

Volcan Compañía Minera S.A.A. and Subsidiaries

Consolidated interim financial information (unaudited) as of
December 31, 2018 and 2017

Volcan Compañía Minera S.A.A. and Subsidiaries

Consolidated Statement of Financial Position

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

	Note	December 31, 2018 US\$(000)	December 31, 2017 US\$(000)
Assets			
Current Assets			
Cash and cash equivalents	4	62,950	101,829
Financial investments		52,757	51,806
Accounts receivable			
Trade, neto		41,842	66,167
Others		168,597	160,929
Other financial assets	6	640	42,454
Inventories, net	5	72,392	71,672
Total current assets		399,178	494,857
Non-current Assets			
Other accounts receivable		6,992	4,149
Investments in associates		548	162
Property, plant and equipment, net	7	1,046,925	938,557
Mining exploration and evaluation cost, net	8	745,885	705,710
Deferred income tax asset	10	135,150	146,807
Total non-current assets		1,935,500	1,795,385
Total assets		2,334,678	2,290,242
Liabilities and Net Stockholders' Equity			
Current Liabilities			
Overdrafts		34	4,005
Financial obligations	9	193,686	173,386
Trade accounts payable		202,544	209,962
Other accounts payable		111,948	109,428
Other financial liabilities	6	48,218	126,619
Total current liabilities		556,430	623,400
Non-current Liabilities			
Financial obligations	9	587,764	628,987
Provision for closing of mining units		205,515	134,890
Deferred income tax liability	10	313,300	276,842
Provision for contingencies		27,571	21,450
Total non-current liabilities		1,134,150	1,062,169
Total liabilities		1,690,580	1,685,569
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		(172,801)	(174,320)
Revaluation		50,149	46,554
Unrealized gains (loss)		1,121	(20,511)
Retained earnings		(308,441)	(321,183)
Total net stockholders' equity		644,098	604,673
Total liabilities and net stockholders' equity, net		2,334,678	2,290,242

The accompanying notes are an integral part of this statement.

Volcan Compañía Minera S.A.A. and Subsidiaries

Consolidated Income Statement (unaudited)

For the period from January 1, to December 31, 2018 and 2017

	For the period from October 1 to December 31		For the cumulative period from January 1 to December 31	
	2018	2017	2018	2017
	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Sales, Note 12	173,037	216,634	775,102	856,734
Cost of Sales, Note 13	(151,771)	(140,034)	(546,383)	(566,118)
Gross Income	21,266	76,600	228,719	290,616
Operating income (expenses)				
Administrative expenses	(21,175)	(11,145)	(61,877)	(45,718)
Selling expenses	(7,644)	(8,171)	(27,185)	(30,563)
Other income	137,410	175,803	166,257	210,380
Other expenses	(91,684)	(547,928)	(146,331)	(590,375)
	16,907	(391,441)	(69,136)	(456,276)
Operating income	38,173	(314,841)	159,583	(165,660)
Financial income (expenses)				
Financial income	205	2,513	601	8,789
Financial expenses	(12,484)	(11,038)	(41,354)	(43,018)
Exchange difference, net	(2,318)	(717)	(4,365)	1,170
Total other income (expenses), net	(14,597)	(9,242)	(45,118)	(33,059)
Income before income tax	23,576	(324,083)	114,465	(198,719)
Income tax, Note 10(b)	(35,513)	(222,576)	(85,090)	(278,747)
Net income	(11,937)	(546,659)	29,375	(477,466)
Net earnings per share	(0.003)	(0.142)	0.008	(0.124)
Weighted average of outstanding shares (in thousands)	3,857,975	3,858,230	3,857,975	3,858,230

The accompanying notes are an integral part of this statement.

