Peru's mining & metals investment guide

2014 / 2015

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Ministry of Foreign Affairs
Peru

Contacts

EY Peru

Paulo Pantigoso
Deputy Managing Partner
Tel: +51 1 411 4418
paulo.pantigoso@pe.ey.com

Marco Antonio Zaldivar
Peru Mining & Metals Leader
Tel: +51 1 411 4450
marco-antonio.zaldivar@pe.ey.com

Jorge Acosta
Peru Advisory Service Leader
Tel: +51 1 411 4437
jorge.acosta@pe.ey.com

Beatriz Boza
Corporate Governance and Sustainability Leader
Tel: +51 1 411 2108
beatriz.boza@pe.ey.com

Victor Burga
Peru Audit Mining & Metals Leader
Tel: +51 1 411 4419
victor.burga@pe.ey.com

Marcial Garcia
Peru Tax Mining & Metals Leader
Tel: +51 1 411 4424
marcial.garcia@pe.ey.com

Enrique Oliveros
Peru Transactions Mining & Metals Leader
Tel: +51 1 411 4417
enrique.oliveros@pe.ey.com

Elizabeth Rosado
Tax Partner
Tel: +51 1 411 4457
elizabeth.rosado@pe.ey.com

Lima: Av. Victor Andres Belaunde 171, San Isidro / Chiclayo: Av. Santa Victoria 612 Urb. Santa Victoria

Preface

Peru is a global leader in the mining industry, which makes it a natural choice for international investors. It is one of the world's biggest producers of base and precious metals. Currently, it is the third largest producer of copper and zinc in the world. Peru is also a major producer of gold, silver, among other minerals.

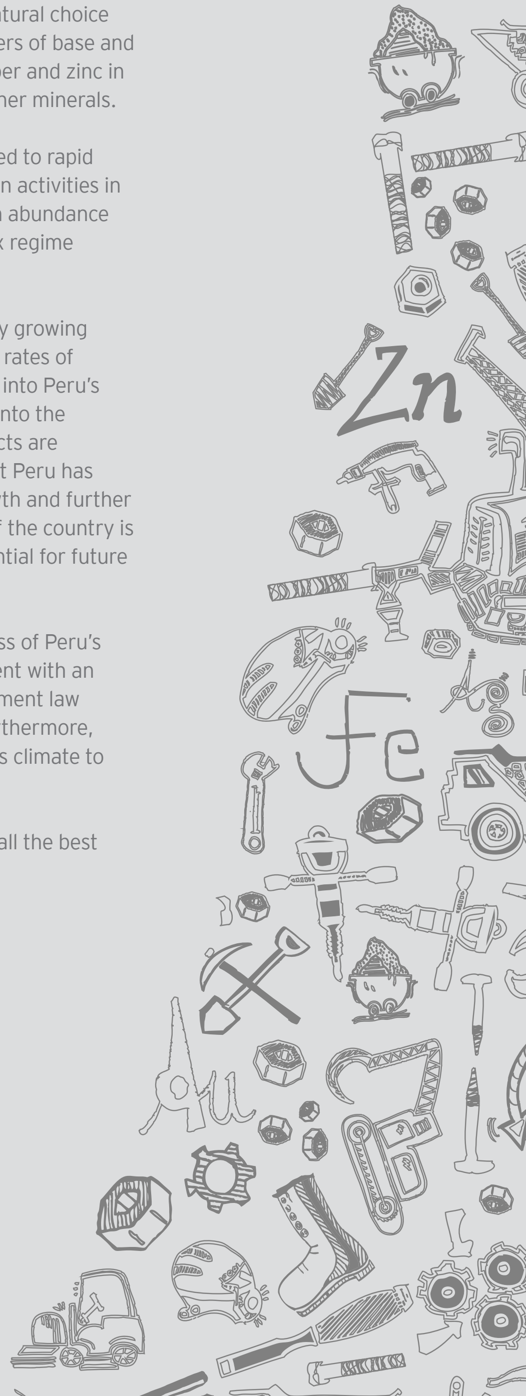
In recent years, increasing demand for mining commodities has led to rapid and large-scale development of mining exploration and production activities in Peru. The success of Peru's mining sector stems not only from an abundance of rich natural resources, but also from an attractive legal and tax regime designed to support the industry.

Peru enjoys political and macroeconomic stability. It has a steadily growing economy, which is largely driven by mineral production. The high rates of production have attracted a large amount of inbound investment into Peru's mining sector. An estimated US$ 59.5 billion is expected to flow into the country over the next few years. New mines and expansion projects are expected to more than double its copper production by 2016. But Peru has much more to offer. The mining sector has real potential for growth and further expansion. It holds golden opportunities for investors as much of the country is yet to be subjected to vast exploration, leaving an immense potential for future development.

