, the cash, mutual funds and term deposits with original maturities of six or less months are included, and also the financial assets at fair value through profit or loss, because of their high liquidity according to the Company's Management.

3. Seasonality of operations

The Company operates on a continuous basis, with no important fluctuations due to seasonal factors.

4. Cash and cash equivalents

Herein below is the composition of this heading:

	As of March 31, 2014	As of December 31, 2013
	US$(000)	US$(000)
Cash	38	54
Fixed fund	37	28
Bank checking accounts	19,686	37,479
Term deposits (a)	35,000	77,487
Mutual funds (b)	435	437
Financial assets at fair value through profit or loss (c)	4	66,737
Funds subject to restriction	743	642
	55,943	**182,864**

(a) Herein below is the composition of term deposits as of March 31, 2014:

Date	Nominal currency	Original term	Annual interest rate	As of March 31, 2014	
			%	US$(000)	
31.03.2014	US Dollars	1 to 3 months	0.36%	35,000	(*)
				35,000	

(b) The Company has mutual funds deposited with Interbank Interfondos for S/ 136,235 and US$ 119,415; with BBVA Banco Continental for S/. 613,599, and with SURA for US$ 48,906. These funds have variable return which during 2014 have not yielded significant revenues (as a the first quarter 2013, revenues amounted to S/. 131 thousands equivalent to US$ 51 thousands)

5. Inventories

(a) The composition of this heading is presented below:

	As of March 31, 2014	As of December 31, 2013
	US$(000)	US$(000)
Concentrates:	33,353	30,299
Raw material (extracted ore)	31,396	32,022
Miscellaneous supplies	52,798	49,334
Inventories in transit	1,279	1,068
Allowance for obsolescence of spare parts and supplies (b)	(4,488)	(4,488)
	114,338	108,235

The Company's Management estimates that the balances carried under "Inventories" do not exceed their net realization values as of March 31, 2014 and as of December 31, 2013.

(b) In the opinion of the Company's Management, the allowance for obsolescence of spare parts and supplies adequately covers such risk as of March 31, 2014 and as of December 31, 2013.

6. Other financial assets (liabilities)

Herein below is the composition of receivables:

	As of March 31, 2014	As of December 31, 2013
	US$(000)	US$(000)
Total fair value of receivable hedge instruments	18,737	30,283
Embedded derivative related to sales of concentrates	7,161	5,534
Premiums	64,366	65,143
	90,264	100,960
Less: non-current portion	(13,211)	(18,154)
Current portion	77,053	82,806

Herein below is the composition of payables:

	As of March 31, 2014	As of December 31, 2013
	US$(000)	US$(000)
Total fair value of hedge derivative financial instruments	25,903	30,572
Embedded derivative related to sales of concentrates	3,635	312
Premiums	41,400	77,224
	100,938	108,108
Less: non-current portion	(11,775)	(5,902)
Current portion	89,163	102,206

The Company uses derivative instruments to reduce its exposure to market risks. Such risks are primarily related to the effects of constantly fluctuating prices for the metals traded by the Company. The Company Management's intention is to maintain derivative instruments to hedge the price fluctuations of metals.

Mineral quotations hedging transactions -
As of March 31, 2014 and as of December 31, 2013, the Company has executed price hedging operations contracts (swaps) and zero-cost collars to hedge future cash flows from its sales. Critical hedge transaction terms have been negotiated with agents so as to match those terms negotiated under the related commercial contracts.

The net fair value of the deferred income tax is shown under equity account "Unrealized loss" for US$ 7,491 thousands (US$ 3,074 thousands loss as of December 31, 2013). The net change in this account for the three-month period ended March 31, 2014 is US$ 4,417 thousands.

The change in the equity account "Unrealized gains (loss)" is presented below:

	Hedging financial derivatives	Income Tax	Unrealized gains (losses)
	US$(000)	US$(000)	US$(000)
Balances as of January 1, 2013	20,460	(3,138)	14,322
Variation of Gains (loss) from hedging transactions settled during the period	127,278	(38,183)	89,095
Variation of Gains (loss) unrealized on hedging derivative financial instruments	(152,130)	45,639	(106,491)
Total variation in hedging derivative financial instruments	(24,852)	7,456	(17,396)
Balances as of December 31, 2013	(4,392)	1,318	(3,074)
Variation of Gains (loss) from hedging transactions settled during the period	(244)	73	(171)
Variation of Gains (loss) unrealized on hedging derivative financial instruments	(6,065)	1,819	(4,246)
Total variaton in hedging derivative financial instruments	(6,309)	1,892	(4,417)
Balances as of March 31, 2014	(10,701)	3,210	(7,491)

7. Property, Plant and Equipment, net

The activity and composition of this heading are presented below:

