



MANAGEMENT DISCUSSION AND ANALYSIS: INDIVIDUAL RESULTS

MINSUR S.A.
FOURTH QUARTER 2019

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EXECUTIVE SUMMARY 2019

2019 was a challenging year for Minsur; however, the company managed to achieve several key milestones such as:

- Security: Zero fatal accidents and Minsur was awarded with the National Mining Prize for the project “Heading towards zero accidents, managing High Potential Events (HPE)”
- Operations: Tin and gold production above guidance
- Projects: Construction and commissioning of the B2 project completed in line with planned schedule and budget, and with 4.2 million-man hours worked without any incapacitating accident
- Explorations: Increase of mineral resources in San Rafael with 1.9 Mt of ore and ~44 kt of contained tin
- Costs: Pucamarca remained as one of the gold mine operations with the lowest cost in the world
- Ore Sorting: Extension of the Ore Sorting operation in San Rafael with the use of material deposited in the waste dump (low grade ore)
- Sustainability: Implementation of actions recommend by ICMM according to established schedule

During 2019 we had high volatility in metal prices, which were affected by the international context: i) uncertainty originated by the US-China trade war, ii) trade tensions between Japan and South Korea, and iii) Brexit. In the first semester the average tin price was \$ 20,400 /t; however, in the second half of the year it fell to an average of \$ 17,000 /t. On the other hand, this context benefited gold price, which registered an average \$ 1,400 /oz. Faced with this unfavorable scenario for the Tin industry, management had a strong focus on productivity and costs reduction in every operation unit with the main goal of preserving the expected margins of the year and the cash position of the company, which improved our bottom line even further and helped us achieve a solid financial position, in line with our mining plans and long-term growth projects.

Similarly, during 2019, dividends were distributed for US\$ 66 M, corresponding to the refund of overpaid taxes for the 2002 period. Additionally, in 2019 taxes paid in excess in the period 2004-2005 were also refunded.

From the financial perspective in 2019, results were above plan. Net sales reached US\$ 529.8 M, 8% above the same period of the previous year (US\$ 491.4 M). In addition, an EBITDA of US\$ 238.3 M was generated, slightly below the previous year (-1%). And there was a net profit of US\$ 64.9 M, 55% below 2018. It is important to mention that the net profit of 2018 was positively impacted by the recovery of the return of taxes paid in excess in 2002 and the tax benefit of the sale of 40% of Cumbres Andinas to our partner Alxar (Copec).

I. HIGHLIGHTS AND EXECUTIVE SUMMARY

Table N° 1: Operating & Financial Highlights

Highlights	Unit	4Q19	4Q18	Var (%)	2019	2018	Var (%)
Production							
Tin (Sn)	t	5,368	4,886	10%	19,675	18,339	7%
Gold (Au)	oz	24,993	29,251	-15%	101,799	103,299	-1%
Financial Results							
Net Revenue	US\$ M	139.0	128.9	8%	529.8	491.4	8%
EBITDA	US\$ M	56.1	55.4	1%	236.7	242.5	-2%
EBITDA Margin	%	40%	43%	-	45%	49%	-
Net Income	US\$ M	11.9	6.8	75%	64.5	144.1	-55%
Adjusted Net Income ¹	US\$ M	27.5	14.0	97%	97.7	71.3	37%

Executive Summary:

a. Operating Results

In 4Q19, the company registered mixed operating results compared to the same period of the previous year; tin production was higher (+10%), while gold production was lower (-15%). In both cases, the result was within the production guidance and in line with the mining plan established for each operating unit. On the one hand, the higher refined tin production in Pisco is explained by higher volume of ore from San Rafael fed to the smelting plant (+7%) compared to the same period of the previous year. On the other hand, lower gold production was explained by lower volume fed to the Leaching Pad (-2%) and lower gold head grade placed on the Pad (-13%).

In 2019, higher tin production was explained by higher volume of ore treated in the concentration plant (+6%) and greater head grade (+6%). Lower gold production was mainly due to lower recovery rate compared to the previous year (-2%).

b. Financial Results

In 4Q19, sales were higher by 8% compared to the same period of the previous year, mainly due to higher sold volumes of tin and gold (+13% and +6%, respectively), as well as the higher gold price (+21%). These effects were partially offset by the lower tin price (-13%). Likewise, EBITDA and Net Income were higher than the same period of the previous year (+1% and +75%, respectively).