International investors are a crucial part of the growth and success of Peru's exploration and mining industry. Peru welcomes foreign investment with an open and stable mining regulatory environment. A foreign investment law guarantees the security of foreign and domestic investments. Furthermore, Peru is consistently undertaking measures to improve its business climate to attract more investment.

We invite you to contact us with your questions and we wish you all the best with your mining investment opportunities in Peru.

Marcial Garcia
Tax Mining & Metals Leader
EY Peru
Tel: +51 1 411 4424
marcial.garcia@pe.ey.com



About this mining & metals investment guide

"The difference between good investment decisions and bad investment decisions is the right information at the right time."

Paulo Pantigoso
Deputy Managing Partner
EY Peru

This mining & metals investment guide is the first, and still the finest, handbook of its kind. This document has been structured to serve as an initial step in the process of evaluating the mining landscape in Peru. As such, it will be useful to those who contemplate at least the possibility of making long-term investments into the exploration and development of new mines in the country.

This publication has brought together several of the mining industry's leading professionals from EY Peru, with a mix of legal, tax, economic and accounting backgrounds, to share their unique insights and explain the key elements for a successful expansion by international mining and metals companies into Peru.

Within this guide we have examined various aspects usually taken into consideration by miners and investors from around the world before making critical decisions on the development of new mining operations. Included in this guide is an overview of Peru's political structure, business environment, macroeconomic profile, key indicators and outlook for the next years, geological potential, mining and metals sector trends and recent developments. The guide also provides access to essential information to assist foreign investors in understanding the regulations governing investment and in particular the legal, taxation and regulatory requirements to operate in Peru's mining sector.

First published in 2010, this biennial guide has been designed to be easily consulted and to offer a balanced and objective account of areas of potential interest to foreign mining investors. In this third edition, we have chosen to leave the general structure of the 2012/2013 edition intact.

We have, however, drawn from what we have learned from those who have used this reference booklet and from our own experiences, and included the most recent data available in January 2014 and some additional commentary on a variety of critical topics. The aim is to supply international exploration and mining companies (majors and juniors) with a fact base and critical information to facilitate and support their investment-making discussions and decisions. We hope that this new material will be useful in the efforts to attract greater flows of foreign direct investment and that the flows in turn benefit the country.

We wish to express our appreciation to the Ministry of Foreign Affairs of Peru for their support of this project. Our special thanks are owed to Ambassador Guido Loayza, Director - General of Economic Promotion and Ana Cecilia Gervasi, Director of Investment Promotion of the Ministry of Foreign Affairs for mobilizing their respective teams to support and assist us in the production of this guide.

"Companies that have access to timely, targeted and comprehensive information about Peru's mineral sector investment conditions can prepare to seize opportunities rather than risk falling behind."

