



# MANAGEMENT DISCUSSION AND ANALYSIS: INDIVIDUAL RESULTS

MINSUR S.A.  
SECOND QUARTER 2021

For further information please contact:

Joaquín Larrea  
CFO

Email: [joaquin.larrea@minsur.com](mailto:joaquin.larrea@minsur.com)

Tel: (511) 215-8300 Ext. 8444

Javier La Torre  
Corporate Finance Manager

Email: [javier.latorre@minsur.com](mailto:javier.latorre@minsur.com)

Tel: (511) 215-8300 Ext. 8090

Investor Relations

Email: [contacto\\_IR@minsur.com](mailto:contacto_IR@minsur.com)

## I. HIGHLIGHTS AND EXECUTIVE SUMMARY

Table N° 1: Operating & Financial Highlights

Highlights	Unit	2Q21	2Q20	Var (%)	6M21	6M20	Var (%)
<b>Production</b>							
Tin (Sn)	t	5,322	3,422	56%	11,659	7,755	50%
Gold (Au)	oz	18,346	19,354	-5%	33,103	38,458	-14%
<b>Financial Results</b>							
Net Revenue	US\$ M	174.2	81.8	113%	370.3	206.6	79%
EBITDA	US\$ M	108.2	37.7	187%	226.3	90.2	151%
EBITDA Margin	%	62%	46%	-	61%	44%	-
Net Income	US\$ M	68.3	-7.5	-	145.6	-56.7	-
Adjusted Net Income <sup>1</sup>	US\$ M	49.2	11.4	333%	127.3	6.5	1844%

### Executive Summary:

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

All operations are strictly complying with the protocols required in the context of the COVID-19 pandemic to work safely. These protocols continue to represent additional costs for our operations; however, it is essential and a priority to maintain the health and safety of all our employees. On the other hand, the activities of the administrative staff continue to be carried out remotely.

#### b. Operating Results

In 2Q21, tin production increased 56% vs. 2Q20 mainly due to disruptions in operations and construction projects as the Peruvian government declared in 2020 a public health emergency along with many restrictions that affected our operations associated with COVID-19. Gold production declined 5% vs. 2Q20 driven by the lower mineral grades of the production plan, which is aligned with our current life of mine plan.

#### c. Financial Results

In 2Q21, we improved our sales and EBITDA by 113% and 187%, respectively. The higher sales in 2Q21 are explained by the increase in sold volume of tin (+72%) and, to a higher extent, to the strong tin prices registered during the period (+98%). On the other hand, gold sold volume declined (-21%) while prices increased (+6%). Lastly, net income was US\$ 68.3 MM vs. US\$ -7.5 MM in the 2Q20 supported by the strong performance of our operations as well as our investments in subsidiaries and associates compared to the same period of 2020 mainly due to an appreciation of the Brazilian Real vs. dollar (R\$/US\$).

<sup>1</sup> Adjusted net income = Net income excluding Loss from Subsidiaries and Associates, exchange rate difference and extraordinary effects

