

# MANAGEMENT DISCUSSION AND ANALYSIS: INDIVIDUAL RESULTS

**MINSUR S.A.  
FIRST QUARTER 2020**

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## I. HIGHLIGHTS AND EXECUTIVE SUMMARY

**Table N° 1: Operating & Financial Highlights**

Highlights	Unit	1Q20	1Q19	Var (%)
<b>Production</b>				
Tin (Sn)	t	4,333	3,888	11%
Gold (Au)	oz	19,105	24,270	-21%
<b>Financial Results</b>				
Net Revenue	US\$ M	124.9	135.4	-8%
EBITDA	US\$ M	52.5	69.2	-24%
EBITDA Margin	%	42%	51%	-
Net Income	US\$ M	-41.6	46.0	-
Adjusted Net Income <sup>1</sup>	US\$ M	3.6	30.7	-88%

### Executive Summary:

#### **a. Prioritization of Health and Safety – Response to COVID -19 Pandemic**

On March 15<sup>th</sup>, the Peruvian President and his Council of Ministers declared a state of emergency and approved several restrictions designed to protect the country against the spread of Covid-19. Subsequently, on March 17<sup>th</sup>, the Ministry of Economy and Finance issued the Official Letter No. 059-2020-EF / 10.1, which includes the list of excepted activities provided in literal I) of numeral 4.1 of article 4 of Supreme Decree No. 044-2020-PCM to the mining subsector, in order to guarantee the maintenance of critical operations with the minimum essential personnel, in conditions of health and environment safety. However, for caution and in accordance with our policies that place the utmost importance on the health of our employees and the safety of our facilities, we decided to temporarily suspend production and construction activities on March 18<sup>th</sup>, consistently in compliance with the national emergency declaration and its extensions.

Therefore, the San Rafael and B2 Mining Units and the Pisco Refinery and Smelter production is suspended, and only critical maintenance activities and those necessary to guarantee the safety and health of personnel and monitoring of the environmental protocol are being carried out. In the Pucamarca Mining Unit, given the nature of the metallurgical process and to avoid any environmental impact, critical plant activities continue. Administrative staff has been working remotely since March 16<sup>th</sup>. Regarding our operations in Brazil, in April we decided to suspend the production activities of the Pitinga Mining Unit and the Pirapora Refinery and Smelter as a preventive measure.

To date, Mina Justa Project progress reached 90% of the plan, which has given us some flexibility to face this context. Construction activities are suspended and will be resumed progressively with the highest health and safety standards. The cost savings obtained in the executed stages of the project

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<sup>1</sup> Adjusted net income = Net income excluding Loss from Subsidiaries and Associates, exchange rate difference and extraordinary effects: the return of overpaid taxes

will allow us to face the delays generated by the current situation. It should be noted that capital and financing disbursements are in line with budget and schedule to date.

We are committed to prevent any health risks for our workers, their families, and the communities in our areas of influence; therefore, we have been working on a corporate plan to establish the highest standards and health protocols that will allow us to safely resume operations. Simultaneously, we have organized multidisciplinary task forces to identify and later execute all initiatives that will allow us to reduce the gap generated in our production and financial results by the suspension of our activities.

The latest government measures will allow mining companies to restart operations in May; subject to compliance to industry specific guidelines that will be published in the next days. The preparation work we have been carrying out will allow us to guarantee compliance with those guidelines and to resume operations in our units and the construction of the Mina Justa project.

#### **b. Operating Results**

In 1Q20, the company registered mixed operating results compared to the same period of the previous year; tin production was higher (+11%), while gold production was lower (-21%). On the one hand, the higher refined tin production in Pisco is explained by higher volume of ore from B2, which started commercial production this year (+2,652 tons of ore). It is important to mention that the ramp-up of the project was in line with schedule until the suspension of activities on March 18<sup>th</sup>. On the other hand, the lower gold production is mainly explained by lower recovery, due to the processing of finer material according to the mining plan and given the suspension of activities.