Volcan Compañía Minera S.A.A. and Subsidiaries

Consolidated Statement of Comprehensive Income (unaudited)

For the period from January 1 to December 31, 2018 and 2017

	For the cumulative period from October 1 to December 31		For the cumulative period from January 1 to December 31	
	2018 US\$(000)	2017 US\$(000)	2018 US\$(000)	2017 US\$(000)
Net income	(11,937)	(546,659)	29,375	(477,466)
Others comprehensive income (loss):				
Net change in gains (losses) unrealized on derivate instruments and Financial investments	2,136	(5,948)	30,684	(29,094)
Income tax	(630)	1,755	(9,052)	8,583
Other comprehensive income (loss) net of income tax	1,506	(4,193)	21,632	(20,511)
Total comprehensive income	(10,431)	(550,852)	51,007	(497,977)

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 December 31, 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
reclassification	(118,881)	135,723	41,490	-	(194,337)	-	136,005	-
Balances restated as of January 1, 2017	1,134,300	(61,055)	45,043	-	(174,039)	-	177,381	1,121,630
Net income	-	-	-	-	-	-	(477,466)	(477,466)
Dividends declared	-	-	-	-	-	-	(30,454)	(30,454)
Reserve Appropriation	-	-	(43,988)	-	-	-	43,988	-
Increase in treasury stock transactions	-	(167)	-	-	(281)	-	-	(448)
Net change in gains unrealized on derivative instruments	-	-	-	-	-	(20,511)	-	(20,511)
Conversion effect	-	-	-	-	-	-	(19,371)	(19,371)
Cumulative results of new subsidiaries	-	-	-	-	-	-	(15,261)	(15,261)
Revaluation	-	-	-	46,554	-	-	-	46,554
Balances as of December 31, 2017	1,134,300	(61,222)	1,055	46,554	(174,320)	(20,511)	(321,183)	604,673
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	-	-	-	-	-	-	29,375	29,375
Dividends declared	-	-	-	-	1,733	-	(16,641)	(14,908)
Net change in gains unrealized on derivative instruments	-	-	-	-	-	21,632	-	21,632
Revaluation	-	-	-	3,165	-	-	-	3,165
Conversion effect	-	(63)	-	430	(214)	-	8	161
Balances as of December 31, 2018	1,134,300	(61,285)	1,055	50,149	(172,801)	1,121	(308,441)	644,098

The accompanying notes are an integral part of this statement.

Volcan Compañía Minera S.A.A. and Subsidiaries

Consolidated Cash Flows Statement (unaudited)

For the period from January 1 to December 31, 2018 and 2017 (Note 2C)

	December 31, 2018	December 31, 2017
	US\$(000)	US\$(000)
Operating activities		
Collection of sales proceeds	909,295	961,891
Refund of the credit balance in favor of the exporter and taxes	20,456	49,054
Payments to suppliers and third parties	(500,288)	(465,265)
Payments to workers	(103,668)	(95,357)
Income tax payments	(32,604)	(22,359)
Royalties	(16,827)	(16,132)
Expenses for coverage	(16,870)	(15,007)
Cash flows from operating activities	259,495	396,825
Investing activities		
Other cash receipts related to the investment activity	1,689	-
Purchase of investment property	(24,097)	-
Disbursements for the acquisition of mining rights, property, plant and equipment	(80,461)	(123,354)
Disbursements for exploration and development activities	(114,522)	(207,963)
Cash flows (used in) investment activities	(217,391)	(331,317)
Financing activities		
Increase (decrease) in financial obligations	(30,530)	(37,644)
Interest payment	(35,545)	(36,526)
Dividends	(14,908)	(30,454)
Cash flows (used in) from financing activities	(80,983)	(104,624)
Increase (Decrease) in cash and cash equivalents for the period	(38,879)	(39,116)
Cash and cash equivalents at the beginning of the period	101,829	140,945
Cash and cash equivalents at the end of the period	62,950	101,829

The accompanying notes are an integral part of this statement

Volcan Compañía Minera S.A.A. and Subsidiaries

Notes to the consolidated interim financial statements (unaudited)

As of December 31, 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 December 31, 2018 were approved by the Company’s Management on February 15, 2019. 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	
	December 31, 2018	December 31, 2017
Subsidiaries:		
Empresa Explotadora de Vinchos Ltda. S.A.C	100.00	99.99
Empresa Minera Paragsha S.A.C.	100.00	99.99
Compañía Minera Chungar S.A.C.	100.00	100.00
Minera Aurífera Toruna S.A.C. (*)	80.00	80.00
Empresa Administradora de Cerro S.A.C.	100.00	99.99
Minera San Sebastián AMC S.R.L.	100.00	100.00
Hidroeléctrica Huanchor S.A.C (***)	100.00	100.00
Compañía Hidroeléctrica Tingo S.A. (**) (***)	100.00	99.99
Empresa de Generación Eléctrica Baños S.A. (**)	100.00	99.99
Óxidos de Pasco S.A.C	100.00	99.99
Terminales Portuarios Chancay S.A.	100.00	99.99
Roquel Global S.A.C.	100.00	99.99
Agroindustrias Chancay S.A.C.	-	99.99
Cía. Industrial Ltda. De Huacho S.A.	96.41	55.81
Corporación Logística Chancay S.A.C.	100.00	99.99
Compañía Minera Vichaycocha S.A.C.	99.99	99.99
Remediadora Ambiental S.A.C.	100.00	-

