

**Volcan Compañía Minera S.A.A. and Subsidiaries**

Consolidated interim financial information (unaudited) as of  
December 31, 2016 and 2015

# Volcan Compañía Minera S.A.A. and Subsidiaries

## Consolidated Statement of Financial Position

As of December 31, 2016 (unaudited) and as of December 31, 2015 (unaudited)

	Note	December 31, 2016 US\$(000)	December 31, 2015 US\$(000)
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	203,351	192,307
Trade accounts receivable, net		69,121	55,247
Other accounts receivable		349,107	352,356
Other financial assets	6	43,248	14,508
Inventories, net	5	90,553	106,968
<b>Total current assets</b>		<b>755,380</b>	<b>721,386</b>
Other accounts receivable		32,416	31,050
Other financial assets	6	21,159	48,935
Investments in associates		442	1,861
Property, plant and equipment, net	7	997,307	1,088,060
Mining exploration and evaluation cost, net	8	602,644	391,538
Deferred income tax asset	10	121,459	132,196
<b>Total non-current assets</b>		<b>1,775,427</b>	<b>1,693,640</b>
<b>Total assets</b>		<b>2,530,807</b>	<b>2,415,026</b>
<b>Liabilities and Net Stockholders' Equity</b>			
<b>Current Liabilities</b>			
Overdrafts		30,256	14,043
Trade accounts payable		211,244	165,294
Other accounts payable		111,220	48,775
Other financial liabilities	6	105,228	90,831
Financial obligations	9	250,923	216,989
<b>Total current liabilities</b>		<b>708,871</b>	<b>535,932</b>
Other financial liabilities	6	24,570	143,949
Financial obligations	9	562,504	623,571
Deferred income tax liability	10	9,469	6,180
Provision for contingencies		34,449	5,514
Provision for closing of mining units		70,528	72,381
<b>Total non-current liabilities</b>		<b>701,520</b>	<b>851,595</b>
<b>Total liabilities</b>		<b>1,410,391</b>	<b>1,387,527</b>
<b>Patrimonio neto</b>			
Issued capital	11	1,253,181	1,531,743
Treasury stock		(196,778)	(240,450)
Other capital reserves		3,553	119,837
Capital reserve		20,298	20,296
Unrealized gains (loss)		-	(25,563)
Retained earnings		40,162	(378,364)
<b>Total net stockholders' equity</b>		<b>1,120,416</b>	<b>1,027,499</b>
<b>Total liabilities and net stockholders' equity, net</b>		<b>2,530,807</b>	<b>2,415,026</b>

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 December 31, 2016 and 2015 (unaudited)

	For the period from October		For the cumulative period from	
	1 to December 31		January 1	
	2016	2015	2016	2015
	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Sales, Note 12	226,393	181,705	821,548	794,514
Cost of Sales, Note 13	(157,866)	(142,337)	(581,224)	(663,202)
<b>Gross Income</b>	<b>68,527</b>	<b>39,368</b>	<b>240,324</b>	<b>131,312</b>
<b>Operating income (expenses)</b>				
Administrative expenses	(13,765)	(13,893)	(44,163)	(47,065)
Selling expenses	(10,335)	(13,947)	(34,068)	(43,023)
Other income	117,970	25,403	155,671	56,247
Other expenses	(115,178)	(659,984)	(148,856)	(684,039)
	(21,308)	(662,421)	(71,416)	(717,880)
<b>Operating income</b>	<b>47,219</b>	<b>(623,053)</b>	<b>168,908</b>	<b>(586,568)</b>
<b>Financial income (expenses)</b>				
Financial income	721	2,617	8,976	8,159
Financial expenses	(11,918)	(14,341)	(44,563)	(43,763)
Exchange difference, net	2,666	(8,052)	129	(9,233)
<b>Total other income (expenses), net</b>	<b>(8,531)</b>	<b>(19,776)</b>	<b>(35,458)</b>	<b>(44,837)</b>
<b>Income before income tax</b>	<b>38,688</b>	<b>(642,829)</b>	<b>133,450</b>	<b>(631,405)</b>
Income tax, Note 10(b)	(15,359)	173,836	(49,044)	177,493
<b>Net income</b>	<b>23,329</b>	<b>(468,993)</b>	<b>84,406</b>	<b>(453,912)</b>
<b>Net earnings per share</b>	<b>0.006</b>	<b>(0.122)</b>	<b>0.022</b>	<b>(0.118)</b>
<b>Weighted average of outstanding shares (in thousands)</b>	<b>3,858,641</b>	<b>3,858,733</b>	<b>3,858,641</b>	<b>3,858,733</b>