## II. MAIN CONSIDERATIONS:

### a. Average metal prices

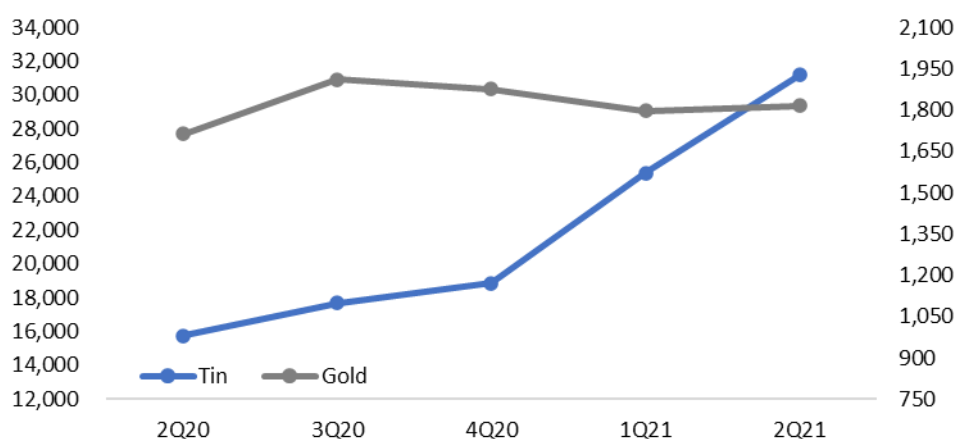
- **Tin:** Average tin price in 2Q21 was US\$ 31,191 per ton, +98% vs. 2Q20. During the first half 2021 average tin price was US\$ 28,306 per ton, +77% vs. 6M20.
- **Gold:** Average gold price in 2Q21 was US\$ 1,814 per ounce, +6% vs. 2Q20. During the first half 2021 average gold price was US\$ 1,806 per ton, +10% vs. first 6M20.

Table N° 2: Average metal prices

Average Metal Prices	Unit	2Q21	2Q20	Var (%)	6M21	6M20	Var (%)
Tin	US\$/t	31,191	15,760	98%	28,306	16,023	77%
Gold	US\$/oz	1,814	1,714	6%	1,806	1,648	10%

Source: Bloomberg

Figure N° 1: Average metal price quarterly evolution



Source: Bloomberg

### b. Exchange Rate:

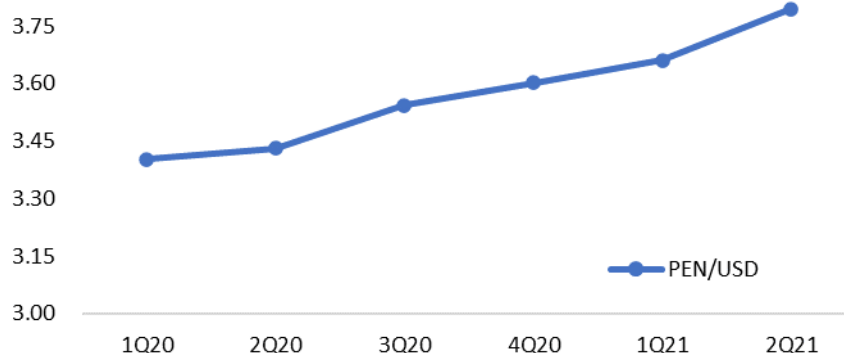
The Peruvian Sol average exchange rate for 2Q21 was S/ 3.79 per US\$ 1, 11% higher than 2Q20 (S/ 3.40 per US\$ 1). During the 6M21 average exchange rate was S/. 3.73 per US\$ 1, +9% vs. 6M20.

Table N°3: Exchange Rate

Average Exchange Rate	Unit	2Q21	2Q20	Var (%)	6M21	6M20	Var (%)
PEN/USD	S/.	3.79	3.43	11%	3.73	3.42	9%

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	2Q21	2Q20	Var (%)	6M21	6M20	Var (%)
Ore Treated	t	288,463	145,127	99%	586,356	415,730	41%
Head Grade	%	2.13	1.64	30%	2.07	1.82	13%
Tin production (Sn) - San Rafael	t	5,582	2,568	117%	10,778	6,933	55%
Tin production (Sn) - B2	t	1,262	111	1032%	2,502	724.76	245%
Tin production (Sn) - Pisco	t	5,322	3,422	56%	11,659	7,755	50%
Cash Cost per Treated Ton <sup>2</sup> - San Rafael	US\$/t	141	94	50%	129	97	34%
Cash Cost per Ton of Tin <sup>3</sup>	US\$/t Sn	11,421	6,251	83%	9,700	7,701	26%

