

Volcan Compañía Minera S.A.A. and Subsidiaries

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

Volcan Compañía Minera S.A.A. and Subsidiaries

Consolidated Statement of Financial Position

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

| | Note | September 30, 2017 US\$(000) | December 31, 2016 US\$(000) |
|--|------|------------------------------------|-----------------------------------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | 4 | 213,138 | 203,351 |
| Trade accounts receivable, net | | 63,617 | 69,121 |
| Other accounts receivable | | 294,327 | 350,479 |
| Other financial assets | 6 | 52,854 | 43,248 |
| Inventories, net | 5 | 87,722 | 90,553 |
| Total current assets | | 711,658 | 756,752 |
| Non-current Assets | | | |
| Other accounts receivable | | 30,481 | 30,213 |
| Other financial assets | 6 | 2,676 | 21,159 |
| Investments in associates | | 442 | 442 |
| Property, plant and equipment, net | 7 | 1,106,206 | 1,021,428 |
| Mining exploration and evaluation cost, net | 8 | 610,503 | 579,738 |
| Deferred income tax asset | 10 | 266,605 | 274,811 |
| Total non-current assets | | 2,016,913 | 1,927,791 |
| Total assets | | 2,728,571 | 2,684,543 |
| Liabilities and Net Stockholders' Equity | | | |
| Current Liabilities | | | |
| Overdrafts | | 5 | 30,256 |
| Trade accounts payable | | 210,734 | 211,244 |
| Other accounts payable | | 70,549 | 111,161 |
| Other financial liabilities | 6 | 144,990 | 105,228 |
| Financial obligations | 9 | 178,046 | 250,923 |
| Total current liabilities | | 604,324 | 708,812 |
| Non-current Liabilities | | | |
| Other financial liabilities | 6 | 2,731 | 24,570 |
| Financial obligations | 9 | 626,522 | 562,504 |
| Deferred income tax liability | 10 | 189,968 | 162,050 |
| Provision for contingencies | | 34,380 | 34,449 |
| Provision for closing of mining units | | 70,010 | 70,528 |
| Total non-current liabilities | | 923,611 | 854,101 |
| Total liabilities | | 1,527,935 | 1,562,913 |
| Patrimonio neto | | | |
| Issued capital | 11 | 1,253,181 | 1,253,181 |
| Treasury stock | | (196,864) | (196,778) |
| Other capital reserves | | 15,397 | 3,553 |
| Capital reserve | | 20,203 | 20,298 |
| Unrealized gains (loss) | | (16,319) | - |
| Revaluation | | 46,605 | - |
| Retained earnings | | 78,433 | 41,376 |
| Total net stockholders' equity | | 1,200,636 | 1,121,630 |
| Total liabilities and net stockholders' equity, net | | 2,728,571 | 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 September 30, 2017 and 2016

| | For the cumulative period from July 1 to | | For the cumulative period from January 1 to | |
|--|---|------------------|--|------------------|
| | September 30 | | September 30 | |
| | 2017 | 2016 | 2017 | 2016 |
| | US\$(000) | US\$(000) | US\$(000) | US\$(000) |
| Sales, Note 12 | 232,466 | 214,987 | 640,100 | 595,155 |
| Cost of Sales, Note 13 | (142,644) | (144,784) | (426,085) | (423,358) |
| Gross Income | 89,823 | 70,203 | 214,016 | 171,797 |
| Operating income (expenses) | | | | |
| Administrative expenses | (12,426) | (9,996) | (34,573) | (30,398) |
| Selling expenses | (7,378) | (8,261) | (22,392) | (23,733) |
| Other income | 12,478 | 7,574 | 34,577 | 37,701 |
| Other expenses | (17,641) | (9,342) | (42,447) | (33,677) |
| | (24,967) | (20,025) | (64,835) | (50,107) |
| Operating income | 64,856 | 50,178 | 149,181 | 121,690 |
| Financial income (expenses) | | | | |
| Financial income | 1,913 | 2,724 | 6,276 | 8,254 |
| Financial expenses | (10,557) | (11,026) | (31,980) | (32,645) |
| Exchange difference, net | 601 | (3,468) | 1,887 | (2,537) |
| Total other income (expenses), net | (8,043) | (11,770) | (23,817) | (26,928) |
| Income before income tax | 56,813 | 38,408 | 125,364 | 94,762 |
| Income tax, Note 10(b) | (26,712) | (12,070) | (56,171) | (33,685) |
| Net income | 30,101 | 26,338 | 69,193 | 61,077 |
| Net earnings per share | 0.008 | 0.007 | 0.018 | 0.016 |
| Weighted average of outstanding shares (in thousands) | 3,858,253 | 3,858,677 | 3,858,253 | 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 September 30, 2017 and 2016