During 2019, the net income reached US\$ 64.5 M, 55% below that of 2018, mainly explained by the refund of overpaid taxes of the 2002 period during 2018. Sales were US\$ 529.8 M, US\$ 38.4 M above 2018, mainly explained by higher sold volume of tin (+15%) and gold (+4%), as well as higher gold price (+10%), partially offset by lower tin price (-8%). EBITDA reached US\$ 236.7M, US\$ 5.7M below to the same period of the previous year, mainly due to the higher costs associated with the higher volume sold.

¹ Adjusted net income = Net income excluding Loss from Subsidiaries and Associates, exchange rate difference and extraordinary effects: (i) the return of overpaid taxes, (ii) the exchange rate, and (iii) tax benefit by the sale of 40% of Marcobre

II. MAIN CONSIDERATIONS:

a. Average metal prices

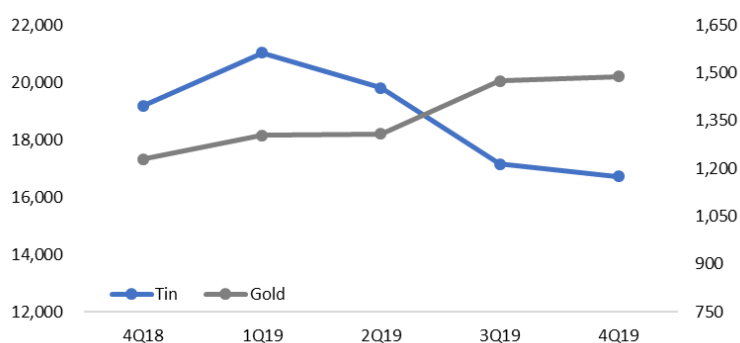
- **Tin:** Average Tin Price in 4Q19 was US\$ 16,716 per ton, a decrease of 13% compared to the same period of the previous year. During 2019, average tin price was US\$ 18,607 per ton, 8% below last year's average.
- **Gold:** Average Gold Price in 4Q19 was US\$ 1,489 per ounce, 21% higher than the same period of the previous year. During 2019, average gold price was US\$ 1,397 per ounce, an increase of 10% compared to last year's average.

Table N° 2: Average metal prices

Average Metal Prices	Unit	4Q19	4Q18	Var (%)	2019	2018	Var (%)
Tin	US\$/t	16,716	19,174	-13%	18,607	20,156	-8%
Gold	US\$/oz	1,489	1,229	21%	1,397	1,269	10%

Source: Bloomberg

Figure N° 1: Average metal price quarterly evolution



Source: Bloomberg

b. Exchange Rate:

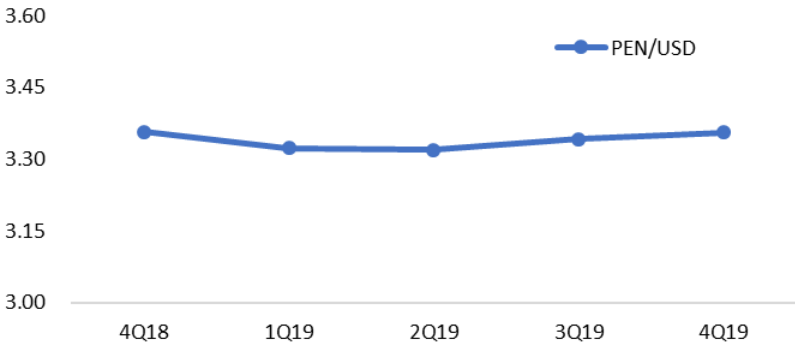
The Peruvian Sol average exchange rate for 4Q19 was S/ 3.36 per US\$ 1, in line compared to S/ 3.36 per US\$ 1 in 4Q18. At the end of 2018, exchange rate was S/ 3.29 per US\$ 1, while at the end of 2019 it increased S/ 3.34 per US\$ 1.