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 December 31, 2016 and 2015 (unaudited)

	For the cumulative period from October 1 to December 31		For the cumulative period from January 1 to December 31	
	2016 US\$(000)	2015 US\$(000)	2016 US\$(000)	2016 US\$(000)
<b>Net income</b>	23,329	(468,993)	84,406	(453,912)
<b>Others comprehensive income (loss):</b>				
Net change in gains (losses) unrealized on derivate instruments	13,917	(15,987)	35,504	(4,174)
Income tax	(3,897)	4,476	(9,941)	542
<b>Other comprehensive income (loss) net of income tax</b>	10,020	(11,511)	25,563	(3,632)
<b>Total comprehensive income</b>	<b>33,349</b>	<b>(480,504)</b>	<b>109,969</b>	<b>(457,544)</b>

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 from January 1, to December 31, 2016 and 2015 (unaudited)

	Capital Issued	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)
<b>Balances as of January 1, 2015</b>	<b>1,531,743</b>	<b>(240,342)</b>	<b>118,731</b>	<b>20,329</b>	<b>(21,931)</b>	<b>82,516</b>	<b>1,491,046</b>
Net income	-	-	-	-	-	(453,912)	(453,912)
Net change in gains unrealized on derivative instruments	-	-	-	-	(3,632)	-	(3,632)
Comprehensive income for the period	-	-	-	-	(3,632)	(453,912)	(457,544)
Allocation of dividends corresponding to 2014	-	-	-	-	-	(5,862)	(5,862)
Increase (decrease) in treasury stock transactions	-	(108)	-	(33)	-	-	(141)
Legal reserve allocation	-	-	1,106	-	-	(1,106)	-
<b>Balances as of December 31, 2015</b>	<b>1,531,743</b>	<b>(240,450)</b>	<b>119,837</b>	<b>20,296</b>	<b>(25,563)</b>	<b>(378,364)</b>	<b>1,027,499</b>
<b>Balances as of January 1, 2016</b>	<b>1,531,743</b>	<b>(240,450)</b>	<b>119,837</b>	<b>20,296</b>	<b>(25,563)</b>	<b>(378,364)</b>	<b>1,027,499</b>
Net income	-	-	-	-	-	84,406	84,406
Net change in gains unrealized on derivative instruments	-	-	-	-	25,563	-	25,563
Comprehensive income for the period	-	-	-	-	25,563	84,406	109,969
Reduction of Capital	(278,562)	43,725	(116,516)	-	-	351,353	-
Allocation of dividends corresponding to 2015	-	-	-	-	-	(15,136)	(15,136)
Legal reserve allocation	-	-	232	-	-	(232)	-
Accumulated income EAP	-	-	-	-	-	(5,632)	(5,632)
Increase (decrease) in treasury stock transactions	-	(53)	-	2	-	-	(51)
Conversion effect	-	-	-	-	-	3,767	3,767
<b>Balances as of December 31, 2016</b>	<b>1,253,181</b>	<b>(196,778)</b>	<b>3,553</b>	<b>20,298</b>	<b>-</b>	<b>40,162</b>	<b>1,120,416</b>

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 from January 1, to December 31, 2016 and 2015 (Note 2-C)