| | For the cumulative period from July 1 to September 30 | | For the cumulative period from January 1 to September 30 | |
|--|---|---------------|--|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| | US\$(000) | US\$(000) | US\$(000) | US\$(000) |
| Net income | 30,101 | 26,338 | 69,193 | 61,077 |
| Others comprehensive income (loss): | | | | |
| Net change in gains (losses) unrealized on derivate instruments | (23,609) | 11,604 | (23,148) | 21,587 |
| Income tax | 6,965 | (3,249) | 6,829 | (6,044) |
| Other comprehensive income (loss) net of income tax | (16,644) | 8,355 | (16,319) | 15,543 |
| Total comprehensive income | 13,457 | 34,693 | 52,874 | 76,620 |

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 (unaudited)

For the period from January 1 to September 30, 2017 and 2016

| | Capital Issued | Treasury stock | Other capital reserves | Revaluation | Capital reserve | Unrealized gains (loss) | Retained earnings | Total |
|--|------------------|------------------|------------------------|---------------|-----------------|-------------------------|-------------------|------------------|
| | US\$(000) | 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 | - | - | - | - | - | - | 61,077 | 61,077 |
| Net change in gains unrealized on derivative instruments | - | - | - | - | - | 15,543 | - | 15,543 |
| Comprehensive income for the period | - | - | - | - | - | 15,543 | 61,077 | 76,620 |
| Reduction of Capital | (278,562) | 43,725 | (116,516) | - | - | - | 351,353 | - |
| Dividends declared | - | - | - | - | - | - | (15,136) | (15,136) |
| Legal reserve allocation | - | - | 232 | - | - | - | (232) | - |
| Increase (decrease) in treasury stock transactions | - | (13) | - | - | 4 | - | - | (9) |
| Conversion effect | - | - | - | - | - | - | 2,768 | 2,768 |
| Balances as of September 30, 2016 | 1,253,181 | (196,738) | 3,553 | - | 20,300 | (10,020) | 21,466 | 1,091,742 |
| Balances as of January 1, 2017 | 1,253,181 | (196,778) | 3,553 | - | 20,298 | - | 41,376 | 1,121,630 |
| Net income | - | - | - | - | - | - | 69,193 | 69,193 |
| Net change in gains unrealized on derivative instruments | - | - | - | - | - | (16,319) | - | (16,319) |
| Comprehensive income for the period | - | - | - | - | - | (16,319) | 69,193 | 52,874 |
| Dividends declared | - | - | - | - | - | - | (14,057) | (14,057) |
| Reservation appropriation | - | - | 11,844 | - | - | - | (11,844) | - |
| Increase (decrease) in treasury stock transactions | - | (86) | - | - | (95) | - | - | (181) |
| Revaluation | - | - | - | 46,605 | - | - | - | 46,605 |
| Conversion effect | - | - | - | - | - | - | (6,235) | (6,235) |
| Balances as of September 30, 2017 | 1,253,181 | (196,864) | 15,397 | 46,605 | 20,203 | (16,319) | 78,433 | 1,200,636 |

