



# MANAGEMENT DISCUSSION AND ANALYSIS: INDIVIDUAL RESULTS

MINSUR S.A.  
FOURTH QUARTER 2020

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## EXECUTIVE SUMMARY 2020

The 2020 was a challenging year for Minsur, where due to the pandemic caused by COVID-19, we had to face a new context to operate where we improve our health and safety standards to the maximum. However, the company managed to achieve several key milestones such as:

- Operations were restarted after the mandatory quarantine settled by the government including safety and health protocols beyond the official requirements
- Ramp-up completed and expected design parameters reached in the B2 project
- The capacity of our smelter plant has been increased to levels around 5,870 tonnes fed per month with initiatives implemented by our lean management program “Lingo”

During 2020 our operations were impacted by government quarantine and lockdown measures established as a result of the COVID -19 pandemic. There was also a high volatility in metal prices, in 1H20 tin price fell to \$ 13,400 / t and in the subsequent months it had a significant recovery upwards reaching levels above \$ 20,500 / t. The tin price full year average in 2020 was \$ 17,155 / t. Gold average price rose during the year to \$ 2,063 / oz, its highest level in the last 9 years.

Financial results in 2020 remains strong. Despite the lower sales compared to 2019 (-5%), it was possible to obtain an EBITDA of US\$ 237.6 MM, slightly higher than 2019 (US\$ 236.7 MM). In addition, a net profit of US\$ 6.8 MM was registered, -89% compared to 2019, mainly due to negative results in our subsidiaries and associates, where Taboca had a significant negative impact due to non-cash impacts driven by the Brazilian currency devaluation.

## I. HIGHLIGHTS AND EXECUTIVE SUMMARY

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

Highlights	Unit	4Q20	4Q19	Var (%)	2020	2019	Var (%)
<b>Production</b>							
Tin (Sn)	t	6,137	5,368	14%	19,592	19,675	0%
Gold (Au)	oz	25,433	24,993	2%	80,215	101,799	-21%
<b>Financial Results</b>							
Net Revenue	US\$ M	159.7	139.0	15%	501.8	529.8	-5%
EBITDA	US\$ M	78.8	56.1	41%	237.6	236.7	0%
EBITDA Margin	%	49%	40%	-	47%	45%	-
Net Income	US\$ M	48.9	11.9	310%	6.8	64.5	-89%
Adjusted Net Income <sup>1</sup>	US\$ M	33.5	27.5	22%	69.1	97.7	-29%

### **Executive Summary:**

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

All operations are strictly complying beyond the protocols required in the context of the COVID-19 pandemic to work safely. These protocols have been representing additional costs for our operations; however, it is essential and priority to maintain the health and safety of all our people. Additionally, our main-headquarter staff remain working at home.

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

During 4Q20, refined tin and gold production were above the same period of the previous year +14% and +2%, respectively. This higher tin production was mainly due to the full year of production of B2 operation. It is important to mention that, from this year onwards, Pucamarca's annual gold production will be lower than the previous years, that is aligned with its estimated life of mine. Finally, all of our operation units have reached the expected production levels according to our new operating plan.

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

The financial results obtained during 4Q20 were higher than 4Q19; sales and EBITDA were 15% and 41% higher, respectively. The higher sales during 4Q20 are mainly due to the higher sold volumes of tin (+8%) and higher tin price (+13%). However, the sold volume of gold was lower (-17%) and was partially offset by a higher price (+26%). Finally, the net income was US\$ 48.9 MM and was also driven by better results of subsidiaries and associates with respect to the previous year, while adjusted net income, which excludes results in subsidiaries, the exchange difference, and extraordinary effects items, reached \$ 33.5MM, 22% higher than the same period of the previous year.

