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## **MINSUR S.A.: MANAGEMENT DISCUSSION AND ANALYSIS FOR THE SECOND QUARTER OF THE YEAR 2015**

Lima, July 23rd, 2015 – MINSUR S.A. (BVL: MINSURI1) (“the Company” or “Minsur”), a Peruvian mining company dedicated to the exploration, processing and commercialization of tin and other minerals, announced its individual results for the second quarter of 2015 (“2Q15”). These results are reported in accordance with International Financial Reporting Standards (IFRS) and are expressed in U.S. dollars (US\$), unless otherwise indicated.

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### **I. OPERATING RESULTS AND FINANCIAL HIGHLIGHTS:**

- **Production:**
  - **Tin: 5,019 tons**, an 11% decrease compared to 2Q14 as a result of lower head grades at San Rafael in line with production guidance for 2015.
  - **Gold: 31,539 ounces**, 29% increase compared to 2Q14, in line with updated production guidance provided last quarter.
- Pucamarca operated at 21,000 tpd in 2Q15 compared with 17,500 tpd during same quarter last year; while San Rafael operated at 2,900 tpd during 2Q15.
- **Cash Cost per treated ton:**
  - San Rafael: US\$ 126 in 2Q15 vs. US\$ 145 in 2Q14 (-13%) due to the implementation of cost saving measures such as renegotiations with contractors, to higher volume of ore treated and the postponement of certain expenses.
  - Pucamarca: US\$ 4.3 in 2Q15 vs. US\$ 6.8 in 2Q14 (-37%) as a result of cost savings obtained such as lower fuel costs and lower auxiliary costs, and an increase in tonnage treated.
- **Average Metal Prices:**
  - **Tin: US\$ 16,104** per ton, a **30%** decrease compared to 2Q14.
  - **Gold: US\$ 1,190** per ounce, a **9%** decrease compared to 2Q14.
- **EBITDA: US\$ 47.0 M**, a **53%** decrease compared to 2Q14 due to lower tin and gold prices and lower tin volume sold, partially offset by lower cash cost in both operations. EBITDA for 6M15 reached US\$ 109.5 M.
- **Net income: US\$ 13.9 M**, a **65%** decrease compared to 2Q14, mainly due to a lower EBITDA. Net income includes growth related expenses (explorations and projects) of US\$ 7.6 M. Net income for 6M15 reached US\$ 1.1 M.
- **Adjusted net income<sup>1</sup>:** excluding results from subsidiaries and associates and exchange difference charges, adjusted net income was **US\$ 13.7 M** in 2Q15. As of 6M15, adjusted net income reached US\$ 32.1 M.

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<sup>1</sup> Adjusted net profit = Net Profit excluding Results from Subsidiaries and Associates and Exchange Difference

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**Table N° 1: Summary of operating and financial results**

Highlights	Unit	2Q15	2Q14	Var (%)	6M15	6M14	Var (%)
<b>Production</b>							
Tin (Sn)	t	5,019	5,620	-11%	9,794	12,588	-22%
Gold (Au)	oz	31,539	24,457	29%	60,318	52,855	14%
<b>Financial Results</b>							
Net Revenue	US\$ M	122.1	190.8	-36%	255.6	408.8	-37%
EBITDA	US\$ M	47.0	100.4	-53%	109.5	224.6	-51%
EBITDA Margin	%	38%	53%	-27%	43%	55%	-22%
Net Income	US\$ M	13.9	39.5	-65%	1.1	91.5	-99%
Adjusted Net Income	US\$ M	13.7	47.5	-71%	32.1	113.7	-72%

## I. MAIN CONSIDERATIONS:

### a. Average metal prices:

Average Tin (Sn) Price in 2Q15 was US\$ 16,104 per ton, which represents a decrease of 30% compared to the same period in 2014. As of the first 6M15, Tin prices reached US\$17,011 per ton (26% decrease vs. 6M14 2014)

