

## MINSUR S.A. : MANAGEMENT DISCUSSION AND ANALYSIS FOR THE SECOND QUARTER OF THE YEAR 2014

Lima, July 30th, 2014 – MINSUR S.A. and subsidiaries (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 2014 (“2Q14”). These results are reported in accordance with International Financial Reporting Standards (IFRS) and are expressed in U.S. dollars (US\$), unless otherwise mentioned.

### I. OPERATING RESULTS AND FINANCIAL HIGHLIGHTS:

- **Sales** increase **14% (+US\$ 22.8 MM)** in the second quarter in 2014 (2Q14) compared to the second quarter in 2013 (2Q13).
- Increase of **149%** in **exploration expenses**, due to investments in the surrounding areas next to existing operations.
- **Adjusted EBITDA<sup>1</sup>** reached **US\$100.4 MM** in the 2Q14, **1% (+US\$ 1 MM)** above the adjusted EBITDA in the 2Q13.
- Increase of **2% (+US\$ 1.1 MM)** in **net profit** in the 2Q14 compared to the 2Q13.

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

Operating Results							
Summary Results	Unit	Apr - Jun 2014	Apr - Jun 2013	Var (%)	Jan - Jun 2014	Jan - Jun 2013	Var (%)
Tin (Sn) Production	TM	5,620	5,858	-4%	12,588	11,626	8%
Gold (Au) Production	Oz	24,457	34,313	-29%	52,855	64,236	-18%
Financial Results							
Summary Results	Unit	Apr - Jun 2014	Apr - Jun 2013	Var (%)	Jan - Jun 2014	Jan - Jun 2013	Var (%)
Net Sales	US\$ MM	190.8	168.0	14%	408.8	359.4	14%
Gross Profit	US\$ MM	106.3	98.8	8%	231.9	226.4	2%
Administrative Expenses	US\$ MM	-8.2	-7.9	3%	-15.8	-15.8	0%
Exploration Expenses	US\$ MM	-7.5	-3.0	149%	-10.0	-4.6	116%
Adjusted EBITDA <sup>(1)</sup>	US\$ MM	100.4	99.4	1%	224.6	228.5	-2%
Adjusted EBITDA Margin	%	53%	59%	-11%	55%	64%	-14%
Net Profit	US\$ MM	47.9	46.8	2%	114.3	117.4	-3%

<sup>1</sup> Adjusted EBITDA = Operating Income + Depreciation and Amortization

## II. MAIN CONSIDERATIONS:

### a. Average metal prices:

Average Tin (Sn) Price in 2Q14 was US\$ 23,190 per TM, which represents an increase of 11% compared to the same period of the year 2013.

Average Gold (Au) Price in the 2Q14 was US\$1,290 per ounce, a 9% decrease compared to the same period of the previous year.

**Table N° 2: Average metal prices**

Average Metal Prices	Unit	Apr - Jun 2014	Apr - Jun 2013	Var (%)	Jan - Jun 2014	Jan - Jun 2013	Var (%)
Tin	US\$/TM	23,190	20,905	11%	22,901	22,515	2%
Gold	US\$/Oz	1,290	1,417	-9%	1,291	1,524	-15%

Source: Bloomberg

### b. Exchange rate:

The Peruvian Nuevo Sol average exchange rate for the 2Q14 closed at S/. 2.79 per US\$1, compared to S/. 2.66 per US\$1 in the 2Q13, which represents a depreciation of 4.9% for the Peruvian Nuevo Sol.

