

## Volcan Compañía Minera S.A.A. and Subsidiaries Management Discussion and Analysis First Quarter 2015

### Principal Results:

Consolidated Volcan	Jan-Mar 2015	Jan-Mar 2014	var %
<b>Operating Results</b>			
Mineral treatment <sup>1</sup> (thousand MT)	1,863	1,565	19.1
Zinc Production (thousand FMT)	67.3	65.0	3.5
Lead Production (thousand FMT)	14.3	13.1	8.6
Copper Production (thousand FMT)	1.1	0.9	20.4
Silver Production (million Oz)	5.9	4.6	29.6
Unit Cost (USD/MT)	56.8	66.1	-14.1
Total Investments (MM USD)	42.5	103.8	-59.1
<b>Financial Results</b>			
Sales before adjustments <sup>2</sup> (MM USD)	212.7	243.5	-12.6
Net sales (MM USD)	203.5	244.4	-16.7
EBITDA (MM USD)	63.9	56.4	13.3
Net profit (MM USD)	12.9	10.1	28.4

<sup>1</sup> Includes Oxides and Alparmarca treatment

<sup>2</sup> Adjustments: i) settlement of prior period adjustments, ii) adjustments for open positions (embedded derivative and sales adjustments), iii) hedging results

Source: Volcan Cia. Minera

## 1. Executive Summary

- During 1Q15, the volume of ore treated by Volcan grew by 19.1%, as compared to the same period of the previous year. This is explained by the operation of Alparmarca Unit, the contribution from the Oxides Plant, and the increased production in Yauli Unit
- The increase in ore extraction and treatment volumes is the main explanation for the rise in production of all metals across the Company. The production of silver ounces grew by 29.6%, while the production of fine zinc, lead and copper contents grew by 3.5%, 8.6%, and 20.4%, respectively
- The consolidated unit cost declined by 14.1%, from 66.1 USD/MT in 1Q14 to 56.8 USD/MT in 1Q15. This important reduction is the result of the Company's sustained efforts to lower costs and improve efficiencies in a low-price environment for metals. As noted in previous reports, these efforts include the review of the number and scope of specialized companies, the renegotiation of prices for supplies, energy efficiency programs, downsizing of personnel, and the streamlining of administrative

expenses at the operating units. Other contributing factors to the reduction of unit costs include increasing tonnage of treated ore, which dilutes the Company's fixed costs, and the operation of the Alparmarca Unit, which has the lowest unit production cost in the Company

- Furthermore, the 8.9% devaluation of the Nuevo Sol against the US Dollar also contributed to the reduction of the consolidated unit cost. During 1Q14, the average rate was 2.81 PEN/USD compared with an average rate of 3.06 PEN/USD in 1Q15
- Austerity measures across all areas of the Company resulted in reducing operating investments by 22.2%, from USD 36.1 MM in 1Q14 to USD 28.1 MM in 1Q15. Likewise, total investment fell by 59.1%, from USD 103.8 MM to USD 42.5 MM, mainly due to the completion of investments related to the construction of the Alparmarca Unit and the Oxides Plant at the Cerro de Pasco Unit
- Sales before adjustments declined by 12.6%, from USD 243.5 MM in 1Q14 to USD 212.7 MM in 1Q15. This is mainly attributable to the 18.8% decline in the average silver price, from 20.5 USD/Oz in 1Q14 to 16.7 USD/Oz in 1Q15; and the 13.1% decline in the lead price, from 2,106 USD/MT in 1Q14 to 1,831 USD/MT in 1Q15; in addition to the 65.6% reduction in sales volume of third-party concentrate
- The Company's gross margin increased from 18% in 1Q14 to 19% in 1Q15 in spite of lower silver and lead prices; a 32.8% increase in depreciation, from USD 31.1 MM in 1Q14 to USD 41.3 MM in 1Q15; and a negative sales adjustment of USD 9.2 MM in 1Q15, compared to the positive adjustment of USD 1.0 MM in 1Q14. The margin increase is mainly explained by the decline in the unit production cost; the replacement of purchased third-party ore with the Company's own higher margin ore at the Yauli Unit; and the 4.2% increase in the price of zinc, from 2,012 USD/MT in 1Q14 to 2,097 USD/MT in 1Q15
- Net profit increased from USD 10.1 MM in 1Q14 to USD 12.9 MM in 1Q15. EBITDA increased from USD 56.4 MM in 1Q14 to USD 63.9 MM in 1Q15
- In 1Q15, subsidiaries Hidroeléctrica Huanchor S.A.C., Compañía Hidroeléctrica Tingo S.A., and Empresa de Generación Eléctrica Río Baños S.A.C. form the energy division of Volcan for reporting purposes. It is important to note to that the 10 hydroelectric power plants currently connected to and supplying the Chungar Mining Unit with 22 MW of installed capacity will remain part of this mining unit
- Progress in the construction of the 20 MW Rucuy Hydroelectric Power Plant is at 60%. The plant is expected to be completed during 1Q16, with a total investment of USD 45 MM

## 2. Analysis of Results

### 2.1 Consolidated Results

#### 2.1.1 Production

**Table 1: Consolidated Production**

Consolidated Production	Jan-Mar 2015	Jan-Mar 2014	var %
<b>Mineral extraction (thousand MT)</b>	<b>1,767</b>	<b>1,418</b>	<b>24.6</b>
<b>Mineral treatment (thousand MT)</b>	<b>1,863</b>	<b>1,565</b>	<b>19.1</b>
Concentrator Plants	1,767	1,565	12.9
Silver Oxides Plant	97	0	
<b>Fines Content</b>			
Zinc (thousand FMT)	67.3	65.0	3.5
Lead (thousand FMT)	14.3	13.1	8.6
Copper (thousand FMT)	1.1	0.9	20.4
Silver (million Oz)	5.9	4.6	29.6

Source: Volcan Cia. Minera

During 1Q15, the Company's extraction volumes increased by 24.6%, while treatment volumes at its plants increased by 19.1%, as compared to the same period of the previous year. This is primarily attributable to the operation of the Alpamarca Unit; the contribution from the Oxides Plant at the Cerro de Pasco Unit; and the increased production from Yauli, resulting from an increase in mine development and preparation works completed at this unit during 2014.

As a result of the increase in extraction and treatment volumes, the production of all metals increased during 1Q15. While the production of silver ounces grew by 29.6%, from 4.6 MM ounces in 1Q14 to 5.9 MM ounces in 1Q15; the production of fine zinc, lead, and copper contents also grew by 3.5%, 8.6%, and 20.4%, respectively.