(*) 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. and Compañía Minera Vichaycocha S.A.C. On June 4, 2018 the General Meeting Shareholders' approved the liquidation report of Agroindustrias Chancay S.A.C.

As of fiscal year 2018, it was incorporated Remediadora Ambiental S.A.C., which is dedicated to the activities of: environmental consultancy, environmental studies and property acquisition.

(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 December 31, 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 Alpamarca-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 twelve periods ended December 31, 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 December 31, 2018	As of December 31, 2017
	US\$(000)	US\$(000)
Funds available:		
Cash	67	11
Fixed fund	27	26
Bank checking accounts	62,407	100,933
Mutual funds	-	442
Funds subject to restriction	449	417
	<u>62,950</u>	<u>101,829</u>

5. Inventories

The composition of this heading is presented below:

	As of December 31, 2018	As of December 31, 2017
	US\$(000)	US\$(000)
Concentrates	15,347	10,734
Raw material (extracted ore)	11,814	16,395
Miscellaneous supplies	43,964	58,833
Inventories in transit	104	1,089
Value of stockpiles	7,752	7,752
Allowance for obsolescence of spare parts and supplies (a)	(6,589)	(23,131)
	<u>72,392</u>	<u>71,672</u>

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

6. Other financial assets (liabilities)

Here in below is the composition of receivables:

	As of December 31 2018	As of December 31 2017
	US\$(000)	US\$(000)
Fair value of trading derivatives	-	29,541
Settled derivative financial instruments and premiums	-	12,787
	-	42,328
Fair value swaps	640	126
	640	126
	640	42,454
Less: non-current portion	-	-
Current portion	640	42,454

Here in below is the composition of payables:

	As of December 31 2018	As of December 31 2017
	US\$(000)	US\$(000)
Fair value of hedging derivatives	-	29,220
Fair value of trading derivatives	1,718	7,706
Settled derivative financial instruments and premiums	46,500	89,693
	48,218	126,619
Less: non-current portion	-	-
Current portion	48,218	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 December 31, 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	29,734	(8,772)	20,962
Total change in Financial Investments	950	(280)	670
Balances as of December 31, 2018	1,590	(469)	1,121

