

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

Lima, October 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 third quarter of 2014 (“3Q14”). 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:

- **Tin production** in the 3Q14 reached **5,446 tons**, a **7%** decrease when compared to the 3Q13, mainly due to the lower head grade, in line with the reserves average grade. To mitigate this decrease, the daily treated tonnage was increased from 2,500 in the 3Q13 to 2,900 in the 3Q14.
- **Gold production** in the 3Q14 reached **24,988 ounces**, **10%** below the production in the 3Q13, as a result of the lower exploitation grade, in line with the geological model and mine plan.
- **Sales** decreased **5% (-US\$ 10.2 MM)** in the 3Q14 when compared to the 3Q13. It is worth noting that sales in the 9M14 reached **US\$ 591.9 MM**, **7%** higher than the figure reported in the 9M13.
- Increase of **82%** in **exploration and projects expenses**, due to investments in the surrounding areas next to existing operations and the San Rafael’s tailings project pre-feasibility study.
- **Adjusted EBITDA¹** reached **US\$91.1 MM** in the 3Q14, **19% (-US\$ 21.6 MM)** below the adjusted EBITDA in the 3Q13, as a result of lower tin sales, an increase of Pucamarca’s cost of sales and an increase of the exploration and projects expenses.
- **Net profit** decreased **44% (-US\$ 28.6 MM)** in the 3Q14 compared to the 3Q13.

Table N° 1: Summary of operating and financial results

Operating Results							
Summary Results	Unit	3Q14	3Q13	Var (%)	9M14	9M13	Var (%)
Tin (Sn) Production	TM	5,446	5,863	-7%	18,034	17,488	3%
Gold (Au) Production	Oz	24,988	27,660	-10%	77,843	91,896	-15%
Financial Results							
Summary Results	Unit	3Q14	3Q13	Var (%)	9M14	9M13	Var (%)
Net Sales	US\$ MM	183.1	193.3	-5%	591.9	552.7	7%
Gross Profit	US\$ MM	95.3	110.2	-14%	327.2	336.6	-3%
Administrative Expenses	US\$ MM	-9.1	-8.0	14%	-24.9	-23.9	4%
Exploration & Projects Expenses	US\$ MM	-7.4	-4.0	82%	-17.3	-8.7	100%
Adjusted EBITDA ⁽¹⁾	US\$ MM	91.1	112.7	-19%	315.7	341.2	-7%
Adjusted EBITDA Margin	%	50%	58%	-15%	53%	62%	-14%
Net Profit	US\$ MM	36.2	64.8	-44%	150.5	182.3	-17%

¹ Adjusted EBITDA = Operating Income + Depreciation and Amortization

I. MAIN CONSIDERATIONS:

a. Average metal prices:

Average Tin (Sn) Price in 3Q14 was US\$ 21,930 per TM, which represents an increase of 3% compared to the same period of the year 2013.

Average Gold (Au) Price in the 3Q14 was US\$1,282 per ounce, a 4% decrease compared to the same period of the previous year.

Table N° 2: Average metal prices

Average Metal Prices	Unit	3Q14	3Q13	Var (%)	9M14	9M13	Var (%)
Tin	US\$/t	21,930	21,268	3%	22,567	22,086	2%
Gold	US\$/oz	1,282	1,330	-4%	1,288	1,457	-12%

Source: Bloomberg

b. Exchange rate:

The Peruvian Nuevo Sol average exchange rate for the 3Q14 closed at S/. 2.82 per US\$1, compared to S/. 2.79 per US\$1 in the 3Q13, which represents a depreciation of 1% for the Peruvian Nuevo Sol.