Average Gold (Au) Price in the 2Q15 was US\$1,190 per ounce, a 9% decrease compared to the same period of the previous year. As of the first 6M15, Gold price reached US\$1,206 per ounce (7% decrease vs. 6M14 2014)

**Table N° 2: Average metal prices**

Average Metal Prices	Unit	2Q15	2Q14	Var (%)	6M15	6M14	Var (%)
Tin	US\$/t	16,104	23,157	-30%	17,011	22,901	-26%
Gold	US\$/oz	1,190	1,301	-9%	1,206	1,291	-7%

Source: Bloomberg

### b. Exchange rate:

The Peruvian Sol average exchange rate in 2Q15 was S/. 3.13 per US\$1, compared to S/. 2.80 per US\$1 in 2Q14, which represented a 12% depreciation of the Peruvian Sol. As of the 6M15, the average exchange rate was S/.3.10 per US\$1, which represents a 12% depreciation of the Peruvian Sol.

**Table N°3: Exchange Rate**

Average Exchange Rate	Unit	2Q15	2Q14	Var (%)	6M15	6M14	Var (%)
PEN/USD	S/.	3.13	2.80	12%	3.10	2.76	12%

Source: Bloomberg

### III. OPERATING MINING RESULTS:

#### a. San Rafael – Pisco (Perú):

**Table N° 4: San Rafael - Pisco Operating Results**

San Rafael - Pisco	Unit	2Q15	2Q14	Var (%)	6M15	6M14	Var (%)
Ore Treated	t	261,885	243,941	7%	497,344	489,891	2%
Head Grade	%	2.09	2.44	-14%	2.12	2.53	-16%
Tin production (Sn) - San Rafael	t	4,954	5,374	-8%	9,530	11,148	-15%
Tin production (Sn) - Pisco	t	5,019	5,620	-11%	9,794	12,588	-22%
Cash Cost per Treated Ton <sup>2</sup> - San Rafael	US\$/t	126	145	-13%	136	136	0%
Cash Cost per Ton of Refined Tin <sup>3</sup>	US\$/t Sn	8,880	8,483	5%	8,895	7,642	16%

#### Tin production

In 2Q15, refined Tin production reached 5,019 tons, a decrease of 11% compared to 2Q14. This decrease was driven by lower tin concentrate production at San Rafael due to lower ore head grades, which dropped from 2.44% in 2Q14 to 2.09% in 2Q15 (in line with the geological model and mine plan), partially offset by higher volume of treated ore. Pisco refined tin production was also influenced by the execution of a tin concentrate stocks optimization plan during 2Q14 that was not repeated in 2Q15.

Similarly, Tin production in 6M15 was 22% lower than that of 6M14 due to lower head grades (2.12% vs 2.53%) and a stock optimization plan performed in 2014, partially offset by higher ore treated in spite of a scheduled plant maintenance in the first quarter of 2015. Tin annual production guidance remains at 20,000 – 22,000 tons.

#### Cash cost per treated ton

San Rafael's cash cost per treated ton<sup>2</sup> in 2Q15 was US\$ 126 vs. US\$ 145 in 2Q14, a decrease of 13%. This significant decrease was a result not only of a cost reduction plan that allowed the company to reduce materials, fuel and explosives prices, but also the result of an increase in treated ore and the postponement of some activities. Furthermore, contractor rates were renegotiated which will result in cost reductions during the second half of 2015.

San Rafael's cash cost per treated ton in 6M15 reached US\$ 136, in line with that of the previous year. In spite of lower materials prices, cash cost per treated ton was impacted by non-planned expenses related to operation optimization studies and further mine preparation meters. We expect an annual cash cost per treated ton at the lower end of the guidance of US\$ 130 – US\$ 140.