<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

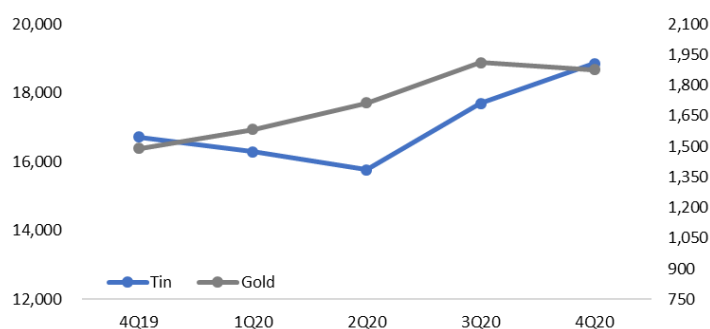
- **Tin:** Average tin price in 4Q20 was US\$ 18,851 per ton, an increase of 13% compared to the same period of the previous year. In 2020, the average tin price was US\$ 17,155 per ton, 8% below last year's average.
- **Gold:** Average gold price in 4Q20 was US\$ 1,876 per ounce, 26% higher than the same period of the previous year. In 2020, the average gold price was US\$ 1,772 per ounce, an increase of 27% compared to last year's average.

Table N° 2: Average metal prices

Average Metal Prices	Unit	4Q20	4Q19	Var (%)	2020	2019	Var (%)
Tin	US\$/t	18,851	16,697	13%	17,155	18,645	-8%
Gold	US\$/oz	1,876	1,483	26%	1,772	1,393	27%

Source: Bloomberg

Figure N° 1: Average metal price quarterly evolution



Source: Bloomberg

### b. Exchange Rate:

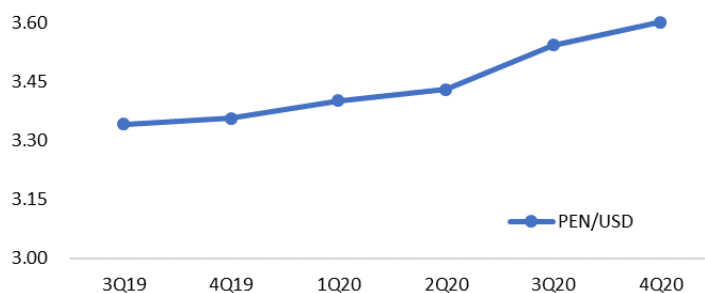
The Peruvian Sol average exchange rate for 4Q20 was S/ 3.60 per US\$ 1, 7% higher than that of 4Q19 (S/ 3.36 per US\$ 1). At the end of 2019, exchange rate was S/ 3.34 per US\$ 1, while at the end of 2020 it increased to S/ 3.50 per US\$ 1.

Table N°3: Exchange Rate

Average Exchange Rate	Unit	4Q20	4Q19	Var (%)	2020	2019	Var (%)
PEN/USD	S/.	3.60	3.36	7%	3.50	3.34	5%

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	4Q20	4Q19	Var (%)	2020	2019	Var (%)
Ore Treated	t	304,748	445,233	-32%	972,152	1,981,097	-51%
Head Grade	%	1.99	1.85	8%	1.90	1.86	3%
Tin production (Sn) - San Rafael	t	5,433	5,049	8%	17,458	20,273	-14%
Tin production (Sn) - B2	t	1,285	466.92	175%	3,190	466.92	583%
Tin production (Sn) - Pisco	t	6,137	5,368	14%	19,592	19,675	0%
Cash Cost per Treated Ton <sup>1</sup> - San Rafael	US\$/t	122	78	57%	112	65	71%
Cash Cost per Ton of Tin <sup>3</sup>	US\$/t Sn	9,389	8,204	14%	8,472	8,485	0%

In 4Q20, tin contained production in San Rafael reached 5,433 tons, 8% above the period 4Q19, mainly due to higher head grades. The refined tin production in Pisco was 6,137 tons, 14% above 4Q19, due to the higher production of B2 and the increase in the smelter's treatment capacity after the improvements implemented by the "Lingo" lean management program.

Cash cost per treated ton at San Rafael in 4Q20 was \$122, 57% higher than 4Q19, mainly explained by lower volume of treated in the ore sorting (-32%) and higher costs associated with the implementation of protocols to deal with the pandemic. The higher volume of mineral treated in 4Q19 corresponds to low-grade material fed into the concentration plant through our Ore-Sorting process.