Table N°3: Exchange Rate

Average Exchange Rate	Unit	4Q19	4Q18	Var (%)	2019	2018	Var (%)
PEN/USD	S/.	3.36	3.36	0%	3.34	3.29	2%

Source: Banco Central de Reserva del Perú

Figure N° 2: Exchange rate quarterly evolution



III. Security

Table N° 11: Security

Security Indicators Detail	Unidad	4Q19	4Q18	Var (%)	2019	2018	Var (%)
Lost Time Injury (LTI)	#	1.0	3.0	-67%	2.0	5.0	-60%

In terms of safety, in 4Q19 we had one (01) Lost Time Injury (LTI), concluding the year 2019 with two (02) LTIs and zero fatalities. In 2019, we registered 11.8 million man-hours work and we achieved a frequency rate of incapacitating accidents of 0.17, which meant a reduction of 66% compared to 2018. Additionally, in 2019 we achieved a frequency index of recordable injuries of 1.77, which consolidates us as referents in safety in the mining industry in Peru.

In 4Q19, we received the National Mining Prize, the highest award granted by the Institute of Mining Engineers of Peru in PERUMIN 2019 for the presentation of the technical work “Heading towards Zero accidents, managing high potential events in Mining”. In addition, the construction of the B2 project was completed, achieving zero LTIs with 4.2 million man-hours worked.

We continue working to improve our safety culture, including that of our strategic partners, aligned with the ICMM initiatives.

IV. OPERATING MINING RESULTS:

a. San Rafael – Pisco (Perú):

Table N° 4: San Rafael - Pisco Operating Results

San Rafael - Pisco	Unit	4Q19	4Q18	Var (%)	2019	2018	Var (%)
Ore Treated	t	445,233	539,299	-17%	1,981,097	1,871,288	6%
Head Grade	%	1.85	1.79	4%	1.86	1.75	6%
Tin production (Sn) - San Rafael	t	5,049	4,843	4%	20,273	18,601	9%
Tin production (Sn) - B2	t	467	-	-	467	-	-
Tin production (Sn) - Pisco	t	5,368	4,886	10%	19,675	18,339	7%
Cash Cost per Treated Ton ² - San Rafael	US\$/t	77.87	55.84	39%	65.47	64.05	2%
Cash Cost per Ton of Tin ³	US\$/t Sn	8,974	8,312	8%	8,627	8,662	0%

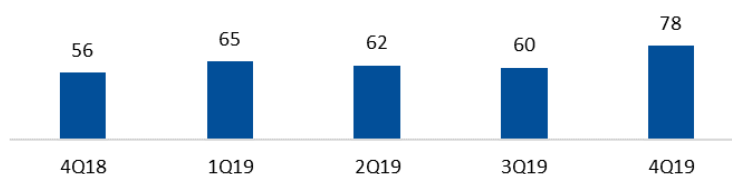
In 4Q19, refined tin production at Pisco reached 5,368 tons, 10% higher than in 4Q18, mainly due to higher volume of ore fed to the smelting plant (+7%). Tin production in San Rafael reached 5,049 tons, 4% higher than the same period of the previous year, mainly explained by higher head grade of ore fed to the concentration plant (+4%). Cash cost per treated ton at San Rafael in 4Q19 was \$ 77.8, +39% above 4Q18, mainly explained by greater linear advances in the mine and increased mineral extraction (+4%).

During 2019, tin production at San Rafael was 9% higher than the previous year, mainly because the pre-concentration ore sorting plant did not operate during 1Q18 due to maintenance. In Pisco, the refined tin production was 7% higher than 2018, mainly due to higher volume of ore fed. Cash cost during 2019 was \$65, slightly above 2018 (+2%), mainly explained by lower volume of ore treated during the first quarter of 2018 due to maintenance work in the pre-concentration ore sorting plant.

With these results we conclude 2019 with a production higher than the year's guidance and with costs in the lower limit of the established range.

It is important to mention that, as part of the commissioning phase of our B2 project, 432 tons of fine of concentrate were produced in B2, which has started commercial production in 2020.

Figure N°3: Cash Cost per treated ton evolution - San Rafael



² Cash Cost per treated ton = San Rafael production costs / (Tons of Ore treated at Concentration + Tons of Ore treated at Pre-Concentration)

³ Cash Cost per ton of tin = (San Rafael and Pisco production costs + selling expenses + change in tin concentrates inventory, excluding employee profit sharing, depreciation and amortization) / (Tin Production, in tons)

Cash cost per ton of tin³ in 4Q19 was US\$ 8,974, 8% above 4Q18, mainly explained by higher production cost of the mine due to greater linear advances in the mine and increased mineral extraction. In average in 2019 cash cost per ton of tin was US\$ 8,627, like that of 2018.

