Volcan Compañia Minera S.A.A. and Subsidiaries
Management Discussion and Analysis
Second Quarter 2014

Millions USD	Jan-Mar 2014	Apr-Jun 2014	Apr-Jun 2013	var %	Jan-Jun 2014	Jan-Jun 2013	var %
Sales before adjutments*	243.5	274.8	284.2	-3.3	518.2	512.4	1.1
Sales	244.4	278.9	374.1	-25.4	523.4	606.9	-13.8
EBITDA	56.4	73.5	158.4	-53.6	129.9	233.4	-44.3
Net Profit	10.1	20.4	94.0	-78.3	30.4	116.4	-73.8

* Excludes settlements of prior period adjustments, adjustments for open positions and hedging

Source: Volcan Cia. Minera

1. Executive Summary

During the most recent quarter ending 30 June, 2014, net sales for the Company totaled USD 278.9 MM, 25.4% lower than the sales figure reported in 2Q13 (USD 374.1 MM). It should be borne in mind that in 2Q13, Volcan registered income from hedging of USD 110.5 MM, including USD 83.4 MM related to an extraordinary gain on the settlement of positions. Therefore, for a better proper analysis of these results, it is useful to compare sales before adjustments and hedging for 2Q14, which totaled USD 274.8 MM, 3.3% lower than the USD 284.2 MM of sales before adjustments and hedging for 2Q13. This decline in sales is mainly explained by the 23.4% fall in the average price of silver, which fell from 25.7 USD/oz in 2Q13 to 19.7 USD/oz in 2Q14.

The impact of falling silver prices on the Company results was partially offset by the decline in the unit cost of production. The consolidated unit cost fell by 10.0%, from 70.5 USD/MT in 2Q13 to 63.5 USD/MT in 2Q14. Such decline is explained by the steps taken to improve efficiency and productivity in all operating units, as well as increased mining and treatment tonnage in Yauli and Chungar units, and the startup of Alpamarca-Rio Pallanga, the unit cost of which is lower than in the other operations.

Keeping in mind the effect of the USD 110.5 MM extraordinary gain from hedging of reported in 2Q13, it is worth noting that 2Q14 EBITDA reached USD 73.5 MM, 53.6% lower if compared to the USD 158.4 MM reported in 2Q13, yet 30.3% higher than 1Q14 EBITDA of USD 56.4 MM. Net profit for 2Q14 totaled USD 20.4 MM, 78.3% lower if compared to the USD 94.0 MM for 2Q13, yet higher than the USD 10.1 MM profit reported in 1Q14.

Observing the 2Q14 results of the individual companies within the Volcan group, it can be seen that together the Yauli and Chungar units generated USD 26.8 MM of net profit versus the USD 40.8 MM generated in 2Q13. It should be highlighted that in 2Q13, Yauli and Chungar reported a positive effect of USD 34.4 MM from hedging results. For its part, the company Cerro de Pasco generated a net loss of USD -6.2 MM, as compared to the USD 25.9 MM profit reported in the same period of the previous year. It is noteworthy that in 2Q13, sales at Cerro de Pasco included an extraordinary settlement from hedging amounting to USD 39.3 MM. Finally, the Alpamarca unit registered a USD 1.8 MM profit for 2Q14 against the USD 27.9 MM reported in 2Q13. Even though Alpamarca was not in operation had not been started up during 2Q13, the reported profit was related to the extraordinary settlement of future hedged production in the amount of USD 36.8 MM.

2Q14 was a special period in the history of Volcan, given that this quarter witnessed the startup of the new Alpamarca - Rio Pallanga unit. During the 2Q14 this unit produced 821 thousand ounces of silver with good operating results, particularly with regard to its unit cost of production and metallurgical recoveries at the concentrating plant. Currently the plant operates Alpamarca at a rate of 2,300 TPD (300 TPD above its nameplate capacity), producing approximately 300 thousand ounces of silver per month.

In addition, the testing stage at the Silver Oxide Plant project located in Cerro de Pasco began. In 2Q14 this plant produced 268 thousand ounces of silver contained in high-quality dore bars. It is likely that testing will continue in the following months of 2014 as the 2,500 TPD installed production capacity is achieved.

Other highlights during 2Q14 include the USD 31.5 MM sale of the 180 MW Belo Horizonte Hydroelectric Power Plant Project located in the Huanuco Region. The decision to sell the project was driven by our continued strategic focus on investing in mining growth projects and hydroelectric power plants near to our operations. The financial result of this transaction was a net gain of USD 7.5 MM.

In-line with the above-mentioned strategic focus, Volcan acquired the 1.25 MW Tingo Hydroelectric Power Plant and an 82 km transmission line with 22.9 kV and 50 kV lines for USD 13.5 MM. In the future, this power plant is expected to be expanded to a minimum of 8.8 MW and connected to the Alpamarca - Rio Pallanga unit.

The most significant consolidated operating and financial results are summarized as follows and further analyzed later in this report.

1.1. Production

Table 1: Consolidated Production

Consolidated Production	Apr-Jun 2014	Apr-Jun 2013	var %	Jan-Jun 2014	Jan-Jun 2013	var %
Mineral extraction (thousands MT)	**1,748**	**1,444**	**21.0**	**3,165**	**2,779**	**13.9**
Mineral treatment (thousands MT)	**1,893**	**1,600**	**18.3**	**3,458**	**3,052**	**13.3**
In Concentrator Plants	1,832	1,600	14.5	3,397	3,052	11.3
In Silver Oxides Plant*	62	0		62	0	
Fines Content						
Zinc (thousands FMT)	68.2	68.7	-0.7	133.2	130.0	2.4
Lead (thousands FMT)	15.1	17.0	-11.4	28.2	32.9	-14.3
Copper (thousands FMT)	0.9	0.7	23.0	1.8	1.4	23.0
Silver (thousands Oz)**	5,820	5,210	11.7	10,391	10,075	3.1

* Production in testing stage
** Includes Silver Oxides Plant production in testing stage
Source: Volcan Cia. Minera

During 2Q14, Volcan registered a 21.0% increase in the volumes extracted from its mines, in addition to a 14.5% increase in the volumes treated at its concentrating plants, as compared to the same period of the previous year. Such increases are primarily explained by the startup of the new Alpamarca unit and increased production in Chungar and Yauli units.

The production of silver ounces increased by 11.7% due to the greater tonnage treated in Yauli and Chungar units, increased average metallurgical recoveries, the startup of Alpamarca unit, as well as the additional production from the Silver Oxides Plant. The production of fine zinc content declined by 0.7%, given the lower production in Cerro de Pasco unit, which could not be offset entirely by the additional production from the Alpamarca unit. The production of fine lead content declined by 11.4%, again due to the lower production in Cerro de Pasco and reduced third-party high-grade lead ore treated at the Yauli unit. Finally, the production of fine copper content increased by 23.0% as a result of increased volumes treated and improved recoveries at Yauli unit, in addition to greater volumes treated at Chungar unit.

1.2. Cost of Production

Table 2: Consolidated Cost of Production

Consolidated Cost of Production*	Apr-Jun 2014	Apr-Jun 2013	var %	Jan-Jun 2014	Jan-Jun 2013	var %
Cost of Production (MM USD)	**113.2**	**106.3**	**6.5**	**210.8**	**211.2**	**-0.2**
Extraction Cost	64.3	60.7	5.9	120.4	121.8	-1.1
Treatment Cost	48.9	45.6	7.2	90.4	89.5	1.0
Unit Cost (USD/MT)	**63.5**	**70.5**	**-10.0**	**64.6**	**73.1**	**-11.6**
Extraction Cost	36.8	42.1	-12.5	38.0	43.8	-13.2
Treatment Cost	26.7	28.5	-6.3	26.6	29.3	-9.2

Source: Volcan Cia. Minera

* The production cost reported excludes third-party ore and concentrate purchase costs, as well as extraordinary costs from to severance payments.

The cost of production in absolute terms increased by 6.5%, from USD 106.3 MM in 2Q13 to USD 113.2 MM in 2Q14, which is primarily explained by the startup of the Alpamarca - Rio Pallanga unit and greater ore volumes mined and treated in Yauli and Chungar units. The consolidated unit cost declined by 10.0%, from 70.5 USD/MT in 2Q13 to 63.5 USD/MT in 2Q14, as a result of lower production costs registered in all units, which were possible through the productivity improvements and cost reduction initiatives put in place by the Company, as well as a lower average production cost of the Alpamarca - Rio Pallanga unit compared to the unit cost of the other Volcan operations.