	Balances as of January 1, 2014	Additions	Write-offs	Adjustments	Balances as of March 31, 2014
	US$ (000)	US$ (000)	US$ (000)	US$ (000)	US$ (000)
Cost					
Land	6,014	160	-	69	6,243
Buildings and other constructions	235,647	325	-	18,571	254,543
Environmental management program infrastructure	22,022	-	-	-	22,022
Machinery and equipment	308,122	7,093	(11,789)	1,919	305,345
Transportation units	13,803	-	(1,743)	-	12,060
Furniture and fixtures and IT equipment	10,469	90	-	87	10,646
Miscellaneous equipment	348,209	15,898	(69)	30,652	394,690
Units in transit	8,635	336	-	(1,889)	7,082
Works in progress	593,945	58,188	-	(49,564)	602,569
	1,546,866	**82,090**	**(13,601)**	**(155)**	**1,615,200**
Accumulated depreciation					
Buildings and other constructions	(47,076)	(3,801)	-	-	(50,877)
Environmental management program infrastructure	(21,010)	(144)	-	(2)	(21,156)
Machinery and equipment	(238,319)	(6,279)	10,658	(6)	(233,946)
Transportation units	(11,412)	(177)	1,664	2	(9,923)
Furniture and fixtures and IT equipment	(5,654)	(179)	-	(1)	(5,834)
Miscellaneous equipment	(193,344)	(5,648)	67	6	(198,919)
	(516,815)	**(16,228)**	**12,389**	**(1)**	**(520,655)**
Net cost	**1,030,051**				**1,094,545**

8. Mining exploration and evaluation costs, net

The activity and composition of this heading are presented herein below:

	Balances as of January 1, 2014	Additions	Adjustments	Balances as of March 31, 2014
	US$ (000)	US$ (000)	US$ (000)	US$ (000)
Cost				
Mining rights and concessions	303,461	-	3	303,464
Deferred exploration and development, and stripping	953,544	31,907	21	985,472
Other intangible assets	11,333	91	156	11,580
Closing of mining units	97,256	-	-	97,256
	1,365,594	**31,998**	**180**	**1,397,772**
Accumulated amortization				
Mining rights and concessions	(150,071)	(2,123)	-	(152,194)
Deferred exploration, development and stripping cos	(331,387)	(14,012)	(1)	(345,400)
Other intangible assets	(5,892)	(232)	-	(6,124)
Closing of mining units	(13,184)	(471)	-	(13,655)
	(500,534)	**(16,838)**	**(1)**	**(517,373)**
Net cost	**865,060**			**880,399**

9. Deferred Income tax

(a) The composition of this heading, according to the items originating same, is provided below:

	As of March 31, 2014	As of December 31, 2013
	US$ (000)	US$ (000)
Deferred assets with effect on gains (losses)		
Allowance for depreciation of inventories	1,346	1,346
Recoverable tax losses	10,973	1,488
Provision for the closing of mining units	3,737	3,475
Vacation payments outstanding	1,845	1,865
Provision mining royalty	3,143	3,172
Sales adjustment	-	1,993
Contingencies	3,990	3,988
Loss in fair value of financial assets (bonds)	399	253
Losses unrealized on derivative financial instruments	3,210	1,317
Loss in fair value of premiums (call)	-	17
Deferred assets	**28,643**	**18,914**
Deferred liabilities with effect on gains (losses)		
Amortization of mining rights and concessions, exploration, development and stripping costs	(147,580)	(142,284)
Unrealized gains on derivative financial instruments	(2,395)	-
Sales adjustment	(981)	-
Interest on bonds portfolio	(6,480)	(130)
Financial cost	(901)	(5,121)
Embedded derivative	(139)	(1,627)
Other minors expensives	(556)	(556)
Deferred liabilities	**(159,032)**	**(149,718)**

(b) The income tax expense carried in the income statement for the three-month period ended March 31, 2014 and 2013 is made up as follows:

	For the period from January 1 to March 31	
	2014	**2013**
	US$(000)	US$(000)
Income Tax		
Current	6,091	11,583
Deferred	(1,527)	(634)
	4,564	10,949
Tax on mining royalties	3,797	5,973
Contribution to the retirement fund	97	191
Total income tax expense	8,458	17,113

10. Net stockholders' equity

Issued capital

It is represented by 1,633,414,553 class "A" shares with right to vote and 2,443,157,622 class "B" shares with no right to vote but right to preference dividend distribution; such right is not cumulative. From the total, 166,687,652 class "A" shares and 11,224,621 class "B" shares are held by subsidiary Empresa Minera Paragsha S.A.C., and 21,497,214 class "A" shares by subsidiary Empresa Administradora Chungar S.A.C., and 9,422 class "A" shares by subsidiary Compañía Minera Alpamarca S.A.C. All common shares are fully subscribed and paid and have a face value of S/. 1.00 (Nuevos Soles) per share.