This increase in production occurred despite the reduced production at the Chungar Unit, which is due to a temporary decline in extraction grades, as well as reduced volumes of fine contents from the Cerro de Pasco Unit. The latter is mainly attributed to the stoppage of the Vinchos mine and the reduction in treated volumes of marginal stockpiles from the open pit.

#### 2.1.2 Production Cost

**Table 2: Consolidated Production Cost**

Consolidated Production Cost*	Jan-Mar 2015	Jan-Mar 2014	var %
<b>Production Cost (MM USD)</b>	<b>100.3</b>	<b>97.6</b>	<b>2.8</b>
Extraction Cost	59.3	56.1	5.7
Treatment Cost	41.1	41.5	-1.1
<b>Unit Cost (USD/MT)</b>	<b>56.8</b>	<b>66.1</b>	<b>-14.1</b>
Extraction Cost	33.5	39.5	-15.2
Treatment Cost	23.2	26.5	-12.4

\* The production cost excludes: i) the cost of the Oxides Plant during its operational adjustment stage, ii) third-party ore and concentrate purchase costs, iii) extraordinary costs referred to severance payments

Source: Volcan Cia. Minera

Consolidated unit cost decreased by 14.1%, from 66.1 USD/MT in 1Q14 to 56.8 USD/MT in 1Q15, as a result of the Company's efforts to lower costs and to improve efficiencies during the current low-price environment for metals. A 14.0% reduction in the unit production cost was achieved at the Chungar Unit, and a 7.2% reduction was achieved at the Yauli Unit. The startup of the Alpamarca Unit, which is the lowest-cost unit of the Company, and the devaluation of the Nuevo Sol versus the US Dollar by 8.9% also contributed to achieving a lower consolidated unit cost.

The reduction in unit cost restrained the increase in absolute cost to 2.8%, from USD 97.6 MM in 1Q14 to USD 100.3 MM in 1Q15, in spite of the significant increase in production volume.

It is important to state that the Company remains focused on the control and reduction of its costs. Continuous improvement programs are in place across all operating units, fostering the generation of new initiatives to improve efficiency and lower costs.

### 2.1.3 Total Investments

**Table 3: Consolidated Investment**

Consolidated Investment (MM USD)	Jan-Mar 2015	Jan-Mar 2014	var %
<b>Mining</b>	<b>36.1</b>	<b>102.6</b>	<b>-64.8</b>
<b>Mining Units</b>	<b>28.1</b>	<b>36.1</b>	<b>-22.2</b>
Local Exploration	3.1	2.9	6.1
Development	13.5	10.7	26.5
Plants and Tailings Facilities	3.2	9.8	-67.4
Mine and Infrastructure	7.0	9.9	-28.6
Energy in Units	0.6	1.7	-67.1
Support and Others	0.6	1.1	-43.5
<b>Regional Explorations</b>	<b>0.6</b>	<b>1.1</b>	<b>-45.5</b>
<b>Growth and Others</b>	<b>7.4</b>	<b>65.5</b>	<b>-88.6</b>
<b>Energy</b>	<b>6.4</b>	<b>1.1</b>	<b>461.2</b>
<b>Total</b>	<b>42.5</b>	<b>103.8</b>	<b>-59.1</b>

Source: Volcan Cia. Minera

The rationalization of the Company's investments are reflected in the 59.1% reduction in total investments, which declined from USD 103.8 MM in 1Q14 to USD 42.5 MM in 1Q15

Operating investments across the mining units fell by 22.2%, from USD 36.1 MM in 1Q14 to USD 28.1 MM in 1Q15. This decline is primarily due to lower investments in plants and tailing management facilities by USD 6.6 MM, a reduction in mine and infrastructure investments by USD 2.9 MM, and reduced power infrastructure investments at the operating units by USD 1.1 MM. Conversely, investments in mine development increased by USD 2.8 MM.

Regional exploration investments (*greenfield or early-stage projects*) decreased from USD 1.1 MM in 1Q14 to USD 0.6 MM in 1Q15, while growth investments in the mining business fell by 88.6%, from USD 65.5 MM in 1Q14 to USD 7.4 MM in 1Q15. This

reduction is explained by lower investments related to the Oxides Plant project and the completion of the new Alpamarca Unit.

Furthermore, energy investments during 1Q15 totaled USD 6.4 MM, mainly explained by the construction of the Rucuy Hydroelectric Plant, which is 60% completed as of March 2015.

## 2.1.4 Income Statement

**Table 4: Average Realized Sales Prices**

Sales Prices	Jan-Mar 2015	Jan-Mar 2014	var %
Zinc (USD/MT)	2,097	2,012	4.2
Lead (USD/MT)	1,831	2,106	-13.1
Copper (USD/MT)	5,795	6,945	-16.5
Silver (USD/Oz)	16.7	20.5	-18.8
Gold (USD/Oz)	1,219	1,359	-10.3