(Source: Banco Central de Reserva del Perú)

## III. OPERATING MINING RESULTS:

### a. San Rafael – Pisco (Perú):

**Table N° 3: San Rafael - Pisco Operating Results**

San Rafael - Pisco	Unit	Apr - Jun 2014	Apr - Jun 2013	Var (%)	Jan - Jun 2014	Jan - Jun 2013	Var (%)
<b>Operating results</b>							
Ore Treated	TM	243,941	244,250	0%	489,891	465,085	5%
Tin production (Sn)	TM	5,620	5,858	-4%	12,588	11,626	8%
<b>Financial results</b>							
Net Sales	US\$ MM	160.3	126.9	26%	345.5	280.7	23%
Ajusted EBITDA	US\$ MM	84.3	70.8	19%	189.0	171.2	10%
Ajusted EBITDA Margin	%	53%	56%	-6%	55%	61%	-10%

In the 2Q14, tin production reached 5,620 tons, which represents a decrease of 4% compared to the same period of the previous year. This was mainly explained by a lower ore head grade (2.44% in the 2Q14 versus 2.62% in the 2Q13). Nonetheless, tin production in the 1S14 reached 12,588 tons, an increase of 8% compared to the 1S13. The production increase was mainly due to: i) an increase of 5% in ore treated at San Rafael when compared to the 1S13, and ii) a larger production of refined tin in

Pisco as part of a stock optimization plan. All of these, were partially offset by a lower ore head grade (2.53% in the 1S14 versus 2.72% in the 1S13).

Sales reached US\$ 160.3 million in the 2Q14, which represents an increase of 26% (+ US\$ 33.4 million) compared to the same period of the previous year. This was largely due to a 15% increase of the amount of tin sold (6,723 tons in the 2Q14 versus 5,871 tons in the 2Q13), which reflected a higher liquidation of tin inventory in 2014 compared to 2013.

San Rafael – Pisco adjusted EBITDA reached US\$ 84.3 million in the 2Q14, an increase of 19% (+US\$ 13.5 million) compared to same period of the previous year. This was mainly due an increase of sales, partially offset by a 24% increase in cost of sales, due to: i) an increase in diamond drilling as part of San Rafael intensive exploration program, and ii) a larger stock liquidation.

#### b. Pucamarca (Perú):

**Table N°4. Pucamarca Operating Results**

Pucamarca	Unit	Apr - Jun 2014	Apr - Jun 2013	Var (%)	Jan - Jun 2014	Jan - Jun 2013	Var (%)
<b>Operating results</b>							
Ore Treated	TM	1,516,286	1,426,493	6%	2,842,877	2,397,606	19%
Gold production (Au)	Oz	24,457	34,313	-29%	52,855	64,236	-18%
<b>Financial results</b>							
Net Sales	US\$ MM	30.5	41.1	-26%	63.3	78.7	-20%
Ajusted EBITDA	US\$ MM	16.1	29.1	-45%	35.6	57.8	-38%
Ajusted EBITDA Margin	%	53%	71%	-26%	56%	73%	-24%

In the 2Q14, Gold production reached 24,457 ounces, which represents a 29% decrease when compared to the same period of the previous year. This was mainly explained by a lower head grade (0.79 g/t in 2Q13 versus 0.63 g/t in 2Q14) in line with Pucamarca's geological and mine plan model. This was partially offset by a 6% increase in ore treated mainly explained by an increase in the plant daily capacity from 14,000 TPD to 17,500 TPD.

Pucamarca sales reached US\$ 30.5 million in the 2Q14, which represents a 26% decrease compared to the sales of the same period in the previous year. This was due to i) a 17% decrease in ounces of gold sold in the 2Q14 compared to the 2Q13, and ii) a lower average gold price (US\$1,209 in the 2Q14 versus US\$ 1,417 in the 2Q13).

Pucamarca's adjusted EBITDA reached US\$ 16.1 million in the 2Q14, a decrease of 45% (-US\$ 13 million) compared to same period of the previous year. This was mainly due to i) lower sales in the 2Q14, and ii) a lower average price per ounce of gold in the 2Q14 compared to the 2Q13, both partially offset by a 16% decrease of the cost of sales in the 2Q14.