Despite the achievement of production cost reductions, the savings achieved to date were not sufficient to completely offset the drop in silver prices. Therefore, in the months to come, the Company will continue to develop new initiatives to achieve a greater cost reduction in areas such as its energy efficiency program, the reduction of maintenance costs and the streamlining of expenses in areas of support.

1.3. Sales

Table 3: Fine Content Sales Volume

Fines Sales		Jan-Mar 2014	Apr-Jun 2014	Apr-Jun 2013	var %	Jan-Jun 2014	Jan-Jun 2013	var %
Volcan Fines	Zinc (thousands FMT)	69.4	66.6	74.5	-10.5	136.0	126.0	7.9
	Lead (thousands FMT)	10.6	16.6	18.2	-9.1	27.2	34.0	-20.1
	Copper (thousands FMT)	0.7	0.9	0.9	2.8	1.7	1.7	-5.1
	Silver (thousands Oz)	3,808	5,826	5,853	-0.5	9,634	9,604	0.3
	Gold (thousands Oz)	2.2	4.6	2.2	108.5	6.9	4.5	52.3
Third-party Fines	Zinc (thousands FMT)	24.2	28.2	8.6	227.2	52.4	12.2	329.4
	Lead (thousands FMT)	5.0	1.8	1.2	43.7	6.7	1.8	280.2
	Copper (thousands FMT)	1.7	1.5	2.0	-26.8	3.1	4.3	-26.8
	Silver (thousands Oz)	1,523	1,128	886	27.3	2,651	1,576	68.2
Total	Zinc (thousands FMT)	93.6	94.9	83.1	14.2	188.5	138.3	36.3
	Lead (thousands FMT)	15.5	18.4	19.5	-5.8	33.9	35.8	-5.2
	Copper (thousands FMT)	2.4	2.4	2.9	-17.8	4.8	6.0	-20.5
	Silver (thousands Oz)	5,332	6,954	6,739	3.2	12,286	11,181	9.9
	Gold (thousands Oz)	2.2	4.6	2.2	108.5	6.9	4.5	52.3

Source: Volcan Cia. Minera

With regard to fine content volumes during 2Q14, the sale of Volcan's own production of zinc, silver and lead decreased by 7.8 thousand MT of zinc, 27 thousand ounces of silver, and 1.6 thousand MT of lead, as compared to the same period of 2013. The reduction of accumulated inventories of all metals during 2Q13 was the driver in this case, while zinc and silver inventories increased during 2Q14 due to shipment delays at the end of June on account of reception capacity restrictions at the Port of Callao.

Third-party concentrate sales volumes increased by 19.6 thousand Fine MT of zinc, 242 thousand ounces of silver, and 0.6 thousand Fine MT of lead, respectively. It should be kept in mind that Volcan began to include third-party concentrate in its sales books four years ago, following a business strategy that enables the Company to optimize sales value from concentrate produced by Volcan and to reduce trading costs. Value optimization is generated by improving the characteristics of the concentrate sold, achieving volumes that allow for a better diversification, and obtaining improved commercial terms on account of having greater negotiation power in the market due to the higher quota of concentrate held by the Company.

Table 4: Sales in USD

Sales Prices		Jan-Mar 2014	Apr-Jun 2014	Apr-Jun 2013	var %	Jan-Jun 2014	Jan-Jun 2013	var %
Zinc (USD/MT)		2,012	2,057	1,953	5.3	2,035	1,987	2.4
Lead (USD/MT)		2,106	2,096	2,198	-4.6	2,101	2,255	-6.8
Copper (USD/MT)		6,945	6,832	7,029	-2.8	6,888	7,432	-7.3
Silver (USD/Oz)		20.6	19.7	25.7	-23.4	20.1	27.6	-27.4
Sales (millions USD)		**Jan-Mar 2014**	**Apr-Jun 2014**	**Apr-Jun 2013**	**var %**	**Jan-Jun 2014**	**Jan-Jun 2013**	**var %**
Volcan's Fines	Zinc	94.4	90.1	98.0	-8.1	184.4	169.8	8.6
	Lead	15.7	24.5	28.3	-13.4	40.2	55.2	-27.1
	Copper	1.9	3.2	1.1	195.8	5.2	4.0	28.3
	Silver	57.4	91.0	118.2	-23.0	148.4	210.0	-29.3
	Gold	1.5	3.7	1.1	231.7	5.1	2.5	104.6
		170.9	**212.5**	**246.7**	**-13.9**	**383.4**	**441.5**	**-13.2**
Third-party Fines	Zinc	33.0	38.3	11.3	239.1	71.3	16.2	338.7
	Lead	8.3	1.9	1.5	24.8	10.2	2.2	367.7
	Copper	7.0	6.5	7.2	-10.4	13.5	18.1	-25.6
	Silver	24.3	15.6	17.4	-10.5	39.9	34.3	16.2
		72.6	**62.2**	**37.5**	**66.2**	**134.8**	**70.9**	**90.3**
Sales before adjust.	Zinc	127.3	128.4	109.3	17.4	255.7	186.0	37.5
	Lead	24.0	26.5	29.9	-11.4	50.4	57.4	-12.1
	Copper	8.9	9.7	8.3	16.8	18.7	22.2	-15.8
	Silver	81.8	106.6	135.6	-21.4	188.3	244.3	-22.9
	Gold	1.4	3.7	1.1	231.2	5.1	2.5	104.3
		243.5	**274.8**	**284.2**	**-3.3**	**518.2**	**512.4**	**1.1**
Settlements of prior periods adjustment		-12.9	-7.0	-14.5	-51.7	-19.9	-6.8	190.8
Adj. open positions and embedded deriv.		6.0	6.2	-6.0		12.2	-14.4	
Sales before hedging		**236.6**	**274.0**	**263.6**	**3.9**	**510.6**	**491.2**	**4.0**
Hedging		7.8	5.0	110.5	-95.5	12.8	115.7	-89.0
Net Sales		**244.4**	**278.9**	**374.1**	**-25.4**	**523.4**	**606.9**	**-13.8**

Source: Volcan Cia. Minera

A lower sales volume of Volcan's own production added to the fall in silver prices, which declined by 23.4% from 25.7 USD/oz in 2Q13 to 19.7 USD/oz in 2Q14, were instrumental in the drop in sales of the Company's own concentrate during 2Q14 by USD 34.2 MM, 13.9% lower than the sales of its own concentrate during the same period of the previous year. In cumulative terms, the sales of Volcan's own production in 1S14 reached USD 383.4 MM, 13.2% lower than the sales figure reported in 1S13 (USD 441.5 MM).

Conversely, the increased volume of third-party concentrates sold translated into a USD 24.8 MM increase, 66.2% higher than the sales value referred to this category in 2Q14, as compared to 2Q13.

Total sales before adjustments in 2Q14 reached USD 274.8 MM, 3.3% lower than the total sales figure for 2Q13 (USD 284.2 MM).

During the period, the Company recorded negative adjustments on final settlements from previous periods totaling USD 7.0 MM, as well as positive adjustments on open positions[1] totaling USD 6.2 MM, and positive hedging results amounting to USD 5.0 MM. As a result, 2Q14 net sales totaled USD 278.9 MM, 25.4% lower as compared to the USD 374.1 MM reported in 2Q13. Such decline in net sales is mainly explained by the positive hedging results recorded in 2Q13 (USD 110.5 MM).

In cumulative terms, total sales before adjustments during 1S14 totaled USD 518.2 MM, 1.1% higher than the total sales figure reported in the same period of the previous year. For its part, net sales totaled USD 523.4 MM, 13.8% lower than the USD 606.9 MM reported in 1S13.