Source: Volcan Cia. Minera

**Table 5: Income Statement**

Income Statement (MM USD)	Volcan Production			Commercialization Business			Consolidated		
	Jan-Mar 2015	Jan-Mar 2014	var %	Jan-Mar 2015	Jan-Mar 2014	var %	Jan-Mar 2015	Jan-Mar 2014	var %
<b>Sales</b>	<b>184.5</b>	<b>163.4</b>	<b>12.9</b>	<b>19.0</b>	<b>81.0</b>	<b>-76.6</b>	<b>203.5</b>	<b>244.4</b>	<b>-16.7</b>
<i>Net sales</i>	193.2	166.1	16.3	19.6	77.4	-74.7	212.7	243.5	-12.6
<i>Sett. of prior periods adjust.</i>	-12.3	-11.5	6.8	-3.0	-1.3	131.2	-15.4	-12.9	19.5
<i>Adj. open positions</i>	6.8	4.3	58.5	1.5	1.7	-14.3	8.3	6.0	37.8
<i>Hedging</i>	-3.1	4.6		1.0	3.2	-68.9	-2.1	7.8	
<b>Cost of Goods Sold</b>	<b>-147.2</b>	<b>-129.1</b>	<b>14.0</b>	<b>-18.1</b>	<b>-70.4</b>	<b>-74.3</b>	<b>-165.3</b>	<b>-199.5</b>	<b>-17.2</b>
<i>Direct Cost of Goods Sold</i>	-144.0	-127.8	12.7	-18.1	-69.9	-74.1	-162.1	-197.6	-18.0
<i>Extraordinary Costs</i>	-1.7	-0.4	371.1				-1.7	-0.4	371.1
<i>Workers Participation</i>	-1.5	-1.0	50.1	0.0	-0.6	-93.6	-1.5	-1.6	-2.0
<b>Gross Profit</b>	<b>37.4</b>	<b>34.3</b>	<b>8.9</b>	<b>0.9</b>	<b>10.6</b>	<b>-91.7</b>	<b>38.2</b>	<b>44.9</b>	<b>-14.8</b>
<i>Margin</i>	20%	21%	-1 pp	5%	13%	-8 pp	19%	18%	0 pp
Administrative Expenses	-10.6	-10.8	-1.2	-0.2	0.0		-10.9	-10.8	0.8
Sales Expenses	-7.7	-8.6	-10.3	-0.5	-3.2	-84.5	-8.2	-11.8	-30.3
Other Income (Expenses) <sup>1</sup>	1.4	1.0	41.8				1.4	1.0	41.8
<b>Operating Profit</b>	<b>20.4</b>	<b>15.9</b>	<b>28.1</b>	<b>0.2</b>	<b>7.4</b>	<b>-97.8</b>	<b>20.6</b>	<b>23.3</b>	<b>-11.8</b>
<i>Margin</i>	11%	10%	1 pp	1%	9%	-8 pp	10%	10%	1 pp
Financial Income (Expenses)	-6.7	-4.8	38.6	-0.1	0.0		-6.8	-4.8	40.9
Royalties	-2.0	-3.0	-33.7	-0.2	-0.8	-74.7	-2.2	-3.8	-42.0
Income Tax	1.3	-2.7		0.0	-2.0		1.3	-4.7	
<b>Net Profit</b>	<b>13.0</b>	<b>5.4</b>	<b>140.0</b>	<b>-0.1</b>	<b>4.6</b>		<b>12.9</b>	<b>10.1</b>	<b>28.4</b>
<i>Margin</i>	7%	3%	4 pp	-1%	6%	-6 pp	6%	4%	2 pp
<b>EBITDA</b>	<b>63.8</b>	<b>49.0</b>	<b>30.1</b>	<b>0.2</b>	<b>7.4</b>	<b>-97.8</b>	<b>63.9</b>	<b>56.4</b>	<b>13.3</b>

<sup>1</sup> Includes energy division sales and cost of sales

Source: Volcan Cia. Minera

- Sales Analysis

**Table 6: Concentrate Sales Volumes**

Concentrates Sales (thousands DMT)		Jan-Mar 2015	Jan-Mar 2014	var %
Volcan Production	Zinc	125.1	127.2	-1.6
	Lead	23.4	21.7	7.6
	Copper	3.6	3.3	8.4
	Silver Bulk	2.6	0.0	9332.6
		<b>154.7</b>	<b>152.3</b>	<b>1.6</b>
Commerciali- zation Business	Zinc	17.8	46.2	-61.5
	Lead	0.7	6.5	-89.0
	Copper	2.2	7.6	-70.8
		<b>20.7</b>	<b>60.3</b>	<b>-65.6</b>
Total	Zinc	142.9	173.4	-17.6
	Lead	24.1	28.3	-14.8
	Copper	5.8	10.9	-46.7
	Silver Bulk	2.6	0.0	9332.6
		<b>175.4</b>	<b>212.6</b>	<b>-17.5</b>

Source: Volcan Cia. Minera

During 1Q15, the total volume of concentrates sold decreased by 17.5%. The sale of the Company's own concentrate declined by 1.6%, while the sale of third-party concentrate fell by 65.6%, mainly due to the announced reduction in the commercialization of third-party concentrate.

**Table 7: Fine Content Sales Volumes**

Fines Sales		Jan-Mar 2015	Jan-Mar 2014	var %
Volcan Production	Zinc (thousands FMT)	67.1	69.4	-3.4
	Lead (thousands FMT)	13.7	10.6	29.0
	Copper (thousands FMT)	1.0	0.7	37.0
	Silver (million Oz)	6.1	3.8	59.3
	Gold (thousands Oz)	3.0	2.2	33.1
	Antimony (thousands FMT)	0.2	0.0	
Commerciali- zation Business	Zinc (thousands FMT)	9.3	24.2	-61.5
	Lead (thousands FMT)	0.5	5.0	-89.7
	Copper (thousands FMT)	0.6	1.7	-66.7
	Silver (million Oz)	0.3	1.5	-78.1
	Gold (thousands Oz)	0.1	0.0	
Total	Zinc (thousands FMT)	76.4	93.6	-18.4
	Lead (thousands FMT)	14.2	15.5	-8.8
	Copper (thousands FMT)	1.6	2.4	-34.6
	Silver (million Oz)	6.4	5.3	20.0
	Gold (thousands Oz)	3.1	2.2	39.4
	Antimony (thousands FMT)	0.2	0.0	

Source: Volcan Cia. Minera

**Table 8: Sales in USD**

Sales (millions USD)		Jan-Mar 2015	Jan-Mar 2014	var %
Volcan Production	Zinc	91.7	91.0	0.7
	Lead	16.8	14.3	17.5
	Copper	2.9	1.9	54.1
	Silver	79.4	57.4	38.3
	Gold	2.2	1.5	52.2
	Antimony	0.2	0.0	
	<b>Total</b>	<b>193.2</b>	<b>166.1</b>	<b>16.3</b>
	Adjustments <sup>1</sup>	-8.7	-2.7	226.3
<b>Net Sales</b>	<b>184.5</b>	<b>163.4</b>	<b>12.9</b>	
Commerciali- zation Business	Zinc	12.9	36.3	-64.5
	Lead	0.7	9.7	-92.8
	Copper	2.2	7.1	-69.5
	Silver	3.7	24.3	-84.7
	Gold	0.1	0.0	
	<b>Total</b>	<b>19.6</b>	<b>77.4</b>	<b>-74.7</b>
	Adjustments <sup>1</sup>	-0.6	3.6	
	<b>Net Sales</b>	<b>19.0</b>	<b>81.0</b>	<b>-76.6</b>
<b>Total</b>	Zinc	104.6	127.3	-17.9
	Lead	17.5	24.0	-26.9
	Copper	5.1	8.9	-43.4
	Silver	83.1	81.8	1.7
	Gold	2.3	1.4	57.9
	Antimony	0.2	0.0	
	<b>Total</b>	<b>212.7</b>	<b>243.5</b>	<b>-12.6</b>
	Adjustments <sup>1</sup>	-9.2	1.0	
<b>Net Sales</b>	<b>203.5</b>	<b>244.4</b>	<b>-16.7</b>	

<sup>1</sup> Adjustments: i) settlement of prior period adjustments , ii) adjustments for open positions (embedded derivative and sales adjustments) iii) hedging results

Source: Volcan Cia. Minera

Total sales before adjustments for 1Q15 reached USD 212.7 MM, 12.6% lower than the USD 243.5 MM reported in 1Q14. This is mainly explained by the 74.7% decrease in third-party concentrate sales, from USD 77.4 MM in 1Q14 to USD 19.6 MM in 1Q15, as well as the 18.8% fall in the price of silver and the 13.1% fall in the price of lead. The decline in third-party concentrate sales resulted in a 9% share of total sales before adjustments in 1Q15, as compared to a 32% share in 1Q14.

