

Volcan Compañía Minera S.A.A. and Subsidiaries

Consolidated interim financial information (unaudited) as of
September 30, 2018 and 2017

Volcan Compañía Minera S.A.A. and Subsidiaries

Consolidated Statement of Financial Position

As of September 30, 2018 (unaudited) and as of December 31, 2017 (audited)

	Note	September 30, 2018 US\$(000)	December 31, 2017 US\$(000)
Assets			
Current Assets			
Cash and cash equivalents	4	98,742	101,829
Financial investments		50,230	51,806
Trade accounts receivable, net		26,174	51,661
Subsidiaries accounts receivable		6,453	11,536
Other accounts receivable		168,344	160,929
Other financial assets	6	6,245	45,425
Inventories, net	5	66,258	71,672
Total current assets		422,446	494,858
Non-current Assets			
Other accounts receivable		7,045	3,378
Investments in associates		30	162
Property, plant and equipment, net	7	914,839	938,557
Mining exploration and evaluation cost, net	8	741,457	705,710
Deferred income tax asset	10	142,438	147,579
Total non-current assets		1,805,809	1,795,386
Total assets		2,228,255	2,290,244
Liabilities and Net Stockholders' Equity			
Current Liabilities			
Overdrafts		2	4,005
Trade accounts payable		179,381	209,962
Subsidiaries accounts payable		673	87
Other accounts payable		113,716	91,958
Other financial liabilities	6	56,069	126,619
Financial obligations	9	195,323	173,386
Total current liabilities		545,164	606,017
Non-current Liabilities			
Financial obligations	9	593,845	628,987
Other financial liabilities	6	560	
Deferred income tax liability	10	284,244	276,842
Provision for contingencies		19,343	38,835
Provision for closing of mining units		134,028	134,890
Total non-current liabilities		1,032,020	1,079,554
Total liabilities		1,577,184	1,685,571
Patrimonio neto			
Issued capital	11	1,134,300	1,134,300
Treasury stock		(61,285)	(61,222)
Other capital reserves		1,055	1,055
Capital reserve		(172,775)	(174,320)
Unrealized gains (loss)		(385)	(20,511)
Revaluation		46,762	46,554
Retained earnings		(296,601)	(321,183)
Total net stockholders' equity		651,071	604,673
Total liabilities and net stockholders' equity, net		2,228,255	2,290,244

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, 2018 and 2017

	For the period from July		For the cumulative period	
	1 to September 30		from January 1	
	2018	2017	2018	2017
	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Sales, Note 12	189,308	232,466	602,065	640,100
Cost of Sales, Note 13	(135,388)	(142,643)	(394,612)	(426,084)
Gross Income	53,920	89,823	207,453	214,016
Operating income (expenses)				
Administrative expenses	(18,058)	(12,426)	(40,702)	(34,573)
Selling expenses	(6,338)	(7,378)	(19,541)	(22,392)
Other income	9,829	12,478	28,847	34,577
Other expenses	(14,325)	(17,641)	(54,647)	(42,447)
	(28,892)	(24,967)	(86,043)	(64,835)
Operating income	25,028	64,856	121,410	149,181
Financial income (expenses)				
Financial income	115	1,913	396	6,276
Financial expenses	(9,471)	(10,557)	(28,870)	(31,980)
Exchange difference, net	(1,368)	601	(2,047)	1,887
Total other income (expenses), net	(10,724)	(8,043)	(30,521)	(23,817)
Income before income tax	14,304	56,813	90,889	125,364
Income tax, Note 10(b)	(13,047)	(26,712)	(49,577)	(56,171)
Net income	1,257	30,101	41,312	69,193
Net earnings per share	0.000	0.008	0.011	0.018
Weighted average of outstanding shares (in thousands)	3,858,003	3,858,253	3,858,003	3,858,253

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, 2018 and 2017

	For the cumulative period from July 1 to September 30		For the cumulative period from January 1 to September 30	
	2018 US\$(000)	2017 US\$(000)	2018 US\$(000)	2017 US\$(000)
Net income	1,257	30,101	41,312	69,193
Others comprehensive income (loss):				
Net change in gains (losses) unrealized on derivate instruments and Financial investments	118	(23,609)	28,548	(23,148)
Income tax	(35)	6,965	(8,422)	6,829
Other comprehensive income (loss) net of income tax	83	(16,644)	20,126	(16,319)
Total comprehensive income	1,340	13,457	61,438	52,874