1.4. Financial Results

Table 5: Financial Results

Income Statement (Millions USD)	Jan-Mar 2014	Apr-Jun 2014	Apr-Jun 2013	var %	Jan-Jun 2014	Jan-Jun 2013	var %
Sales	244.4	278.9	374.1	-25.4	523.4	606.9	-13.8
Cost of Goods Sold	-199.6	-229.8	-221.0	4.0	-429.4	-388.1	10.6
Gross Profit	**44.9**	**49.1**	**153.1**	**-67.9**	**94.0**	**218.7**	**-57.0**
Gross Margin	***18%***	***18%***	***41%***	***-23 p.p***	***18%***	***36%***	***-18 p.p***
Net Profit	**10.1**	**20.4**	**94.0**	**-78.3**	**30.4**	**116.4**	**-73.8**
Net Margin	***4%***	***7%***	***25%***	***-18 p.p***	***6%***	***19%***	***-13 p.p***
EBITDA	**56.4**	**73.5**	**158.4**	**-53.6**	**129.9**	**233.4**	**-44.3**

Source: Volcan Cia. Minera

During 2Q14, net profit totaled USD 20.4 MM, 78.3% lower when compared to the USD 94.0 MM profit reported in 2Q13, primarily explained by the impact of the USD 110.5 MM extraordinary gain from hedging referenced in the 2Q13 report. Likewise, 2Q14 EBITDA totaled USD 73.5 MM, 53.6% lower than the USD 158.4 MM reported for 2Q13.

It is worth noting that during 2Q14, a USD 7.5 MM extraordinary profit was registered on account of the sale of the HP Belo Horizonte project.

In cumulative terms, 1S14 net profit amounted to USD 30.4 MM, 73.8% lower than the USD 116.4 MM reported in 1S13. This is mainly explained by the effect of the extraordinary hedging results registered in 1S13. In addition, 1S14 EBITDA reached USD 129.9 MM, a 44.3% reduction when compared to the USD 233.4 MM reported for 1S13.

[1] International Financial Reporting Standards (IFRS) establish that the Company must make provisions that reflect the estimated variations in future prices of the Company's concentrate sales transactions that remain open (without final settlement). Such provisions are known as Implicit Derivative and Sales Adjustments and are recorded on the last day of each month based on future prices of the metals sold by Volcan, for the quotation periods of each sale transaction that remains open.

2. Results by Operating Units

2.1. Yauli Unit Operating Results

Table 6: Yauli Production

Yauli Production	Apr-Jun 2014	Apr-Jun 2013	var %	Jan-Jun 2014	Jan-Jun 2013	var %
Mineral extraction (thousands MT)	**917**	**852**	**7.7**	**1,814**	**1,672**	**8.5**
Mineral treatment (thousands MT)	**949**	**925**	**2.6**	**1,867**	**1,819**	**2.6**
Fines Content						
Zinc (thousands FMT)	37.8	38.3	-1.1	74.5	74.7	-0.2
Lead (thousands FMT)	5.6	8.2	-32.1	10.7	15.5	-31.0
Copper (thousands FMT)	0.5	0.4	21.0	1.1	0.9	25.2
Silver (thousands Oz)	2,779	2,695	3.1	5,651	5,366	5.3

Source: Volcan Cia. Minera

Treated ore at the Yauli mining unit increased by 2.6%, from 925 thousand MT in 2Q13 to 949 thousand MT in 2Q14. This increase resulted from the expansion of the Andaychagua and Victoria plants, which allowed consolidated treatment capacity of the Yauli operation to reach over 10,500 TPD. Note that there was a 100.7% increase in the ore tonnage mined from the Carahuacra Norte pit. Production from the Carahuacra and Andaychagua underground mines grew by 27.3% and 14.4%, respectively. Such increases in production offset the lower treatment volumes of third-party ore at this unit (-55.3%).

The production of fine silver content grew by 3.1% (+84 thousand ounces) due to greater tonnage treated and improved recoveries. The production of copper also increased by 21.0% (+90 Fine MT), as a result of higher recoveries after the installation of a new lead-copper separation circuit at the Victoria Plant. Conversely, the production of fine lead content fell by 32.1% (-2,645 Fine MT) due to a lower average grade of this metal on account of a reduced third-party ore contribution. In addition, the production of fine zinc contents declined by 1.1% (-433 Fine MT) due to a lower head grade.

Table 7: Yauli Cost of Production

Yauli Cost of Production*	Abr-Jun 2014	Abr-Jun 2013	var %	Ene-Jun 2014	Ene-Jun 2013	var %
Cost of Production (MM USD)	**62.2**	**61.5**	**1.1**	**120.1**	**121.8**	**-1.4**
Extraction Cost	36.5	36.9	-1.1	71.6	74.2	-3.5
Treatment Cost	25.7	24.6	4.3	48.5	47.6	1.8
Unit Cost (USD/MT)	**66.8**	**69.9**	**-4.4**	**65.4**	**70.5**	**-7.2**
Extraction Cost	39.8	43.3	-8.1	39.5	44.4	-11.0
Treatment Cost	27.0	26.6	1.6	26.0	26.2	-0.8

Source: Volcan Cia. Minera

* The production cost reported excludes third-party ore and concentrate purchase costs, as well as extraordinary costs from to severance payments.

In absolute terms, the cost of production increased by 1.1%, from USD 61.5 MM in 2Q13 to USD 62.2 MM in 2Q14, but On the other hand the unit cost of production declined by 4.4%, from 69.9 USD/MT in 2Q13 to 66.8 USD/MT in 2Q14. Increased extraction and treatment tonnages, as well as productivity improvements with initiatives such as the change of mining methods account for most of the unit cost improvement.

Table 8: Yauli Operating Investments

Yauli Operating Investments (MM USD)	Apr-Jun 2014	Apr-Jun 2013	var %	Jan-Jun 2014	Jan-Jun 2013	var %
Local Exploration	0.9	1.4	-36.4	2.1	3.0	-27.3
Development	10.4	10.5	-0.6	18.3	20.2	-9.3
Plants and Tailings Facilities	5.7	4.6	23.2	12.0	7.2	65.7
Mine and Infrastructure	6.1	5.2	18.0	11.3	12.6	-10.3
Energy	0.5	1.4	-65.7	1.1	1.9	-41.8
Support and Others	0.9	1.7	-43.3	1.5	2.0	-23.6
Total	**24.5**	**24.7**	**-0.8**	**46.4**	**46.9**	**-1.0**

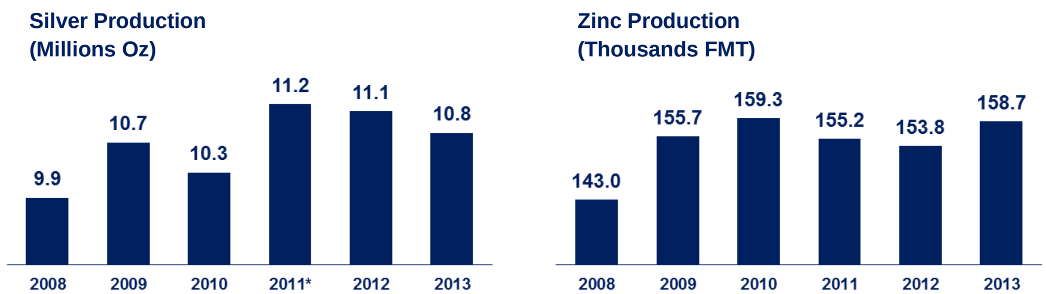
Source: Volcan Cia. Minera

Operating investments made during 2Q14 totaled USD 24.5 MM and were similar to the investment made in 2Q13. It is noteworthy the increased investment in tailings storage facilities, in the mines and in infrastructure was offset by deferred investment in local exploration, energy and support areas.

It is worth noting the progress on the construction of the Roberto Letts Shaft, located at Andaychagua unit, and the integration tunnel between Carahuacra and San Cristobal mines. Such projects will reduce transportation costs and increase productivity of both mines.

In 2Q14, the net profit of Volcan individual company (Yauli unit) reached USD 11.5 MM, as compared to the USD 10.8 MM reported in 2Q13.

Chart 1: Evolution of Fine Silver and Zinc Production Yauli Unit



Source: Volcan Cia. Minera

2.2. Chungar Unit Operating Results

Table 9: Chungar Production

Chungar Production	Apr-Jun 2014	Apr-Jun 2013	var %	Jan-Jun 2014	Jan-Jun 2013	var %
Mineral extraction (thousands MT)	**530**	**479**	**10.8**	**1,000**	**923**	**8.2**
Mineral treatment (thousands MT)	**486**	**458**	**6.1**	**968**	**852**	**13.6**
Fines Content						
Zinc (thousands FMT)	24.8	25.0	-0.8	49.9	46.6	7.0
Lead (thousands FMT)	6.5	6.5	0.5	13.3	13.3	-0.1
Copper (thousands FMT)	0.3	0.3	8.3	0.6	0.6	10.3
Silver (thousands Oz)	1,511	1,826	-17.3	2,929	3,407	-14.0

Source: Volcan Cia. Minera

The volume of ore treated at the Chungar unit grew by 6.1%, from 458 thousand MT in 2Q13 to 486 thousand MT in 2Q14. The ore treated from the Animon mine increased by 14.0%, while the ore treated coming from Islay mine declined by 14.5%.