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 September 30, 2017 and 2016 (Note 2C)

| | September 30, 2017 | September 30, 2016 |
|---|-----------------------|-----------------------|
| | US\$(000) | US\$(000) |
| Operating activities | | |
| Collection of sales proceeds | 711,223 | 640,950 |
| Refund of the credit balance in favor of the exporter and taxes | 44,256 | 39,645 |
| Payments to suppliers and third parties | (410,770) | (400,253) |
| Payments to workers | (73,427) | (66,101) |
| Income tax payments | (26,786) | (9,688) |
| Royalties | (11,912) | (7,011) |
| Expenses for coverage | (6,767) | (37,363) |
| Cash flows from operating activities | 225,817 | 160,179 |
| Investing activities | | |
| Dividends received | - | 303 |
| Purchase of investment property | (21,891) | (24,910) |
| Disbursements for the acquisition of mining rights, property, plant and equipment | (61,882) | (47,571) |
| Disbursements for exploration and development activities | (58,743) | (39,769) |
| Other cash receipts related to the investment activity | 1,372 | - |
| Cash flows (used in) investment activities | (141,144) | (111,947) |
| Financing activities | | |
| Increase (decrease) in financial obligations | 5,188 | 2,097 |
| Overdrafts | (30,251) | 30,942 |
| Repurchase of bonds | - | (38,052) |
| Interest payment | (35,757) | (36,049) |
| Repurchase of shares | - | 4 |
| Dividends | (14,066) | (15,380) |
| Cash flows (used in) from financing activities | (74,886) | (56,438) |
| Increase (Decrease) in cash and cash equivalents for the period | 9,787 | (8,206) |
| Cash and cash equivalents at the beginning of the period | 203,351 | 192,307 |
| Cash and cash equivalents at the end of the period | 213,138 | 184,101 |

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 September 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 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 September 30, 2017 were approved by the Company’s Management on October 27, 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 direct or indirect interest in the capital | |
|---|--|-------------------|
| | September 30, 2017 | December 31, 2016 |
| Subsidiaries: | | |
| 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 |
| Roquel Global S.A.C. | 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 Hidroelectrica Huancho S.A.C.

2. Basis of presentation, accounting principles and practices

Basis of presentation -

The consolidated interim financial statements (unaudited) for the nine-month periods ended September 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 September 30, 2017 | As of December 31, 2016 |
|-------------------------------|-----------------------------|----------------------------|
| | US\$(000) | US\$(000) |
| Funds available: | | |
| Cash | 372 | 16 |
| Fixed fund | 23 | 32 |
| Bank checking accounts | 120,973 | 96,438 |
| Term deposits (a) | 28,509 | 37,261 |
| Mutual funds | 441 | 6,795 |
| Financial investments foreing | 62,406 | 62,406 |
| Funds subject to restriction | 414 | 403 |
| | 213,138 | 203,351 |

(a) Herein below is the composition of term deposits as of September 30, 2017:

| Date | Nominal currency | Original term | Annual interest rate | As of september 30,2017 US\$(000) |
|------------|---------------------|---------------|----------------------|---|
| | | | % | |
| 30/09/2017 | U.S. Dollars | 1 month | 1.21% | 9,503 |
| 30/09/2017 | U.S. Dollars | 1 month | 1.25% | 9,503 |
| 30/09/2017 | U.S. Dollars | 1 month | 1.14% | 9,503 |
| | | | | 28,509 |

5. Inventories

The composition of this heading is presented below:

| | As of september 30, 2017 US\$(000) | As of December 31, 2016 US\$(000) |
|--|--|---|
| Miscellaneous supplies | 58,647 | 55,972 |
| Raw material (extracted ore) | 24,943 | 27,079 |
| Value of stockpiles | 7,752 | 7,752 |
| Concentrates | 4,765 | 8,046 |
| Inventories in transit | 527 | 464 |
| Allowance for obsolescence of spare parts and supplies (a) | (8,912) | (8,760) |
| | 87,722 | 90,553 |