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, 2018 and 2017

	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)
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)
Dividends declared	-	-	-	-	-	-	(14,057)	(14,057)
Reserve Appropriation	-	-	11,844	-	-	-	(11,844)	-
Revaluation	-	-	-	46,605	-	-	-	46,605
Increase (decrease) in treasury stock transactions	-	(86)	-	-	(95)	-	-	(181)
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
Balances as of January 1, 2018	1,134,300	(61,222)	1,055	46,554	(174,320)	(20,511)	(321,183)	604,673
Net income	-	-	-	-	-	-	41,312	41,312
Net change in gains unrealized on derivative instruments	-	-	-	-	-	20,126	-	20,126
Dividends declared	-	-	-	-	1,733	-	(16,641)	(14,908)
Conversion effect	-	(63)	-	208	(188)	-	(89)	(132)
Balances as of September 30, 2018	1,134,300	(61,285)	1,055	46,762	(172,775)	(385)	(296,601)	651,071

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, 2018 and 2017 (Note 2C)

	September 30, 2018	September 30, 2017
	US\$(000)	US\$(000)
Operating activities		
Collection of sales proceeds	724,087	711,223
Refund of the credit balance in favor of the exporter and taxes	17,258	44,256
Payments to suppliers and third parties	(382,052)	(410,770)
Payments to workers	(77,280)	(73,427)
Income tax payments	(35,801)	(26,786)
Royalties	(14,173)	(11,912)
Expenses for coverage	(18,100)	(6,767)
Cash flows from operating activities	213,939	225,817
Investing activities		
Other cash receipts related to the investment activity	1,261	1,372
Purchase of investment property	(26,187)	(21,891)
Disbursements for the acquisition of mining rights, property, plant and equipment	(44,167)	(61,882)
Disbursements for exploration and development activities	(81,023)	(58,743)
Cash flows (used in) investment activities	(150,116)	(141,144)
Financing activities		
Increase (decrease) in financial obligations	(17,705)	(25,063)
Interest payment	(34,329)	(35,757)
Dividends	(14,876)	(14,066)
Cash flows (used in) from financing activities	(66,910)	(74,886)
Increase (Decrease) in cash and cash equivalents for the period	(3,087)	9,787
Cash and cash equivalents at the beginning of the period	101,829	203,351
Cash and cash equivalents at the end of the period	98,742	213,138

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, 2018 and December 31, 2017

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, 2018 were approved by the Company’s Management on October 31, 2018. The consolidated financial statements as of December 31, 2017 were approved by the Shareholders’ Meeting on April 04, 2018.

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

	Percentage of direct or indirect interest in the capital	
	September 30, 2018	December 31, 2017
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	99.99
Agroindustrias Chancay S.A.C.	-	99.99
Cía. Industrial Ltda. De Huacho S.A.	55.81	55.81
Corporación Logística Chancay S.A.C.	99.99	99.99
Compañía Minera Vichaycocha S.A.C.	99.99	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.

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.

As of fiscal year 2017, the following companies were incorporated: Roquel Global S.A.C., Agroindustrias Chancay S.A., Cía. Industrial Ltda. De Huacho S.A., Corporación Logística Chancay S.A.C. y Compañía Minera Vichaycocha S.A.C. On June 4, 2018 the General Meeting Shareholders' approved the liquidation report of Agroindustrias Chancay S.A.C.

(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 September 30, 2018 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 Alpacamarca-Pallanga River unit, and the acquisition of Hidroeléctrica Huancho S.A.C.

2. Basis of presentation, accounting principles and practices

Basis of presentation -

The consolidated interim financial statements (unaudited) for the nine periods ended September 30, 2018 and 2017 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 2017.

For a correct reading of the financial statement, certain reclassification have been made in 2017.

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 foreign 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, 2018	As of December 31, 2017
	US\$(000)	US\$(000)
Funds available:		
Cash	16	11
Fixed fund	26	26
Bank checking accounts	98,287	100,933
Mutual funds	-	442
Funds subject to restriction	413	417
	98,742	101,829

5. Inventories

The composition of this heading is presented below:

	As of September 30, 2018	As of December 31, 2017
	US\$(000)	US\$(000)
Concentrates	8,171	10,734
Raw material (extracted ore)	13,846	16,395
Miscellaneous supplies	59,402	58,833
Inventories in transit	218	1,089
Value of stockpiles (a)	7,752	7,752
Allowance for obsolescence of spare parts and supplies (b)	(23,131)	(23,131)
	66,258	71,672

The company's Management estimates that the balances carried under "Inventories" do not exceed their net realization values as of September 30, 2018 and as of December 31, 2017.