<sup>2</sup> Cash Cost per treated ton = San Rafael production costs / Ore Treated

#### Cash cost per ton of refined tin

Cash cost per ton of refined tin<sup>3</sup> in 2Q15 was US\$ 8,880 vs. US\$ 8,483 in 2Q14, a 5% increase, mainly due to lower tin production in the period explained by a lower head grade, partially offset by lower cash cost per treated ton at San Rafael. Cash cost per ton of refined tin in 6M15 was US\$ 8,895.

#### **b. Pucamarca (Perú):**

**Table N°5. Pucamarca Operating Results**

Pucamarca	Unit	2Q15	2Q14	Var (%)	6M15	6M14	Var (%)
Ore Treated	t	2,057,830	1,516,286	36%	3,836,643	2,842,877	35%
Head Grade	g/t	0.60	0.63	-5%	0.62	0.69	-10%
Gold production (Au)	oz	31,539	24,457	29%	60,318	52,855	14%
Cash Cost per Treated Ton	US\$/t	4.3	6.8	-37%	4.4	6.8	-36%
Cash Cost per Ounce of Gold <sup>4</sup>	US\$/oz Au	280	423	-34%	277	364	-24%

#### Gold production

In 2Q15, gold production reached 31,539 ounces, a 29% increase compared to 2Q14. In accordance with Pucamarca's geological model and mine plan, head grade was 0.60 g/t in 2Q15, a decreased of 5% compared to 2Q14. Plant daily capacity was increased from 17,500 tons in 2Q14 to 21,000 tons in 2Q15 to offset expected lower head grades and further increase Pucamarca's value.

In 6M15, gold production reached 60,318 ounces, a 14% increase compared to 6M14. Similarly, higher production was explained by the plant daily capacity increase, partially offset by lower head grade (-10%). We maintain 1Q annual production guidance of 104,500 – 115,500 ounces of gold.

#### Cash cost per treated ton

Cash cost per treated ton at Pucamarca was US\$ 4.3 in 2Q15 vs. US\$ 6.8 in 2Q14, a decreased of 37%, mainly due to higher tonnage treated explained by an increase in plant daily capacity and lower costs during the period due to a cost reduction plan.

Cash cost per treated ton at Pucamarca was US\$ 4.4 in 6M15, a decreased of 36% compared to 6M14. We expect an annual cash cost per treated ton at the lower end of the guidance of US\$ 5.0 – US\$ 5.5.

#### Cash cost per ounce of gold

Cash cost per ounce of gold<sup>4</sup> in 2Q15 was US\$ 280, which represented a decrease of 34% compared to 2Q14. This decrease was explained by lower cash cost per treated ton, partially offset by lower head grade.

Cash cost per ounce of gold in 6M15 was US\$ 277, which represented a decrease of 24% compared to 6M14.

<sup>3</sup> Cash Cost per ton of refined tin = (San Rafael and Pisco production cost + selling expenses + change in tin concentrates inventory, excluding employee profit sharing, depreciation and amortization) / (Tin Production in tons, excluding the tons recovered when treating Pitanga's concentrate at Pisco)

<sup>4</sup> Cash Cost per ounce of gold = (Pucamarca production cost + selling expenses, excluding employee profit sharing, depreciation and amortization) / (Gold production in ounces)

## IV. CAPEX:

**Table N°7. CAPEX**

CAPEX	Unit	2Q15	2Q14	Var (%)	6M15	6M14	Var (%)
San Rafael	US\$ M	2.6	2.6	-2%	4.1	3.6	14%
Pisco	US\$ M	0.2	1.0	-84%	0.2	1.1	-81%
Pucamarca	US\$ M	0.4	8.5	-96%	0.3	9.8	-97%
Other	US\$ M	0.0	0.1	-69%	0.1	0.2	-67%
<b>Total Capex</b>	<b>US\$ M</b>	<b>3.1</b>	<b>12.3</b>	<b>-74%</b>	<b>4.6</b>	<b>14.7</b>	<b>-68%</b>

In 2Q15, Capex was US\$ 3.1 M, a decrease of 74% compared to 2Q14. Likewise, in 6M15 capex was US\$ 4.6 M, a decrease of 68% compared to 6M14. In 6M15 main investments were:

- San Rafael: waste dump capacity expansion, in line with the mine short and mid-term sustaining plan.
- Pucamarca: in 1Q15 there was a refund credited to the Company corresponding to claims from contractors associated to the initial capex of Pucamarca.