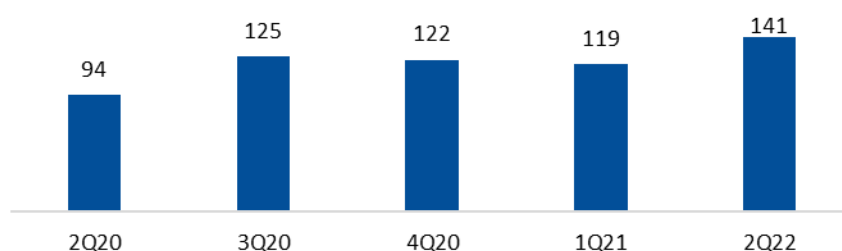
During the 2Q21, tin production in San Rafael reached 5,582 tons, +117% vs. 2Q20. Tin production in B2 plant registered 1,262 tons, +102% vs. 2Q20. Furthermore, tin production in Pisco was 5,322 tons, +56% vs. 2Q20. The increase in production is explained by the restrictions related to COVID-19 that started on March 18th, 2020 as well as the higher ore grades in 2Q21, +30% vs. 2Q20.

Cash cost per treated ton at San Rafael was US\$ 141, +50% vs. 2Q20 mainly due to higher cost related to COVID-19 security protocols and restrictions. It is important to mention that due to the disruptions in our operations in 2Q20, the indirect fixed costs not absorbed by production were directly classified as cost of sales (IAS 2) to avoid the distortion of inventory costs.

In the first half of the year, tin production was above 2Q20 mainly due to restrictions associated with COVID-19 that affected our operations. The cost per ton treated was US\$ 129, +34% vs. 2Q20 mainly due to the costs related to COVID-19 protocols and security restrictions discussed above.

<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)

**Figure N°3: Cash Cost per treated ton evolution - San Rafael (US\$/t)**



Cash cost per ton of tin in 2Q21 was US\$ 11,421 +83% vs. 2Q20. This higher cost is explained by the higher costs incurred in 2Q21 related to health and safety protocols of COVID-19. In 2Q20, costs were reclassified to expenses due to the restrictions that affected our operations and allowed the smelter to have higher average recoveries due to the feeding of semi-finished products in the production cycle.

On the other hand, the higher cost of 2Q21 was offset by the higher production of refined tin in Pisco (+56%) due to continuous production throughout the quarter of plant B2, which unlike 2Q20 is operating at 100% capacity. The accumulated cash cost per ton of tin was US\$ 9,700, +26% vs. first half 2020.

#### **b. Pucamarca (Perú):**

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

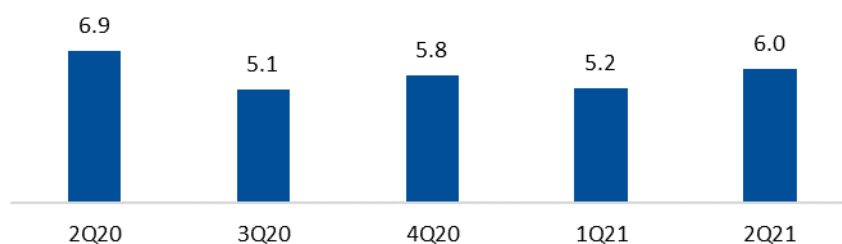
Pucamarca	Unit	2Q21	2Q20	Var (%)	6M21	6M20	Var (%)
Ore Treated	t	1,878,515	1,196,860	57%	3,831,119	3,044,066	26%
Head Grade	g/t	0.55	0.37	48%	0.52	0.47	11%
Gold production (Au)	oz	18,346	19,354	-5%	33,103	38,458	-14%
Cash Cost per Treated Ton	US\$/t	6.0	6.9	-12%	5.6	5.4	3%
Cash Cost per Ounce of Gold <sup>d</sup>	US\$/oz Au	638	443	44%	667	446	49%

In 2Q21, gold production reached 14,757 ounces, -5% vs. 2Q20. This lower production is due the fact that the company produced in April 2020 the inventory that was generated in March 2020 given the disruption of the production process (COVID-19) and the greater recovery obtained in the same period.