(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, 2018 and as of December 31, 2017.

6. Other financial assets (liabilities)

Here in below is the composition of receivables:

	As of September 30 2018	As of December 31 2017
	US\$(000)	US\$(000)
Fair value of trading derivatives	2,661	29,541
Settled derivative financial instruments and premiums	1,229	12,787
Embedded derivative related to sales of concentrates	1,325	2,971
	5,215	45,299
Fair value swaps	1,030	126
	1,030	126
	6,245	45,425
Less: non-current portion	-	-
Current portion	6,245	45,425

Here in below is the composition of payables:

	As of September 30 2018	As of December 31 2017
	US\$(000)	US\$(000)
Fair value of hedging derivatives	-	29,220
Fair value of trading derivatives	1,693	7,706
Settled derivative financial instruments and premiums	54,369	89,693
Embedded derivative related to sales of concentrates	567	-
	56,629	126,619
Less: non-current portion	560	-
Current portion	56,069	126,619

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.

Mineral quotations hedging transactions -

As of September 30, 2018 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, 2016	-	-	-
Total change in hedging derivative financial instruments	(29,094)	8,583	(20,511)
Balances as of December 31, 2017	(29,094)	8,583	(20,511)
Total change in hedging derivative financial instruments	30,124	(8,887)	21,237
Total change in Financial Investments	(1,576)	465	(1,111)
Balances as of September 30, 2018	(546)	161	(385)

7. Property, Plant and Equipment, net

The activity and composition of this heading are presented below:

	Balances as of January 1, 2018	Additions	Write-offs	Transfers and / or Reclassifications	Corporate Addition	Revaluation	Deterioration	Balances as of September 30, 2018
<u>2018</u>	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)
<u>Cost</u>								
Land	95,459	1,487	(170)	3,403	-	-	-	100,179
Buidings and other constructions	778,919	747	-	9,540	-	-	-	789,206
Environmental management program infras	22,292	-	-	1	-	-	-	22,293
Machinery and equipment	285,322	160	(10,529)	2,620	-	-	-	277,573
Transportation units	11,703	120	(605)	-	-	-	-	11,218
Furniture and fixtures and IT equipment	13,488	477	(7)	(1)	-	-	-	13,957
Miscellaneous equipment	421,254	7,656	-	1,998	-	-	-	430,908
Units in transit	4,280	793	-	(4,035)	-	-	-	1,038
Works in progress	94,791	33,294	-	(13,536)	-	-	-	114,549
	1,727,508	44,734	(11,311)	(10)	-	-	-	1,760,921
<u>Accumulated depreciation</u>								
Buidings and other constructions	(202,316)	(43,274)	-	-	-	-	-	(245,590)
Environmental management program infras	(22,250)	(21)	-	-	-	-	-	(22,271)
Machinery and equipment	(247,551)	(6,326)	9,319	-	-	-	-	(244,558)
Transportation units	(10,649)	(263)	552	-	-	-	-	(10,360)
Furniture and fixtures and IT equipment	(9,149)	(656)	7	-	-	-	-	(9,798)
Miscellaneous equipment	(297,036)	(16,469)	-	-	-	-	-	(313,505)
	(788,951)	(67,009)	9,878	-	-	-	-	(846,082)
Net cost	938,557							914,839
<u>2017</u>								
Cost	1,746,093	117,473	(31,576)	382	7,593	66,034	(178,491)	1,727,508
Accumulated depreciation	(724,665)	(82,320)	19,408	-	(1,374)	-	-	(788,951)
net cost	1,021,428							938,557

8. Mining exploration and evaluation costs, net

The activity and composition of this heading are presented below:

	Balances as of January 1, 2018	Additions	Write-offs	Transfers and / or Reclassification	Corporate Addition	Revaluation	Deterioration	Balances as of September 30, 2018
<u>2018</u>	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)
<u>Cost</u>								
Mining rights and concessions	268,690	-	-	-	-	-	-	268,690
Exploration	213,390	17,182	(33)	7,995	-	-	-	238,534
Development and stripping costs	636,215	59,018	-	(7,997)	-	-	-	687,236
Closing of mining units	104,986	-	-	-	-	-	-	104,986
Other intangible assets	86,280	5,863	(15)	11	-	-	-	92,139
	1,309,561	82,063	(48)	9	-	-	-	1,391,585
<u>Accumulated amortization</u>								
Mining rights and concessions	(181,619)	(6,822)	-	-	-	-	-	(188,441)
Exploration	(92,728)	(8,653)	-	-	-	-	-	(101,381)
Development and stripping costs	(287,247)	(24,063)	-	-	-	-	-	(311,310)
Closing of mining units	(32,057)	(6,002)	-	-	-	-	-	(38,059)
Other intangible assets	(10,200)	(738)	1	-	-	-	-	(10,937)
	(603,851)	(46,278)	1	-	-	-	-	(650,128)
Net cost	705,710							741,457
<u>2017</u>								
Cost	1,215,822	183,070	-	(381)	90,391	74,315	(253,656)	1,309,561
Accumulated depreciation	(636,084)	(56,773)	89,036	-	(30)	-	-	(603,851)
Net cost	579,738							705,710

9. Financial Obligations:

The activity and composition of this heading are presented below:

	Balances as of	Loans	Payment	Balances as of	Current	Non-current
	January 1, 2018			September 30, 2018		
	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)
Financial Institutions - leasing						
Banco internacional del Perú-Interbank	626	75	(405)	296	151	145
Scotiabank Perú S.A.A.	5,484	-	(2,039)	3,445	2,076	1,369
Banco Continental	427	-	(427)	-	-	-
Financial Institutions - loans						
Scotiabank Perú S.A.A.	20,000	-	(20,000)	-	-	-
Citibank NA, New York	70,000	-	(8,750)	61,250	17,500	43,750
Scotiabank Perú S.A.A.	40,000	-	(40,000)	-	-	-
Atlas Copco Financial Solutions AB	572	-	(368)	204	204	-
Banco internacional del Perú-Interbank	10,000	-	(1,412)	8,588	1,929	6,659
Scotiabank Perú S.A.A.	10,000	-	(1,412)	8,588	1,929	6,659
Scotiabank Perú S.A.A.	-	50,000	-	50,000	50,000	-
Financial Institutions - synthetic loans						
Banco Continental	60,000	-	(60,000)	-	-	-
Banco Continental	-	60,000	-	60,000	60,000	-
Scotiabank Perú S.A.A.	-	60,000	-	60,000	60,000	-
Others						
Mercuria	-	434	(434)	-	-	-
Transamine	-	1,549	(1,549)	-	-	-
Concord	-	1,532	-	1,532	1,532	-
Bonds	535,264	-	-	535,264	-	535,264
Short term debt instruments	50,000	-	(50,000)	-	-	-
	802,373	173,591	(186,796)	789,168	195,323	593,845
Financial obligations current	(173,386)			(195,323)		
Financial obligations non-current	628,987			593,845		

10. Deferred Income tax

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

	As of <u>September 30</u> US\$(000)	As of <u>December 31</u> US\$(000)
Deferred assets with effect on gains (losses)		
Expenses of amortization of mining rights and concessions, exploration, development and stripping	60,384	56,947
Provision for the closing of mining units	40,029	40,029
Recoverable tax loss	8,163	4,692
Estimation for devaluation of inventories	6,823	6,824
Contingencies provisions	5,640	9,018
Embedded derivative and sales adjustment	5,458	199
Provision for doubtful accounts	4,345	1,364
Fair value polpaico cement	3,592	3,127
Fair value of derivates financial instruments and premiums	2,126	19,771
Vacation payments outstanding	2,000	2,010
Provision of mining royalties	802	1,699
Other minors	3,076	1,899
Deferred assets	<u>142,438</u>	<u>147,579</u>
Deferred liabilities with effect on gains (losses)		
Utilization of Amortization of mining rights and Effect by translation of the tax benefits to dollars	216,531	206,333
Revaluation of assets	37,961	32,806
Fair value of derivates financial instruments and premiums	19,592	19,480
Value of stock piles	2,471	9,316
Insurance indemnity	2,287	2,287
Embedded derivative	2,025	1,583
Other minors	110	1,273
Deferred liabilities	<u>284,244</u>	<u>276,842</u>