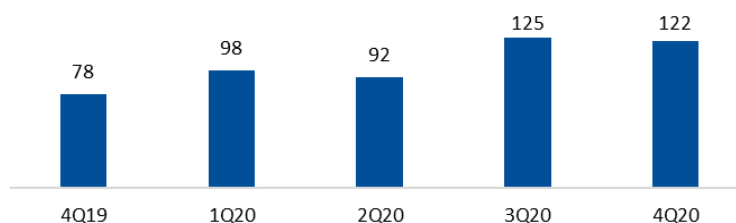
In 2020, production of San Rafael was 14% lower than the same period of the previous year, mainly due to the shorter operating time due to the pandemic. In B2, full year production was 3,190 tons of tin contained. In Pisco, tin refined production was in line with 2019, because B2 production partially offset the decrease in San Rafael production. Cash cost per treated ton during the 2020

<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)

was \$112, 71% above 2019 average, due to the lower volume of ore treated and the additional costs for the implementation of protocols in our operations.

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



Cash cost per ton of tin<sup>3</sup> in 4Q20 was US\$ 9,389, 14% higher than 4Q19, mainly explained by the new costs of health and safety protocols. However, the accumulated cash cost per ton of tin reached US\$ 8,472, which is in line with the previous year.

#### **b. Pucamarca (Perú):**

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

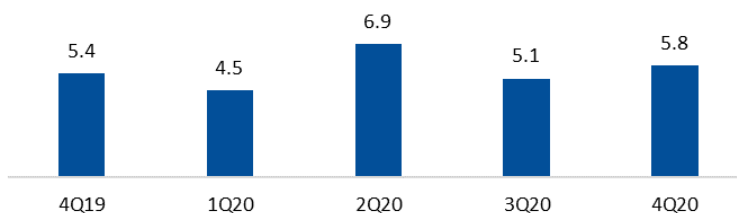
Pucamarca	Unit	4Q20	4Q19	Var (%)	2020	2019	Var (%)
Ore Treated	t	2,246,684	2,159,216	4%	7,572,278	8,220,833	-8%
Head Grade	g/t	0.53	0.54	-1%	0.48	0.59	-18%
Gold production (Au)	oz	25,433	24,993	2%	80,215	101,799	-21%
Cash Cost per Treated Ton	US\$/t	5.8	5.4	7%	5.4	5.5	0%
Cash Cost per Ounce of Gold <sup>4</sup>	US\$/oz Au	527	479	10%	531	452	17%

In 4Q20, gold production reached 25,433 ounces, 2% above compared to the same period of last year. This difference is driven mainly by higher mineral placed in the leaching PAD (+ 4%). Cash cost per treated ton at Pucamarca was US\$ 5.8 in 4Q20 vs. US\$ 5.4 in 4Q19, an increase of 7%, mainly due to the new costs associated with the new health and safety protocols implemented.

In 2020, production was 80,215 ounces of gold, 21% below than the same period of the previous year. Additionally, cash cost per treated ton was US\$ 5.4, in line with 2019, when operating expenses were higher due to additional tonnes mined from the pit to optimize our geotechnical parameters. This effect was partially offset by lower volume of ore treated in 2020 and higher costs in new health and safety Covid-19 protocols.

<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)

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



Cash cost per ounce of gold<sup>4</sup> in 4Q20 was US\$ 527, an increase of 10% compared to 4Q19, mainly due to the new costs associated with the new health and safety protocols implemented. The cash cost per ounce of gold of 2020 was US\$ 531, 17% higher than 2019.

#### IV. CAPEX:

**Table N°6. Executed CAPEX**

Capex	Unit	4Q20	4Q19	Var (%)	2020	2019	Var (%)
San Rafael + B2	US\$ M	27.9	9.8	186%	46.0	23.6	95%
Pisco	US\$ M	0.4	0.5	-29%	2.8	1.3	117%
Pucamarca	US\$ M	16.0	2.5	544%	22.2	6.9	221%
Others	US\$ M	0.0	0.1	-100%	0.0	0.7	-100%
<b>Sustaining Capex</b>	<b>US\$ M</b>	<b>44.3</b>	<b>12.8</b>	<b>245%</b>	<b>71.0</b>	<b>32.5</b>	<b>118%</b>
B2	US\$ M	0.0	27.6	-100%	0.0	112.0	-100%
<b>Expansion Projects Capex</b>	<b>US\$ M</b>	<b>0.0</b>	<b>27.6</b>	<b>-100%</b>	<b>0.0</b>	<b>112.0</b>	<b>-100%</b>
<b>Total Capex</b>	<b>US\$ M</b>	<b>44.3</b>	<b>40.4</b>	<b>10%</b>	<b>71.0</b>	<b>144.5</b>	<b>-51%</b>