Cash cost per treated ton was US\$ 6.0 in 2Q21, -12% vs. 2Q20 mainly due to the higher tonnage treated (+57% vs. 2Q20) and it was partially offset by higher costs related to the implementation of COVID-19 protocols.

In the first half, gold production reached 33,103 ounces, -14% vs. 6M21. Cash cost per treated ton was US\$ 5.6, +3% vs. 6M20 for the implementation of health and safety protocols for COVID-19. This effect was partially offset by the higher volume of ore treated, +26% vs. 6M20.

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



The cash cost per ounce of gold in 2Q21 was US\$ 638, +44% vs. 2Q20 due to the impact of lower production and higher costs (COVID-19 protocols). The accumulated cash cost per ounce of gold was US\$ 667, +49% vs. 6M20.

#### IV. CAPEX:

**Table N°6. Executed CAPEX**

Capex	Unit	2Q21	2Q20	Var (%)	6M21	6M20	Var (%)
San Rafael + B2	US\$ M	17.8	3.0	492%	26.2	5.4	390%
Pisco	US\$ M	0.5	1.7	-71%	1.0	2.2	-52%
Pucamarca	US\$ M	13.4	0.6	2009%	21.6	1.4	1406%
Others	US\$ M	0.1	0.0	1901%	0.1	0.2	-64%
<b>Total Capex</b>	<b>US\$ M</b>	<b>31.7</b>	<b>5.4</b>	<b>490%</b>	<b>48.9</b>	<b>9.1</b>	<b>437%</b>

In 2Q21, Capex was US\$ 31.7 MM, +490% vs. 2Q20. Sustaining projects are the most relevant projects in our portfolio: i) the tailing dam B4 in San Rafael + B2 and ii) the leaching PAD Phase-4 in Pucamarca. Values are aligned with the guidance estimated for the year and the quarterly execution plan.

## V. FINANCIAL RESULTS:

**Table N°7. Separated Statement of profit or loss**

Financial Statements	Unit	2Q21	2Q20	Var (%)	6M21	6M20	Var (%)
Net Revenue	US\$ M	174.2	81.8	113%	370.3	206.6	79%
Cost of Sales	US\$ M	-69.2	-53.8	29%	-157.2	-133.2	18%
<b>Gross Profit</b>	<b>US\$ M</b>	<b>105.0</b>	<b>28.0</b>	<b>275%</b>	<b>213.1</b>	<b>73.4</b>	<b>190%</b>
Selling Expenses	US\$ M	-1.1	-0.8	38%	-2.6	-2.2	21%
Administrative Expenses	US\$ M	-11.1	-6.8	63%	-22.9	-16.1	42%
Exploration & Project Expenses	US\$ M	-3.5	-0.9	302%	-5.6	-3.1	80%
Other Operating Expenses, net	US\$ M	-3.3	4.6	-	0.5	4.5	-
<b>Operating Income</b>	<b>US\$ M</b>	<b>86.0</b>	<b>24.1</b>	<b>256%</b>	<b>182.5</b>	<b>56.5</b>	<b>223%</b>
Financial Income (Expenses) and Others, net	US\$ M	-7.1	-6.8	4%	-14.7	-13.4	10%
Results from Subsidiaries and Associates	US\$ M	19.7	-18.2	208%	18.8	-63.2	130%
Exchange Difference, net	US\$ M	-0.5	-0.7	-18%	-0.5	0.0	-
<b>Profit before Income Tax</b>	<b>US\$ M</b>	<b>98.0</b>	<b>-1.6</b>	<b>-6257%</b>	<b>186.0</b>	<b>-20.1</b>	<b>-1027%</b>
Income Tax Expense	US\$ M	-29.7	-5.9	400%	-40.5	-36.6	10%
<b>Net Income</b>	<b>US\$ M</b>	<b>68.3</b>	<b>-7.5</b>	<b>-</b>	<b>145.6</b>	<b>-56.7</b>	<b>-</b>
Net Income Margin	%	39%	-9%	-	39%	-27%	-
<b>EBITDA</b>	<b>US\$ M</b>	<b>108.2</b>	<b>37.7</b>	<b>187%</b>	<b>226.3</b>	<b>90.2</b>	<b>151%</b>
EBITDA Margin	%	62%	46%	-	61%	44%	-
Depreciation	US\$ M	22.3	13.6	64%	43.8	33.7	30%
<b>Adjusted Net Income<sup>5</sup></b>	<b>US\$ M</b>	<b>49.2</b>	<b>11.4</b>	<b>333%</b>	<b>127.3</b>	<b>6.5</b>	<b>1844%</b>