Table N°3: Exchange Rate

Exchange Rate	Unidad	3Q14	3Q13	Var (%)	9M14	9M13	Var (%)
PEN/USD	S/.	2.82	2.79	1%	2.81	2.68	5%

(Source: Banco Central de Reserva del Perú)

III. OPERATING MINING RESULTS:

a. San Rafael – Pisco (Perú):

Table N° 4: San Rafael - Pisco Operating Results

San Rafael - Pisco	Unit	3Q14	3Q13	Var (%)	9M14	9M13	Var (%)
Operating results							
Ore Treated	TM	264,661	254,002	4%	754,552	719,087	5%
Head Grade	%	2.39%	2.78%	-14%	2.48%	2.74%	-10%
Tin production (Sn)	TM	5,446	5,863	-7%	18,034	17,488	3%
Cash Cost	US\$/TM Sn	8,618	7,832	10%	8,119	7,653	6%
Financial results							
Net Sales	US\$ MM	144.8	153.0	-5%	490.3	433.7	13%
Sales Volume - tin	TM	6,459	6,984	-8%	21,109	19,143	10%
Ajusted EBITDA	US\$ MM	71.1	85.1	-17%	260.1	256.3	1%
Ajusted EBITDA Margin	%	49%	56%	-12%	53%	59%	-10%

In the 3Q14, tin production reached 5,446 tons, which represents a decrease of 7% compared to the same period of the previous year. This was mainly explained by a lower ore head grade (2.39% in the 3Q14 versus 2.78% in the 3Q13). Nonetheless, the ore treated increased by 4%, mainly due to the daily tonnage treatment increase from 2,500 in the 3Q13 to 2,900 in the 3Q14. It is worth noting that in the 9M14, tin production was 3% above the production in the 9M13. This is mainly explained by a larger production of refined tin in Pisco as part of a stock optimization plan.

Sales reached US\$ 144.8 million in the 3Q14, which represents a decrease of 5% (- US\$ 8.2 million) compared to the same period of the previous year. This was largely due to an 8% decrease of the amount of tin sold (6,459 tons in the 3Q14 versus 6,984 tons in the 3Q13), partially offset by the higher average tin price in the 3Q14 compared to the 3Q13 (US\$/TM 21,930 in the 3Q14 vs. US\$/TM 21,268 in the 3Q13). It is worth noting that in the 9M14, the sales reached 490.3 million, a 13% increase when compared to the 9M13, mainly due to a higher volume of tin tons sold (+1,966 tons), as a result of the metallic tin stocks optimization plan.

Cash cost² per ton of tin in 3Q14 (excluding the impact of the purchase and processing of tin concentrates from Taboca) was US\$ 8,618 per ton, a 10% increase when compared to the 3Q13, mainly due to a lower head grade.

² Cash Cost = (production cost + sales expenses + change in tin concentrates inventory, excluding employee profit sharing, depreciation and amortization) / (tin Production Volume, in tons, excluding the tons recovered when treating Pitinga's concentrate at Pisco)

San Rafael – Pisco adjusted EBITDA reached US\$ 71.1 million in the 3Q14, a decrease of 17% (-US\$ 14 million) compared to same period of the previous year. This was mainly due to the lower tin sales and the 74% increase of the explorations & projects expenses increase (+US\$ 2.4 million), as a result of the execution of the exploration plans in San Rafael’s surrounding areas and the San Rafael’s Tailings project pre-feasibility study. Despite this result, San Rafael’s adjusted EBITDA for the 9M14 was in line with the figure reported in the 9M13.

b. Pucamarca (Perú):

Table N°5. Pucamarca Operating Results

Pucamarca	Unit	3Q14	3Q13	Var (%)	9M14	9M13	Var (%)
Operating results							
Ore Treated	TM	1,752,836	1,410,956	24%	4,595,713	3,808,562	21%
Head Grade	g/t	0.645	0.706	-9%	0.674	0.851	-21%
Gold production (Au)	Oz	24,988	27,660	-10%	77,843	91,896	-15%
Cash Cost	US\$/Oz Au	371	337	10%	369	370	0%
Financial results							
Net Sales	US\$ MM	38.3	40.3	-5%	101.6	119.0	-15%
Sales Volume - Gold	Oz	30,025	30,534	-2%	78,691	82,678	-5%
Ajusted EBITDA	US\$ MM	20.1	27.6	-27%	55.6	85.0	-35%
Ajusted EBITDA Margin	%	52%	68%	-23%	55%	71%	-23%