In 1Q15, Volcan recorded negative sales adjustments of USD 9.2 MM, as compared to USD 1.0 MM of positive sales adjustments for 1Q14. As a result, net sales for 1Q15 totaled USD 203.5 MM, a 16.7% decrease compared to the USD 244.4 MM figure for 1Q14.

- **Cost of Goods Sold**

**Table 9: Cost of Goods Sold**

<b>Cost of Goods Sold (millions USD)</b>	<b>Jan-Mar 2015</b>	<b>Jan-Mar 2014</b>	<b>var %</b>
<b>Volcan Production</b>	<b>145.7</b>	<b>128.1</b>	<b>13.7</b>
Own Cost of Production	100.3	97.6	2.8
D&A of Cost of Production	41.3	31.1	32.8
Ore Purchase	0.0	2.8	-100.0
Extraordinary Costs	1.7	0.4	371.1
Inventories Change	2.4	-3.7	
<b>Commercialization Business</b>	<b>18.1</b>	<b>69.9</b>	<b>-74.1</b>
Concentrates Purchase	17.1	68.5	-75.1
Inventories Change	1.0	1.4	
<b>Workers Participation</b>	<b>1.5</b>	<b>1.6</b>	<b>-2.0</b>
<b>Total</b>	<b>165.3</b>	<b>199.5</b>	<b>-17.2</b>

Source: Volcan Cia. Minera

Total cost of goods sold in 1Q15 reached USD 165.3 MM, 17.2% lower than the USD 199.5 MM figure for 1Q14. The Company's own cost of goods sold grew by USD 17.5 MM due to the USD 10.2 MM increase in depreciation and amortization; the USD 2.7 MM increase in the absolute production cost, explained by the significant increase in production volume; and the USD 6.1 MM reduction of inventories. These effects were partially offset by the cessation of purchase of third-party ore in 2Q14.

- **Gross Profit**

Gross profit decreased by 14.8%, from USD 44.9 MM in 1Q14 to USD 38.2 MM in 1Q15, mainly because of the 18.8% decline in the price of silver and the 13.1% fall in the price of lead, as well as the negative sales adjustments and the increase in depreciation.

However, gross profit for the Company's own production increased by 8.9%, from USD 34.3 MM in 1Q14 to USD 37.4 MM in 1Q15, primarily because of greater sales of silver and lead fines, the reduction in the unit production cost, and the contribution from the Oxides Plant during its adjustment stage.

- **Operating Expenses**

Administrative expenses totaled USD 10.9 MM in 1Q15, similar to the figure for 1Q14. Selling expenses declined by 30.3%, from USD 11.8 MM in 1Q14 to USD 8.2 MM in 1Q15, mainly explained by lower sales of third-party concentrate.

- **Net Financial Expenses**

For 1Q15, net financial expenses totaled USD -6.8 MM, more than the USD -4.8 MM reported in 1Q14. The increase is due to the lower capitalization of interest related to the bonds as a result of the startup of operations of Alparmarca Unit.



## 2.1.5 Liquidity and Creditworthiness

Operating cash flow generated during 1Q15 reached USD 73.7 MM. Operating and exploration investments totaled USD 47.4 MM. Mining growth investments amounted to USD 22.2 MM, and energy investments were to USD 11.9 MM. As a result, cash flow after investments was USD -7.8 MM.

Net financing for the period was positive USD 31.7 MM, including the USD 27.5 MM financing obtained for the energy division to complete the Rucuy Hydroelectric Plant.

The total cash balance as of March 31, 2015 was USD 198.3 MM.

Beginning 1Q15, liabilities, cash balance and EBITDA pertaining to the energy division were separated to improve the analysis of the Company's creditworthiness. The energy division is comprised of subsidiaries Hidroeléctrica Huanchor S.A.C., Compañía Hidroeléctrica Tingo S.A., and the Empresa de Generación Eléctrica Río Baños S.A.C. Currently, the output from these plants is not connected to Company mining operations.

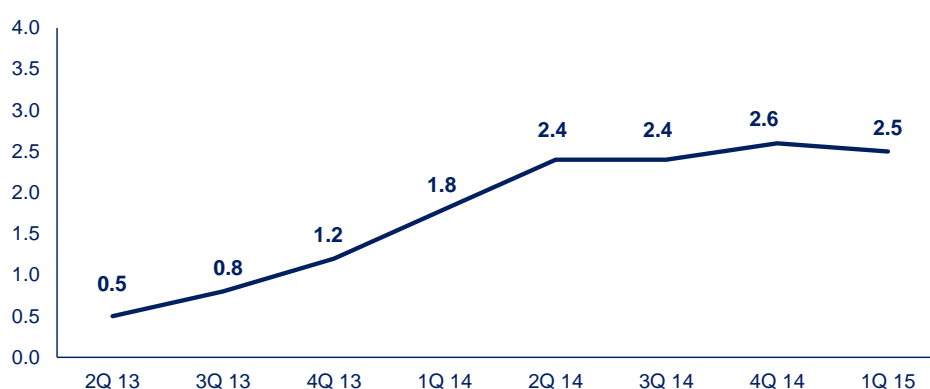
**Table 10: EBITDA, Debt and Cash Flow Position**

Net Debt/EBITDA Ratio	Mining	Energy	Consolidated 1Q15
Gross Debt (MM USD)	822.4	27.5	849.9
Cash Balance (MM USD)	175.8	22.5	198.3
<b>Net Debt (MM USD)</b>	<b>646.6</b>	<b>5.0</b>	<b>651.6</b>
<b>EBITDA<sup>1</sup> (MM USD)</b>	<b>256.9</b>	<b>7.5</b>	<b>264.4</b>
<b>Ratio</b>	<b>2.5</b>	<b>0.7</b>	<b>2.5</b>

