

Volcan Compañía Minera S.A.A. and Subsidiaries

Consolidated interim financial information (unaudited) as of
June 30, 2017 and 2016

Volcan Compañía Minera S.A.A. and Subsidiaries

Consolidated Statement of Financial Position

As of June 30, 2017 (unaudited) and as of December 31, 2016 (audited)

	Note	June 30, 2017 US\$(000)	December 31, 2016 US\$(000)
Assets			
Current Assets			
Cash and cash equivalents	4	201,334	203,351
Trade accounts receivable, net		48,941	69,121
Other accounts receivable		324,451	350,479
Other financial assets	6	43,848	43,248
Inventories, net	5	89,995	90,553
Total current assets		708,569	756,752
Non-current Assets			
Other accounts receivable		30,519	30,213
Other financial assets	6	6,894	21,159
Investments in associates		442	442
Property, plant and equipment, net	7	1,012,915	1,021,428
Mining exploration and evaluation cost, net	8	591,584	579,738
Deferred income tax asset	10	265,488	274,811
Total non-current assets		1,907,842	1,927,791
Total assets		2,616,411	2,684,543
Liabilities and Net Stockholders' Equity			
Current Liabilities			
Overdrafts		18,558	30,256
Trade accounts payable		197,119	211,244
Other accounts payable		68,217	111,161
Other financial liabilities	6	107,337	105,228
Financial obligations	9	178,583	250,923
Total current liabilities		569,814	708,812
Non-current Liabilities			
Other financial liabilities	6	7,263	24,570
Financial obligations	9	629,214	562,504
Deferred income tax liability	10	161,425	162,050
Provision for contingencies		34,379	34,449
Provision for closing of mining units		70,272	70,528
Total non-current liabilities		902,553	854,101
Total liabilities		1,472,367	1,562,913
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Issued capital	11	1,253,181	1,253,181
Treasury stock		(196,859)	(196,778)
Other capital reserves		3,553	3,553
Capital reserve		20,208	20,298
Unrealized gains (loss)		326	-
Retained earnings		63,635	41,376
Total net stockholders' equity		1,144,044	1,121,630
Total liabilities and net stockholders' equity, net		2,616,411	2,684,543

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 June 30, 2017 and 2016

	For the period from April 1 to June 30		For the cumulative period from to June 30	
	2017	2016	2017	2016
	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Sales, Note 12	202,138	196,756	407,634	380,168
Cost of Sales, Note 13	(145,145)	(142,777)	(283,441)	(278,574)
Gross Income	56,993	53,979	124,193	101,594
Operating income (expenses)				
Administrative expenses	(11,647)	(11,062)	(22,147)	(20,402)
Selling expenses	(7,310)	(8,861)	(15,014)	(15,472)
Other income	13,562	7,572	22,099	30,127
Other expenses	(14,643)	(11,579)	(24,806)	(24,336)
	(20,038)	(23,930)	(39,868)	(30,083)
Operating income	36,955	30,049	84,325	71,511
Financial income (expenses)				
Financial income	2,433	3,473	4,363	5,530
Financial expenses	(10,045)	(10,984)	(21,423)	(21,619)
Exchange difference, net	1,156	267	1,286	932
Total other income (expenses), net	(6,456)	(7,244)	(15,774)	(15,157)
Income before income tax	30,499	22,805	68,551	56,354
Income tax, Note 10(b)	(14,947)	(7,412)	(29,459)	(21,615)
Net income	15,552	15,393	39,092	34,739
Net earnings per share	0.004	0.004	0.010	0.009
Weighted average of outstanding shares (in thousands)	3,858,268	3,858,677	3,858,268	3,858,677

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 June 30, 2017 and 2016 (unaudited)

	For the period from April 1 to June 30		For the cumulative period from January 1 to June 30	
	2017	2016	2017	2016
	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Net income	15,552	15,393	39,092	34,739
Other comprehensive income (loss):				
Net change in gains (losses) unrealized on derivative instruments	1,704	9,803	462	9,982
Income tax	(503)	(2,745)	(136)	(2,795)
Other comprehensive income (loss) net of income tax	1,201	7,058	326	7,187
Total comprehensive income	16,753	22,451	39,418	41,926

The accompanying notes are an integral part of this statement.