The company is implementing a plan to reduce capital expenditures in all units in line with the new context of metal prices. We expect an annual sustaining CAPEX at the lower end of guidance at both units of US\$ 15 M – US\$ 20 M at San Rafael – Pisco and US\$ 8 M – US\$ 12 M at Pucamarca.

## V. FINANCIAL RESULTS:

**Table 7: Profit and Loss Statement**

Financial Statements	Unit	2Q15	2Q14	Var (%)	6M15	6M14	Var (%)
Net Revenue	US\$ M	122.1	190.8	-36%	255.6	408.8	-37%
Cost of Sales	US\$ M	-69.1	-84.5	-18%	-142.4	-176.9	-19%
<b>Gross Profit</b>	<b>US\$ M</b>	<b>53.0</b>	<b>106.3</b>	<b>-50%</b>	<b>113.2</b>	<b>231.9</b>	<b>-51%</b>
Selling Expenses	US\$ M	-1.7	-2.8	-41%	-3.4	-4.8	-29%
Administrative Expenses	US\$ M	-9.5	-8.2	16%	-17.2	-15.8	9%
Exploration & Project Expenses	US\$ M	-7.6	-7.5	1%	-12.2	-10.0	22%
Other Operating Expenses, net	US\$ M	-0.2	-1.9	-92%	-1.9	-3.5	-47%
<b>Operating Income</b>	<b>US\$ M</b>	<b>34.1</b>	<b>85.9</b>	<b>-60%</b>	<b>78.6</b>	<b>197.9</b>	<b>-60%</b>
Finance Income (Expenses) and Others, net	US\$ M	-6.7	-6.0	12%	-12.5	-10.6	18%
Results from Subsidiaries and Associates	US\$ M	0.5	-7.1	107%	-31.0	-21.5	-44%
Exchange Difference, net	US\$ M	-0.4	-0.9	-57%	0.0	-0.7	-107%
<b>Profit before Income Tax</b>	<b>US\$ M</b>	<b>27.5</b>	<b>72.0</b>	<b>-62%</b>	<b>35.1</b>	<b>165.0</b>	<b>-79%</b>
Income Tax Expense	US\$ M	-13.7	-32.5	-58%	-34.0	-73.6	-54%
<b>Net Income</b>	<b>US\$ M</b>	<b>13.9</b>	<b>39.5</b>	<b>-65%</b>	<b>1.1</b>	<b>91.5</b>	<b>-99%</b>
Net Income Margin	%	11%	21%	-45%	0%	22%	-98%
<b>EBITDA</b>	<b>US\$ M</b>	<b>47.0</b>	<b>100.4</b>	<b>-53%</b>	<b>109.5</b>	<b>224.6</b>	<b>-51%</b>
EBITDA Margin	%	38%	53%	-27%	43%	55%	-22%
Depreciation	US\$ M	12.9	14.5	-11%	30.9	26.7	16%
<b>Adjusted Net Income</b>	<b>US\$ M</b>	<b>13.7</b>	<b>47.5</b>	<b>-71%</b>	<b>32.1</b>	<b>113.7</b>	<b>-72%</b>

### Second quarter financial results

#### a. Net Revenue:

In 2Q15, net revenue reached US\$ 122.1 M, a decrease of 36% (-US\$ 68.7 M) compared to 2Q14. This decrease was mainly explained by lower tin and gold average metal prices (-30% and -9%, respectively) and lower tin volume sold (-26%) due to stocks optimization plan in 2Q14, partially offset by higher gold volume sold (+52%).