Marco Antonio Zaldivar
Mining & Metals Leader
EY Peru

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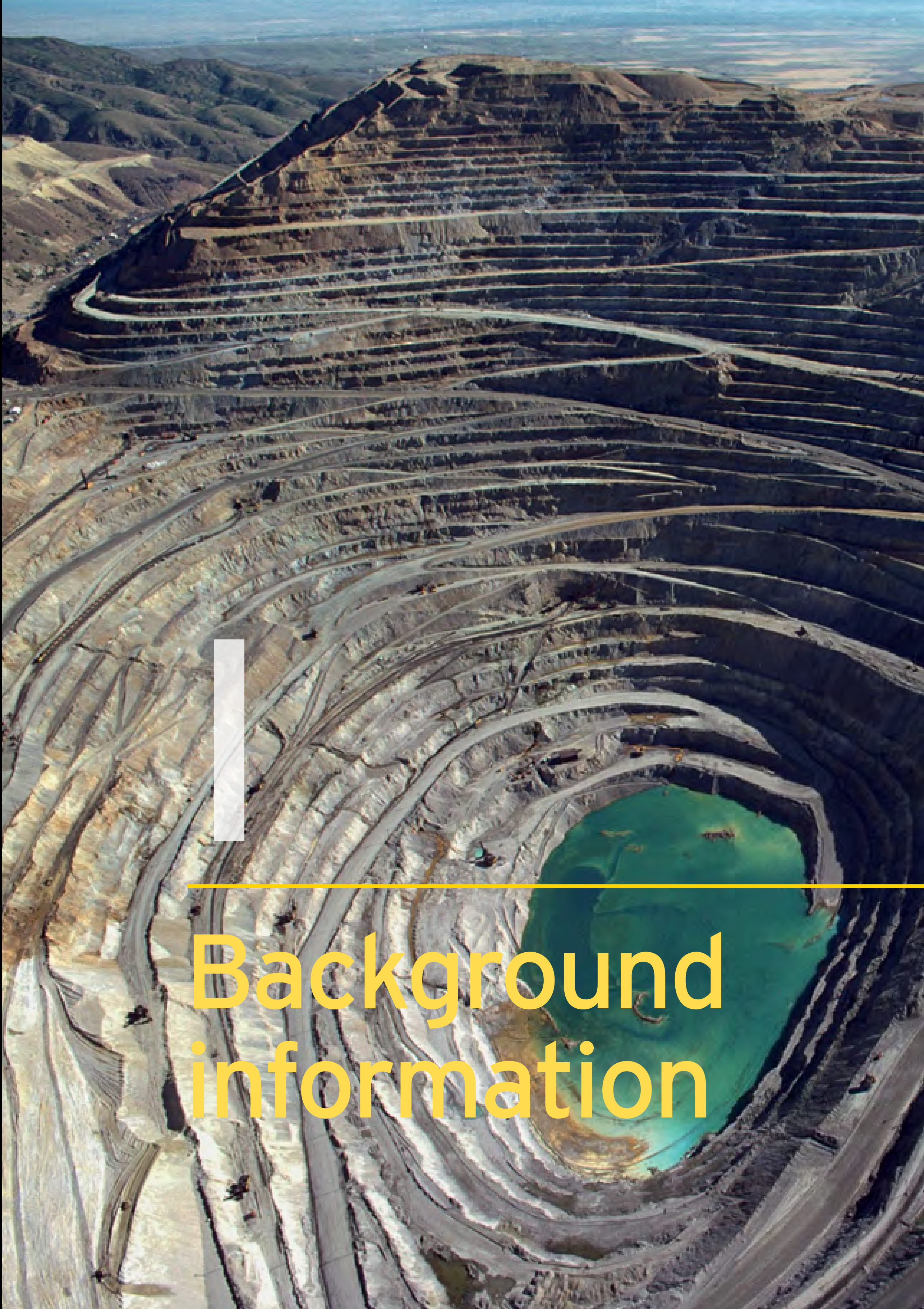


Background information

01

Form of government

Peru's political history, like that of most Latin American countries, has swung between civil and military governments, since it gained its independence from Spain in 1821. However, there have been continuous democratic elections since 1980, the last of which was held in June 2011, when Ollanta Humala, a former army officer was elected president after a runoff ballot in which he defeated opponent Keiko Fujimori, the eldest daughter of former president Alberto Fujimori, by a narrow 51.3% to 48.7% margin. Since taking office on July 28, 2011, President Humala has made economic stability and social inclusion the central themes of his 5-year term administration.

According to the Political Constitution of 1993, the Peruvian government consists of an executive branch, an autonomous single chamber congress of 130 members and a judicial branch. The president and congress members are directly elected by popular vote every five years. A constitutional amendment passed in 2000 prevents immediate presidential re-election, but allows unlimited non-consecutive terms. Election is mandatory for all citizens over the age of 18.

Country overview

Government type
Constitutional republic.

Legal system
Based on civil law.

Executive branch
- Chief of state and head of government: President Ollanta Humala (since July 2011).
- Elections: Every five years by popular vote (non consecutive reelection). Next elections: April 2016.
- Cabinet: Council of Ministers is appointed by the president.

Legislative branch
- Unicameral congress.
- 130 seats.
- Members elected by popular vote, for a five-year term.
- Next elections: April 2016.

Judicial branch
Judges are appointed by the National Council of the Judiciary.

International relationships
- Member of the United Nations since 1945, member of the Security Council between 2006 and 2007.
- Member of the World Trade Organization since 1995.
- In 1998 became a member of the Asia Pacific Economic Cooperation (APEC) forum.