Vulcan Compañía Minera S.A.A. and Subsidiaries
Statement of changes in the Net Stockholders' Equity
For the period from January 1 to June 30, 2017 and 2016 (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)
Balances as of January 1, 2016	1,531,743	(240,450)	119,837	20,296	(25,563)	(378,364)	1,027,499
Net income	-	-	-	-	-	34,739	34,739
Net change in gains unrealized on derivative instruments	-	-	-	-	7,187	-	7,187
Comprehensive income for the period	-	-	-	-	7,187	34,739	41,926
Reduction of Capital	(278,562)	43,725	(116,516)	-	-	351,353	-
Legal reserve allocation	-	-	232	-	-	(232)	-
Conversion effect	-	-	-	-	-	2,768	2,768
Balances as of June 30, 2016	1,253,181	(196,725)	3,553	20,296	(18,376)	10,264	1,072,193
Balances as of January 1, 2017	1,253,181	(196,778)	3,553	20,298	-	41,376	1,121,630
Net income	-	-	-	-	-	39,092	39,092
Net change in gains unrealized on derivative instruments	-	-	-	-	326	-	326
Comprehensive income for the period	-	-	-	-	326	39,092	39,418
Allocation of dividends corresponding to 2016	-	-	-	-	-	(14,066)	(14,066)
Increase (decrease) in treasury stock transactions	-	(81)	-	(90)	-	-	(171)
Conversion effect	-	-	-	-	-	(2,767)	(2,767)
Balances as of June 30, 2017	1,253,181	(196,859)	3,553	20,208	326	63,635	1,144,044

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 June 30, 2017 and 2016 (Note 2C)

	June 30, 2017	June 30, 2016
	US\$(000)	US\$(000)
Operating activities		
Collection of sales proceeds	468,823	390,327
Refund of the credit balance in favor of the exporter and taxes	32,989	35,032
Payments to suppliers and third parties	(281,608)	(275,992)
Payments to workers	(48,777)	(36,933)
Income tax payments	(31,409)	(5,709)
Royalties	(8,194)	(4,595)
Expenses for coverage	(4,152)	(18,208)
Cash flows from operating activities	127,672	83,922
Investing activities		
Dividends received	-	303
Purchase of investment property	(20,923)	(22,501)
Disbursements for the acquisition of mining rights, property, plant and equipment	(28,249)	(22,314)
Disbursements for exploration and development activities	(39,905)	(31,526)
Other cash receipts related to the investment activity	992	-
Cash flows (used in) investment activities	(88,085)	(76,038)
Financing activities		
Increase (decrease) in financial obligations	(7,742)	13,074
Interest payment	(19,796)	(20,038)
Dividends	(14,066)	(32)
Cash flows (used in) from financing activities	(41,604)	(6,996)
Increase (Decrease) in cash and cash equivalents for the period	(2,017)	888
Cash and cash equivalents at the beginning of the period	203,351	192,307
Cash and cash equivalents at the end of the period	201,334	193,195

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 June 30, 2017 and December 31, 2016

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 Olgún 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 commercialization 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 June 30, 2017 were approved by the Company's Management on July 26, 2017. The consolidated financial statements as of December 31, 2016 were approved by the Shareholders' Meeting on February 14, 2017.

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

	Percentage of director or indirect interest in the capital	
	June 30, 2017	December 31, 2016
Subsidiaries:		
Empresa Administradora Chungar S.A.C	-	-
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
Terminales Portuarios Chancay S.A.	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 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 thousand, 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 de Puertos S.A.C. (today Terminales Portuarios Chancay S.A.) capitalizes the debts it maintains with Volcan Compañía Minera S.A.A. equivalent to S/ 145,849 thousand.

On May 1, 2017, the merger of Empresa Administradora de Puertos S.A.C. and Terminales Portuarios Chancay S.A. (survivor company) took place. On May 31, 2017, Terminales Portuarios Chancay S.A. capitalizes the debts it maintains with Volcan Compañía Minera S.A.A. and Empresa Administradora Cerro S.A.C. equivalent to S/ 11,124 thousand and S/ 59,222 thousand, respectively.

(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 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 March 31, 2017 the outstanding liability amounts to US\$ 535,264 thousand.

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 six-month periods ended June 30, 2017 and 2016 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 2016.

For a correct reading of the financial statement, certain reclassification have been made in 2016.