#### **c. Financial Results**

The financial results obtained during 1Q20 were below to 1Q19 due to market uncertainty generated by Covid-19, which had a strong impact on the prices of basic metals, including tin, and the measures adopted by the State and the company to deal with the pandemic. Sales and EBITDA were 8% and 24% lower, respectively. The lower sales during 1Q20 are mainly explained by lower tin price (-23%) and lower sold volumes of gold (-32%), partially offset by the higher sold volumes of tin (+32%) and higher gold price (+21%). Net income was additionally impacted by the results of subsidiaries and associates and by the effect of higher tax in comparison to the same period of the previous year.

## II. MAIN CONSIDERATIONS:

### a. Average metal prices

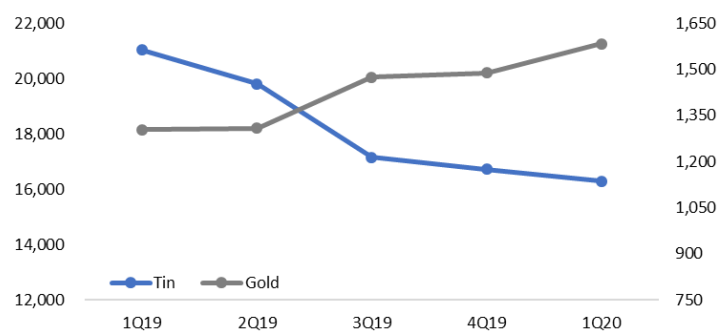
- **Tin:** Average tin price in 1Q20 was US\$ 16,286 per ton, a decrease of 23% compared to the same period of the previous year.
- **Gold:** Average gold price in 1Q20 was US\$ 1,582 per ounce, 21% higher than the same period of the previous year.

Table N° 2: Average metal prices

Average Metal Prices	Unit	1Q20	1Q19	Var (%)
Tin	US\$/t	16,286	21,027	-23%
Gold	US\$/oz	1,582	1,304	21%

Source: Bloomberg

Figure N° 1: Average metal price quarterly evolution



Source: Bloomberg

### b. Exchange Rate:

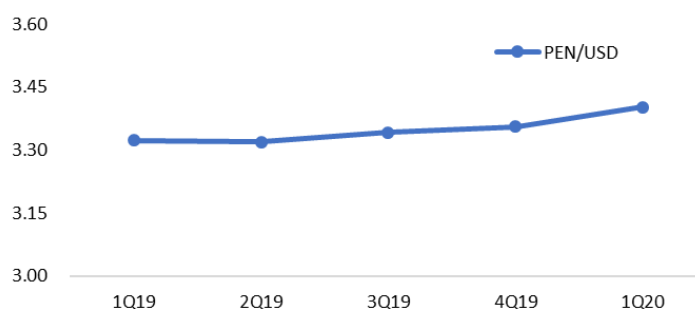
The Peruvian Sol average exchange rate for 1Q20 was S/ 3.40 per US\$ 1, 2% higher than that of 1Q19 (S/ 3.32 per US\$ 1). At the end of 2019, exchange rate was S/ 3.32 per US\$ 1, while at the end of 1Q20 it increased to S/ 3.44 per US\$ 1.

Table N°3: Exchange Rate

Average Exchange Rate	Unit	1Q20	1Q19	Var (%)
PEN/USD	S/.	3.40	3.32	2%

Source: Banco Central de Reserva del Perú

**Figure N° 2: Exchange rate quarterly evolution**



### III. OPERATING MINING RESULTS:

#### a. San Rafael – Pisco (Perú):

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

San Rafael - Pisco	Unit	1Q20	1Q19	Var (%)
Ore Treated	t	270,603	464,633	-42%
Head Grade	%	1.95	1.90	3%
Tin production (Sn) - San Rafael	t	4,365	5,045	-13%
Tin production (Sn) - B2	t	613	-	-
Tin production (Sn) - Pisco	t	4,333	3,888	11%
Cash Cost per Treated Ton <sup>1</sup> - San Rafael	US\$/t	98.18	64.87	51%
Cash Cost per Ton of Tin <sup>3</sup>	US\$/t Sn	8,232	8,614	-4%