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

	For the period from July 1 to September 30		For the period from January to September 30	
	2018	2017	2018	2017
	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Income Tax				
Current	(6,469)	(6,978)	(33,998)	(22,437)
Deferred	(3,700)	(13,366)	(3,302)	(20,275)
	<u>(10,169)</u>	<u>(20,344)</u>	<u>(37,300)</u>	<u>(42,712)</u>
Tax on mining royalties	(2,771)	(6,328)	(11,706)	(13,138)
Contribution to the retirement fund	(107)	(40)	(571)	(321)
Total income (loss) tax expense	<u>(13,047)</u>	<u>(26,712)</u>	<u>(49,577)</u>	<u>(56,171)</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, 182,892,225 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 September 30, 2018, their quotation was S/ 3.59 and S/ 0.81 per share, respectively (S/ 4.00 and S/ 1.32 per share, respectively, as of December 31, 2017). As of September 30, 2018, the trading frequency for class "A" shares was 10 percent, and for class "B" shares 100 percent (for class "A" shares was 5 percent, and for class "B" shares 100 percent as of December 31, 2017).

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\$.14,853,544) in favor of the shareholders, which correspond to the profits of fiscal year 2014. Said dividends were paid on February 28, 2017.

At the board meeting held on October 2, 2017, the directors approved the distribution of cash dividends of up to S/ 54,583,491 (equivalent to US\$.16,396,749) in favor of the shareholders, which correspond to the profits of fiscal year 2016. Said dividends were paid on October 27, 2017.

At the board meeting held on July 24, 2018, the directors approved the distribution of cash dividends in advance on account of freely available profits as of June 30 of up to S/ 54,583,491 (equivalent to US\$.16,641,308) in favor of the shareholders, which correspond to the profits of fiscal year 2018. Said dividends were paid on August 22, 2018.

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	
	2018 US\$(000)	2017 US\$(000)	2018 US\$(000)	2017 US\$(000)
Net concentrate sales				
Zinc	121,077	128,405	395,367	364,956
Lead	48,247	50,072	148,080	137,388
Copper	9,529	14,234	26,578	34,476
Silver	10,949	13,307	37,036	38,233
Bulk	-	3,961	-	7,934
Silver Bars	12,721	16,579	45,156	50,186
Final settlement adjustments	(11,839)	2,215	(14,390)	7,351
	<u>190,684</u>	<u>228,773</u>	<u>637,827</u>	<u>640,524</u>
Gain (loss) realized on financial instruments	4,034	(1,438)	(13,995)	1,123
Sales adjustment for the current period (a)	(15,800)	8,568	(17,730)	(2,802)
Embedded derivatives for the current period (b)	10,390	(3,437)	(4,037)	1,255
	<u>189,308</u>	<u>232,466</u>	<u>602,065</u>	<u>640,100</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, 2018 and 2017, 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\$ 17,730 thousand and US\$ 2,802 thousand in the nine-months periods ended September 30, 2018 and 2017; respectively, and are shown as part of net sales.

(b) Embedded derivatives

As of September 30, 2018 the fair value of embedded derivatives yielded in loss for US\$ 4,037 thousand (Profit for US\$ 1,255 thousand as of September 30, 2017). It is shown in net sales in consolidated

income statement. The price forecasts of our open positions as of September 30, 2018 and 2017 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	
	2018	2017	2018	2017
	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Concentrates beginning inventory	8,182	5,592	10,734	8,046
Raw materials (extracted ore) beginning inventory	13,913	25,850	16,395	27,079
Production cost:				
Labor	17,578	16,681	54,675	49,795
Rental, power and other expenses	54,620	57,894	157,984	170,065
Supplies used	26,892	26,781	75,320	81,777
Depreciation and amortization	35,228	32,706	99,805	96,010
Purchase of concentrate and minerals	602	4,729	602	17,233
Exceptionals, others	390	2,118	1,114	5,787
Less - concentrates ending inventory	(8,171)	(4,765)	(8,171)	(4,765)
Less - raw materials (extracted ore) ending inventory	(13,846)	(24,943)	(13,846)	(24,943)
	135,388	142,643	394,612	426,084