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 December 31, 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	6,927	(170)	50,506	-	-	(120)	152,602
Buidings and other constructions	778,919	8,716	(1,118)	69,553	13,868	-	70,910	940,848
Environmental management program infras:	22,292	1	-	-	-	-	(12)	22,281
Machinery and equipment	285,322	595	(11,644)	4,234	-	-	873	279,380
Transportation units	11,703	119	(641)	-	-	-	(7)	11,174
Furniture and fixtures and IT equipment	13,488	923	(7)	-	-	-	(3)	14,401
Miscellaneous equipment	421,254	15,009	-	6,165	-	-	7,703	450,131
Units in transit	4,280	101	-	(8,178)	-	-	4,109	312
Works in progress	94,791	47,407	(255)	(75,173)	-	-	(7,361)	59,409
	1,727,508	79,798	(13,835)	47,107	13,868	-	76,092	1,930,538
<u>Accumulated depreciation</u>								
Buidings and other constructions	(202,316)	(74,562)	337	-	-	-	-	(276,541)
Environmental management program infras:	(22,250)	(27)	-	-	-	-	-	(22,277)
Machinery and equipment	(247,551)	(8,234)	10,315	-	-	-	-	(245,470)
Transportation units	(10,649)	(328)	586	-	-	-	-	(10,391)
Furniture and fixtures and IT equipment	(9,149)	(876)	7	-	-	-	-	(10,018)
Miscellaneous equipment	(297,036)	(21,880)	-	-	-	-	-	(318,916)
	(788,951)	(105,907)	11,245	-	-	-	-	(883,613)
Net cost	938,557							1,046,925
<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 Reclassifications	Value Update	Corporate Addition	Revaluation	Deterioration	Balances as of December 31, 2018
<u>2018</u>	US\$ (000)	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	-	-	(1)	-	-	-	(2)	268,687
Exploration	213,390	27,266	(33)	8,044	-	-	-	(670)	247,997
Development and stripping costs	636,215	78,688	-	(8,055)	-	-	-	(16,457)	690,391
Closing of mining units	104,986	1	-	-	49,423	-	-	(14,325)	140,085
Communal rights	-	-	-	-	21,818	-	-	(3,907)	17,911
Other intangible assets	86,280	7,622	(15)	(47,097)	-	-	-	(19)	46,771
	1,309,561	113,577	(48)	(47,109)	71,241	-	-	(35,380)	1,411,842
<u>Accumulated amortization</u>									
Mining rights and concessions	(181,619)	(9,150)	-	-	-	-	-	-	(190,769)
Exploration	(92,728)	(11,657)	-	-	-	-	-	-	(104,385)
Development and stripping costs	(287,247)	(32,314)	-	-	-	-	-	-	(319,561)
Closing of mining units	(32,057)	(7,998)	-	-	-	-	-	-	(40,055)
Communal rights	-	-	-	-	-	-	-	-	-
Other intangible assets	(10,200)	(988)	1	-	-	-	-	-	(11,187)
	(603,851)	(62,107)	1	-	-	-	-	-	(665,957)
Net cost	705,710								745,885
<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 January 1, 2018	Loans	Payment	Balances as of December 31, 2018	Current	Non-current
	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)	US\$ (000)
Financial Institutions - leasing						
Banco internacional del Perú-Interbank	626	75	(446)	256	153	103
Scotiabank Perú S.A.A.	5,484	-	(2,732)	2,752	2,066	686
Banco Continental	427	-	(427)	-	-	-
Financial Institutions - loans						
Scotiabank Perú S.A.A.	20,000	-	(20,000)	-	-	-
Citibank NA, New York	70,000	-	(13,125)	56,875	17,500	39,375
Scotiabank Perú S.A.A.	40,000	-	(40,000)	-	-	-
Atlas Copco Financial Solutions AB	572	-	(491)	81	81	-
Banco internacional del Perú-Interbank	10,000	-	(1,889)	8,111	1,943	6,168
Scotiabank Perú S.A.A.	10,000	-	(1,889)	8,111	1,943	6,168
Scotiabank Perú S.A.A.	-	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	-
Scotiabank Perú S.A.A.	-	50,000	-	50,000	50,000	-
Others						
Mercuria	-	434	(434)	-	-	-
Transamine	-	1,549	(1,549)	-	-	-
Concord	-	1,532	(1,532)	-	-	-
Bonds	535,264	-	-	535,264	-	535,264
Short term debt instruments	50,000	-	(50,000)	-	-	-
	<u>802,373</u>	<u>223,590</u>	<u>(244,514)</u>	<u>781,450</u>	<u>193,686</u>	<u>587,764</u>
Financial obligations current	(173,386)			(193,686)		
Financial obligations non-current	<u>628,987</u>			<u>587,764</u>		

10. Deferred Income tax

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

	As of December 31 2018 <u>US\$(000)</u>	As of December 31 2017 <u>US\$(000)</u>
Deferred assets with effect on gains (losses)		
Provision for the closing of mining units	53,423	40,029
Expenses of amortization of mining rights and concessions, exploration, development and stripping costs	44,121	56,947
Recoverable tax loss	8,172	4,692
Contingencies provisions	7,781	9,018
Provision for communities	6,436	-
Fair value polpaico cement	2,847	3,127
Effect by translation of the tax benefits to dollars	2,581	-
Estimation for devaluation of inventories	1,944	6,824
Fair value of derivates financial instruments and premiums	1,770	19,771
Vacation payments outstanding	1,612	2,010
Embedded derivative and sales adjustment	1,374	199
Provision for doubtful accounts	1,250	1,364
Provision of mining royalties	459	1,699
Other minors	1,380	1,127
Deferred assets	<u>135,150</u>	<u>146,807</u>
Deferred liabilities with effect on gains (losses)		
Utilization of Amortization of mining rights and	239,878	206,333
Effect by translation of the tax benefits to dollars	46,951	32,806
Revaluation of assets	21,009	19,480
Value of stock piles	2,287	2,287
Insurance indemnity	2,025	1,583
Fair value of derivates financial instruments and premiums	596	9,316
Embedded derivative	113	1,273
Other minors	441	3,764
Deferred liabilities	<u>313,300</u>	<u>276,842</u>