Finally, it is important to note that a drilling campaign to replenish resources at San Rafael is being currently held. During the quarter, 0.3 Mt of ore containing 5.8 kt of tin were identified. During 2019, 1.9 Mt of ore were identified, which is equivalent to 44.2 kt of contained tin.

Pucamarca (Perú):

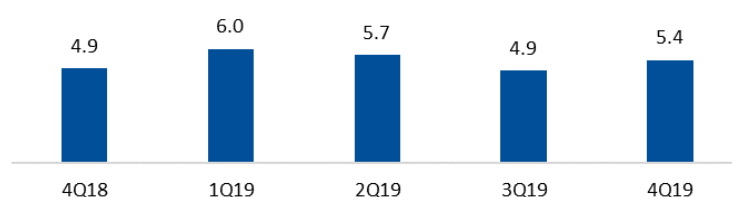
Table N°5. Pucamarca Operating Results

Pucamarca	Unit	4Q19	4Q18	Var (%)	2019	2018	Var (%)
Ore Treated	t	2,159,216	2,214,407	-2%	8,220,833	8,168,163	1%
Head Grade	g/t	0.54	0.61	-13%	0.59	0.57	3%
Gold production (Au)	oz	24,993	29,251	-15%	101,799	103,299	-1%
Cash Cost per Treated Ton	US\$/t	5.4	4.9	9%	5.5	4.4	23%
Cash Cost per Ounce of Gold ⁴	US\$/oz Au	466	375	24%	441	352	25%

In 4Q19, gold production reached 24,993 ounces, a 15% decrease compared to the same period of the previous year. This decrease in gold production is mainly due to lower volume fed to Leaching Pad (-13%) and lower gold head grade placed on the Leaching Pad (-2%). Cash cost per treated ton at Pucamarca was US\$ 5.4 in 4Q19 vs. US\$ 4.9 in 4Q18, a 9% increase, mainly due to the advancement of dismount work, in order to optimize our geotechnical parameters. It is important to mention that production and cost remain in line with the established mining plan.

During 2019, production was 101,799 ounces of gold, slightly below (-1%) previous year production, mainly explained by lower recovery rate (-2%) due to fine material processing, according to plan. Cash cost per treated ton for 2019 was US\$ 5.5, 23% higher than the same period last year. With these results, production was above and costs at the lower limit of our guidance.

Figure N°4: Cash Cost per treated ton evolution – Pucamarca



Cash cost per ounce of gold⁴ in 4Q19 was US\$ 466, an increase of 24% compared to 4Q18, mainly explained by higher production cost and lower gold production explained above. During 2019, cash cost per ounce of gold was US\$ 441, 25% higher than 2018.

⁴Cash 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°6. Executed CAPEX

Capex	Unit	4Q19	4Q18	Var (%)	2019	2018	Var (%)
San Rafael	US\$ M	9.8	8.6	13%	23.6	17.5	35%
Pisco	US\$ M	0.5	0.5	0%	1.3	0.9	45%
Pucamarca	US\$ M	2.5	12.4	-80%	6.9	30.2	-77%
Others	US\$ M	0.1	0.3	-76%	0.7	0.5	51%
Sustaining Capex	US\$ M	12.8	21.8	-41%	32.5	48.9	-34%
B2	US\$ M	27.6	37.2	-26%	112.0	78.2	43%
Expansion Projects Capex	US\$ M	27.6	37.2	-26%	112.0	78.2	43%
Total Capex	US\$ M	40.4	59.0	-32%	144.5	127.1	14%

In 4Q19, Capex was US\$ 40.4 M, a decrease of 32% compared to the same period of the previous year. The major investment in the quarter was the B2 project (which required an investment of US\$ 27.6 M during the quarter). It should be noted that the main decrease between one period and another corresponds to the B2 project, which required a smaller investment given the final phase of the project. In contrast, Pucamarca made a lower investment because part of the extension of the leeching Pad was built in the same period of the previous year. As for the operating units, the main investment was related to sustaining Capex.