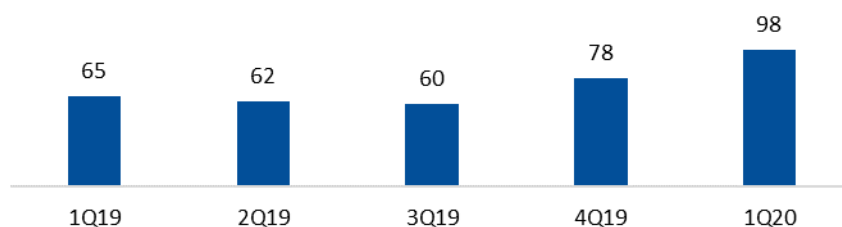
In 1Q20, tin production at San Rafael reached 4,365 tons, 13% lower than in 1Q19, mainly explained by lower ore treated (-42%) for the demobilization of personnel started on March 18<sup>th</sup> and lower volume of ore fed to the pre-concentration ore sorting plant (-28% vs 1Q19). It is important to mention that the mine stripping (lower grade mineral) that allowed the extension of the pre-concentration ore sorting plant was exhausted in December 2019; however, with some modifications to the plant, we managed to extend its use on January of this year with the processing of fresh low-grade ore extracted from the mine, with recovery rates of up to 99%. Additionally, in February a two-day plant shutdown was required to execute preventive maintenance works. On the other hand, we highlight that the grade of ore fed to the concentration plant in 1Q20 was 3% higher than that of 1Q19.

B2 started operation in January and produced 613 tons in 1Q20. Before the demobilization of the personnel, the ramp-up of the project was running according to schedule.

The refined tin production at Pisco reached 4,333 tons, 11% higher than in 1Q19, mainly due to higher volume of ore sent by B2 (+2,652 tons), which partially offset the lower ore feed from San Rafael (-12%).

Cash cost per treated ton at San Rafael in 1Q20 was \$98, +51% above 1Q19, mainly explained by lower volume of treated ore (-42%), explained by lower volume processed in the pre-concentration ore sorting plant (-28%) and fewer days of production due to the suspension of activities (-31% vs the same period of the previous year).

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



Cash cost per ton of tin<sup>3</sup> in 1Q20 was US\$ 8,232, 4% above 1Q19, mainly explained by the higher refined tin production at Pisco (+12%).

#### **b. Pucamarca (Perú):**

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

Pucamarca	Unit	1Q20	1Q19	Var (%)
Ore Treated	t	1,847,206	1,906,121	-3%
Head Grade	g/t	0.53	0.61	-13%
Gold production (Au)	oz	19,105	24,270	-21%
Cash Cost per Treated Ton	US\$/t	4.5	6.0	-25%
Cash Cost per Ounce of Gold <sup>4</sup>	US\$/oz Au	433	470	-8%

In 1Q20, gold production reached 19,105 ounces, a 21% decrease compared to the same period of the previous year. This decrease in gold production is mainly due to i) less ore mined (-5%), ii) lower volume fed to Leaching Pad (-3%) and iii) lower gold head grade placed on the Leaching Pad (-13%). The lower ore mined, and lower volume fed to Leaching Pad are due to the demobilization of personnel carried out in the second half of March 1Q20. It is worth mentioning that in January and February the mineral placed in the Leaching Pad was 12% higher than the same period of the previous year.

On the other hand, in accordance with the mining plan, we are processing material with lower grade than in previous periods. This is because the highest-grade material available is very fine and is placed in a smaller proportion to avoid exceeding the design parameters of the PAD. This change also impacts the recovery rate (-2% compared to the same period of the previous year).