In 4Q20, the sustaining capex was US\$ 44.3 MM, which represents an increase of 245% compared to 4Q19, mainly due to investments in construction in the tailings dam in San Rafael and the PAD in Pucamarca. Regarding the expansion capex, the execution was lower in 4Q20 because B2 was still in its construction stage.

In 2020, the sustaining capex is 118% above the 2019 period, while the expansion Capex is -100% as mentioned above.

## V. FINANCIAL RESULTS:

Table N°7. Financial Statements

Financial Statements	Unit	4Q20	4Q19	Var (%)	2020	2019	Var (%)
Net Revenue	US\$ M	159.7	139.0	15%	501.8	529.8	-5%
Cost of Sales	US\$ M	-85.6	-78.6	9%	-297.3	-287.3	3%
<b>Gross Profit</b>	<b>US\$ M</b>	<b>74.1</b>	<b>60.4</b>	<b>23%</b>	<b>204.5</b>	<b>242.5</b>	<b>-16%</b>
Selling Expenses	US\$ M	-2.2	-1.5	47%	-5.2	-5.8	-9%
Administrative Expenses	US\$ M	-10.7	-12.4	-14%	-33.2	-41.3	-20%
Exploration & Project Expenses	US\$ M	-1.3	-4.7	-72%	-5.7	-24.3	-77%
Other Operating Expenses, net	US\$ M	-1.3	-4.1	-68%	0.5	-3.1	-
<b>Operating Income</b>	<b>US\$ M</b>	<b>58.5</b>	<b>37.7</b>	<b>55%</b>	<b>160.8</b>	<b>167.9</b>	<b>-4%</b>
Financial Income (Expenses) and Others, net	US\$ M	-7.6	-2.5	205%	-28.9	-6.2	370%
Results from Subsidiaries and Associates	US\$ M	15.7	-15.3	202%	-60.8	-39.9	-52%
Exchange Difference, net	US\$ M	-0.3	-0.2	7%	-1.4	1.4	-
<b>Profit before Income Tax</b>	<b>US\$ M</b>	<b>66.3</b>	<b>19.7</b>	<b>237%</b>	<b>69.6</b>	<b>123.3</b>	<b>-44%</b>
Income Tax Expense	US\$ M	-17.4	-7.7	125%	-62.8	-58.8	7%
<b>Net Income</b>	<b>US\$ M</b>	<b>48.9</b>	<b>11.9</b>	<b>310%</b>	<b>6.8</b>	<b>64.5</b>	<b>-89%</b>
Net Income Margin	%	31%	9%	-	1%	12%	-
<b>EBITDA</b>	<b>US\$ M</b>	<b>78.8</b>	<b>56.1</b>	<b>41%</b>	<b>237.6</b>	<b>236.7</b>	<b>0%</b>
EBITDA Margin	%	49%	40%	-	47%	45%	-
Depreciation	US\$ M	20.3	18.4	10%	76.7	68.8	11%
<b>Adjusted Net Income<sup>1</sup></b>	<b>US\$ M</b>	<b>33.5</b>	<b>27.5</b>	<b>22%</b>	<b>69.1</b>	<b>97.7</b>	<b>-29%</b>

### a. Net Revenue:

In 4Q20, net sales reached US\$ 159.7 M, an increase of 15% compared to 4Q19. This increase is mainly explained by the higher sold volumes of tin (+8%) and better price. Gold sales were lower than 4Q19 due to the lower sold volumes of gold (-17%), which was partially offset by a higher price (+26%).