During 2019, Capex was US\$ 144.5, 14% higher than 2018. On the one hand, B2 reached US\$ 112.0 M, 43% higher than the last year, in line with the investment schedule under construction and commissioning. And, on the other hand, Pucamarca registered US\$ 6.9M, 77% below the previous year, mainly explained the investment in the expansion of the leeching Pad registered in 2018.

V. FINANCIAL RESULTS:

Table N°7. Financial Statements

Financial Statements	Unit	4Q19	4Q18	Var (%)	2019	2018	Var (%)
Net Revenue	US\$ M	139.0	128.9	8%	529.8	491.4	8%
Cost of Sales	US\$ M	-78.6	-68.1	15%	-287.3	-243.5	18%
Gross Profit	US\$ M	60.4	60.8	-1%	242.5	248.0	-2%
Selling Expenses	US\$ M	-1.5	-0.5	176%	-5.8	-4.6	25%
Administrative Expenses	US\$ M	-12.4	-10.6	17%	-41.3	-34.9	18%
Exploration & Project Expenses	US\$ M	-4.7	-6.8	-32%	-24.3	-27.4	-11%
Other Operating Expenses, net	US\$ M	-4.1	-5.6	-27%	-3.1	-6.0	-48%
Operating Income	US\$ M	37.7	37.2	1%	167.9	175.0	-4%
Financial Income (Expenses) and Others, net	US\$ M	-2.5	9.5	-126%	-6.2	37.2	-
Results from Subsidiaries and Associates	US\$ M	-15.3	-17.1	-11%	-39.9	-44.1	-9%
Exchange Difference, net	US\$ M	-0.2	-3.4	-93%	1.4	-3.7	-138%
Profit before Income Tax	US\$ M	19.7	26.2	-25%	123.3	164.4	-25%
Income Tax Expense	US\$ M	-7.7	-19.4	-60%	-58.8	-20.2	191%
Net Income	US\$ M	11.9	6.8	75%	64.5	144.1	-55%
Net Income Margin	%	9%	5%	-	12%	29%	-
EBITDA	US\$ M	56.1	55.4	1%	236.7	242.5	-2%
EBITDA Margin	%	40%	43%	-	45%	49%	-
Adjusted Net Income⁶	US\$ M	27.5	14.0	97%	97.7	71.3	37%

a. Net Revenue:

In 4Q19, net sales reached US\$ 139.0 M, an increase of 8% (+US\$ 10.1 M) compared to 4Q18. This increase is mainly explained by the higher sold volumes of tin (+13%) and gold (+6%), as well as the higher gold price (+21%), partially offset by lower tin prices (-13%).

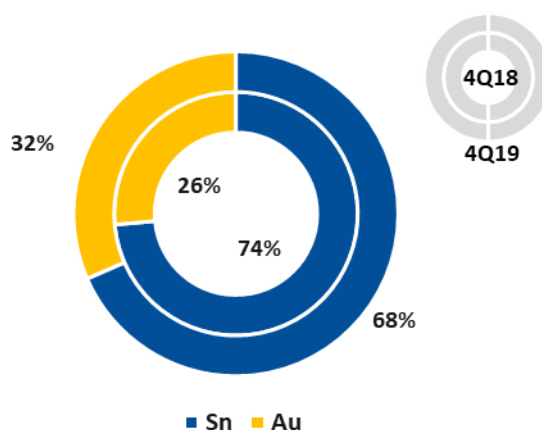
Table N°8. Net revenue Volume by product

Net Revenue Volume	Unit	4Q19	4Q18	Var (%)	2019	2018	Var (%)
Tin	t	5,407	4,780	13%	20,092	17,483	15%
Gold	oz	28,955	27,189	6%	105,643	101,177	4%

Table N°9. Net revenue in US\$ by product

Net Revenue by Metal	Unit	4Q19	4Q18	Var (%)	2019	2018	Var (%)
Tin	US\$ M	95.1	94.8	0%	379.8	360.6	5%
Gold	US\$ M	43.8	34.1	29%	150.0	130.9	15%
TOTAL	US\$ M	139.0	128.9	8%	529.8	491.4	8%

Figure N°5: Net revenue breakdown in US\$ by metal



b. Cost of Sales:

Table N°10. Cost of sales detail

Cost of Sales	Unit	4Q19	4Q18	Var (%)	2019	2018	Var (%)
Production Cost	US\$ M	54.5	49.0	11%	208.0	187.7	11%
Depreciation	US\$ M	16.2	17.9	-10%	62.3	60.1	4%
Workers profit share	US\$ M	3.0	5.7	-48%	12.8	8.0	61%
Stocks Variation and Others	US\$ M	5.0	-4.6	-	4.2	-12.3	-134%
TOTAL	US\$ M	78.6	68.1	15%	287.3	243.5	18%

Cost of sales in 4Q19 reached US\$ 78.6 M, an increase of 15% compared to the same period of last year. This effect is due to higher sold volumes of tin and gold (+13% and +6%, respectively).

During 2019, cost of sales was US\$ 287.3 M, an increase of 18% compared to the last year, mainly explained by higher sold volumes of tin and gold (+14% and 4%, respectively).

c. Gross Profit:

Gross profit during 4Q19 reached US\$ 60.4 M, US\$0.4 M decrease compared to the same period of the previous year, mainly because of the higher costs associated with the greater volume of tin and gold, and as explained in the cost of sale. Gross margin of the quarter was 43% vs 47% during 4Q18.

d. Selling expenses:

Selling expenses in 4Q19 were US\$ 1.5 M, US\$ 1.0M above the previous year, mainly explained by higher sold volumes of tin and gold.

During 2019, selling expenses were US\$ 5.8 M, US\$ 1.2M above the last year, mainly explained by higher sold volumes (freight, shipping, others).

e. Administrative expenses:

Administrative expenses in 4Q19 were US\$ 12.4 M, US\$ 1.8 M higher than the same period of last year, explained by more consulting services. During 2019, administrative expenses were US\$ 41.3 M, 18% higher than the last year, due to more consulting services and payroll costs.

f. Exploration and Project Expenses:

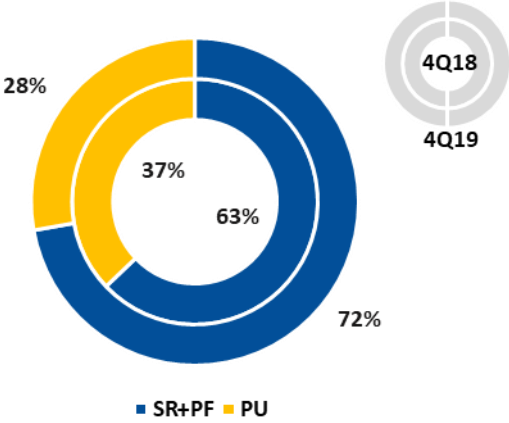
In 4Q19, exploration and project expenses totaled US\$ 4.7 M, US\$ 2.2 M lower than 4Q18. In 2019 we invested US\$ 24.3 M, 11% lower than 2018, mainly explained to the partial postponement of exploration activities due to the impact of the international market context on the tin price.

g. EBITDA:

EBITDA in 4Q19 amounted to US\$ 56.1 M, an increase of US\$ 0.6 M compared to 4Q18, due to higher tin and gold volumes sold, offset by lower tin prices. EBITDA margin in the period reached 40%, slightly below that of the same period of last year, mainly due to the lower gold prices.

In 2019, EBITDA reached US\$ 236.7 M, US\$ 5.7 M lower than 2018, mainly explained by higher costs associated with the greater sold volumes of tin and gold, as explained above.

Figure N°6: EBITDA share in US\$ by Operating Unit



h. Net financial expenses

The net financial expenses in 4Q19 were - US\$ 2.5 M vs US\$ 9.5 M registered in the previous year. This difference is explained by the refund of overpaid taxes of the 2002 period received in 4Q18. During 2019, net financial expenses were -US\$ 6.2 M, US\$ 43.4 M lower than 2018, explained by the return of overpaid taxes of the 2002 period during 2018.

i. Income tax expense:

In 4Q19, Minsur accrued -US\$ 7.7 M on income tax expense vs -US\$ 19.4 in 4Q18, mainly due to i) exchange rate effect for having dollar as functional currency for accounting purposes and soles for tax purposes, and ii) lower profit before taxes compared to the same period of the previous year (-25%).