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 twelve 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 June 30, 2017	As of December 31, 2016
	US\$(000)	US\$(000)
Funds available:		
Cash	16	16
Fixed fund	33	32
Bank checking accounts	108,089	124,999
Term deposits	-	8,700
Mutual funds	30,375	6,795
Financial investments foreing	62,406	62,406
Funds subject to restriction	415	403
	201,334	203,351

5. Inventories

The composition of this heading is presented below :

	As of June 30 2017	As of December 31 2016
	US\$(000)	US\$(000)
Concentrates	5,592	8,046
Raw material (extracted ore)	25,850	27,079
Miscellaneous supplies	58,422	55,972
Inventories in transit	1,139	464
Value of stockpiles	7,752	7,752
Allowance for obsolescence of spare parts and supplies (a)	(8,760)	(8,760)
	<u>89,995</u>	<u>90,553</u>

The company's Management estimates that the balances carried under "Inventories" do not exceed their net realization values as of June 30, 2017 and as of December 31, 2016.

(a) In the opinion of the Company's Management, the allowance for obsolescence of spare parts and supplies adequately covers such risk as of June 30, 2017 and as of December 31, 2016.

6. Other financial assets (liabilities)

Here in below is the composition of receivables:

	As of June 30 2017	As of December 31 2016
	US\$(000)	US\$(000)
Fair value of hedging derivatives	461	-
Fair value of trading derivatives	33,989	42,831
Settled derivative financial instruments and premiums	9,861	16,623
Embedded derivative related to sales of concentrates	6,431	4,953
	<u>50,742</u>	<u>64,407</u>
Less: non-current portion	(6,894)	(21,159)
Current portion	<u>43,848</u>	<u>43,248</u>

Here in below is the composition of payables:

	As of June 30 2017	As of December 31 2016
	US\$ (000)	US\$ (000)
Fair value of hedging derivatives	1,483	-
Fair value of trading derivatives	7,207	14,820
Settled derivative financial instruments and premiums	104,325	111,731
Embedded derivative related to sales of concentrates	33	3,247
	<u>113,048</u>	<u>129,798</u>
Fair value of swaps of rates associated with of loans	1,552	-
	<u>1,552</u>	-
	<u>114,600</u>	<u>129,798</u>
Less: non-current portion	(7,263)	(24,570)
Current portion	<u>107,337</u>	<u>105,228</u>

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 June 30, 2017 the Company has executed price hedging operations contracts 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, 2015	(35,504)	9,941	(25,563)
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>
Total change in hedging derivative financial instruments	462	(136)	326
Balances as of June 30, 2017	<u>462</u>	<u>(136)</u>	<u>326</u>

/, **Property, Plant and Equipment, net**

The activity and composition of this heading are presented below.

	Balances as of January 1, 2017	Additions	Write-offs	Adjustments	Impairment	Balances as of June 30, 2017
<u>2017</u>	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)
<u>Cost</u>						
Land	7,751	180	-	-	-	7,931
Buildings and other constructions	787,249	936	-	26,798	-	814,983
Environmental management program infrastr	22,874	-	-	(28)	-	22,846
Machinery and equipment	303,219	280	(609)	(592)	-	302,298
Transportation units	11,999	451	-	-	-	12,450
Furniture and fixtures and IT equipment	13,284	93	-	-	-	13,377
Miscellaneous equipment	430,822	4,165	-	107	-	435,094
Units in transit	1,059	3,417	-	1	-	4,477
Works in progress	167,835	20,975	-	(25,288)	-	163,522
	1,746,092	30,497	(609)	998	-	1,776,978
<u>Accumulated depreciation</u>						
Buildings and other constructions	(158,633)	(19,619)	-	(1)	-	(178,253)
Environmental management program infrastr	(22,076)	(97)	-	1	-	(22,172)
Machinery and equipment	(253,328)	(6,920)	546	1	-	(259,701)
Transportation units	(10,737)	(204)	-	-	-	(10,941)
Furniture and fixtures and IT equipment	(8,273)	(447)	-	-	-	(8,720)
Miscellaneous equipment	(271,617)	(12,659)	-	-	-	(284,276)
	(724,664)	(39,946)	546	1	-	(764,063)
Net cost	1,021,428					1,012,915
<u>2016</u>						
Cost	1,737,714	101,322	(11,789)	(45,276)	(35,879)	1,746,092
Accumulated depreciation	(649,654)	(85,085)	10,075	-	-	(724,664)
Net cost	1,088,060					1,021,428

8. **Mining exploration and evaluation costs, net**
The activity and composition of this heading are presented below.