<sup>1</sup> Corresponds to accumulated EBITDA in the last 12 months

Source: Volcan Cia. Minera

**Chart 1: Evolution of Net Debt / EBITDA Ratio (Mining Division)**



Source: Volcan Cia. Minera

## 2.2 Yauli Unit Operating Results

**Table 11: Yauli Production**

Yauli Production	Jan-Mar 2015	Jan-Mar 2014	var %
<b>Mineral extraction (thousands MT)</b>	<b>999</b>	<b>897</b>	<b>11.4</b>
<b>Mineral treatment (thousands MT)</b>	<b>983</b>	<b>917</b>	<b>7.2</b>
<b>Fines Content</b>			
Zinc (thousands FMT)	41.7	36.7	13.8
Lead (thousands FMT)	5.8	5.1	14.3
Copper (thousands FMT)	0.6	0.6	4.9
Silver (million Oz)	3.1	2.9	8.6

Source: Volcan Cia. Minera

Ore volumes extracted at the Yauli Unit grew by 11.4% during 1Q15, while treated ore at the Yauli concentrating plants registered a 7.2% increase compared to the same period of the previous year. The ore tonnage coming from the Andaychagua mine increased by 54 thousand MT, followed by the Carahuacra mine with 37 thousand MT, and the San Cristobal mine with 23 thousand MT. These increases were partially offset by reduced ore volumes coming from the Toldorrumi Mine by 33 thousand MT, and the cessation of purchase of third-party ore in 2Q14.

The increased extraction volumes at Andaychagua, Carahuacra, and San Cristobal mines are the result of increased mine development and preparation works completed during 2014.

The production of silver fines grew by 8.6% due to increased treatment tonnages and improved recoveries at the concentrating plants. In addition, zinc and lead production grew by 13.8% and 14.3%, respectively, due to increased treatment tonnages and higher average grades. Finally, the production of fine copper contents grew by 4.9% due to increased treatment volumes, offset by lower metallurgical recovery.

**Table 12: Yauli Production Cost**

Yauli Production Cost	Jan-Mar 2015	Jan-Mar 2014	var %
<b>Production Cost (MM USD)</b>	<b>59.0</b>	<b>57.9</b>	<b>1.8</b>
Extraction Cost	36.1	35.1	2.9
Treatment Cost	22.8	22.8	0.1
<b>Unit Cost (USD/MT)</b>	<b>59.4</b>	<b>64.0</b>	<b>-7.2</b>
Extraction Cost	36.2	39.2	-7.7
Treatment Cost	23.2	24.9	-6.6

Source: Volcan Cia. Minera

Unit cost declined by 7.2%, from 64.0 USD/MT in 1Q14 to 59.4 USD/TM in 1Q15, mainly due to the implementation of cost-cutting initiatives related to personnel, contractors and suppliers, lower mining costs at the Andaychagua unit related to increased use of ascending cut-and-fill extraction methods, and lower costs at the San Cristobal unit due to the centralization of services and improved controls inside the mine.

In absolute terms, production cost grew by 1.8%, from USD 57.9 MM in 1Q14 to USD 59.0 MM in 1Q15, due to the increase in production tonnage.

**Table 13: Yauli Operating Investments**

Yauli Operating Investments (MM USD)	Jan-Mar 2015	Jan-Mar 2014	var %
Local Exploration	0.8	1.3	-33.8
Mine Development	9.1	7.9	15.4
Plants and Tailings Dams	2.0	6.3	-67.8
Mine and Infrastructure	5.8	5.2	11.4
Energy	0.2	0.6	-59.3
Support and Others	0.6	0.6	-2.6
<b>Total</b>	<b>18.6</b>	<b>21.9</b>	<b>-15.0</b>

Source: Volcan Cia. Minera

Operating investments were reduced by 15.0%, from USD 21.9 MM in 1Q14 to USD 18.6 MM in 1Q15. The noteworthy decline in plants and tailings dams, as well as local exploration and energy investments was partially offset by higher mine development and infrastructure investments.

The results of the systematic exploration program carried out at Yauli are described as follows:

- **San Cristóbal:** 3,352 meters were drilled during 1Q15, including 848 meters of infill drilling at Vein 658 and Split 658 between levels 1120 to 1140. Results were favorable and economic mineralization was confirmed. The remaining 2,503 meters were aimed to intercept the mantle Escondida and Split 658, in order to define and add new inferred resources. The results were favorable as significant economic mineralization was intercepted below level 580, mainly zinc and silver related.
- **Carahuacra:** 1,618 meters were drilled during 1Q15, including 407 meters of infill drilling at the Mary Vein, between levels 1020 to 1070. Results were favorable and economic mineralization was confirmed. The remaining 1,211 meters were aimed to intercept the Mary Vein to define and add new inferred resources. The results were favorable as significant polymetallic mineralization, principally zinc and silver, was intercepted below level 1370. The perforations also intercepted significant polymetallic mineralization associated with secondary structures, Ramal, Mary and Tensional.
- **Andaychagua:** 2,104 meters were drilled during 1Q15, including 1,845 meters of infill drilling southwest of the Andaychagua Vein, between levels 1150 to 1250. Results were favorable. The remaining 258 meters were aimed to intercept the Prosperidad Este Vein below level 1200, in order to define and add new inferred resources. The diamond-drilling program for 2015 will continue in order to define new inferred resources at the Prosperidad Este and Andaychagua Veins.
- **Ticlio:** 1,141 meters were drilled during 1Q15, including 431 meters of infill drilling at the Ariana body, between levels 10 and 11. Results were favorable and

economic mineralization was confirmed. The remaining 710 meters were aimed to intercept the Ramal Techo Vein, below level 11, in order to define and add new inferred resources. The results were favorable as significant polymetallic mineralization was intercepted. The drill holes also intercepted significant polymetallic mineralization associated with secondary structures, such Tensional 572 and the Principal Vein.

## 2.3 Chungar Unit Operating Results

**Table 14: Chungar Production**

<b>Chungar Production</b>	<b>Jan-Mar 2015</b>	<b>Jan-Mar 2014</b>	<b>var %</b>
<b>Mineral extraction (thousands MT)</b>	<b>507</b>	<b>469</b>	<b>8.0</b>
<b>Mineral treatment (thousands MT)</b>	<b>479</b>	<b>482</b>	<b>-0.6</b>
<b>Fines Content</b>			
Zinc (thousands FMT)	21.1	25.0	-15.8
Lead (thousands FMT)	6.1	6.8	-10.0
Copper (thousands FMT)	0.3	0.3	-15.7
Silver (million Oz)	1.3	1.4	-10.6

Source: Volcan Cia. Minera

During 1Q15, ore volumes extracted at the Chungar Unit grew by 8.0%, while the ore treated at the Animon concentrating plant declined by 0.6% compared to 1Q14. The ore contribution from the Animon Mine declined by 15.9%, while the ore contribution from the Islay Mine rose by 66.1%.