	2016	2015
	US\$(000)	US\$(000)
<b>Operating activities</b>		
Collection of sales proceeds	904,156	982,220
Refund of the credit balance in favor of the exporter and taxes	47,656	25,327
Payments to suppliers and third parties	(558,980)	(690,189)
Payments to workers	(79,838)	(90,614)
Income tax payments	(9,548)	(8,163)
Royalties	(9,110)	(11,271)
Expenses for coverage	(44,557)	25,373
<b>Cash flows from operating activities</b>	249,779	232,683
<b>Investing activities</b>		
Share sales (purchase) payments	-	7,938
Dividends received	304	-
Purchase of investment property	(26,110)	-
Disbursements for operative leasing	(15,462)	(19,332)
Disbursements for the acquisition of mining rights, property, plant and equipment	(43,743)	(117,302)
Disbursements for exploration and development activities	(69,883)	(44,943)
<b>Cash flows (used in) investment activities</b>	(154,894)	(173,639)
<b>Financing activities</b>		
Increase in financial obligations	(31,617)	11,904
Purchase of treasury stock	2	(141)
Interest payment	(37,090)	(36,179)
Dividends	(15,136)	(16,684)
<b>Cash flows (used in) from financing activities</b>	(83,841)	(41,100)
Increase (Decrease) in cash and cash equivalents for the period	11,044	17,944
Cash and cash equivalents at the beginning of the period	192,307	174,363
<b>Cash and cash equivalents at the end of the period</b>	203,351	192,307

The accompanying notes are an integral part of this statement.

## Volcan Compañía Minera S.A.A. and Subsidiaries

### Notes to the consolidated interim financial statements (unaudited)

As of December 31, 2016 and December 31, 2015

#### 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 comercialization 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 December 31, 2016 were approved by the Company’s Management on February 14, 2017. The consolidated financial statements as of December 31, 2015 were approved by the Shareholders’ Meeting on february 12, 2016.

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

	Percentage of direct or indirect interest in the capital	
	December 31, 2016	December 31, 2015
Subsidiaries:		
Empresa Administradora Chungar S.A.C	-	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 Chungar S.A.C.	100	100
Minera Aurífera Toruna S.A.C. (*)	80	80
Empresa Administradora de Cerro S.A.C.	99.99	99.99
Minera San Sebastián AMC S.R.L.	100	100
Hidroeléctrica Huanchor S.A.C (***)	100	100
Compañía Hidroeléctrica Tingo S.A.(**) (***)	99.99	99.99
Empresa de Generación Eléctrica Baños S.A.(***) (****)	99.99	99.99
Óxidos de Pasco S.A.C	99.99	99.99
Empresa Administradora de Puertos S.A.C.	99.99	-

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

(\*\*) This is, in turn, a subsidiary of Compañía Minera Chungar S.A.C.

(\*\*\*) Subsidiary engaged in the energy generation.

(\*\*\*\*) This is, in turn, a subsidiary of Hidroeléctrica Huanchor S.A.C.

On September 1, 2015, the merger of Compañía Minera El Pilar S.A.C, Shalca Compañía Minera S.A.C., Compañía Minera Huascarán S.A.C. Cía Minera Santa Clara y Llacsacocha Sociedad Anónima, Recursos Troy S.A.C and Empresa Administradora Chungar S.A.C.(survivor company) took place.

By shareholders meeting of Empresa Administradora Cerro S.A.C. a spin-off of a business section was agreed, which included the oxide plant as well as related assets and liabilities for S/368,670 in favor of a new company, Óxidos de Pasco S.A.C., (hereinafter, Óxidos), which was incorporated as a consequence of the spin-off. Óxidos shareholders, the Company, being one of them, received shares issued by Óxidos that represent 99.99% of its capital stock.

According to the Shareholders Meeting, the spin-off entered in force on October 1, 2015

On January 1, 2016, the merger of Empresa Administradora Chungar S.A.C. and Compañía Minera Alpamarca S.A.C. (survivor company) took place, at the same event, the latter changed its name to Compañía Minera Chungar S.A.C.

The shareholders meeting of Compañía Minera Chungar S.A.C. agreed a spin-off of the assets and liabilities related to Rucuy Project, valued in S/1,446,000.00, in favor of Empresa de Generación Eléctrica Baños S.A. According to the Shareholders Meeting, the spin-off entered in force on June 1, 2016.



On October 5, 2016, Empresa Administradora Cerro S.A.C. capitalizes the debts it maintains with Volcan Compañía Minera S.A.A. equivalent to S/ 145,849.