For comparative purposes, as a result of the accounting evaluation of the income tax calculation methodology in accordance with IAS 34 "Interim Financial Reporting", our interim financial statements for the second quarter 2020 have been restated, for which they present different values with respect to the reported in 2Q20. However, they will not generate variation in the annual comparison because the variations will only occur in intermediate financial statements.

### a. Net Revenue:

In 2Q21, net sales reached US\$ 174.2 MM (+113% vs. 2Q20) due to: i) higher tin prices (+98%), ii) higher sold volume of tin (+72%), iii) higher gold prices (+6%) and despite the lower sold volume of gold (-21%).

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

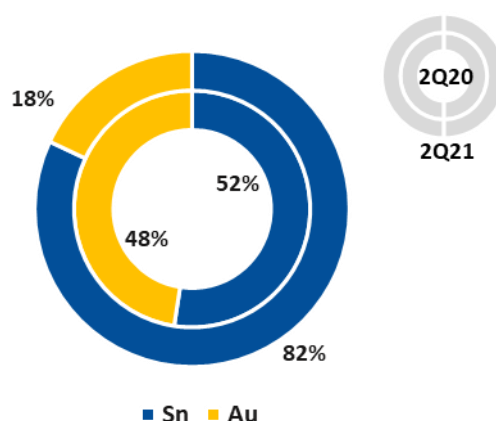
Net Revenue Volume	Unit	2Q21	2Q20	Var (%)	6M21	6M20	Var (%)
Tin	t	4,327	2,513	72%	10,585	8,610	23%
Gold	oz	18,341	23,314	-21%	34,426	40,362	-15%

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

Net Revenue by Metal	Unit	2Q21	2Q20	Var (%)	6M21	6M20	Var (%)
Tin	US\$ M	142.9	42.9	233%	312.5	140.2	123%
Gold	US\$ M	31.4	38.9	-19%	57.8	66.4	-13%
<b>TOTAL</b>	<b>US\$ M</b>	<b>174.2</b>	<b>81.8</b>	<b>113%</b>	<b>370.3</b>	<b>206.6</b>	<b>79%</b>

<sup>5</sup> Adjusted net income = Net income excluding Loss from Subsidiaries and Associates, exchange rate difference and extraordinary effects

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



**Table N°10. Cost of sales detail**

Cost of Sales	Unit	2Q21	2Q20	Var (%)	6M21	6M20	Var (%)
Production Cost	US\$ M	70.3	27.8	153%	130.5	72.1	81%
Depreciation	US\$ M	22.8	9.3	145%	44.9	29.0	55%
Workers profit share	US\$ M	4.2	-0.1	-	9.2	1.8	399%
Stocks Variation and Others	US\$ M	-28.1	16.8	-	-27.4	30.2	-190%
<b>TOTAL</b>	<b>US\$ M</b>	<b>69.2</b>	<b>53.8</b>	<b>29%</b>	<b>157.2</b>	<b>133.2</b>	<b>18%</b>

**b. Cost of Sales:**

The cost of sales in 2Q21 was US\$ 69.2 MM, +29% vs. 2Q20. The main drivers behind the increase were: i) new COVID-19 health and safety protocols implemented in our operations, ii) higher cost for continuous production in the quarter (2Q21), iii) higher depreciation due to investments in B4 and PAD 4 and iv) higher profit sharing. On the other hand, there was an accumulation of inventories at the end of the 2Q21 (US\$ 28.1 MM).