Table N°8. Net revenue Volume by product

Net Revenue Volume	Unit	4Q20	4Q19	Var (%)	2020	2019	Var (%)
Tin	t	5,858	5,407	8%	20,410	20,092	2%
Gold	oz	24,094	28,955	-17%	80,869	105,643	-23%

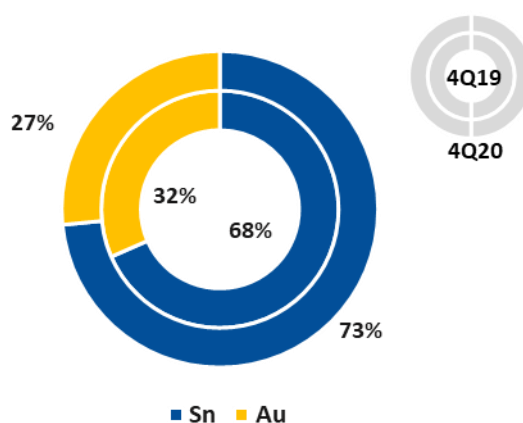
Table N°9. Net revenue in US\$ by product

Net Revenue by Metal	Unit	4Q20	4Q19	Var (%)	2020	2019	Var (%)
Tin	US\$ M	117.3	95.1	23%	365.1	379.8	-4%
Gold	US\$ M	42.4	43.8	-3%	136.7	150.0	-9%
<b>TOTAL</b>	<b>US\$ M</b>	<b>159.7</b>	<b>139.0</b>	<b>15%</b>	<b>501.8</b>	<b>529.8</b>	<b>-5%</b>

<sup>1</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



**b. Cost of Sales:**

Table N°10. Cost of sales detail

Cost of Sales	Unit	4Q20	4Q19	Var (%)	2020	2019	Var (%)
Production Cost	US\$ M	67.6	50.6	34%	197.1	200.5	-2%
Depreciation	US\$ M	24.5	20.1	22%	77.1	69.8	10%
Workers profit share	US\$ M	3.1	3.0	4%	8.9	12.8	-30%
Stocks Variation and Others	US\$ M	-9.5	5.0	-292%	14.2	4.2	237%
<b>TOTAL</b>	<b>US\$ M</b>	<b>85.6</b>	<b>78.6</b>	<b>9%</b>	<b>297.3</b>	<b>287.3</b>	<b>3%</b>

The cost of sales in 4Q20 was US\$ 85.6 MM, which represented an increase of 9% compared to the same period of 2019. This effect is mainly explained by the higher sold volumes of tin sold and higher depreciation due to the start of operations of B2. It is important to mention that production costs have been affected by the new health and safety protocols implemented in the context of the pandemic.

**c. Gross Profit:**

Gross profit during 4Q20 was US\$ 74.1 MM, which represented an increase of 23% compared to the same period of 2019, mainly due to the higher sold volumes of tin and better prices. The gross margin reached in 4Q20 was 46% versus 43% reached in 4Q19, as a result of better prices and partially offset by the increase in our costs from our protocols to face COVID-19.

**d. Selling expenses:**

Selling expense in 4Q20 was US\$ 2.2 MM, 47% higher than the previous year, mainly due to the higher sold volumes of tin. Also, as part of our credit policy review, and as a result of Covid-19, it was decided to purchase a credit risk insurance policy.

**e. Administrative expenses:**

Administrative expenses in 4Q20 were US\$ 10.7 M, a decrease of 14% compared to the same period of last year, explained by a reduction in consulting and other services to mitigate the impact of the mandatory shutdown due to government restrictions due to Covid-19 .

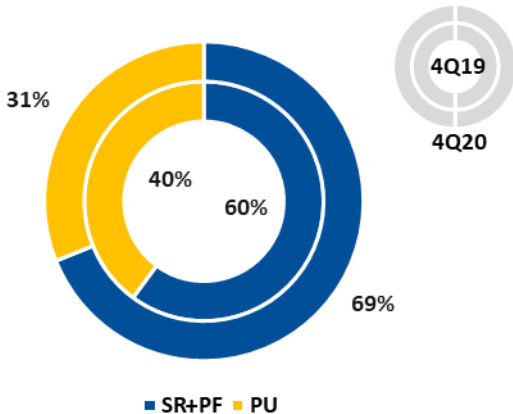
**f. Exploration and Project Expenses:**

In 4Q20, exploration and project expenses were US\$ 1.3 MM, which meant a reduction of 72% compared to the same period of the previous year, mainly due to the temporary postponement of some exploration activities due to Covid-19.