Both class "A" and class "B" common shares listed in the Lima Stock Exchange were frequently traded by the stock market. As of March 31, 2014, their quotation was S/. 1.80 and S/. 1.07 per share, respectively (S/. 2.10 and S/.1.14 per share, respectively, as of December 31, 2013). The trading frequency for class "A" shares was 5 percent, and for class "B" shares 100 percent.
The Mandatory Annual Shareholders' Meeting held on March 20, 2014 resolved to increase the share capital by S/. 336,615,526, (equivalent to approximately US$ 103,975,232) corresponding to the capitalization of the profit balance of year 2013, and the capital reserve deduction , thus increasing the share capital from S/. 3,739,956,649 to S/. 4,076,572,175, which represents the delivery of 9% in paid-up shares, both for Class "A" and Class "B" shares.

It also resolved to distribute to its shareholders dividends in cash corresponding to 2013 profit for S/. 57,780,413 (equivalent to US$ 17,847,459). Such dividends have been paid on April 22, 2014.
The Mandatory Annual Shareholders' Meeting held on March 20, 2013 approved a share capital increase by S/. 339,996,059, (equivalent to approximately US$ 144,994,174) corresponding to the capitalization of the profit balance of year 2012, thus increasing the share capital from S/. 3,399,960,590 to S/. 3,739,956,649, which represents the delivery of 10% in paid-up shares, both for Class "A" and Class "B" shares.

It also resolved to distribute to its shareholders dividends in cash corresponding to 2012 profit by S/. 105,055,297 (equivalent to US$ 40,205,771).

In meeting held on December 4, 2013, the Board of Directors, resolved the payment of dividends in cash for S/. 38,520,276 (equivalent to US$ 13,826,373), corresponding to the profit balance of year 2013. Such dividends have been cancelled on January 7, 2014.

11. Net Sales

(a) The table herein below provides a detail of net sales for the three-month and twelve-month periods ended March 31, 2014 and 2013:

	For the period from January 1 to March 31	
	06-Jul-05	05-Jul-05
	USD	USD
Net concentrate sales		
Zinc	135,322	86,617
Lead	69,194	97,978
Copper	14,739	25,595
Silver Concentrate	23,158	17,462
Fluxes	9	-
Final settlement adjustments	(11,805)	8,537
	230,617	235,891
Gain (loss) of financial instruments	7,823	5,200
Sales adjustment for the current period (b)	9,399	(1,675)
Embedded derivatives for the current period (c)	(3,397)	(6,654)
	244,442	232,762

(b) Sales adjustment

Sales of concentrates by the Company and its Subsidiaries are based on commercial contracts whereby a provisional value is assigned to sales, to be adjusted in accordance with a forward and final quotation. The sales adjustment is regarded as an embedded derivative which must be separated from the contract. Commercial contracts are related to market prices (London Metal Exchange). The embedded derivative does not qualify as a hedging instrument; accordingly, any changes in its fair value are charged to profit and loss. As of March 31, 2014 and 2013, the Company holds embedded derivatives based on forward prices with respect to the anticipated liquidation date, since, under commercial contracts, final prices are to be established over the next months. The adjustment of the provisional sales value is recorded as an adjustment of net current sales.

Sales of concentrates include adjustments to the provisional sales value resulting from changes in the embedded derivatives fair value. Such adjustments resulted in gains for US$ 9,399 thousands and loss for US$ 1,675 thousands in the three-month periods ended March 31, 2014 and 2013; respectively, and are shown as part of net sales.

(c) Embedded derivatives

As of March 31, 2014 the fair value of embedded derivatives yielded loss for US$ 3,397 thousands (loss for US$ 6,654 thousands as of March31, 2013). It is shown in net sales in consolidated income statement.

12. Cost of sales

The composition of this heading for the three-month periods ended January 1, and March 31, 2014 and 2013 is presented below:

	For the period from January 1 to March 31	
	06-Jul-05	**05-Jul-05**
	US$(000)	US$(000)
Concentrates beginning inventory	30,299	40,480
Raw materials (extracted ore) beginning inventory	30,022	31,884
Production cost:		
Labor	16,722	19,265
Rental, power and other expenses	52,652	57,278
Supplies used	26,729	28,334
Purchase of mineral	2,907	12,477
Depreciation and amortization	31,064	28,950
Exceptionals	361	955
Purchase of concentrate	69,989	32,672
Employees' profit sharing	1,579	2,789
Less - concentrates ending inventory ,	(33,353)	(55,156)
Less - raw materials (extracted ore) ending inventory	(31,396)	(32,821)
	197,575	167,107

For a correct reading of the financial statements, reclassifications have been made in note of 2013 mainly to separate mineral and concentrate buys.