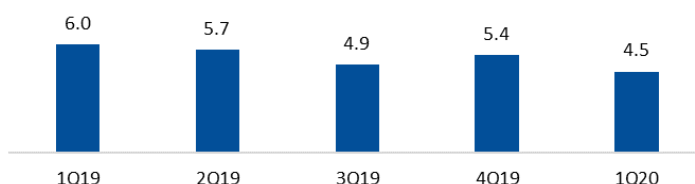
<sup>2</sup> Cash Cost per treated ton = San Rafael production costs / (Tons of Ore treated at Concentration + Tons of Ore treated at Pre-Concentration)

<sup>3</sup> 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)

<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)

Cash cost per treated ton at Pucamarca was US\$ 4.5 in 1Q20 vs. US\$ 6.0 in 1Q19, a 25% decrease, mainly due to i) the advancement of dismount work carried out in 2019, in order to optimize our geotechnical parameters, and ii) less ore treated as explained above.

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



Cash cost per ounce of gold<sup>4</sup> in 1Q20 was US\$ 433, a decrease of 8% compared to 1Q19, mainly explained by lower production costs as explained above.

#### IV. CAPEX:

**Table N°6. Executed CAPEX**

Capex	Unit	1Q20	1Q19	Var (%)
San Rafael	US\$ M	2.2	1.2	82%
Pisco	US\$ M	0.4	0.2	116%
Pucamarca	US\$ M	0.8	1.3	-39%
Others	US\$ M	0.2	0.3	-54%
<b>Sustaining Capex</b>	<b>US\$ M</b>	<b>3.6</b>	<b>3.1</b>	<b>17%</b>
B2	US\$ M	3.8	22.1	-83%
<b>Expansion Projects Capex</b>	<b>US\$ M</b>	<b>3.8</b>	<b>22.1</b>	<b>-83%</b>
<b>Total Capex</b>	<b>US\$ M</b>	<b>7.3</b>	<b>25.2</b>	<b>-71%</b>

In 1Q20, Capex was US\$ 7.3 M, which represents a decrease of 71% compared to what was invested in 1Q19, when the B2 Project was still under construction. As for the operating units, the main investment was related to sustaining Capex. B2 started operating on January 2020.

## V. FINANCIAL RESULTS:

**Table N°7. Financial Statements**

Financial Statements	Unit	1Q20	1Q19	Var (%)
Net Revenue	US\$ M	124.9	135.4	-8%
Cost of Sales	US\$ M	-79.5	-65.9	21%
<b>Gross Profit</b>	<b>US\$ M</b>	<b>45.4</b>	<b>69.5</b>	<b>-35%</b>
Selling Expenses	US\$ M	-1.4	-1.5	-7%
Administrative Expenses	US\$ M	-9.3	-9.6	-3%
Exploration & Project Expenses	US\$ M	-2.2	-4.6	-51%
Other Operating Expenses, net	US\$ M	-0.1	0.2	-
<b>Operating Income</b>	<b>US\$ M</b>	<b>32.4</b>	<b>54.1</b>	<b>-40%</b>
Financial Income (Expenses) and Others, net	US\$ M	-6.5	1.3	-
Results from Subsidiaries and Associates	US\$ M	-45.8	5.9	-
Exchange Difference, net	US\$ M	0.6	3.2	-80%
<b>Profit before Income Tax</b>	<b>US\$ M</b>	<b>-19.2</b>	<b>64.4</b>	<b>-</b>
Income Tax Expense	US\$ M	-22.3	-18.4	21%
<b>Net Income</b>	<b>US\$ M</b>	<b>-41.6</b>	<b>46.0</b>	<b>-</b>
Net Income Margin	%	-33%	34%	-
<b>EBITDA</b>	<b>US\$ M</b>	<b>52.5</b>	<b>69.2</b>	<b>-24%</b>
EBITDA Margin	%	42%	51%	-
Depreciation and Amortization	US\$ M	20.1	15.2	33%
<b>Adjusted Net Income<sup>6</sup></b>	<b>US\$ M</b>	<b>3.6</b>	<b>30.7</b>	<b>-88%</b>

### a. Net Revenue:

In 1Q20, net sales reached US\$ 124.9 M, a decrease of 8% (-US\$ 10.5 M) compared to 1Q19. This decrease is mainly explained by the lower tin price (-23%) and the lower sold volumes of gold (-32%), partially offset by the higher sold volumes of tin (+32%) and higher gold price (+21%). The higher sold volumes of tin were explained by the new production of B2 (+664 fine tons) and the lower sold volumes of gold are due to the air transport restrictions imposed in March.