During 2019 we registered -US\$ 58.8 M of tax expense compared to -US\$ 20.2 M in 2018. The difference is explained by the refund of overpaid taxes of the 2002 period and the tax benefit resulting from the sale of 40% of Cumbres Andinas to our partner Alxar (Copec).

j. Net income and Adjusted net income:

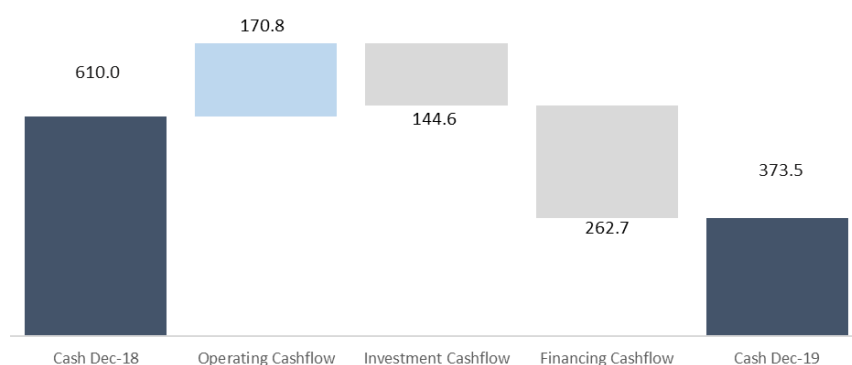
In 4Q19, the company registered a net income of US\$ 11.9 M, an increase of US\$ 5.1 M vs. 4Q18, mainly due to higher taxes paid in the same period of the previous year, as explained above. Likewise, in 2019, net income registered US\$ 64.5 M, 55% lower than the last year. This difference is mainly explained by the refund of overpaid taxes during 2002 in 2018 and the tax benefit for the sale of 40% of Cumbres Andinas.

Excluding (i) extraordinary effects, (ii) the results of subsidiaries and associates, and (iii) the exchange difference, the adjusted net income in 4Q19 would amount to US\$ 27.5 M, US\$ 13.5 M higher than the same period of the previous year. Likewise, during 2019, excluding (i) extraordinary effects, (ii) the results of subsidiaries and associates, (iii) the exchange difference, (iv) the return of overpaid taxes, and (v) the tax benefit for the sale of 40% of Cumbres Andinas, adjusted net income would reach US\$ 97.7 M, US\$ 26.4 higher than 2018, mainly explained by (i) higher sold volumes of tin and gold, and (ii) lower tax due to variations in the rate of exchange, and (iii) lower profit before taxes.

VI. LIQUIDITY:

As of December 31th, 2019, the company's cash balance reached US\$ 373.5 M, 39% lower than the closing balance of 2018 (US\$ 610.0 M). The increase is explained by an operating cash flow of US\$ 170.8 M, offset by an investment cash flow of US\$ 144.6 M and financing cash flow of US\$ 262.7 M.

The financing cash flow considers the \$ 66.0 M dividend payment and capital contributions to our subsidiaries for US\$ 196.7 M: US\$ 10.9 to Barbastro and Sillustani, and US\$ 185.8 M to Marcobre.



As of December 31th, 2019, the company's financial liabilities reached US\$ 443.4 M, slightly above the level shown in 2018 (US\$ 442.1 M). The financial debt is explained by the corporate bond, with expiration date of 2024. The net leverage ratio reached 0.3x as of December 31, 2019 vs. -0.7x by the end of 2018.

Table N°12. Debt Summary

Financial Ratios	Unit	Dec-19	Dec-18	Var (%)
Total Debt	US\$ M	443.4	442.1	0%
Long Term - Minsur 2024 Bond	US\$ M	443.4	442.1	0%
Cash	US\$ M	373.5	610.0	-39%
Cash and Equivalents	US\$ M	79.4	200.1	-60%
Fixed term deposits	US\$ M	212.7	309.7	-31%
Certificates without public quotation	US\$ M	0.0	40.6	-100%
Comercial papers	US\$ M	81.5	59.6	37%
Net Debt	US\$ M	69.9	-168.0	142%
Total Debt / EBITDA	x	1.9x	1.8x	3%
Net Debt / EBITDA	x	0.3x	-0.7x	143%