#### IV. CAPEX:

**Table N°5. CAPEX**

CAPEX	Unit	Apr - Jun 2014	Apr - Jun 2013	Var (%)	Jan - Jun 2014	Jan - Jun 2013	Var (%)
San Rafael	US\$ MM	2.6	5.2	-50%	3.6	7.9	-55%
Pisco	US\$ MM	1.0	0.4	142%	1.1	0.6	70%
Pucamarca	US\$ MM	8.5	0.0	-	9.8	3.6	174%
Other	US\$ MM	0.1	0.2	-38%	0.2	0.3	-22%
<b>Total Capex</b>	<b>US\$ MM</b>	<b>12.3</b>	<b>5.9</b>	<b>110%</b>	<b>14.7</b>	<b>12.5</b>	<b>18%</b>

In the 2Q14, capex was US\$ 12.3 million, an increase of 110% compared with the same period of the previous year, mainly due to:

- San Rafael: Increase in tailings dam capacity, in line with the mine sustaining plan.
- Pisco: Interconnection to a distributor's natural gas pipeline.
- Pucamarca: Start of construction of the second stage of a leaching pad for mine continuity and increased plant capacity from 14,000 TPD to 17,500 TPD.

## V. FINANCIAL RESULTS:

**Table N°6. Financial Statements**

Financial Statements	Unit	Apr - Jun 2014	Apr - Jun 2013	Var (%)	Jan - Jun 2014	Jan - Jun 2013	Var (%)
Net Sales	US\$ MM	190.8	168.0	14%	408.8	359.4	14%
Cost of Sales	US\$ MM	-84.5	-69.2	22%	-176.9	-133.0	33%
<b>Gross Profit</b>	<b>US\$ MM</b>	<b>106.3</b>	<b>98.8</b>	<b>8%</b>	<b>231.9</b>	<b>226.4</b>	<b>2%</b>
Selling Expenses	US\$ MM	-2.8	-2.6	10%	-4.8	-4.6	3%
Administrative Expenses	US\$ MM	-8.2	-7.9	3%	-15.8	-15.8	0%
Exploration Expenses	US\$ MM	-7.5	-3.0	149%	-10.0	-4.6	116%
Other, net	US\$ MM	-1.9	-1.0	85%	-3.5	-2.2	61%
<b>Operating Income</b>	<b>US\$ MM</b>	<b>85.9</b>	<b>84.2</b>	<b>2%</b>	<b>197.9</b>	<b>199.2</b>	<b>-1%</b>
Other Income (Expenses)	US\$ MM	-5.5	3.3	-268%	-9.9	-0.5	1789%
<b>Profit before Income Tax</b>	<b>US\$ MM</b>	<b>80.4</b>	<b>87.5</b>	<b>-8%</b>	<b>187.9</b>	<b>198.6</b>	<b>-5%</b>
Income Tax Expense	US\$ MM	-32.5	-40.6	-20%	-73.6	-81.2	-9%
<b>Net Profit</b>	<b>US\$ MM</b>	<b>47.9</b>	<b>46.8</b>	<b>2%</b>	<b>114.3</b>	<b>117.4</b>	<b>-3%</b>
Net Profit Margin	%	25%	28%	-10%	28%	33%	-14%
<b>Adjusted EBITDA</b>	<b>US\$ MM</b>	<b>100.4</b>	<b>99.4</b>	<b>1%</b>	<b>224.6</b>	<b>228.5</b>	<b>-2%</b>
Adjusted EBITDA Margin	%	53%	59%	-11%	55%	64%	-14%

### a. Sales:

In the 2Q14, net sales reached US\$ 190.8 million, an increase of 14% (+US\$ 22.8 million), compared to 2Q13. This increase was mainly explained by: i) a 15% increase of tin tons sold (6,723 tons in the 2Q14 versus 5,871 tons in the 2Q13), mainly due to a refined tin stocks optimization plan, and ii) an 11% increase of the average tin price in the 2Q14, both partially offset by i) a 17% decrease of gold ounces sold in the 2Q14 compared to the 2Q13 (23,724 in the 2Q14 versus 28,694 in the 2Q13), and, ii) a lower average price per ounce of gold in the 2Q14.