The production of fine copper content during 2Q14 grew by 8.3% (+25 thousand Fine MT) due to increased tonnage, higher grades and improved metallurgical recoveries. Meanwhile, silver production fell by 17.3% (-315 thousand ounces) due to lower ore grades from Animon mine and lower contribution of high-grade silver ore from Islay Mine. The production of fine zinc content during 2Q14 also declined by 0.8% (-201 Fine MT) as a result of lower head grades.

Table 10: Chungar Cost of Production

Chungar Cost of Production*	Abr-Jun 2014	Abr-Jun 2013	var %	Ene-Jun 2014	Ene-Jun 2013	var %
Cost of Production (MM USD)	**27.8**	**27.8**	**0.0**	**54.9**	**55.0**	**-0.2**
Extraction Cost	18.6	18.8	-1.3	36.8	37.5	-1.9
Treatment Cost	9.2	9.0	2.7	18.2	17.6	3.4
Unit Cost (USD/MT)	**54.0**	**58.9**	**-8.3**	**55.5**	**61.2**	**-9.2**
Extraction Cost	35.0	39.3	-10.9	36.8	40.6	-9.3
Treatment Cost	19.0	19.6	-3.2	18.8	20.6	-8.9

Source: Volcan Cia. Minera

In absolute terms, 2Q14 production cost remained similar to the cost reported in 2Q13 (USD 27.8 MM). However, the unit cost declined by 8.3%, from 58.9 USD/MT in 2Q13 to 54.0 USD/MT in 2Q14. This is explained by the fixed cost dilution due to increased treatment volumes and productivity improvements put in place in Animon and Islay mines.

Table 11: Chungar Operating Investments

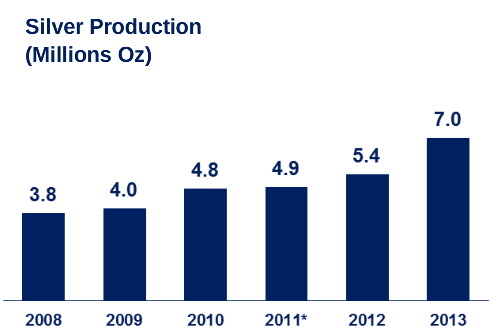
Chungar Operating Investments (MM USD)	Apr-Jun 2014	Apr-Jun 2013	var %	Jan-Jun 2014	Jan-Jun 2013	var %
Local Exploration	2.0	2.0	1.5	3.6	3.7	-2.8
Development	4.0	3.3	22.8	6.7	5.9	13.5
Plants and Tailings Facilities	7.2	7.0	2.9	10.6	13.8	-23.5
Mine and Infrastructure	2.3	5.5	-57.9	6.9	9.5	-27.0
Energy	0.7	1.4	-49.6	1.6	2.5	-36.7
Support and Others	0.8	1.4	-43.9	1.2	2.3	-47.7
Total	**17.0**	**20.6**	**-17.2**	**30.6**	**37.7**	**-19.0**

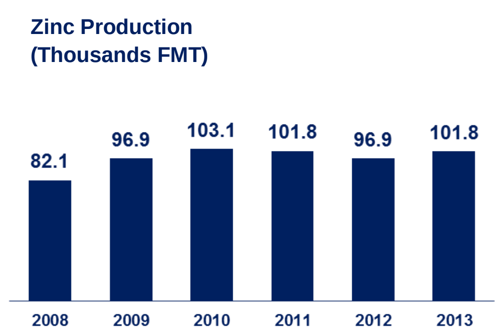
Source: Volcan Cia. Minera

Operating investment declined from USD 20.6 MM in 2Q13 to USD 17.0 MM in 2Q14, as a result of lower investments in mine and infrastructure given the completion of the Jacob Timmers Shaft during 1Q14 (Animon mine). The total investment for this project amounted to USD 25.0 MM. The operation of this shaft, as well as the construction of the integration tunnel between Animon and Islay mines will enable a further cost reduction and improve productivity at this unit in the following months.

In 2Q14, Empresa Administradora Chungar S.A.C. registered a net profit of USD 15.3 MM against the USD 30.0 MM reported in 2Q13.

Chart 2: Evolution of Fine Silver and Zinc Production Chungar Unit





Source: Volcan Cia. Minera

2.3. Cerro de Pasco Unit Operating Results

Table 12: Cerro de Pasco Production

Cerro de Pasco Production	Apr-Jun 2014	Apr-Jun 2013	var %	Jan-Jun 2014	Jan-Jun 2013	var %
Mineral extraction (thousands MT)	**59**	**75**	**-20.9**	**111**	**110**	**0.7**
Mineral treatment (thousands MT)	**213**	**217**	**-1.5**	**379**	**380**	**-0.2**
Fines Content						
Zinc (thousands FMT)	3.6	5.4	-32.5	6.9	8.7	-20.5
Lead (thousands FMT)	1.8	2.3	-23.6	3.0	4.1	-27.1
Silver (thousands Oz)	442	689	-35.9	722	1,302	-44.6

Source: Volcan Cia. Minera

The volume of ore treated at Cerro de Pasco Unit declined by 1.5%, from 217 thousand MT in 2Q13 to 213 thousand MT in 2Q14. This is explained by a lower contribution from the Paragsha underground mine, as well as Islay mine (Chungar) and Vinchos mine. This reduction was partially offset by increased ore volume from Cerro de Pasco stockpiles.

The production of fine zinc and lead content fell by 32.5% and 23.6%, respectively. The production of silver ounces fell by 35.9%. Such declines are explained by lower head grades treated at the San Expedito plant.

Table 13: Cerro de Pasco Cost of Production

Cerro de Pasco Cost of Production*	Abr-Jun 2014	Abr-Jun 2013	var %	Ene-Jun 2014	Ene-Jun 2013	var %
Cost of Production (MM USD)	**12.1**	**14.3**	**-15.9**	**24.0**	**29.3**	**-18.0**
Extraction Cost	2.8	3.1	-11.4	5.1	6.4	-20.4
Treatment Cost	9.3	11.2	-17.1	18.9	22.9	-17.3
Unit Cost (USD/MT)	**90.4**	**93.6**	**-3.5**	**96.1**	**118.7**	**-19.1**
Extraction Cost	46.8	41.8	12.0	46.2	58.5	-20.9
Treatment Cost	43.5	51.7	-15.8	49.9	60.2	-17.1

Source: Volcan Cia. Minera

* The production cost reported excludes intercompany purchases of ore from Vinchos and Islay.

In absolute terms, the production cost declined by 15.9%, from USD 14.3 MM in 2Q13 to USD 12.1 MM in 2Q14. The unit cost also declined by 3.5%, from 93.6 USD/MT in 2Q13 to 90.4 USD/MT in 2Q14, primarily due to fixed-cost reduction initiatives implemented to manage the production slowdown in Cerro de Pasco unit.

Table 14: Cerro de Pasco Operating Investments

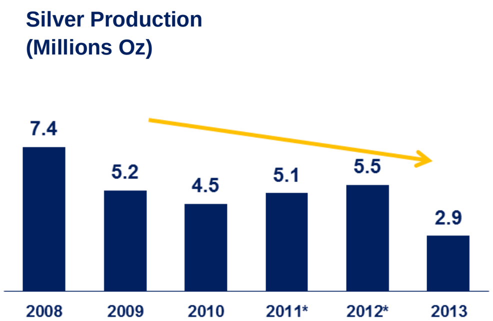
Cerro de Pasco Operating Inv. (MM USD)	Apr-Jun 2014	Apr-Jun 2013	var %	Jan-Jun 2014	Jan-Jun 2013	var %
Local Exploration	0.0	0.0	-100.0	0.0	0.1	-100.0
Development	0.0	0.3	-90.1	0.1	0.6	-81.5
Plants and Tailings Facilities	0.1	1.2	-89.7	0.2	1.9	-88.8
Mine and Infrastructure	0.1	0.0	62.7	0.1	0.3	-54.3
Energy	0.0	0.0	0.0	0.0	0.1	-100.0
Support and Others	0.1	0.6	-77.5	0.3	0.7	-62.9
Total	**0.3**	**2.1**	**-83.8**	**0.7**	**3.7**	**-80.6**

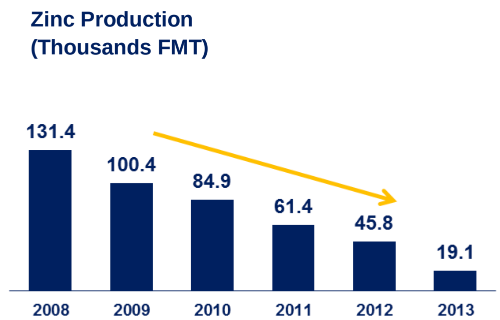
Source: Volcan Cia. Minera

Operating investments at the Cerro de Pasco unit are being maintained at a minimum level. In 2Q13, operational investment totaled USD 2.1 MM as compared to the USD 300,000 invested in 2Q14.