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

	For the period from October 1 to December 31		For the period from January 1 to December 31	
	2018	2017	2018	2017
	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Income Tax				
Current	441	(24,914)	(33,557)	(47,351)
Deferred	(34,390)	(193,024)	(37,692)	(213,299)
	<u>(33,949)</u>	<u>(217,938)</u>	<u>(71,249)</u>	<u>(260,650)</u>
Tax on mining royalties	(1,574)	(4,314)	(13,280)	(17,452)
Contribution to the retirement fund	10	(324)	(561)	(645)
Total income (loss) tax expense	<u>(35,513)</u>	<u>(222,576)</u>	<u>(85,090)</u>	<u>(278,747)</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, 182,920,322 class "A" shares and 12,234,901 class "B" shares are held by subsidiary Empresa Minera Paragsha S.A.C., 23,442,345 class "A" shares by subsidiary Compañía Minera Chungar S.A.C .

Both class "A" and class "B" common shares listed in the Lima Stock Exchange were frequently traded by the stock market. As of December 31,2018, their quotation was S/ 3.50 and S/ 0.71 per share, respectively (S/ 4.00 and S/ 1.32 per share, respectively, as of December 31, 2017). As of December 31, 2018, the trading frequency for class "A" shares was 9.96 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 October 1 to December 31		For the cumulative period from January 1 to December 31	
	2018 US\$(000)	2017 US\$(000)	2018 US\$(000)	2017 US\$(000)
Net concentrate sales				
Zinc	106,194	134,801	501,561	499,757
Lead	43,742	55,089	191,821	192,477
Copper	9,385	10,222	35,964	44,698
Silver	8,051	10,517	45,087	48,750
Bulk	-	-	-	7,934
Silver Bars	11,919	16,362	57,074	66,548
Final settlement adjustments	(20,097)	2,022	(34,487)	9,373
	<u>159,194</u>	<u>229,013</u>	<u>797,020</u>	<u>869,537</u>
Gain (loss) realized on financial instruments	70	(6,699)	(13,924)	(5,576)
Sales adjustment for the current period (a)	17,177	(7,034)	(553)	(9,836)
Embedded derivatives for the current period (b)	(3,404)	1,354	(7,441)	2,609
	<u>173,037</u>	<u>216,634</u>	<u>775,102</u>	<u>856,734</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 December 31, 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\$ 553 thousand and US\$ 9,836 thousand in the twelve-months periods ended December 31, 2018 and 2017; respectively, and are shown as part of net sales.

(b) Embedded derivatives

As of December 31, 2018 the fair value of embedded derivatives yielded in loss for US\$ 7,441 thousand (Profit for US\$ 2,609 thousand as of December 31, 2017). It is shown in net sales in consolidated income statement. The price forecasts of our open positions as of December 31, 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 October 1 to December 31		For the cumulative period from January 1 to December 31	
	2018 US\$(000)	2017 US\$(000)	2018 US\$(000)	2017 US\$(000)
Concentrates beginning inventory	8,171	4,765	10,734	8,046
Raw materials (extracted ore) beginning inventory	13,846	24,943	16,395	27,079
Production cost:				
Labor	15,268	21,400	69,943	71,195
Rental, power and other expenses	52,847	56,803	210,832	226,869
Supplies used	26,981	27,541	102,301	109,318
Depreciation and amortization	60,502	34,472	160,307	130,482
Purchase of concentrate and minerals	1,028	2,616	1,549	19,849
Exceptionals, others	289	(5,377)	1,483	409
Less - concentrates ending inventory	(15,347)	(10,734)	(15,347)	(10,734)
Less - raw materials (extracted ore) ending inventory	(11,814)	(16,395)	(11,814)	(16,395)
	<u>151,771</u>	<u>140,034</u>	<u>546,383</u>	<u>566,118</u>