	Balances as of January 1, 2017	Additions	Write-offs	Adjustments	Impairment	Balances as of June 30, 2017
<u>2017</u>	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)
<u>Cost</u>						
Mining rights and concessions	285,211	(306)	-	(1,367)	-	283,538
Exploration	227,155	9,126	-	(1,658)	-	234,623
Development and stripping costs	548,568	33,879	-	1,236	-	583,683
Closing of mining units	71,971	-	-	-	-	71,971
Other intangible assets	82,917	379	-	8	-	83,304
	1,215,822	43,078	-	(1,781)	-	1,257,119
<u>Accumulated amortization</u>						
Mining rights and concessions	(172,074)	(4,400)	-	-	-	(176,474)
Exploration	(82,179)	(5,352)	-	577	-	(86,954)
Development and stripping costs	(345,193)	(16,759)	-	(577)	-	(362,529)
Closing of mining units	(27,520)	(2,417)	-	-	-	(29,937)
Other intangible assets	(9,118)	(523)	-	-	-	(9,641)
	(636,084)	(29,451)	-	-	-	(665,535)
Net cost	579,738					591,584
<u>2016</u>						
Cost	981,088	149,097	(1,642)	-	87,279	1,215,822
Accumulated depreciation	(589,550)	(48,878)	2,344	-	-	(636,084)
Net cost	391,538					579,738

9. Financial Obligations

The activity and composition of this heading are presented below.

	Balances as of January 1, 2017	Loans	Payment	Balances as of June 30, 2017	Current	Non-current
	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)
Financial Institutions - leasing						
Banco de Credito del Perú	370	-	(121)	249	218	31
Banco internacional del Perú-Interbank	2,874	417	(1,505)	1,786	1,268	518
Scotiabank Perú S.A.A.	8,044	-	(1,175)	6,869	1,694	5,175
Banco Continental	2,121	-	(917)	1,204	985	219
Financial Institutions - loans						
Itau Unibanco - Nassau Branch	23,571	-	(1,962)	21,609	3,929	17,680
Scotiabank Perú S.A.A.	-	20,000		20,000	20,000	-
Citibank NA, New York	-	70,000		70,000	-	70,000
Scotiabank Perú S.A.A.	80,000	-	(40,000)	40,000	40,000	-
Atlas Copco Financial Solutions AB	1,183	-	(367)	816	489	327
ITAU Corbanca New York		20,000	(20,000)	-	-	-
Banco Continental	20,000	-	(20,000)	-	-	-
Banco Continental	50,000	-	(50,000)	-	-	-
Banco Continental	40,000	-	(40,000)	-	-	-
Banco Continental	-	60,000	-	60,000	60,000	-
Bonds	535,264	-	-	535,264	-	535,264
Short term debt instruments	50,000	50,000	(50,000)	50,000	50,000	-
	813,427	220,417	(226,047)	807,797	178,583	629,214
Financial obligations current	(250,923)			(178,583)		
Financial obligations non-current	562,504			629,214		

10. Deferred Income tax

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

	As of June 30 2017 US\$(000)	As of December 31 2016 US\$(000)
Deferred assets with effect on gains (losses)		
Provision for impairment	152,581	152,581
Recoverable tax losses	63,250	70,635
Provision for the closing of mining units	24,093	24,730
Contingencies provisions	12,871	12,948
Derivative financial instruments and premiums	3,290	4,529
Vacation payments outstanding	2,038	2,583
Estimate for impairment of supplies	2,513	2,513
Provision for doubtful accounts	1,497	1,497
Provision of mining royalties	988	1,542
Cost provisions and social responsibility	1,105	-
Other minors	1,262	1,253
Deferred assets	265,488	274,811
Deferred liabilities with effect on gains (losses)		
Amortization of mining rights and concessions, exploration, development and stripping costs	155,309	153,580
Sales adjustment	239	3,680
Value of stock piles	2,310	2,310
Estimate for values of share	1,392	1,584
Bond issuance expenses	685	685
Embedded derivative	1,490	211
Deferred liabilities	161,425	162,050