(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\$ 4.8 million U.S. dollars. As of December 31, 2016 the outstanding liability amounts to US\$ 535,264 thousands.

These funds were mainly used in growth projects, including the Silver Oxide Plant located in the Cerro de Pasco unit, the new Alpamarca-Pallanga River unit, and the acquisition of Hidroeléctrica Huanchor S.A.C.

## **2. Basis of presentation, accounting principles and practices**

Basis of presentation -

The consolidated interim financial statements (unaudited) for the three-month periods ended December 31, 2016 and 2015 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 2015.

For a correct reading of the financial statement, certain reclassification have been made in 2015.

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.

- (c) Cash and cash equivalents

This heading included in the Company's statement of financial position includes all cash balances, term deposits, mutual funds, financial assets and financial investment foreing which are short-term, highly liquid and readily convertible into cash and have free availability and investment abroad.

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 December 31, 2016	As of December 31, 2015
	US\$(000)	US\$(000)
Funds available:		
Cash	16	19
Fixed fund	32	23
Bank checking accounts	96,438	89,221
Term deposits (a)	37,261	28,612
Mutual funds	6,795	11,616
Financial investments foreing	62,406	62,406
Funds subject to restriction	403	410
	<b>203,351</b>	<b>192,307</b>

(a) Herein below is the composition of term deposits as of December 31, 2016:

Date	Nominal currency	Original term	Annual interest rate	As of December 31, 2016
			%	US\$(000)
31.12.2016	U.S. Dollars	1 a 3 months	0.36%	28,561
06.04.2016	U.S. Dollars	9 months	0.70%	8,700
				<b>37,261</b>

#### 5. Inventories

The composition of this heading is presented below:

	As of December 31, 2016	As of December 31, 2015
	US\$(000)	US\$(000)
Concentrates:	8,046	19,335
Raw material (extracted ore)	27,079	28,726
Miscellaneous supplies	55,972	54,618
Inventories in transit	464	1,025
Value of stockpiles (a)	7,752	7,752
Allowance for obsolescence of spare parts and supplies (b)	(8,760)	(4,488)
	<b>90,553</b>	<b>106,968</b>

The Company's Management estimates that the balances carried under "Inventories" do not exceed their net realization values as of December 31, 2016 and as of December 31, 2015.

- (a) According to International Accounting Standards, and due to drop in prices, the Company once again tested the fair value of the Stock Piles related to which an accounting estimation was registered in 2015. The Company has recognised a write-down of inventories reducing the amount of inventories for US\$ 69.3 million.
- (b) In the opinion of the Company's Management, the allowance for obsolescence of spare parts and supplies adequately covers such risk as of December 31, 2016 and as of December 31, 2015.

## 6. Other financial assets (liabilities)

Here in below is the composition of receivables:

	As of December 31 2016	As of December 31 2015
	US\$(000)	US\$(000)
Fair value of hedging derivatives	-	3,351
Fair value of trading derivatives	42,831	43,960
Settled derivative financial instruments and premiums	16,623	14,981
Embedded derivative related to sales of concentrates	4,953	1,151
	<b>64,407</b>	<b>63,443</b>
Less: non-current portion	(21,159)	(48,935)
Current portion	<b>43,248</b>	<b>14,508</b>

Here in below is the composition of payables:

	As of December 31 2016	As of December 31 2015
	US\$(000)	US\$(000)
Fair value of hedging derivatives	-	38,855
Fair value of trading derivatives	14,821	30,425
Settled derivative financial instruments and premiums	111,731	161,528
Embedded derivative related to sales of concentrates	3,247	3,972
	<b>129,799</b>	<b>234,780</b>
Less: non-current portion	(24,570)	(143,949)
Current portion	<b>105,229</b>	<b>90,831</b>

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 December 31, 2016 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 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 December 31, 2014	(31,330)	9,399	(21,931)
Total change in hedging derivative financial instruments	(4,174)	542	(3,632)
Balances as of December 31, 2015	<u>(35,504)</u>	<u>9,941</u>	<u>(25,563)</u>
Total change in hedging derivative financial instruments	35,504	(9,941)	25,563
Balances as of December 31, 2016	<u>-</u>	<u>-</u>	<u>-</u>