In the 3Q14, Gold production reached 24,988 ounces, which represents a 10% decrease when compared to the same period of the previous year. This was mainly explained by a lower head grade (0.706 g/t in 3Q13 versus 0.645 g/t in 3Q14) in line with Pucamarca’s geological and mine plan model. The head grade reduction was partially offset by a 24% 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\$ 38.3 million in the 3Q14, which represents a 5% decrease (-US\$ 2 million) compared to the sales of the same period in the previous year. This was due to i) a 2% decrease in ounces of gold sold in the 3Q14 compared to the 3Q13 (30,025 ounces in the 3Q14 vs. 30,534 ounces in the 3Q13), and ii) a lower average gold price (US\$1,282 in the 3Q14 versus US\$ 1,330 in the 3Q13).

The cash cost³ per gold ounce in 3Q14 was US\$ 371, which represented a 10% increase when compared to 3Q13. This increase was due to a decrease of 9% in head ore grade in 3Q14 compared to 3Q13, which resulted in a 10% decrease in gold ounces production.

³ Cash Cost = (production cost + sales expenses, excluding employee profit sharing, depreciation and amortization) / (Gold Production Volume in ounces)

Pucamarca's adjusted EBITDA reached US\$ 20.1 million in the 3Q14, a decrease of 27% (-US\$ 7.5 million) compared to same period of the previous year. The adjusted EBTIDA decrease is mainly explained by the i) the cost of sales increase as a result of higher tonnage treated, and ii) a 113% increase of the exploration expenses (US\$ 1.8 million in the 3Q14 vs. US\$ 0.8 million in the 3Q13) in line with the execution of the exploration plans in the surrounding areas.

IV. CAPEX:

Table N°6. CAPEX

CAPEX	Unit	3Q14	3Q13	Var (%)	9M14	9M13	Var (%)
San Rafael	US\$ MM	4.5	4.4	2%	8.1	12.4	-35%
Pisco	US\$ MM	0.4	0.6	-37%	1.4	1.2	18%
Pucamarca	US\$ MM	1.9	13.1	-85%	11.7	16.7	-30%
Other	US\$ MM	0.2	0.2	17%	0.5	0.5	-7%
Total Capex	US\$ MM	7.0	18.3	-62%	21.7	30.8	-30%

In the 3Q14, capex was US\$ 7.0 million, a decrease of 62% (-US\$ 11.3 million) compared with the same period of the previous year. In the 3Q14 the major investments were:

- San Rafael: Increase of the waste deposit and tailings dam capacity, in line with the mine short and mid term sustaining plan.
- Pucamarca: Continuation 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°7. Financial Statements

Financial Statements	Unit	3Q14	3Q13	Var (%)	9M14	9M13	Var (%)
Net Sales	US\$ MM	183.1	193.3	-5%	591.9	552.7	7%
Cost of Sales	US\$ MM	-87.8	-83.0	6%	-264.7	-216.0	23%
Gross Profit	US\$ MM	95.3	110.2	-14%	327.2	336.6	-3%
Selling Expenses	US\$ MM	-1.9	-2.3	-15%	-6.7	-6.9	-3%
Administrative Expenses	US\$ MM	-9.1	-8.0	14%	-24.9	-23.9	4%
Exploration & Projects Expenses	US\$ MM	-7.4	-4.0	82%	-17.3	-8.7	100%
Other, net	US\$ MM	-1.5	-0.8	84%	-5.1	-3.0	68%
Operating Income	US\$ MM	75.3	95.0	-21%	273.2	294.2	-7%
Other Income (Expenses)	US\$ MM	-8.6	2.0	-532%	-18.5	1.5	-1373%
Profit before Income Tax	US\$ MM	66.8	97.0	-31%	254.7	295.6	-14%
Income Tax Expense	US\$ MM	-30.6	-32.2	-5%	-104.2	-113.4	-8%
Net Profit	US\$ MM	36.2	64.8	-44%	150.5	182.3	-17%
Net Profit Margin	%	20%	34%	-41%	25%	33%	-23%
Adjusted EBITDA	US\$ MM	91.1	112.7	-19%	315.7	341.2	-7%
Adjusted EBITDA Margin	%	50%	58%	-15%	53%	62%	-14%

a. Sales:

In the 3Q14, net sales reached US\$ 183.1 million, a decrease of 5% (-US\$ 10.2 million), compared to 3Q13. This increase was mainly explained by: i) a 8% decrease of tin tons sold in the 3Q14 when compared to the same period of the previous year, and ii) a 4% decrease of the average gold price in the 3Q14, all of these partially offset by a 3% increase of the average tin price in the 3Q14. It is worth noting that in the 9M14 sales reached US\$ 591.9 million, a 7% increase when compared to the 9M13. This increase was driven by the higher volume of tin tons sold in the 9M14 when compared to the 9M13 (21,109 tons in the 3Q14 vs. 19,143 tons in the 3Q13), in line with the metallic tin stocks optimization plan.

Table N°8. Sales Volume by product

Sales Volume	Unit	3Q14	3Q13	Var (%)	9M14	9M13	Var (%)
Tin	TM	6,459	6,984	-8%	21,109	19,143	10%
Gold	Oz	30,025	30,534	-2%	78,691	82,678	-5%

Table N°9. Sales in US\$ by product

Sales in US\$	Unit	3Q14	3Q13	Var (%)	9M14	9M13	Var (%)
Tin	US\$ MM	144.8	153.0	-5%	490.3	433.7	13%
Gold	US\$ MM	38.3	40.3	-5%	101.6	119.0	-15%
TOTAL	US\$ MM	183.1	193.3	-5%	591.9	552.7	7%

b. Gross Profit:

Gross profit during the 3Q14 reached US\$ 95.3 million, a 14% decrease (-US\$ 14.9 million) when compared with the same period of the previous year; this was mainly driven by i) a 5% decrease of the tin sales when compared to the 3Q13, ii) a 6% increase of the cost of sales, as a result of Pucamarca's cost of sales increase, due to i) the higher tonnage treated, and ii) the higher depreciation, in line with the capitalization of new assets.

c. Administrative Expenses:

Administrative expenses in the 3Q14 were US\$ 9.1 million, an increase of 14% (+US\$ 1.1 million) compared to the 3Q13. 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 3Q14, exploration expenses totaled US\$ 7.4 million, an increase of 82% (+US\$ 3.4 million) compared with the 3Q13. This was mainly due to investments associated to the exploration in the areas surrounding San Rafael and Pucamarca and San Rafael's tailing project pre-feasibility study.

e. Adjusted EBITDA:

Adjusted EBITDA in the 3Q14 reached US\$ 91.1 million, a decrease of 19% (-US\$ 31.6 million) when compared to the 3Q13. This was mainly explained by i) the lower tin sales, ii) Pucamarca's cost of sales increase, and iii) the increase of the exploration & projects expenses.

f. Net Income:

Net income in the 3Q14 reached US\$ 36.2 million, 44% below the figure reported in the 3Q13 (-US\$ 28.6 million). This was due to the lower adjusted EBITDA reported in the 3Q14 when compared to the 3Q13, and ii) the higher deferred income tax in the 3Q14 when compared to the same period of the previous year.

VI. LIQUIDITY:

As of September 30th, 2014, cash and cash equivalents totaled US\$ 534.5 million, an increase of 168% compared to US\$ 199.5 million at the end of the 3Q13. As to the financial debt level, by the end of the 3Q14, total debt reached US\$ 443.2 million, a 122% increase when compared to the debt by the end of the 2013 (US\$ 200.4 million).

In the 1Q14, Minsur executed 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.

Table N°9. Total Debt

Net Debt	Unit	9M14	2013	Var (%)
Total Debt	US\$ MM	443.2	200.4	121%
Cash	US\$ MM	534.5	199.5	168%
Net Debt	US\$ MM	-91.2	0.9	-10316%
Total Debt / EBITDA	x	1.0x	0.5x	116%
Net Debt / EBITDA	x	0.0x	0.0x	-100%