**g. EBITDA:**

EBITDA in 4Q20 was US \$ 78.8 MM, which meant an increase of US \$ 22.7 MM compared to the same period of the previous year, mainly due to the higher gross profit explained above, as well as lower administrative and exploration expenses. The EBITDA margin for 4Q20 was 49%, 9% above the margin reached in the same period of 2019.

**Figure N°6: EBITDA share in US\$ by Operating Unit <sup>5</sup>**



**h. Net financial expenses**

In 4Q20, net financial expenses were -US\$ 7.6 MM, while in 4Q19 they were -US\$ 2.5 MM. The difference is mainly explained by the suspension of the interest capitalization of the financing associated with the B2 project in 2020, due to its start of operations.

**i. Results from Subsidiaries and Associates**

In 4Q20, the results in subsidiaries and associates were US\$ 15.7 MM, while in 4Q19 was registered

<sup>5</sup> 4Q20 includes SR + FR + B2

-US\$ 15.3 MM. This difference is explained by non-cash exchange losses in the subsidiaries due to local currencies devaluations in 4Q19.

**j. Income tax expense:**

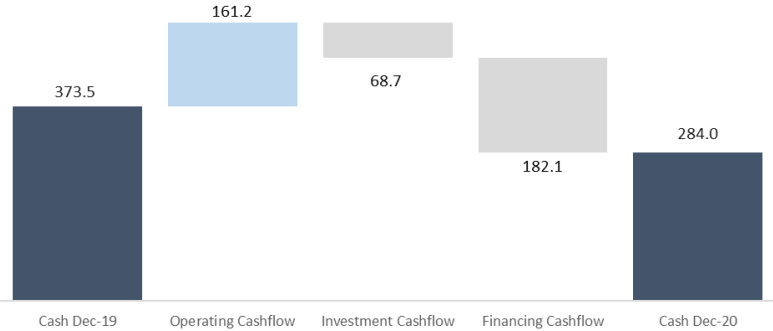
In 4Q20, Minsur accrued US\$ 17.4 M on income tax expense, 125% higher than 4Q19, mainly due to better operating results.

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

Net income in 4Q20 was US\$ 48.9 MM, while in 4Q19 it was US\$ 11.9 MM, mainly due to higher EBITDA. Excluding extraordinary effects, the results of subsidiaries and associates, and the exchange difference, the adjusted net income in 4Q20 would amount to US\$ 33.5 M, US\$ 6.0 M higher than the same period of the previous year, mainly due to the higher EBITDA explained before.

**VI. LIQUIDITY:**

As of December 31<sup>th</sup>, 2020, the company’s cash balance reached US\$ 284.0 M, 24% lower than the closing balance of 2019 (US\$ 373.5 M). The decrease is explained by an operating cash flow of US\$ 161.2 M, an investment cash flow of US\$ 68.7 M and financing cash flow of US\$ 182.1 M that correspond to capital contributions to our subsidiary Cumbres Andinas.



As of December 31<sup>th</sup>, 2020, the company’s financial liabilities reached US\$ 444.9 M. The financial debt is explained by the corporate bond, with expiration date of 2024. The net leverage ratio reached 0.7x as of December 31<sup>th</sup>, 2020 vs. 0.3x by the end of 2019.

**Table N°12. Debt Summary**

Financial Ratios	Unit	Dec-20	Dec-19	Var (%)
Total Debt	US\$ M	444.9	443.4	0%
Long Term - Minsur 2024 Bond	US\$ M	444.9	443.4	0%
Cash	US\$ M	284.0	373.5	-24%
Cash and Equivalents	US\$ M	193.4	79.4	144%
Fixed term deposits	US\$ M	90.6	212.7	-57%
Comercial papers	US\$ M	0.0	81.5	-100%
Net Debt	US\$ M	160.9	69.9	130%
Total Debt / EBITDA	x	1.9x	1.9x	0%
Net Debt / EBITDA	x	0.7x	0.3x	129%

## VII. Risk Management

The company has a financial reporting and consolidation 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.