## 7. Property, Plant and Equipment, net

The activity and composition of this heading are presented below:

	Balances as of January 1,2015	Additions	Write-offs	Adjustments	Impairment	Balances as of December 31,2016
<u>2016</u>	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)
<b>Cost</b>						
Land	6,338	1,460	(46)	(1)	-	7,751
Buidings and other constructions	729,326	48,040	-	24,262	(38,500)	763,128
Environmental management program infrastrl	22,846	28	-	-	-	22,874
Machinery and equipment	308,664	6,482	(11,167)	(760)	-	303,219
Transportation units	12,169	485	(427)	(228)	-	11,999
Furniture and fixtures and IT equipment	13,105	179	-	-	-	13,284
Miscellaneous equipment	445,391	7,707	(149)	(626)	(21,501)	430,822
Units in transit	484	575	-	-	-	1,059
Works in progress	199,391	36,367	-	(67,922)	-	167,836
	<b>1,737,714</b>	<b>101,323</b>	<b>(11,789)</b>	<b>(45,275)</b>	<b>(60,001)</b>	<b>1,721,972</b>
<b>Accumulated depreciation</b>						
Buidings and other constructions	(119,923)	(38,710)	-	-	-	(158,633)
Environmental management program infrastrl	(21,807)	(269)	-	-	-	(22,076)
Machinery and equipment	(246,335)	(16,388)	9,623	(229)	-	(253,329)
Transportation units	(10,806)	(528)	369	228	-	(10,737)
Furniture and fixtures and IT equipment	(7,317)	(957)	-	1	-	(8,273)
Miscellaneous equipment	(243,466)	(28,234)	83	-	-	(271,617)
	<b>(649,654)</b>	<b>(85,086)</b>	<b>10,075</b>	<b>-</b>	<b>-</b>	<b>(724,665)</b>
<b>Net cost</b>	<b>1,088,060</b>					<b>997,307</b>
<u>2015</u>						
<b>Cost</b>	1,820,584	118,252	(17,753)	193	(183,562)	1,737,714
Accumulated depreciation	(574,759)	(89,062)	14,167	-	-	(649,654)
<b>net cost</b>	<b>1,245,825</b>					<b>1,088,060</b>

## 8. Mining exploration and evaluation costs, net

The activity and composition of this heading are presented below:

	Balances as of January 1,2015	Additions	Write-offs	Adjustments	Impairment	Balances as of December 31,2016
<u>2016</u>	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)
<b><u>Cost</u></b>						
Mining rights and concessions	257,282	19,064	-	7,650	-	283,996
Exploration	198,714	13,000	-	(9,493)	24,934	227,155
Development and stripping costs	436,243	49,813	-	167	86,466	572,689
Closing of mining units	73,456	(1,485)	-	-	-	71,971
Other intangible assets	15,393	67,490	-	34	-	82,917
	<b>981,088</b>	<b>147,882</b>	<b>-</b>	<b>(1,642)</b>	<b>111,400</b>	<b>1,238,728</b>
<b><u>Accumulated amortization</u></b>						
Mining rights and concessions	(166,400)	(5,679)	-	5	-	(172,074)
Exploration	(79,162)	(5,358)	-	2,341	-	(82,179)
Development and stripping costs	(313,236)	(31,955)	-	(2)	-	(345,193)
Closing of mining units	(22,686)	(4,834)	-	-	-	(27,520)
Other intangible assets	(8,066)	(1,052)	-	-	-	(9,118)
	<b>(589,550)</b>	<b>(48,878)</b>	<b>-</b>	<b>2,344</b>	<b>-</b>	<b>(636,084)</b>
<b>Net cost</b>	<b>391,538</b>					<b>602,644</b>
<u>2015</u>						
<b>Cost</b>	1,347,723	72,105	-	(53,678)	(385,062)	981,088
Accumulated depreciation	(580,100)	(65,964)	-	56,514	-	(589,550)
<b>Net cost</b>	<b>767,623</b>					<b>391,538</b>

## 9. Financial Obligations:

The activity and composition of this heading are presented below:

	Reference	Balances as of January 1, 2016	Loans	Payment	Saldos al 31 de diciembre del 2016	Current	Non-current
	S/. (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)
<b>Financial Institutions - leasing</b>							
Banco de Credito del Perú		719	-	(349)	370	339	31
Banco internacional del Perú-Interbank		9,326	-	(6,452)	2,874	2,511	363
Scotiabank Perú S.A.A.		11,539	306	(3,801)	8,044	2,091	5,953
Banco Continental		4,476	-	(2,355)	2,121	1,564	557
<b>Financial Institutions - loans</b>							
Itau Unibanco - Nassau Branch		27,500	-	(3,929)	23,571	3,929	19,642
Itau Unibanco - Nassau Branch		10,000	3,000	(13,000)	-	-	-
Scotiabank Perú S.A.A.		-	20,000	(20,000)	-	-	-
Atlas Copco Financial Solutions AB		-	-	-	-	-	-
Scotiabank Perú S.A.A.		-	80,000	-	80,000	80,000	-
Atlas Copco Financial Solutions AB		-	1,469	(286)	1,183	489	694
Itau Corpbanca		-	15,000	(15,000)	-	-	-
<b>Financial Institutions - synthetic loans</b>							
Scotiabank Perú S.A.A.	246,320	80,000	-	(80,000)	-	-	-
Banco Continental	380,910	110,000	110,000	(110,000)	110,000	110,000	-
<b>Short term debt instruments</b>							
		-	50,000	-	50,000	50,000	-
<b>Bonds</b>							
		587,000	-	(51,736)	535,264	-	535,264
		<u>840,560</u>	<u>279,775</u>	<u>(306,908)</u>	<u>813,427</u>	<u>250,923</u>	<u>562,504</u>
Financial obligations current		(216,989)			(250,923)		
Financial obligations non-current		<u>623,571</u>			<u>562,504</u>		



## 10. Deferred Income tax

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

	As of December 31 2016	As of December 31 2015
	US\$(000)	US\$(000)
<b>Deferred assets with effect on gains (losses)</b>		
Recoverable tax losses	70,635	52,520
Provision for the closing of mining units	24,730	19,558
Contingencies provisions	12,948	396
Derivative financial instruments and premiums	4,529	
Vacation payments outstanding	2,583	1,968
Estimate for impairment of supplies	2,513	1,084
Royalties	1,542	861
Provision for doubtful accounts	1,497	
Allowance for impairment of assets	-	42,692
Losses unrealized on derivative financial instruments	-	10,735
Sales adjustment	-	1,589
Embedded derivative	-	793
Other minors	482	-
<b>Deferred assets</b>	<b>121,459</b>	<b>132,196</b>
<b>Deferred liabilities with effect on gains (losses)</b>		
Sales adjustment	3,680	-
Value of stock piles	2,310	1,901
Estimate for values of share	1,584	1,802
Amortization of mining rights and concessions, exploration, development and stripping costs	999	-
Bond issuance expenses	685	611
Embedded derivative	211	-
Fair value of derivative financial instruments and premiums	-	1,766
Other minors	-	100
<b>Deferred liabilities</b>	<b>9,469</b>	<b>6,180</b>

(b) The income tax expense carried in the income statement:

	For the period from October 1 to December 31		For the cumulative period from January 1 to December 31	
	2016 US\$(000)	2015 US\$(000)	2016 US\$(000)	2015 US\$(000)
Income Tax				
Current	(14,543)	101	(36,619)	(18,776)
Deferred	6,587	176,808	1,241	208,521
	<u>(7,956)</u>	<u>176,909</u>	<u>(35,378)</u>	<u>189,745</u>
Tax on mining royalties	(7,139)	(3,073)	(13,011)	(11,935)
Contribution to the retirement fund	(264)	-	(655)	(317)
<b>Total income (loss) tax expense</b>	<b><u>(15,359)</u></b>	<b><u>173,836</u></b>	<b><u>(49,044)</u></b>	<b><u>177,493</u></b>

## 11. 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, 182,375,312 class "A" shares and 12,234,901 class "B" shares are held by subsidiary Empresa Minera Paragsha S.A.C., 23,442,345 class "A" shares by subsidiary Compañía Minera Chungar S.A.C .