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

6. Other financial assets (liabilities)

Here in below is the composition of receivables:

| | As of September 30 2017 | As of December 31 2016 |
|---|-------------------------------|------------------------------|
| | US\$(000) | US\$(000) |
| Fair value of trading derivatives | 43,337 | 42,831 |
| Settled derivative financial instruments and premiums | 9,091 | 16,623 |
| Embedded derivative related to sales of concentrates | 3,102 | 4,953 |
| | 55,530 | 64,407 |
| Less: non-current portion | (2,676) | (21,159) |
| Current portion | 52,854 | 43,248 |

Here in below is the composition of payables:

| | As of September 30 2017 | As of December 31 2016 |
|---|-------------------------------|------------------------------|
| | US\$(000) | US\$(000) |
| Fair value of hedging derivatives | 24,781 | - |
| Fair value of trading derivatives | 17,454 | 14,820 |
| Settled derivative financial instruments and premiums | 104,204 | 111,731 |
| Embedded derivative related to sales of concentrates | 141 | 3,247 |
| | 146,580 | 129,798 |
| Fair value of swaps of rates associated with of loans | 1,141 | - |
| | 1,141 | - |
| | 147,721 | 129,798 |
| Less: non-current portion | (2,731) | (24,570) |
| Current portion | 144,990 | 105,228 |

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 September 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 | - | - | - |
| Total change in hedging derivative financial instruments | (23,148) | 6,829 | (16,319) |
| Balances as of September 30, 2017 | (23,148) | 6,829 | (16,319) |

7. 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 | Revaluation | Balances as of September 30, 2017 |
|--|-----------------------------------|-----------------|-----------------|-------------|---------------|--------------------------------------|
| <u>2017</u> | US\$ (000) | US\$ (000) | US\$ (000) | US\$ (000) | US\$ (000) | US\$ (000) |
| Cost | | | | | | |
| Land | 7,751 | 20,355 | - | - | 62,896 | 91,002 |
| Buidings and other constructions | 787,249 | 7,102 | 905 | 42,346 | - | 837,602 |
| Environmental management program infrastrl | 22,874 | - | - | (28) | - | 22,846 |
| Machinery and equipment | 303,219 | 453 | (10,547) | 1,283 | - | 294,408 |
| Transportation units | 11,999 | 451 | (14) | - | - | 12,436 |
| Furniture and fixtures and IT equipment | 13,284 | 132 | (68) | - | - | 13,348 |
| Miscellaneous equipment | 430,822 | 6,854 | - | 107 | - | 437,783 |
| Units in transit | 1,059 | 6,999 | - | (162) | - | 7,896 |
| Works in progress | 167,835 | 41,561 | (421) | (42,675) | - | 166,300 |
| | 1,746,092 | 83,907 | (10,145) | 871 | 62,896 | 1,883,621 |
| Accumulated depreciation | | | | | | |