In 2Q14, Empresa Administradora Cerro S.A.C. reported a net profit of USD -6.2 MM as compared to the USD 25.9 MM reported in 2Q13. The 2Q13 profit includes the extraordinary gain from hedging of USD 39.3 MM.

Chart 3: Evolution de Fine Silver and Zinc Production Cerro de Pasco





Source: Volcan Cia. Minera
* Includes the pyrite treated during 2011 and 2012 to produce 1.3 million ounces of silver each year, which is currently discontinued.

2.4. Alpamarca-Rio Pallanga Unit Operating Results

Table 15: Alpamarca-Rio Pallanga Production

Alpamarca-Rio Pallanga Production	Apr-Jun 2014	Apr-Jun 2013
Mineral extraction (thousands MT)	**200**	**0**
Mineral treatment (thousands MT)	**182**	**0**
Fines Content*		
Zinc (thousands FMT)	1.9	0
Lead (thousands FMT)	1.2	0
Copper (thousands FMT)	0.1	
Silver (thousands Oz)	821	0

* Includes production of fines in the pre-operating phase
Source: Volcan Cia. Minera

Operations in Alpamarca-Rio Pallanga unit started in 2Q14. The volume treated totaled 182 thousand MT, with the Alpamarca pit contributing 121 thousand MT and the Rio Pallanga underground mine contributing 61 thousand MT.

Quarterly production reached 821 thousand ounces of silver, while zinc and lead production reached 1,878 and 1,215 Fine MT, respectively. Currently, the Alpamarca plant processes 2,300 TPD producing approximately 300 thousand ounces of silver per month.

Table 16: Alpamarca - Rio Pallanga Cost of Production

Alpamarca-Río Pallanga Cost of Production	Abr-Jun 2014	Abr-Jun 2013
Cost of Production (MM USD)	**8.6**	**0.0**
Extraction Cost	4.8	0.0
Treatment Cost	3.7	0.0
Unit Cost (USD/MT)	**44.6**	**0.0**
Extraction Cost	24.1	0.0
Treatment Cost	20.5	0.0

Source: Volcan Cia. Minera

In absolute terms, 2Q14 production cost totaled USD 8.6 MM, registering a unit cost of 44.6 USD/MT.

Table 17: Alpamarca-Rio Pallanga Operating Investments

Alpamarca-Rio Pallanga Operating Inv. (MM USD)	Apr-Jun 2014	Apr-Jun 2013
Local Exploration	0.0	0.0
Development	1.1	0.0
Plants and Tailings Facilities	0.5	0.0
Mine and Infrastructure	1.0	0.0
Energy	0.0	0.0
Support and Others	0.2	0.0
Total	**2.9**	**0.0**

Source: Volcan Cia. Minera

Operating investments at the Alpamarca - Rio Pallanga unit totaled USD 2.9 MM during 2Q14. Investment in development during the past quarter totaled USD 1.1 MM, while investments made in mine and infrastructure totaled USD 1.0 MM.

During 2Q14, Compañia Minera Alpamarca S.A.C. reported a net profit of USD 1.8 MM as compared to the USD 27.9 MM reported in 2Q13. The 2Q13 net income included the extraordinary gain from the settlement of hedges on future production at this unit amounting to USD 36.8 MM.

2.5. Results of the Testing Stage at the Oxides Plant in Cerro de Pasco

Table 18: Oxides Plant Production

Oxides Plant Production*	Apr-Jun 2014	Apr-Jun 2013
Mineral treatment (thousands MT)	**62**	**0**
Fines Content		
Silver (thousands Oz)	268	0
Gold (Oz)	34	0

* Production in testing stage
Source: Volcan Cia. Minera

The Silver Oxides Plant in Cerro de Pasco began its testing stage in 2Q14. As a result, 62 thousand MT of ore coming from stockpiles was processed and 63 dore bars containing 268 thousand ounces of silver and 34 ounces of gold were produced.

The Oxides Plant is still undergoing a number of adjustments in different parts of its process. The testing stage will continue for the following months of 2014 until reaching a production capacity of 2,500 TPD.

2.6. Energy

Table 19: Volcan's Electric Power Balance

Electric Balance (GWh)	Apr-Jun 2014	Apr-Jun 2013	var %	Jan-Jun 2014	Jan-Jun 2013	var %
Energy Consumption	**165**	**144**	**14.6**	**312**	**284**	**9.9**
Energy Production	**82**	**77**	**7.8**	**164**	**154**	**6.2**
Chungar	43	37	19.2	86	76	12.5
Huanchor	39	40	-2.5	78	78	0.0
Energy Purchase	**122**	**108**	**13.0**	**227**	**208**	**8.9**

Source: Volcan Cia. Minera

During 2Q14, Volcan's total consumption of electric power reached 165 GWh, with a maximum demand of 86 MW. This increase is explained by the increased electric power demand during the testing stage of the Silver Oxides Plant in Cerro de Pasco unit, in addition to the startup of Alpamarca – Rio Pallanga unit.

The Chungar unit has a set of 10 hydroelectric power plants with a consolidated installed capacity of 22 MW. Altogether, these power plants generated 43 GWh, which accounted for 26% of Volcan's total consumption. Out of the 165 GWh consumed during 2Q14, the Company contracted 122 GWh from the National Interconnected Electrical System (SEIN) at an average rate of 78 USD/MWh. It should be noted that the 20 MW Huanchor Hydroelectric Power Plant generated 39 GWh during 2Q14, which is supplied to large industrial customers regulated by the SEIN.

It is worth noting the startup of the 23 km 50 kV Pomacocha – San Antonio – San Cristobal transmission line at the Yauli unit, with an investment of USD 10 MM, thus creating greater reliability of electric power supply.

In addition, June 2014 witnessed the startup of the 45 km 220 kV Paragsha II – Francoise transmission line and the 5 km 50 kV Francoise – Animon transmission line, with a total estimated investment of USD 29 MM. These transmission lines supply sufficient power to the Chungar and Alpamarca units and will allow for the evacuation of electricity produced by some of Volcan's future hydroelectric projects to the SEIN.

The development of the 20 MW Rucuy Hydroelectric Power Plant continues to progress as planned. Volcan is awaiting the publication of the approved resolution for the final concession. The approximate investment for this project is USD 45 MM.

And in June 2014, Chungar and Odebrecht Energía del Peru S.A. entered into a purchase agreement for 100% of the shares of its subsidiary Compañia Energética del Centro S.A.C., which is the holder of the "Belo Horizonte Hydroelectric Power Plant" project located in Huanuco region. The amount subject-matter agreed upon amount of this transaction reached USD 31.5 MM. The financial result of this transaction was a net gain of USD 7.5 MM.

Finally, it is worth noting the purchase of the 1.25 MW Tingo Hydroelectric Power Plant, located in the Chancay River Basin, and the 82 km transmission line (consisting of both 22.9 kv and 50 kV lines) from Trevali Renewable Energy Inc. This acquisition totaled USD 13.5 MM. The transmission lines are connected to Trevali Peru S.A.C. operations and to the National Interconnected Electrical System (SEIN). Tingo Hydroelectric Power Plant will be upgraded to a minimum of 8.8 MW and will be connected, in the future, to the Alpamarca – Rio Pallanga unit. As a result, the power required by this unit will be fully supplied by Volcan.