The decline in production of fine metal contents across this unit during 1Q15 is explained by lower head grades. It is necessary to indicate that the impact of lower head grades may be reverted once the higher-grade areas at the Animon and Islay mines are developed according to geological models and mine plans.

**Table 15: Chungar Production Cost**

<b>Chungar Production Cost</b>	<b>Jan-Mar 2015</b>	<b>Jan-Mar 2014</b>	<b>var %</b>
<b>Production Cost (MM USD)</b>	<b>24.5</b>	<b>27.1</b>	<b>-9.8</b>
Extraction Cost	15.6	18.2	-14.4
Treatment Cost	8.9	8.9	-0.3
<b>Unit Cost (USD/MT)</b>	<b>49.3</b>	<b>57.3</b>	<b>-14.0</b>
Extraction Cost	30.7	38.8	-20.8
Treatment Cost	18.6	18.5	0.2

Source: Volcan Cia. Minera

Unit cost declined by 14.0%, from 57.3 USD/MT in 1Q14 to 49.3 USD/MT in 1Q15. This reduction is explained by a greater ore contribution from Islay Mine, which has lower mining costs. Mining costs at Islay were further reduced due to productivity improvements. In addition, mining costs at Animon were reduced due to lower transportation costs as a result of the operation of the Jacob Timmers shaft, as well as improvements to the pumping system.

In absolute terms, the production cost declined by 9.8% in 1Q15, from USD 27.1 MM in 1Q14 to USD 24.5 MM in 1Q15.

**Table 16: Chungar Operating Investments**

Chungar Operating Investments (MM USD)	Jan-Mar 2015	Jan-Mar 2014	var %
Local Exploration	1.6	1.6	-0.2
Mine Development	4.0	2.7	48.9
Plants and Tailings Dams	0.8	3.4	-74.8
Mine and Infrastructure	1.2	4.6	-73.3
Energy	0.3	0.9	-64.6
Support and Others	0.2	0.4	-51.8
<b>Total</b>	<b>8.2</b>	<b>13.5</b>	<b>-39.5</b>

Source: Volcan Cia. Minera

Operating investments fell by 39.5%, from USD 13.5 MM in 1Q14 to USD 8.2 MM in 1Q15, mainly due to lower investments in the plant and tailings dam, as well as mine and infrastructure, given the completion of the Jacob Timmers Shaft located at the Animon mine. The total investment for this shaft was USD 25.0 MM. Investments in local exploration remained close to the figure for the same quarter of the previous year, while investments in development increased by 48.9%.

The results of the systematic exploration program carried out in Chungar are described as follows:

- Animon:** 10,541 meters were drilled during 1Q15, including 5,368 meters of infill drilling focused on elevating resources from the inferred category to the indicated category at the veins Andalucia 120, Ramal Piso 3 Principal and Janeth. The remaining 5,173 meters were aimed at defining and adding new inferred resources at the veins Andalucia 120, Ofelia Piso and Janeth, as well as to define ore potential at depth at the Principal vein. The results were favorable. At the vein Andalucia 120, the drilling permits the extension of the ore shoot 300 meters to the east and 200 meters at depth up to level 3,900. At the Ofelia Piso vein, positive drilling results permit the extension of the ore shoot 250 meters to the east and 150 meters at depth up to level 4,100. The perforation aimed at the Principal vein confirmed the continuity of mineralization with economic grades 300 meters below current operations.
- Islay:** 7,700 meters of diamond drill holes were executed during 1Q15, including 1,055 meters of infill drilling focused on upgrading resources from inferred category to indicated category at the South vein. The remaining 6,645 meters were aimed at defining and adding new inferred resources at the South vein. Results were excellent in terms of silver mineralization and permit the extension of economic mineralization at depth an additional 150 meters to level 4,170, and laterally an additional 700 meters. The drill holes intercepted hydrothermal breccias and calcite-sulphide veinlets towards the roof and floor, thus increasing the ore potential of the structure up to 10 meters.

## 2.4 Cerro de Pasco Unit Operating Results

**Table 17: Cerro de Pasco Production**

Cerro de Pasco Production	Jan-Mar 2015	Jan-Mar 2014	var %
<b>Mineral extraction (thousands MT)</b>	<b>61</b>	<b>51</b>	<b>18.6</b>
<b>Mineral treatment (thousands MT)</b>	<b>98</b>	<b>166</b>	<b>-40.9</b>
<b>Fines Content</b>			
Zinc (thousands FMT)	2.6	3.3	-19.4
Lead (thousands FMT)	1.2	1.3	-8.8
Silver (million Oz)	0.3	0.3	-9.5

Source: Volcan Cia. Minera

Ore volumes extracted from the underground mine grew by 18.6% in 1Q15 as compared to 1Q14. On the other hand, ore treated in San Expedito Plant decreased by 40.9%, from 166 thousand MT in 1Q14 to 98 thousand MT in 1Q15, due to lower ore contributions from marginal stockpiles and the suspension of Vinchos Mine.

Zinc production decreased by 19.4%, while lead and silver production also decreased by 8.8% and 9.5%, respectively. The decrease in production was mitigated by improved average head grades of the ore treated at the plant.

**Table 18: Cerro de Pasco Production Cost**

Cerro de Pasco Production Cost*	Jan-Mar 2015	Jan-Mar 2014	var %
<b>Production Cost (MM USD)</b>	<b>9.0</b>	<b>12.0</b>	<b>-24.4</b>
Extraction Cost	3.1	2.3	33.2
Treatment Cost	5.9	9.6	-38.4
<b>Unit Cost (USD/MT)</b>	<b>111.5</b>	<b>103.5</b>	<b>7.7</b>
Extraction Cost	51.2	45.5	12.3
Treatment Cost	60.4	58.0	4.1

\* The reported production cost excludes intercompany purchase of ore from Vinchos and Islay (Chungar)

Source: Volcan Cia. Minera

In absolute terms, the production cost declined by 24.4%, from USD 12.0 MM in 1Q14 to USD 9.0 MM in 1Q15. The unit cost increased by 7.7%, from 103.5 USD/MT in 1Q14 to 111.5 USD/MT in 1Q15, mainly attributed to lower ore contribution from marginal stockpiles and lower treatment tonnage.