| Buidings and other constructions | (158,633) | (30,859) | 75 | (1) | - | (189,418) |
| Environmental management program infrastrl | (22,076) | (139) | - | 1 | - | (22,214) |
| Machinery and equipment | (253,328) | (9,918) | 7,950 | 1 | - | (255,295) |
| Transportation units | (10,737) | (313) | 14 | - | - | (11,036) |
| Furniture and fixtures and IT equipment | (8,273) | (668) | 68 | - | - | (8,873) |
| Miscellaneous equipment | (271,617) | (18,962) | - | - | - | (290,579) |
| | (724,664) | (60,859) | 8,107 | 1 | - | (777,415) |
| Net cost | 1,021,428 | | | | | 1,106,206 |
| <u>2016</u> | | | | | | |
| Cost | 1,737,714 | 101,323 | (11,789) | (45,276) | (35,880) | 1,746,092 |
| Accumulated depreciation | (649,654) | (85,086) | 10,076 | - | - | (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 | Revaluation | Balances as of September 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 | (235) | - | (909) | - | 284,067 |
| Exploration | 227,155 | 16,096 | - | (1,280) | - | 241,971 |
| Development and stripping costs | 548,568 | 54,867 | - | 1,236 | - | 604,671 |
| Closing of mining units | 71,971 | - | - | - | - | 71,971 |
| Other intangible assets | 82,917 | 2,342 | - | 8 | 3,139 | 88,406 |
| | 1,215,822 | 73,070 | - | (945) | 3,139 | 1,291,086 |
| <u>Accumulated amortization</u> | | | | | | |
| Mining rights and concessions | (172,074) | (6,666) | - | - | - | (178,740) |
| Exploration | (82,179) | (7,973) | - | 577 | - | (89,575) |
| Development and stripping costs | (345,193) | (25,449) | - | (577) | - | (371,219) |
| Closing of mining units | (27,520) | (3,625) | - | - | - | (31,145) |
| Other intangible assets | (9,118) | (786) | - | - | - | (9,904) |
| | (636,084) | (44,499) | - | - | - | (680,583) |
| Net cost | 579,738 | | | | | 610,503 |
| <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 September 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 | - | (276) | 94 | 94 | - |
| Banco internacional del Perú-Interbank | 2,874 | 417 | (2,372) | 919 | 670 | 249 |
| Scotiabank Perú S.A.A. | 8,044 | - | (1,888) | 6,156 | 2,047 | 4,109 |
| Banco Continental | 2,121 | - | (1,304) | 817 | 817 | - |
| Financial Institutions - loans | | | | | | |
| Itau Unibanco - Nassau Branch | 23,571 | - | (2,946) | 20,625 | 3,929 | 16,696 |
| 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 | - | (490) | 693 | 489 | 204 |
| 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 | - |
| | <u>813,427</u> | <u>220,417</u> | <u>(229,276)</u> | <u>804,568</u> | <u>178,046</u> | <u>626,522</u> |
| Financial obligations current | (250,923) | | | (178,046) | | |
| Financial obligations non-current | <u>562,504</u> | | | <u>626,522</u> | | |