3. Total Investments Analysis

Table 20: Consolidated Investments

Consolidated Investments* (MM USD)	Apr-Jun 2014	Apr-Jun 2013	var %	Jan-Jun 2014	Jan-Jun 2013	var %
Mining Units	**45.8**	**48.2**	**-5.0**	**82.0**	**89.4**	**-8.3**
Local Exploration	3.0	3.6	-18.9	5.9	7.1	-17.6
Development	15.7	14.2	10.3	26.4	26.9	-2.1
Plants and Tailings Facilities	14.2	12.8	11.5	24.1	23.0	4.9
Mine and Infrastructure	9.5	10.9	-12.4	19.4	22.5	-13.8
Energy	1.3	3.0	-57.1	3.0	4.8	-38.0
Support and Others	2.1	3.7	-42.6	3.3	5.1	-35.5
Regional Explorations	**1.6**	**1.9**	**-17.0**	**2.7**	**4.2**	**-36.7**
Growth and Others	**44.6**	**74.2**	**-39.9**	**111.1**	**106.8**	**4.0**
Total	**92.0**	**124.3**	**-26.0**	**195.8**	**200.4**	**-2.3**

Source: Volcan Cia. Minera

* The total indicated in this investment 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, and municipal agreements, among others, and excludes investments made in Vichaycocha.

In 2Q14, total investments amounted to USD 92.0 MM, 26.0% less than the USD 124.3 MM reported in 2Q13.

Operating investments decreased by 5.0%, from USD 48.2 MM in 2Q13 to USD 45.8 MM in 2Q14, mainly explained by reduced investments in energy initiatives throughout the mining units (USD -1.7 MM), as well as reduced investments in support areas (USD -1.6 MM) and mine and infrastructure (USD -1.4 MM). Likewise, regional exploration investment declined from USD 1.9 MM in 2Q13 to USD 1.6 MM in 2Q14.

Growth investment was reduced by 39.9%, from USD 74.2 MM in 2Q13 to USD 44.6 MM in 2Q14, primarily explained by lower investments in projects such as the Oxides Plant and the Alpamarca - Rio Pallanga unit, which was partially offset by increased investment from the Rucuy Hydroelectric Power Plant project and the 220 kV Paragsha – Francoise transmission line.

Investments made in 1S14 totaled USD 195.8 MM, 2.3% lower than the USD 200.4 MM reported in 1S13.

4. Financial Results

4.1. Income Statement

Table 21: Income Statement

Income Statement (Millions USD)	Jan-Mar 2014	Apr-Jun 2014	Apr-Jun 2013	var %	Jan-Jun 2014	Jan-Jun 2013	var %
Sales	**244.4**	**278.9**	**374.1**	**-25.4**	**523.4**	**606.9**	**-13.8**
Volcan's Sales	170.9	212.5	246.7	-13.9	383.4	441.5	-13.2
Third-party Sales	72.6	62.2	37.5	66.2	134.8	70.9	90.3
Adjustments	1.0	4.2	89.9	-95.4	5.1	94.5	-94.6
Cost of Goods Sold	**-199.6**	**-229.8**	**-221.0**	**4.0**	**-429.4**	**-388.1**	**10.6**
Volcan's Cost of Goods Sold	-128.1	-159.0	-179.1	-11.2	-287.2	-316.2	-9.2
Third-party Cost of Goods Sold	-69.9	-68.7	-37.2	84.4	-138.5	-64.5	114.8
Workers Participation	-1.6	-2.1	-4.7	-54.3	-3.7	-7.5	-50.4
Gross Profit	**44.9**	**49.1**	**153.1**	**-67.9**	**94.0**	**218.7**	**-57.0**
Gross Margin	***18%***	***18%***	***41%***	***-23 p.p***	***18%***	***36%***	***-18 p.p***
Administrative Expenses	-10.8	-15.1	-17.1	-11.2	-25.9	-30.6	-15.2
Sales Expenses	-11.8	-10.7	-11.2	-4.3	-22.5	-19.6	14.7
Other Income (Expenses)	1.0	12.8	0.8	1496.3	13.8	1.3	940.1
Operating Profit	**23.3**	**36.0**	**125.6**	**-71.3**	**59.4**	**169.9**	**-65.0**
Operating Margin	***10%***	***13%***	***34%***	***-21 p.p***	***11%***	***28%***	***-17 p.p***
Financial Income (Expenses)	-4.8	-9.2	-0.9	934.0	-14.0	-5.6	149.4
Royalties	-3.8	-3.4	-4.1	-17.3	-7.2	-10.1	-28.6
Income Tax	-4.7	-3.1	-26.7	-88.4	-7.7	-37.8	-79.5
Net Profit	**10.1**	**20.4**	**94.0**	**-78.3**	**30.4**	**116.4**	**-73.8**
Net Margin	***4%***	***7%***	***25%***	***-18 p.p***	***6%***	***19%***	***-13 p.p***
EBITDA	**56.4**	**73.5**	**158.4**	**-53.6**	**129.9**	**233.4**	**-44.3**

Source: Volcan Cia. Minera

In 2Q14, Volcan's gross profit was reduced by 67.9%, from USD 153.1 MM in 2Q13 to USD 49.1 MM in 2Q14. The primary reasons for this difference are the extraordinary gain from hedging of USD 110.5 MM included in 2Q13 sales, lower sales margins resulting from the fall in silver prices (-23.4%), and a greater share of third-party concentrate in the total sales. Third-party concentrate sales have lower margins than the margins obtained from the sale of Volcan's own concentrate. Accordingly, gross margin fell from 41% in 2Q13 to 18% in 2Q14.

The operating profit for 2Q14 reached USD 36.0 MM, 71.3% lower than the profit registered in 2Q13 (USD 125.6 MM), which includes extraordinary gain from hedging results. Net profit totaled USD 20.4 MM, 78.3% lower than the USD 94 MM reported in 2Q13, and 2Q14 EBITDA reached USD 73.5 MM, 53.6% lower than the USD 158.4 MM reported in 2Q13.

4.2. Sales Analysis

4.2.1. Sales Volume and Value

Table 22: Concentrate Sales Volume

Concentrates Sales (thousands DMT)		Jan-Mar 2014	Apr-Jun 2014	Apr-Jun 2013	var %	Jan-Jun 2014	Jan-Jun 2013	var %
Volcan	Zinc	127.2	122.7	139.4	-12.0	249.9	234.3	6.7
	Lead	21.7	30.1	31.9	-5.6	51.8	58.6	-11.6
	Copper	3.3	4.4	4.7	-6.3	7.7	9.6	-19.2
	Silver Bulk	0.0	0.0	0.7	-100.0	0.0	0.7	-95.9
		152.3	**157.2**	**176.6**	**-11.0**	**309.5**	**303.2**	**2.1**
Third-party	Zinc	46.2	53.2	16.0	233.3	99.5	22.9	334.5
	Lead	6.5	4.4	2.8	57.4	11.0	4.1	167.7
	Copper	7.6	6.8	8.6	-21.0	14.4	18.3	-21.4
		60.3	**64.5**	**27.4**	**135.3**	**124.8**	**45.3**	**175.7**
Total	Zinc	173.4	175.9	155.3	13.3	349.4	257.2	35.8
	Lead	28.3	34.5	34.6	-0.2	62.8	62.5	0.5
	Copper	10.9	11.2	13.4	-16.4	22.1	28.0	-21.2
	Silver Bulk	0.0	0.0	0.7	-100.0	0.0	0.7	-95.9
		212.6	**221.7**	**204.0**	**8.7**	**434.3**	**348.4**	**24.7**

Source: Volcan Cia. Minera

In 2Q14, the volume of concentrate sold increased by 8.7% because of an increase in the sale of third-party concentrate, which grew by 135.3%. On the other hand, the sale of Volcan's own concentrate declined by 11.0%, mainly on account of lower zinc concentrate volumes sold.

In Table 4 (Sales in USD) in Section 1.3 of this report, Volcan's total sales before adjustments in 2Q14 totaled USD 274.8 MM, 3.3% lower than 2Q13 total sales of USD 284.2 MM.