**c. Gross Profit:**

Gross Profit in 2Q21 increased by US\$ 77.0 MM vs. 2Q20 reaching US\$ 105.0 MM fueled by a surge in sales of 113%. Gross margin was 60% in 2Q21 vs. 34% in 2Q20.

**d. Selling expenses:**

Selling expense in 2Q21 were US\$ 1.1 MM, +US\$ 0.3 vs. 2Q20 mainly explained by i) higher volume of tin sold, ii) strong increase in container freight and iii) higher cost of credit insurance to client.

**e. Administrative expenses:**

Administrative expenses in 2Q21 were US\$ 11.1 MM, +63% vs. 2Q20 due to higher profit sharing and deferral of administrative expenses in 2Q20 as a strategic decision to preserve liquidity.



**f. Exploration and Project Expenses:**

In 2Q21 Exploration and Project Expenses were US\$ 3.5 MM (+US\$ 2.6 MM vs. 2Q20). This increase was due to the reactivation of certain exploration activities that were postponed in 2Q20 to preserve capital after the start of COVID-19.

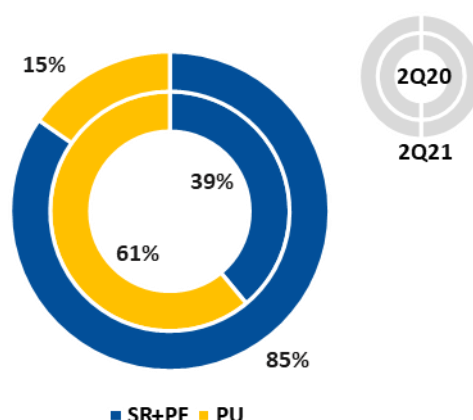
**g. Other Operating Income/expenses (net):**

In 2Q21, other operating income/expenses were -US\$ 3.3 MM, -US\$ 7.9M vs. 2Q20 mainly explained by an expense return on personnel in 2Q20 and accounting adjustments in 2Q21.

**h. EBITDA:**

EBITDA in 2Q21 totaled US\$ 108.2 MM, +US\$ 70.5 MM vs. 2Q20 mainly due to higher gross profit explained above. The 2Q21 EBITDA margin was 62%, +16% vs. 2Q20.

**Figure N°6: EBITDA share in US\$ by Operating Unit <sup>2</sup>**



**i. Net financial expenses**

Net financial expenses for 2Q21 were US\$ 7.1 MM vs. US\$ 6.8 MM in 2Q20. The difference is mainly explained by the higher level of short-term debt during 2Q21.

**j. Results from Subsidiaries and Associates**

The results from subsidiaries and associates in 2Q21 were US\$ 19.7 MM vs. -US\$ 18.2 MM in 2Q20. This difference is explained by the higher exchange gain vs. 2Q20 (+US\$ 18 MM) and the better performance of our subsidiary Taboca (~+US\$ 12 MM vs. 2Q20 net of exchange difference).

<sup>2</sup> 2Q21 includes SR + FR + B2

**k. Income tax expense:**

In 2Q21, income tax expense amounted to US\$ 29.7 MM (+400% vs. 2Q20) mainly due to higher operating result for the period and the differences in the projections of the effective annual accounting rates of income tax applied to the results before tax for both quarters. The projection of the 2021 results includes the effect of Marcobre's future production.