Both class "A" and class "B" common shares listed in the Lima Stock Exchange were frequently traded by the stock market. As of December 31, 2016, their quotation was S/ 1.41 and S/ 0.72 per share, respectively (S/ 1.09 and S/ 0.19 per share, respectively, as of December 31, 2015). As of December 31, 2016, the trading frequency for class "A" shares was 60 percent, and for class "B" shares 100 percent (for class "A" shares was 20 percent, and for class "B" shares 100 percent as of December 31, 2015).

On March 31, 2016, the General Meeting of Shareholders agreed to reduce the share capital of the Company S/ 529,954,383 of S/ 4,076,572,175 to S/ 3,546,617,792 by reducing the nominal value of all the Class "A" and Class "B" issued by the Company, ie, affecting the 4,076,572.175 shares issued by the Company, whose nominal value is reduced to S/ 1.00 to S/ 0.87.

At the board meeting held on July 5, 2016, the directors approved the distribution of cash dividends of up to S/ 52,484,125.70 (equivalent to US\$.15,967,181) in favor of the shareholders, which correspond to the profits of fiscal year 2015. Said dividends were paid on August 9, 2016.

## 12. Net Sales

(a) The table herein below provides a detail of net sales:

	For the period from October 1 to December 31		For the cumulative period from January 1 to December 31	
	2016 US\$(000)	2015 US\$(000)	2016 US\$(000)	2015 US\$(000)
Net concentrate sales				
Zinc	127,325	103,354	420,309	440,472
Lead	49,667	43,235	207,052	212,507
Copper	5,256	6,402	20,779	25,818
Silver	20,935	20,550	72,437	93,580
Bulk	4,828	2,314	20,493	2,314.00
Silver Bars	18,765	17,320	74,078	61,633
Golds Bars	-	-	712	-
Final settlement adjustments	9,500	(13,165)	12,305	(37,544)
	<u>236,276</u>	<u>180,010</u>	<u>828,165</u>	<u>798,780</u>
Gain (loss) realized on financial instruments	(6,992)	2,874	(25,976)	298
Sales adjustment for the current period (b)	2,627	10,111	14,831	4,132
Embedded derivatives for the current period (c)	(5,518)	(11,290)	4,528	(8,696)
	<u>226,393</u>	<u>181,705</u>	<u>821,548</u>	<u>794,514</u>

(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. Sales agreements are related to future market prices. 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 December 31, 2016 and 2015, 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 gain for US\$ 14,831 thousands and US\$ 4,132 thousands in the twelve-months periods ended December 31, 2016 and 2015; respectively, and are shown as part of net sales.

(c) Embedded derivatives

As of December 31, 2016 the fair value of embedded derivatives yielded profit for US\$ 4,528 thousands (US\$ 8,696 thousands of loss as of December 31, 2015). It is shown in net sales in consolidated income statement. The price forecasts of our open positions as of December 31, 2016 and 2015 have been taken from entities that work with the London Metal Exchange (LME) publications.

13. Cost of Sales

The composition of this below:

	For the period from October 1 to December 31		For the cumulative period from January 1 to December 31	
	2016 US\$(000)	2015 US\$(000)	2016 US\$(000)	2015 US\$(000)
Concentrates beginning inventory	13,453	23,435	19,335	24,789
Raw materials (extracted ore) beginning inventory	27,088	30,736	28,726	31,466
<b>Production cost:</b>				
Labor	17,442	7,021	63,937	67,387
Rental, power and other expenses	56,350	65,260	220,681	237,890
Supplies used	27,882	26,115	103,430	111,224
Depreciation and amortization	29,057	17,223	116,740	155,267
Purchase of concéntrate	20,649	19,041	63,043	80,611
Exceptionals, others	1,071	1,567	458	2,629
Less - concentrates ending inventory	(8,046)	(19,335)	(8,046)	(19,335)
Less - raw materials (extracted ore) ending inventory	(27,080)	(28,726)	(27,080)	(28,726)
	<u>157,866</u>	<u>142,337</u>	<u>581,224</u>	<u>663,202</u>