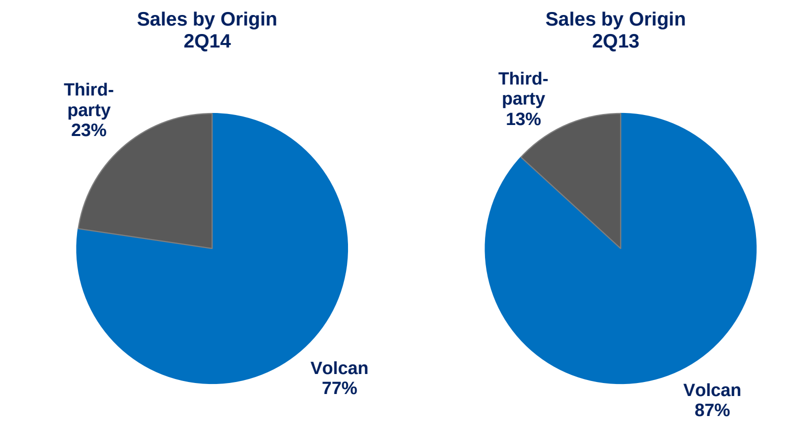
Net sales in 2Q14, after adjustments and hedging, totaled USD 278.9 MM, a 25.4% decline when compared to the USD 374.1 MM reported in 2Q13. Such a decline in the net sales figure is mainly attributable to the extraordinary hedging gain of USD 110.5 MM reported in 2Q13.

In cumulative terms, during 1S14, total sales before adjustments reached USD 518.2 MM, 1.1% higher than the total sales reported in the same period of the previous year. Meanwhile, net sales totaled USD 523.4 MM, 13.8% lower than the USD 606.9 MM reported in 1S13.

4.2.2. Distribution of Sales by Origin

The distribution of sales by origin reflects an important increase in the share of third-party concentrate in the Company's total sales, from 13% in 2Q13 to 23% in 2Q14.

Chart 2: Sales by Origin (% of sales value in USD)

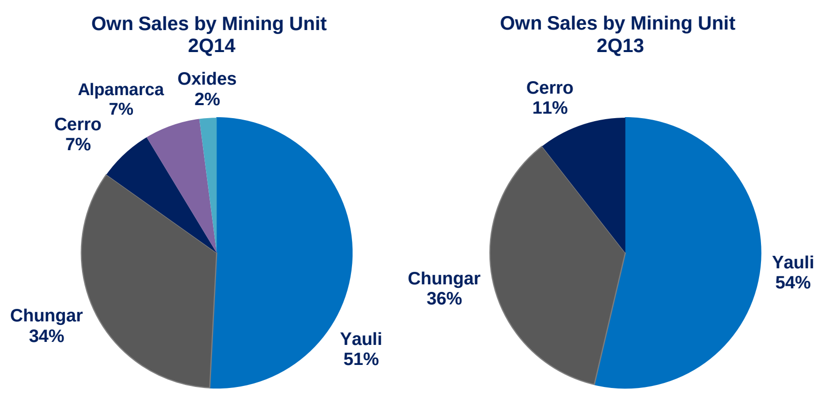


Source: Volcan Cia. Minera

4.2.3. Distribution of Sales by Mining Unit

In the distribution of Volcan's own sales by mining unit, one can observe a reduction in the participation of the Cerro de Pasco unit related to its decreasing production of lead and silver. It should be noted that the sales of Alpamarca unit accounted for 7% of Volcan's own sales during 2Q14, while the sales of silver dore during the testing stage of the Oxides plant accounted for 2% of Volcan's own sales.

Chart 3: Volcan's Own Sales by Mining Unit (% of sales value in USD)

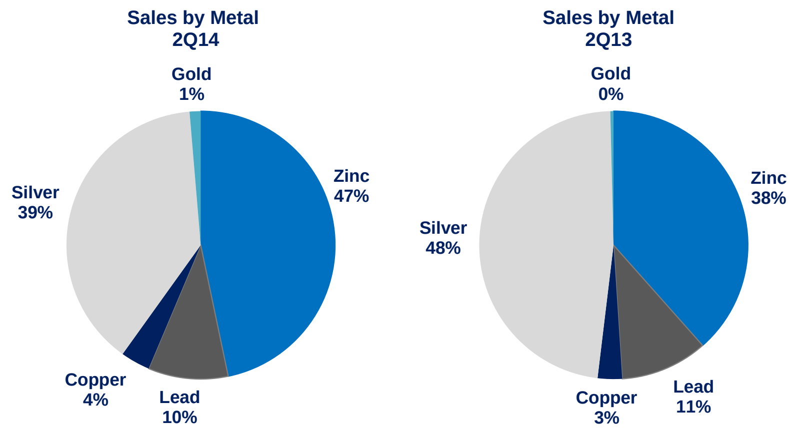


Source: Volcan Cia. Minera

4.2.4. Distribution of Sales by Metal

The distribution of sales by metal reflects a decline in the share of silver while the share of zinc increases, mainly as a result of the fall in the silver price by 23.4% and the increase of the zinc price by 5.3%.

Chart 4: Sales by Metal (% of sales value in USD)



Source: Volcan Cia. Minera

4.3. Cost of Goods Sold

Table 23: Cost of Goods Sold

Cost of Goods Sold (millions USD)	Jan-Mar 2014	Apr-Jun 2014	Apr-Jun 2013	var %	Jan-Jun 2014	Jan-Jun 2013	var %
Volcan's Cost of Goods Sold	**128.1**	**159.0**	**179.1**	**-11.2**	**287.2**	**316.2**	**-9.2**
Own Cost of Production	97.6	113.2	106.3	6.5	210.8	211.2	-0.2
D&A of Cost of Production	31.1	36.4	31.0	17.7	67.5	59.9	12.7
Ore Purchase	2.8	2.3	13.9	-83.6	5.2	26.4	-80.4
Extraordinary Costs	0.4	0.7	12.4	-94.6	1.0	13.5	-92.4
Own Inventories Change	-3.7	6.4	15.4	-58.4	2.6	5.1	-48.1
Third-party Cost of Goods Sold	**69.9**	**68.7**	**37.2**	**84.4**	**138.5**	**64.5**	**114.8**
Concentrates Purchase	68.5	65.3	37.5	74.2	133.8	70.1	90.7
Thirds Inventories Change	1.4	3.4	-0.2		4.7	-5.7	
Workers Participation	**1.6**	**2.1**	**4.7**	**-54.3**	**3.7**	**7.5**	**-50.4**
Total	**199.6**	**229.8**	**221.0**	**4.0**	**429.4**	**388.1**	**10.6**

Source: Volcan Cia. Minera

The cost of goods sold increased by 4.0%, from USD 221.0 MM in 2Q13 to USD 229.8 MM in 2Q14, as a result of the 74.2% increase in the purchase of third-party concentrate. Depreciation and amortization increased by 17.7%, and cost of Volcan´s own production in absolute terms increased by the 6.5%. Both factors increased because of greater tonnage treated and the initiation of the new Alpamarca – Rio Pallanga unit. Cost increases were partially offset by reduced purchases of third-party ore, lower extraordinary costs related to severance payments and the lower rate of reduction of Volcan's own inventories.

4.4. Operating Expenses

Administrative expenses declined by 11.2% during the second quarter, from USD 17.1 MM in 2103 to USD 15.1 MM in 2014. Sales expenses decreased by 4.3%, from USD 11.2 MM in 2Q13 to USD 10.7 MM in 2Q14, as a result of the higher proportion of concentrates shipped from units to Callao by rail, thus achieving a lower unit rate compared to trucking.

The item Other Income reflects the USD 11.7 MM gross profit resulting from the sale of the Belo Horizonte Hydroelectric Power Plant project during 2Q14, which, after taxes translates into a net profit of USD 7.5 MM.

4.5. Financial Expenses

In 2Q14, net financial expenses totaled USD 9.2 MM, a figure higher than the USD 0.9 MM reported in 2Q13. This is explained by the lower capitalization of interest because of the startup of the Alpamarca – Rio Pallanga unit, as well as losses on exchange-rate differences totaling USD 2.7 MM in 2Q14, as a result of the depreciation of the Nuevo Sol, and lower financial income related to Volcan's cash flow balances.