**Table 19: Cerro de Pasco Operating Investments**

Cerro de Pasco Operating Inv. (MM USD)	Jan-Mar 2015	Jan-Mar 2014	var %
Local Exploration	0.0	0.0	
Mine Development	0.0	0.1	-96.5
Plants and Tailings Dams	0.0	0.1	-100.0
Mine and Infrastructure	0.0	0.1	-100.0
Energy	0.0	0.0	
Support and Others	-0.2	0.1	
<b>Total</b>	<b>-0.2</b>	<b>0.4</b>	

Source: Volcan Cia. Minera

Operating investments at the Cerro de Pasco Mining Unit were kept to minimum levels. The investment figure for 1Q14 reached USD 0.4 MM, while the figure for 1Q15 was negative USD 0.2 MM due to the reversal of certain provisions.

## 2.5 Oxides Plant Results

**Table 20: Oxides Plant Production**

Oxides Plant Production*	Jan-Mar 2015
<b>Mineral treatment (thousands MT)</b>	<b>97</b>
<b>Fines Content</b>	
Silver (million Oz)	0.6
Gold (Oz)	787

\* Production in operational-adjustment stage

Source: Volcan Cia. Minera

During 1Q15, the Silver Oxides Plant at the Cerro de Pasco Unit treated 97 thousand MT of stockpiled ore, obtaining 246 dore bars containing 567 thousand silver ounces and 787 gold ounces. The final adjustments to the plant were completed during this quarter, particularly the installation of a deep cone to improve the filtration process.

## 2.6 Alparmarca Unit Operating Results

**Table 21: Alparmarca Production**

Alparmarca Production	Jan-Mar 2015
<b>Mineral extraction (thousands MT)</b>	<b>201</b>
<b>Mineral treatment (thousands MT)</b>	<b>206</b>
<b>Fines Content</b>	
Zinc (thousands FMT)	1.8
Lead (thousands FMT)	1.2
Copper (thousands FMT)	0.2
Silver (million Oz)	0.7

Source: Volcan Cia. Minera

In 1Q15, the Alparmarca Unit concentrating plant treated 206 thousand MT, out of which the Alparmarca pit contributed 165 thousand MT and the Rio Pallanga underground mine contributed 41 thousand MT.

Quarterly production totaled 716 thousand silver ounces, 1.8 thousand FMT of zinc and 1.2 thousand FMT of lead.

**Table 22: Alpamarca Production Cost**

<b>Alpamarca Production Cost</b>	<b>Jan-Mar 2015</b>
<b>Production Cost (MM USD)</b>	<b>7.6</b>
Extraction Cost	4.2
Treatment Cost	3.4
<b>Unit Cost (USD/MT)</b>	<b>37.4</b>
Extraction Cost	20.7
Treatment Cost	16.7

Source: Volcan Cia. Minera

In absolute terms, 1Q15 production cost reached USD 7.6 MM, and the unit cost amounted to 37.4 USD/MT. The unit cost of Alpamarca is the lowest across all operating units of Volcan and has been significantly reduced from the initial estimate of 50 USD/MT.

**Table 23: Alpamarca Operating Investments**

<b>Alpamarca Operating Inv. (MM USD)</b>	<b>Jan-Mar 2015</b>
Local Exploration	0.7
Mine Development	0.4
Plants and Tailings Dams	0.0
Mine and Infrastructure	0.0
Energy	0.0
Support and Others	0.0
<b>Total</b>	<b>1.1</b>

Source: Volcan Cia. Minera

In 1Q15, operating investments at the Alpamarca Unit totaled USD 1.1 MM. Local exploration investments totaled USD 0.7 MM, while investments in mine development totaled USD 0.4 MM.

It should be noted that the systematic exploration program carried out in Alpamarca during 1Q15 was focused on defining the mineralized body at the Tirol vein and upgrading its potential to the category of inferred resources. A total of 7,661 meters were drilled, allowing the definition of an economical mineralized body 600 meters length, with a depth of 120 meters, and an average thickness of 1.2 meters.



### 3. Energy

**Table 24: Hydroelectric Power Plants**

Subsidiary	Hydroelectric Power Plants	Operating		Projects		Total	
		N°	MW	N°	MW	N°	MW
<b>Mining</b>		<b>10</b>	<b>22</b>			<b>10</b>	<b>22</b>
Emp. Adm. Chungar S.A.C.	Baños I-II-III-IV-V	5	17			5	17
	Chicrín I-II-III-IV	4	4			4	4
	San José	1	1			1	1
<b>Energy</b>		<b>2</b>	<b>21</b>	<b>3</b>	<b>59</b>	<b>5</b>	<b>80</b>
Hidroeléctrica Huanchor S.A.C.	Huanchor	1	20			1	20
Cía. Hidroeléctrica Tingo S.A.	Tingo	1	1		9	1	10
Egerba S.A.C.	Rucuy			1	20	1	20
	Chancay II			2	30	2	30
<b>Total</b>		<b>12</b>	<b>43</b>	<b>3</b>	<b>59</b>	<b>15</b>	<b>102</b>

Source: Volcan Cia. Minera

The above table divides the operations and the projects of the energy division comprised of the subsidiaries Hidroeléctrica Huanchor S.A.C., Compañía Hidroeléctrica Tingo S.A., and Empresa de Generación Eléctrica Río Baños S.A.C. These plants are connected to the national grid, and not to the Company's mining operations.

In addition, the Company operates 10 interconnected hydroelectric power plants that supply energy to the Chungar Mining Unit, with an installed capacity of 22 MW. In 1Q15, these plants generated 42.5 GWh, which accounted for 27% of the Company's total consumption.

The Company's energy consumption during 1Q15 reached 159 GWh, out of which 116.5 GWh were purchased from the national grid at an average rate of 72.5 USD/MWh.

In 1Q15, energy investments totaled USD 6.4 MM, mainly attributable to the construction of the Rucuy Hydroelectric Plant. As of March 2015 construction was at 60%. Total investment in this project is approximately USD 45 MM, with a USD 25 MM investment made to date. Operations are expected to begin in 1Q16.

With regard to expansion of the Tingo Hydroelectric Plant to 10 MW, the feasibility study is being conducted by the engineering firm Hatch. The study is expected to be completed in August.

In addition, the 30 MW two-stage Chancay II Project is finalizing the definitive engineering studies for the civil works, and the Environmental Impact Assessment (EIA) for the 220 kV Chancay II – Rucuy – Françoise Transmission Line (60 kilometers) is currently resolving final observations.