10. Deferred Income tax

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

| | As of September 30 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 | 58,603 | 70,635 |
| Provision for the closing of mining units | 27,152 | 24,730 |
| Contingencies provisions | 12,890 | 12,948 |
| Derivative financial instruments and premiums | 4,529 | 4,529 |
| Vacation payments outstanding | 2,527 | 2,583 |
| Estimate for impairment of supplies | 2,513 | 2,513 |
| Provision for doubtful accounts | 1,497 | 1,497 |
| Provision of mining royalties | 1,912 | 1,542 |
| Cost provisions and social responsibility | 905 | - |
| Other minors | 1,496 | 1,253 |
| Deferred assets | 266,605 | 274,811 |
| Deferred liabilities with effect on gains (losses) | | |
| Amortization of mining rights and concessions, exploration, development and stripping costs | 162,155 | 153,580 |
| Revaluation | 19,480 | - |
| Sales adjustment | 2,777 | 3,680 |
| Value of stock piles | 2,310 | 2,310 |
| Estimate for values of share | 1,393 | 1,584 |
| Bond issuance expenses | 685 | 685 |
| Embedded derivative | 858 | 211 |
| Fair value of derivate financial instruments | 310 | - |
| Deferred liabilities | 189,968 | 162,050 |

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

| | For the period from July 1 to September 30 | | For the cumulative period from January 1 to September 30 | |
|--|---|-------------------|--|-------------------|
| | 2017 US\$(000) | 2016 US\$(000) | 2017 US\$(000) | 2016 US\$(000) |
| Income Tax | | | | |
| Current | (6,978) | (8,112) | (21,437) | (22,076) |
| Deferred | (13,366) | (1,957) | (20,275) | (5,346) |
| | <u>(20,344)</u> | <u>(10,068)</u> | <u>(41,712)</u> | <u>(27,422)</u> |
| Tax on mining royalties | (6,328) | (1,858) | (13,138) | (5,872) |
| Contribution to the retirement fund | (40) | (144) | (321) | (391) |
| Total income (loss) tax expense | (26,712) | (12,070) | (55,171) | (33,685) |

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, 182,642,291 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 September 30,2017, their quotation was S/ 2.70 and S/ 1.17 per share, respectively (S/ 1.41 and S/ 0.72 per share, respectively, as of December 31, 2016). As of September 30, 2017, the trading frequency for class “A” shares was 20 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 July 1 to September 30 | | For the cumulative period from January 1 to September 30 | |
|---|---|-------------------|---|-------------------|
| | 2017 US\$(000) | 2016 US\$(000) | 2017 US\$(000) | 2016 US\$(000) |
| Net concentrate sales | | | | |
| Zinc | 128,405 | 116,804 | 364,956 | 292,985 |
| Lead | 50,072 | 50,656 | 137,388 | 157,385 |
| Copper | 14,234 | 5,703 | 34,476 | 15,524 |
| Silver | 13,307 | 17,613 | 38,233 | 51,501 |
| Bulk | 3,961 | 7,395 | 7,934 | 15,665 |
| Silver Bars | 16,579 | 21,953 | 50,186 | 55,313 |
| Gold Bars | - | - | - | 712 |
| Final settlement adjustments | 2,215 | 12,585 | 7,351 | 2,805 |
| | <u>228,773</u> | <u>232,709</u> | <u>640,524</u> | <u>591,890</u> |
| Gain (loss) realized on financial instruments | (1,438) | (14,685) | 1,123 | (18,985) |
| Sales adjustment for the current period (a) | 8,568 | 4,749 | (2,802) | 12,204 |
| Embedded derivatives for the current period (b) | (3,437) | (7,786) | 1,255 | 10,046 |
| | <u>232,466</u> | <u>214,987</u> | <u>640,100</u> | <u>595,155</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 September 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\$ 2,802 thousand and gain US\$ 12,204 thousand in the nine-months periods ended September 30, 2017 and 2016; respectively, and are shown as part of net sales.

(b) Embedded derivatives

As of September 30, 2017 the fair value of embedded derivatives yielded gain for US\$ 1,255 thousand (US\$ 10,046 thousand of gain as of September 30, 2016). It is shown in net sales in consolidated income statement. The price forecasts of our open positions as of September 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 July 1 to September 30 | | For the cumulative period from January 1 to September 30 | |
|---|---|-------------------|--|-------------------|
| | 2017 US\$(000) | 2016 US\$(000) | 2017 US\$(000) | 2016 US\$(000) |
| Concentrates beginning inventory | 5,592 | 14,088 | 8,046 | 19,335 |
| Raw materials (extracted ore) beginning inventory | 25,850 | 27,028 | 27,079 | 28,726 |
| Production cost: | | | | |
| Labor | 16,681 | 16,018 | 49,795 | 46,495 |
| Rental, power and other expenses | 57,895 | 55,363 | 170,066 | 164,331 |
| Supplies used | 26,781 | 25,636 | 81,777 | 75,548 |
| Depreciation and amortization | 32,706 | 28,939 | 96,010 | 87,683 |
| Purchase of concentrate and minerals | 4,729 | 16,141 | 17,233 | 42,394 |
| Exceptionals, others | 2,118 | 2,112 | 5,787 | (613) |
| Less - concentrates ending inventory | (4,765) | (13,453) | (4,765) | (13,453) |
| Less - raw materials (extracted ore) ending inventory | (24,943) | (27,088) | (24,943) | (27,088) |
| | <u>142,644</u> | <u>144,784</u> | <u>426,085</u> | <u>423,358</u> |