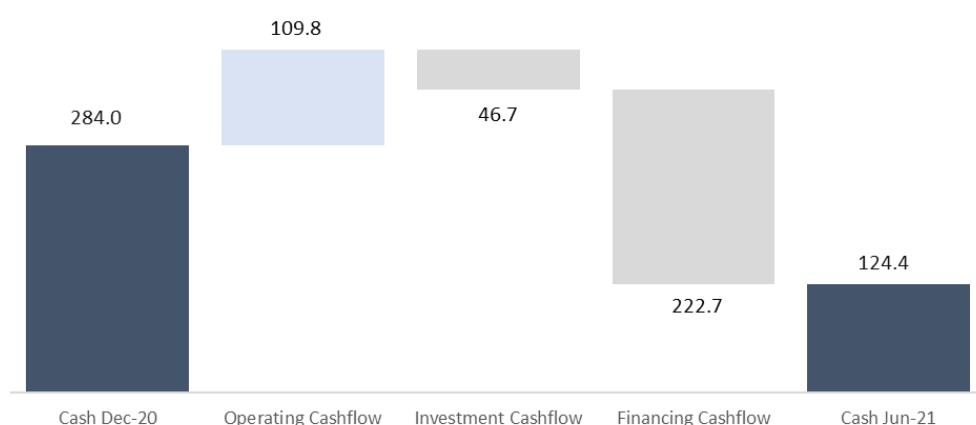
**l. Net income and Adjusted net income:**

Net income in 2Q21 was US\$ 68.3 MM vs US\$ -7.5 MM in the 2Q20. If (i) extraordinary effects, (ii) results of subsidiaries and associates and (iii) exchange difference were excluded, adjusted net income in 2Q21 would amount to US\$ 49.2 MM (vs. US\$ 11.4 MM in 2Q20) given the strong EBITDA recorded by the company in 2Q21.

## VI. LIQUIDITY:

As of June 30, 2021, the company's cash balance and cash equivalents reached US\$ 124.4 MM, - 56% vs. December 2020 (US\$ 284.0 MM). The decrease is explained by an operating cash flow of US\$ +109.8 MM, an investment cash flow of -US\$ 46.7 MM and financing cash flow of -US\$ 222.7 MM.

The financing cash flow considers i) capital contribution to our subsidiary Marcobre of US\$ 61.5 MM and US\$ 6.2 MM to Cumbres del Sur, ii) increase in short-term debt of US\$ 95 MM and iii) payment of dividends (US\$ 250 MM).



As of June 30, 2021, the company's financial obligations reached US\$ 540.6 MM. The financial debt is explained by the corporate bond with expiration date of 2024 and short-term debt for US\$ 95.0 MM. The net leverage ratio reached 1.1x as of June 30, 2021 vs. 0.7x by the end of 2020.

**Table N°12. Debt Summary**

Financial Ratios	Unit	Mar-21	Dec-20	Var (%)
Total Debt	US\$ M	540.6	444.9	22%
Long Term - Minsur 2024 Bond	US\$ M	445.6	444.9	0%
Cash	US\$ M	124.4	284.0	-56%
Cash and Equivalents	US\$ M	53.7	193.4	-72%
Fixed term deposits	US\$ M	70.7	90.6	-22%
Net Debt	US\$ M	416.2	160.9	159%
Total Debt / EBITDA	x	1.4x	1.9x	-23%
Net Debt / EBITDA	x	1.1x	0.7x	64%

## **VII. Risk Management**

The company has a financial controlling area, which permanently validates that the financial information to be disclosed to the market is in accordance with IFRS and free from material errors.

The internal controls associated with the risks of the aforementioned function are evaluated and verified by an independent external auditor, who annually issues an opinion on the reasonableness of the Financial Statements and the evaluation of the internal control system to mitigate risks related to integrity and reliability of financial information.

Likewise, periodically, the Internal Auditor reports to the Audit Committee on work progress and deadlines compliance regarding the implementation of Internal and External Audit observations in accordance with the audit plan.

Finally, the company has a Risk area, in charge of managing the identified risk matrix, as well as evaluating and monitoring mitigation plan proposals.