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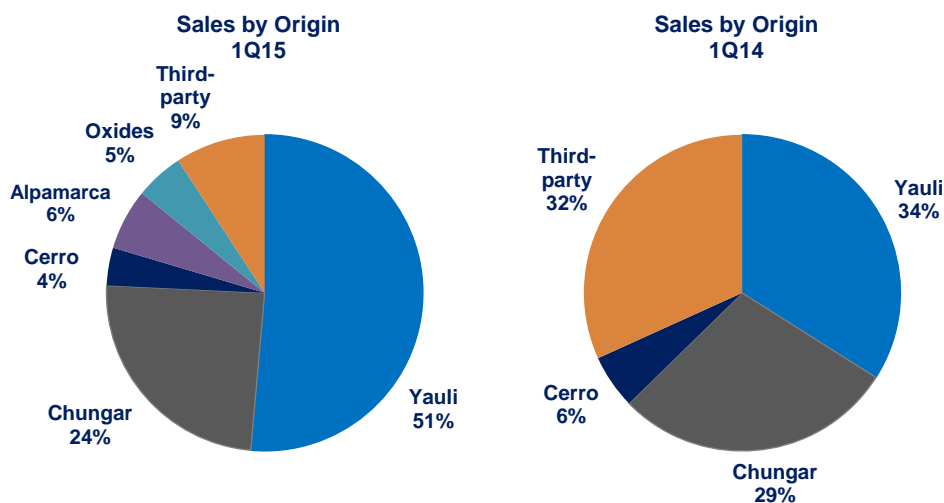
## 4. Final Comments

- 1Q15 production of silver, zinc, lead, and copper fines increased by 29.6%, 3.5%, 8.6%, and 20.4%, respectively, as compared to 1Q14. The increase results from the operation of the Alpamarca Unit, the contribution of the Oxides Plant, and the production increase at the Yauli Unit. The increase registered at Yauli is explained by greater mine development and preparation works planned and executed during 2014
- In 1Q15, zinc accounted for 49% of the Company's revenues, followed by silver with 39%, lead with 8%, and copper with 2%. Such diversification allows Volcan to better confront the unfavorable metal-price environment, particularly the dramatic fall in silver prices
- Volcan remains focused on optimizing processes, lowering costs and prioritizing investments. During 1Q15, the initiatives taken by the Company resulted in the decline in unit cost of 14.1%, as well as a reduction in operating investment of 22.2%, when compared to the same period of the previous year
- The significant cost reduction compensated the fall in realized silver and lead prices (-18.8% and -13.1%, respectively), the increase in depreciation by more than USD 10 MM, and the negative sales adjustments of USD 9.2 MM. As a result, gross margin increased from 18% in 1Q14 to 19% in 1Q15. In addition, net profit grew by 28.4%, from USD 10.1 MM in 1Q14 to USD 12.9 MM in 1Q15, while EBITDA grew by 13.3%, from USD 56.4 MM in 1Q14 to USD 63.9 MM in 1Q15
- The operational adjustment stage of the Silver Oxides Plant in Cerro de Pasco Unit was completed in April 2015, gradually ramping up the plant's treatment capacity. In annual terms, this plant is expected to produce approximately 4 million silver ounces
- The Geology Department continues its systematic exploration programs that begin in 2014 with the objective to increase mineral resources at the mining units and define their potential. This program remains on track. To date significant favorable results have been achieved, particularly at the Yauli and Chungar Units
- Progress at the Rucuy Hydroelectric Plant project reached 60%. Project completion is expected by early 2016, with an approximate total investment of USD 45 MM

**Annexes**

**Annex 1: Sales Breakdown**

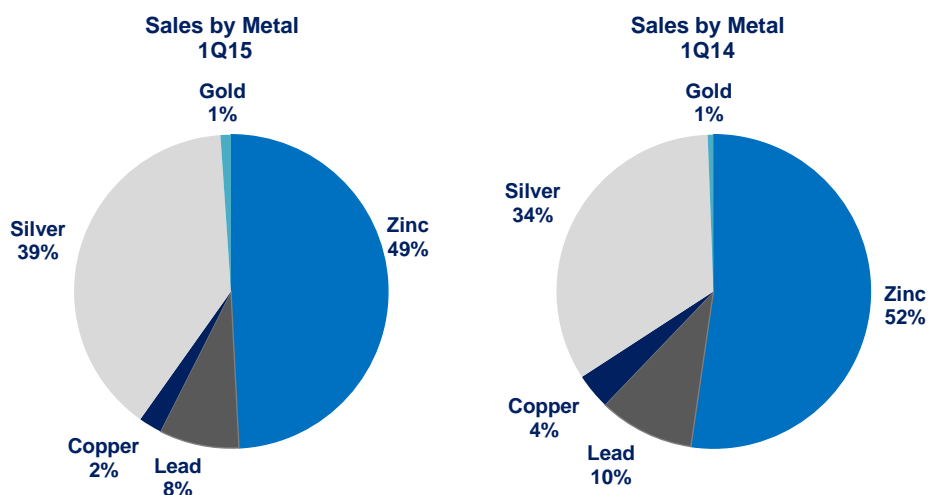
**Chart 2: Sales by Origin (% of Value in USD)**



Source: Volcan Cia. Minera

The sales distribution by origin reflects a reduced share of third-party concentrate sales relative to total sales, from 32% in 1Q14 to 9% in 1Q15. It should be noted that Alpamarca Unit sales accounted for 6% of total sales in 1Q15, while the sale of silver bars of dore obtained during the operational adjustment stage of the Oxides Plant accounted for 5% of the sales.

**Chart 3: Sales by Metal (% of Value in USD)**



Source: Volcan Cia. Minera

The sales distribution by metal in 1Q15 reflects an increase in the share of silver as a result of the sale of dore bars in spite of the fall in silver prices (-18.8%). On the other hand, the share of zinc registered a decline compared to the same quarter of the previous year.

## Annex 2: Average Spot Prices

Spot Prices	Jan-Mar 2015	Jan-Mar 2014	var %
Zinc (USD/MT)	2,081	2,029	2.5
Lead (USD/MT)	1,806	2,105	-14.2
Copper (USD/MT)	5,815	7,038	-17.4
Silver (USD/Oz)	16.7	20.5	-18.5
Gold (USD/Oz)	1,220	1,294	-5.7

Source: London Metal Exchange

## Annex 3: Macroeconomic Indicators

Macroeconomic Indicators	Jan-Mar 2015	Jan-Mar 2014	var %
Exchange Rate (S/. x USD)	3.06	2.81	8.9
Inflation	3.02	3.38	

Source: Central Reserve Bank of Peru

## Annex 4: Domestic Peruvian Metal Production

Domestic Production	Jan - Feb 2015	Jan - Feb 2014	var %
Silver (Thousand Oz)	19,438	17,871	8.8
Zinc (FMT)	226,539	195,924	15.6
Lead (FMT)	49,612	41,268	20.2
Copper (FMT)	211,606	224,808	-5.9
Gold (Thousand Oz)	742	723	2.6

Source: Ministry of Energy and Mines