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

	For the period from April 1 to June 30		For the cumulative period from January 1 to June 30	
	2017 US\$(000)	2016 US\$(000)	2017 US\$(000)	2016 US\$(000)
Income Tax				
Current	(9,565)	(9,403)	(15,459)	(13,965)
Deferred	(2,242)	4,728	(6,909)	(3,389)
	<u>(11,807)</u>	<u>(4,675)</u>	<u>(22,368)</u>	<u>(17,354)</u>
Tax on mining royalties	(3,037)	(2,570)	(6,810)	(4,014)
Contribution to the retirement fund	(103)	(167)	(281)	(247)
Total income (loss) tax expense	<u>(14,947)</u>	<u>(7,412)</u>	<u>(29,459)</u>	<u>(21,615)</u>

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, 182,627,097 class "A" shares and 12,234,901 class "B" shares are held by subsidiary Empresa Minera Paragsha S.A.C., 23,442,075 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 June 30, 2017, their quotation was S/ 2.00 and S/ 0.83 per share, respectively (S/ 1.41 and S/ 0.72 per share, respectively, as of December 31, 2016). As of June 30, 2017, the trading frequency for class "A" shares was 10 percent, and for class "B" shares 100 percent (for class "A" shares was 60 percent, and for class "B" shares 100 percent as of December 31, 2016).

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, i.e., 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 2014. Said dividends were paid on August 9, 2016.

At the board meeting held on January 23, 2017, the directors approved the distribution of cash dividends of up to S/ 49,105,817 (equivalent to US\$.15,114,133) in favor of the shareholders, which correspond to the profits of fiscal year 2014. Said dividends were paid on February 28, 2017.

12. Net Sales

The table herein below provides a detail of net sales:

	For the period from April 1 to June 30		For the cumulative period from January 1 to June 30	
	2017 US\$(000)	2016 US\$(000)	2017 US\$(000)	2016 US\$(000)
Net concentrate sales				
Zinc	119,006	95,716	236,550	176,181
Lead	47,981	53,344	87,316	106,729
Copper	12,821	3,091	20,243	9,820
Silver	9,638	19,218	24,926	33,889
Bulk	0	6,272	3,972	8,270.00
Silver Bars	18,053	19,179	33,606	33,360
Gold Bars	-	-	-	712.00
Final settlement adjustments	108	(2,765)	5,136	(9,780)
	<u>207,607</u>	<u>194,055</u>	<u>411,749</u>	<u>359,181</u>
Gain (loss) realized on financial instruments	(295)	(16,095)	2,562	(4,300)
Sales adjustment for the current period (a)	(9,881)	4,659	(11,369)	7,455
Embedded derivatives for the current period (b)	4,707	14,137	4,692	17,832
	<u>202,138</u>	<u>196,756</u>	<u>407,634</u>	<u>380,168</u>

(a) 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 June 30, 2017 and 2016, 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 loss for US\$ 11,369 thousand and gain US\$ 7,455 thousand in the six-months periods ended June 30, 2017 and 2016; respectively, and are shown as part of net sales.

(b) Embedded derivatives

As of June 30, 2017 the fair value of embedded derivatives yielded gain for US\$ 4,692 thousand (US\$ 17,832 thousand of gain as of June 30, 2016). It is shown in net sales in consolidated income statement. The price forecasts of our open positions as of June 30, 2017 and 2016 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 April 1 to June 30		For the cumulative period from January 1 to June 30	
	2017 US\$(000)	2016 US\$(000)	2017 US\$(000)	2016 US\$(000)
Concentrates beginning inventory	5,259	17,342	8,046	19,335
Raw materials (extracted ore) beginning inventory	26,492	27,554	27,079	28,726
Production cost:				
Labor	17,732	16,336	33,114	30,477
Rental, power and other expenses	57,582	54,707	112,171	108,968
Supplies used	27,913	24,873	54,996	49,912
Depreciation and amortization	33,692	28,738	63,304	58,744
Purchase of concentrate and minerals	6,076	14,014	12,504	26,253
Exceptionals, others	1,841	329	3,669	(2,725)
Less - concentrates ending inventory	(5,592)	(14,088)	(5,592)	(14,088)
Less - raw materials (extracted ore) ending inventory	(25,850)	(27,028)	(25,850)	(27,028)
	<u>145,145</u>	<u>142,777</u>	<u>283,441</u>	<u>278,574</u>