**Table N°8. Net revenue Volume by product**

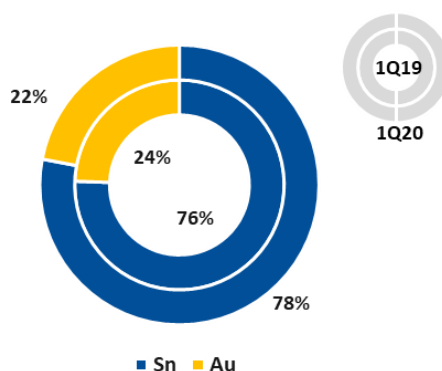
Net Revenue Volume	Unit	1Q20	1Q19	Var (%)
Tin	t	6,096	4,631	32%
Gold	oz	17,047	24,973	-32%

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

Net Revenue by Metal	Unit	1Q20	1Q19	Var (%)
Tin	US\$ M	97.3	102.3	-5%
Gold	US\$ M	27.5	33.1	-17%
<b>TOTAL</b>	<b>US\$ M</b>	<b>124.9</b>	<b>135.4</b>	<b>-8%</b>



**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	1Q20	1Q19	Var (%)
Production Cost	US\$ M	45.6	49.6	-8%
Depreciation	US\$ M	18.4	13.8	33%
Workers profit share	US\$ M	2.0	4.0	-51%
Stocks Variation and Others	US\$ M	13.5	-1.5	-
<b>TOTAL</b>	<b>US\$ M</b>	<b>79.5</b>	<b>65.9</b>	<b>21%</b>

Cost of sales in 1Q20 reached US\$ 79.5 M, an increase of 21% compared to the same period of last year. This effect is due to i) higher sold volumes of tin (+32%) and ii) entry of B2 depreciation and higher depreciation in San Rafael.

**c. Gross Profit:**

Gross profit during 1Q20 reached US\$ 45.4 M, US\$24.1 M decrease compared to the same period of the previous year, mainly because of the lower sales (-8%) and the higher cost of sales (+21%), both explained above. Gross margin of the quarter was 36% vs 51% during 1Q19.

**d. Selling expenses:**

Selling expenses in 1Q20 were US\$ -1.4 M, US\$ 0.1M below to the previous year, mainly explained by lower sold volumes of gold.

**e. Administrative expenses:**

Administrative expenses in 1Q20 were US\$ 9.3 M, US\$ 0.3 M lower than the same period of last year, explained by a reduction in consulting and other services, as well as lower workers' profit share.

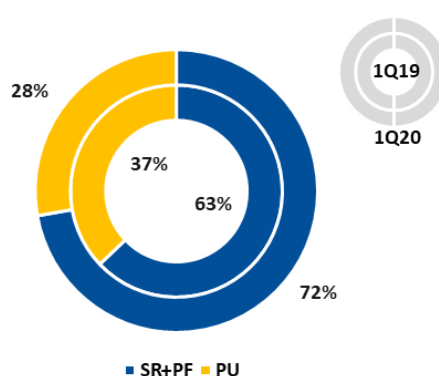
**f. Exploration and Project Expenses:**

In 1Q20, exploration and project expenses totaled US\$ 2.2 M, US\$ 2.3 M lower than 1Q19, mainly explained to the temporary postponement of exploration activities due to the impact of the Covid-19 pandemic.

**g. EBITDA:**

EBITDA in 1Q20 amounted to US\$ 52.5 M, a decrease of US\$ 16.7 M compared to 1Q19, due to lower gross profit explained above. EBITDA margin in the period reached 42%, below that of the same period of last year.

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



**h. Net financial expenses**

The net financial expenses in 1Q20 were - US\$ 6.5 M vs US\$ 1.3 M registered in 1Q19. This difference is explained by the refund of overpaid taxes of the 2004-2005 period received in 1Q19.