**Table 8: Revenue volume by product**

Net Revenue Volume	Unit	2Q15	2Q14	Var (%)	6M15	6M14	Var (%)
Tin	t	4,948	6,723	-26%	10,581	14,650	-28%
Gold	oz	36,140	23,724	52%	59,415	48,666	22%

**Table 9: Net Revenue in US\$ by product**

Net Revenue in US\$	Unit	2Q15	2Q14	Var (%)	6M15	6M14	Var (%)
Tin	US\$ M	78.4	160.3	-51%	183.5	345.5	-47%
Gold	US\$ M	43.7	30.5	43%	72.1	63.3	14%
<b>TOTAL</b>	<b>US\$ M</b>	<b>122.1</b>	<b>190.8</b>	<b>-36%</b>	<b>255.6</b>	<b>408.8</b>	<b>-37%</b>

#### b. Gross Profit:

In spite of an 18% lower cost of sales in 2Q15, gross profit reached US\$ 53.0 M, a 50% decrease (-

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US\$ 53.3 M) compared to the same period of the previous year, mainly due to lower average tin and gold prices in 2Q15 compared to 2Q14.

**c. Administrative Expenses:**

Administrative expenses in 2Q15 were US\$ 9.5 M, a 16% increase (US\$ 1.3 M) compared to the same period of the previous year. This increase was mainly due to severance payments as a result of changes in administrative personnel and to the staffing of our project development department. We expect the cost and expense reduction plan to yield results in the second half of the year

**d. Exploration and Project Expenses:**

In 2Q15, exploration & project expenses totaled US\$ 7.6 M, an increase of 1% (US\$ 0.1 M) compared to 2Q14. This increase was mainly due to higher exploration expenses in areas surrounding San Rafael, partially offset by lower exploration expenses in areas surrounding Pucamarca and lower expenses in pre-feasibility study from tailing project at San Rafael (B2). Furthermore, brownfields projects are being reviewed in accordance with the new price environment, therefore we expect lower exploration and project expenses in the second half of the year.

**e. EBITDA:**

EBITDA in 2Q15 reached US\$ 47.0 M, a decrease of 53% (-US\$ 53.4 M) compared to 2Q14. This was mainly explained by lower tin volume sold and lower tin and gold average metal prices, partially offset by higher gold volume sold and lower cash cost per treated ton in both units.

**f. Finance Income / (Expenses) and Others, net:**

In 2Q15 net finance expenses reached US\$ 6.7 M, an increase of 12% compared to 2Q14 (US\$ 0.7 M). This increase was mainly due to a loss in financial assets of -US\$ 0.2 M in 2Q15 compared to a gain of US\$ 0.6 M in 2Q14.

**g. Net Income and Adjusted Net Income:**

Net income in 2Q15 reached US\$ 13.9 M, a decrease of 65% (-US\$ 25.7 M) compared to 2Q14. Excluding results from subsidiaries and associates and exchange difference, adjusted net income would have been US\$ 13.7 M in 2Q15.

## VI. LIQUIDITY

As of June 30<sup>th</sup>, 2015, cash and cash equivalents totaled US\$ 530.2 M, a decrease of 8% compared to US\$ 578.3 M in 2014. With regards to financial debt level, total debt reached US\$ 450.4 M, in line with that recorded at the end of 2014. Net leverage ratio was -0.3x at the end of June, 2015 vs. -0.3x at the end of 2014.

**Table 10: Net Debt**

Financial Ratios	Unit	jun-15	dic-14	Var (%)
Total Debt	US\$ M	450.4	450.5	0%
Cash	US\$ M	530.2	578.3	-8%
Net Debt	US\$ M	-79.7	-127.8	-38%
Total Debt / EBITDA	x	1.7x	1.2x	43%
Net Debt / EBITDA	x	-0.3x	-0.3x	-11%