**Table N°7. Sales Volume by product**

Sales Volume	Unit	Apr - Jun 2014	Apr - Jun 2013	Var (%)	Jan - Jun 2014	Jan - Jun 2013	Var (%)
Tin	TM	6,723	5,871	15%	14,650	12,159	20%
Gold	Oz	23,724	28,694	-17%	48,666	52,144	-7%

**Table N°8. Sales in US\$ by product**

Sales in US\$	Unit	Apr - Jun 2014	Apr - Jun 2013	Var (%)	Jan - Jun 2014	Jan - Jun 2013	Var (%)
Tin	US\$ MM	160.3	126.9	26%	345.5	280.7	23%
Gold	US\$ MM	30.5	41.1	-26%	63.3	78.7	-20%
<b>TOTAL</b>	<b>US\$ MM</b>	<b>190.8</b>	<b>168.0</b>	<b>14%</b>	<b>408.8</b>	<b>359.4</b>	<b>14%</b>

**b. Gross Profit:**

Gross profit during the 2Q14 reached US\$ 106.3 million, a 8% increase (+US\$ 7.5 million) when compared with the same period of the previous year; this was mainly due to a 26% increase of the tin sales when compared to the 2Q13, and a 16% decrease of the cost of sales in Pucamarca when compared to the 2Q13, both partially offset by a 24% increase of the cost of sales in San Rafael, and a 26% decrease of the gold ounces sold when compared to the 2Q13.

**c. Administrative Expenses:**

Administrative expenses in the 2Q14 were US\$ 8.2 million, an increase of 3% (+US\$ 0.3 million) compared to the 2Q13. This was mainly due to an increase of the administrative labor expenses as a result of the staffing of key administrative areas, such as projects development.

**d. Exploration Expenses:**

In the 2Q14, exploration expenses totaled US\$ 7.5 million, an increase of 149% (+US\$ 4.5 million) compared with the 2Q13. This was mainly due to investments associated to the exploration in the areas surrounding San Rafael and Pucamarca.

**e. Adjusted EBITDA:**

Adjusted EBITDA in the 2Q14 reached US\$ 100.4 million, an increase of 1% (+US\$ 1 million) compared to the 2Q13. This was mainly explained by the higher adjusted EBITDA from San Rafael – Pisco in the 2Q14 as a result of higher refined tin sales increase; partially offset by the lower adjusted EBITDA Pucamarca presented in the 2Q14 and the increase in exploration and administrative expenses.

## VI. LIQUIDITY:

As of June 30<sup>th</sup>, 2014, cash and cash equivalents totaled US\$ 498 million, an increase of 150% compared to US\$ 199.5 million at the end of the 2Q13. In the 1Q14, Minsur carry out an international bond issuance with a nominal value of US\$ 450 MM due in 2024 at a coupon rate of 6.25%, resulting in a net revenue of US\$ 441.8 MM. These funds were partially used in the prepayment of the US\$200 MM loan signed with Bank of Nova Scotia. The remaining funds will allow the company to finance future investments.

By the end of the 2Q14, total debt reached US\$ 454.3 million, a 126% increase when compared to the debt by the end of the 2Q13 (US\$ 201.2 million).

**Table N°9. Total Debt**

Net Debt	Unit	Apr - Jun 2014	2013	Var (%)
Total Debt	US\$ MM	454.3	201.2	126%
Cash	US\$ MM	498.2	199.5	150%
Net Debt	US\$ MM	-43.9	1.7	-2680%
Total Debt / EBITDA	x	1.0x	0.4x	-127%
Net Debt / EBITDA	x	-0.1x	0.0x	3022%