**i. Results from Subsidiaries and Associates**

The results from subsidiaries and associates in 1Q20 were – US\$ 45.8 M vs US\$ 5.9 M registered in the same period of the previous year. This difference is explained by exchange losses in the subsidiaries due to the depreciation of their local currencies.

**j. Income tax expense:**

In 1Q20, Minsur accrued US\$ 22.3 M on income tax expense, US\$ 3.9 M higher than 1Q19, mainly due to i) exchange rate effect, and ii) loss of the participation of subsidiaries that is non-deductible.

**k. Net income and Adjusted net income:**

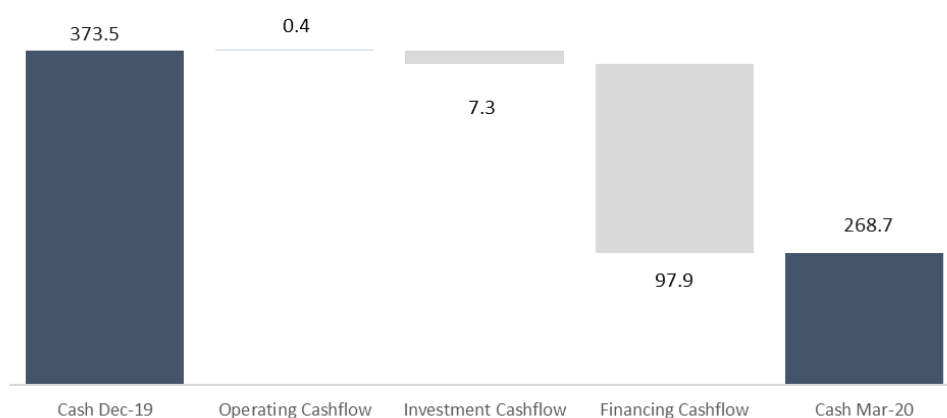
In 1Q20, the company registered a net income of US\$ -41.6 M vs US\$ 46.0 M registered in the same period of the previous year, mainly due to lower results from subsidiaries and associates, higher financial expense and lower operating results explained above. Excluding (i) extraordinary effects,

(ii) the results of subsidiaries and associates, and (iii) the exchange difference, the adjusted net income in 1Q20 would amount to US\$ 3.6 M, US\$ 27.1 M lower than the same period of the previous year, mainly explained by the lower EBITDA explained before.

## VI. LIQUIDITY:

As of March 31<sup>th</sup>, 2020, the company's cash balance reached US\$ 268.7 M, 28% lower than the closing balance of 2019 (US\$ 373.5 M). The decrease is explained by an operating cash flow of US\$ 0.4 M, an investment cash flow of US\$ 7.3 M and financing cash flow of US\$ 97.9 M.

The financing cash flow considers the capital contributions to our subsidiaries for US\$ 97.9 M: US\$ 30.0 M to Taboca, and US\$ 67.9 M to Marcobre.



As of March 31<sup>th</sup>, 2020, the company's financial liabilities reached US\$ 443.8 M, slightly above the level shown in 2019 (US\$ 443.4 M). The financial debt is explained by the corporate bond, with expiration date of 2024. The net leverage ratio reached 0.8x as of March 31<sup>th</sup>, 2020 vs. 0.3x by the end of 2019.

**Table N°12. Debt Summary**

Financial Ratios	Unit	Mar-20	Dec-19	Var (%)
Total Debt	US\$ M	443.8	443.4	0%
Long Term - Minsur 2024 Bond	US\$ M	443.8	443.4	0%
Cash	US\$ M	268.7	373.5	-28%
Cash and Equivalents	US\$ M	62.1	79.4	-22%
Fixed term deposits	US\$ M	206.6	212.7	-3%
Certificates without public quotation	US\$ M	0.0	0.0	0%
Comercial papers	US\$ M	0.0	81.5	-100%
Net Debt	US\$ M	175.1	69.9	150%
Total Debt / EBITDA	x	2.0x	1.9x	8%
Net Debt / EBITDA	x	0.8x	0.3x	169%