4.6. Royalties and Income Tax

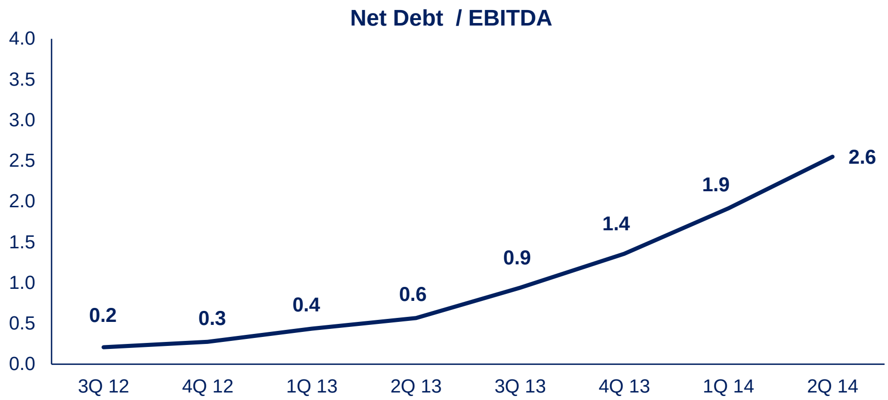
In 2Q14, royalty expenses totaled USD 3.4 MM, 17.3% lower if compared to 2Q13 as a result of the lower operating margin of the Company. Income tax amounted to USD 3.1 MM, 88.4% lower than the USD 26.7 MM reported in 2Q13.

5. Liquidity and Creditworthiness

In 2Q14, Volcan generated a USD 73.0 MM operating cash flow, while the disbursements from operating and exploration investments totaled USD 43.7 MM, resulting in a positive USD 29.3 MM operating cash flow. Growth investments, mainly at the Alpamarca unit, the Oxides plant, and energy projects accounted for a USD 35.5 MM disbursement, which resulted in a cash flow before financing of USD -6.2 MM. The net financing for the period amounted to USD 47.6 MM, thus the cash flow balance as of June 30 amounted to USD 97.3 MM.

Taking into account current debt levels and considering total EBITDA for the last 12 months, Volcan's 2Q14 leverage ratio (Net Financial Debt / EBITDA) was 2.6x.

Chart 5: Net Debt/EBITDA Ratio



Source: Volcan Cia. Minera

Final Comments

- The new Alpamarca – Rio Pallanga unit is successfully operating at full capacity since May 2014, having produced 821 thousand ounces of silver during 2T14. In a full year, the contribution of this unit to Volcan's production will be approximately 3 to 4 MM ounces of Ag, 8 to 10 thousand Fine MT of Zn, 5 to 6 thousand Fine MT of Pb, and 500 to 600 Fine MT of copper.

- The Silver Oxides Plant at the Cerro de Pasco unit is still undergoing a testing, which is expected to extend for the following months of 2014. At present, this plant produces high-quality silver dore bars, however, it is operating significantly below its nominal capacity. During 2Q14, this plant produced 268 thousand ounces of silver, but when working at its nominal capacity of 2,500 TPD, its annual production will range from 4 to 5 million ounces of silver.

- The sale of the Belo Horizonte Hydroelectric Power Plant at USD 31.5 MM resulted in a USD 7.5 MM net profit for Volcan. This transaction was motivated by the Company´s strategic focus on hydroelectric power generation investments in areas neighboring its operations in order to become self-sufficient in energy in the medium term.

- The purchase of the Tingo Hydroelectric Power Plant is aligned with the above-stated strategy. The expansion of this plant by a minimum of 8.8 MW, together with the development of the 20 MW Rucuy plant, currently underway, and the construction of the 30 MW Chancay 2 plant, will increase Volcan's total power generation capacity to more than 100 MW.

- Volcan's commitment to improve its margins will continue, whether through increasing its production or reducing operating costs. As proof of this commitment, the Company launched energy efficiency programs, a maintenance cost reduction program and a program o streamline overhead costs across the organization.

- Despite the expected recovery of base metal prices, the price of silver seems like it will not follow this trend. Therefore, it continues to be important essential for Volcan to continue to diversify its production of base and precious metals, thus mitigating exposure to price variations of the different metals included in its portfolio.

- It is important to mention that, thanks to the efforts of all areas of the Company, the development of the program *Cambio de Cultura en Seguridad, Salud y Medio Ambiente* (Safety, Health and Environmental Cultural Change) continues with good results as reflected in the evolution of the safety performance indicators presented below:

Chart 6: Frequency Index[2]

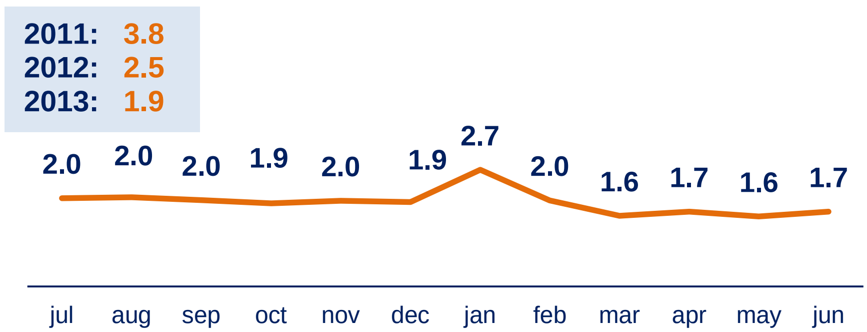


Chart 7: Severity Index[3]

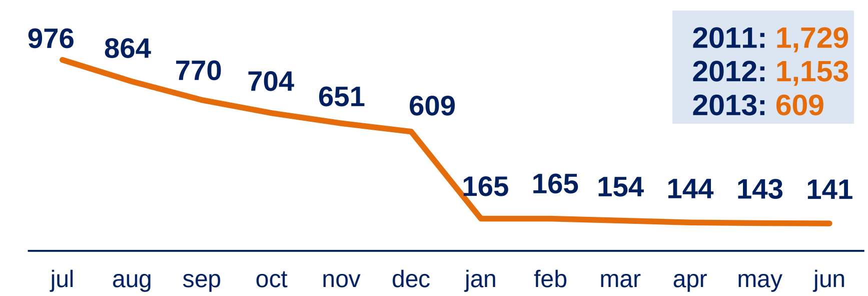
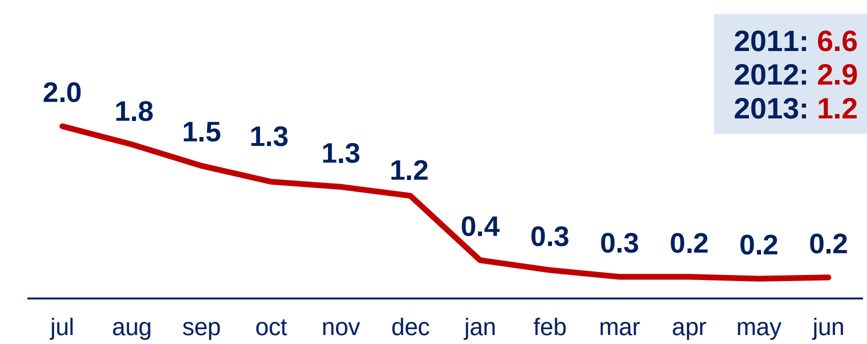


Chart 8: Accident Index[4]



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[2] Indicates the number of accidents occurred per 1,000,000 man-hours worked.
[3] Indicates the number of workdays lost as a result of an accident per 1,000,000 man-hours worked.
[4] The Accident Index is calculated as follows: Frequency Index * Severity Index / 1000

Annexes

Table 24: Spot Prices

Spot Prices	Apr-Jun 2014	Apr-Jun 2013	var %	Jan-Jun 2014	Jan-Jun 2013	var %
Zinc (USD/MT)	2,073	1,840	12.6	2,051	1,937	5.9
Lead (USD/MT)	2,095	2,054	2.0	2,100	2,177	-3.5
Copper (USD/MT)	6,787	7,146	-5.0	6,913	7,537	-8.3
Silver (USD/Oz)	19.6	23.1	-15.1	20.1	26.6	-24.6
Gold (USD/Oz)	1,289	1,414	-8.8	1,291	1,523	-15.2

Source: London Metal Exchange

Table 25: Macroeconomic Indicators

Macroeconomic Indicators	Apr-Jun 2014	Apr-Jun 2013	var %	Jan-Jun 2014	Jan-Jun 2013	var %
Exchange Rate (S/. x USD)	2.79	2.66	4.8	2.80	2.62	6.9
Inflation	3.45	2.77		3.45	2.77	

Source: Central Reserve Bank of Peru

Table 26: Main Metals National Production

National Production	Jan - May 2014	Jan - May 2013	var %
Silver (Thousands Oz)	47,322	46,052	2.8
Zinc (FMT)	500,230	568,446	-12.0
Lead (FMT)	106,291	105,931	0.3
Copper (FMT)	547,744	502,252	9.1
Gold (Thousands Oz)	1,746	2,064	-15.4

Source: Ministry of Energy and Mines