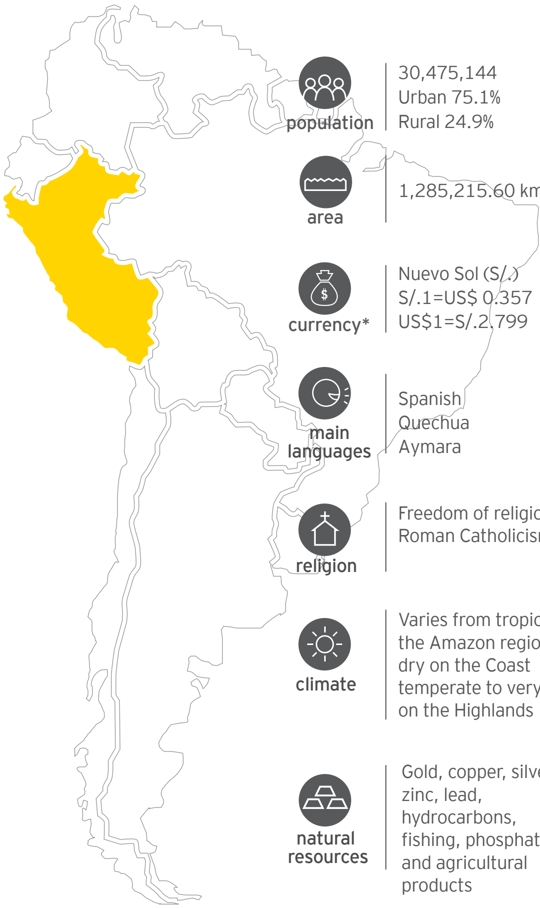
Sources: Peruvian Constitution / CIA - The World Factbook / Ministry of Foreign Affairs

02

Geography

Peru, located on west central coast of South America is bordered by the Pacific Ocean to the west, Chile to the south, Bolivia and Brazil to the east, and Colombia and Ecuador to the north. With a total land area of 1.29 million of km². Peru is the third largest country in South America after Brazil and Argentina. It may be divided geographically in three regions:

- The Coast (Costa), which is a narrow desert strip 3,080 km long that accounts for only 10.7% of Peru's territory even when it contains approximately 63.2% of the population. Lima, the political and economical capital of the country is located in this region;
- The Highlands (Sierra), which consists of the Andean Mountain Range, covers 31.8% of the territory and holds almost 27.4% of the population. This region contains the country's major mineral deposits; and
- The Amazon Jungle (Selva), is the largest region occupying 57.5% of Peru's territory. This region is rich in petroleum and forestry resources.



population	30,475,144 Urban 75.1% Rural 24.9%
area	1,285,215.60 km²
currency*	Nuevo Sol (S/.) S/.1=US$ 0.357 US$1=S/.2.799
main languages	Spanish Quechua Aymara
religion	Freedom of religion Roman Catholicism
climate	Varies from tropical in the Amazon region to dry on the Coast temperate to very cold on the Highlands
natural resources	Gold, copper, silver, zinc, lead, hydrocarbons, fishing, phosphates, and agricultural products
time zone	GMT - 5

*Exchange rate as January 15, 2014
Sources: BCRP / INEI

03

People

The estimated population of Peru for the year 2013 is 30.5 million, of which 8.7 million (approximately 28.5%) reside in Lima, the capital of the country. The labor force is estimated to be about 22 million.

The predominant religion is Roman Catholicism and the main official languages are Spanish and Quechua. Aymara is also spoken in some parts of the southern Highlands Region of the country. With respect to the literacy rate, 93% age 15 and over can read and write.

People overview	
Population	30,475,144 (2013)
Age structure	0 - 14 years 28.7% (2013) 15 - 64 years 65.0% (2013) 65 years and over 6.3% (2013)
Growth rate	1.13% (2012 - 2015)
Birth rate	19.4 births/1,000 population (2010 - 2015)
Death rate	5 deaths/1,000 population (2012)
Sex ratio	At birth 1.05 male/female
Life expectancy at birth	74 years (2012)

Sources: INEI / CIA Factbook

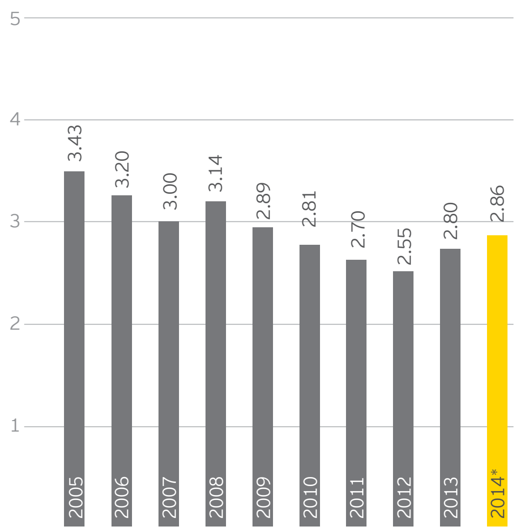
04

Currency

The Peruvian currency is the Nuevo Sol (S/. or PEN). Peru has a free-floating managed exchange rate regime. Banks are currently (January 15, 2014) buying US dollars at S/.2.797: US$1.00 and selling at US$1.00: S/.2.799. Parallel market rates are slightly different.

There are no restrictions or limitations on holding bank accounts in foreign currency or to remit funds abroad.

Exchange rate: Peruvian Nuevo Sol to US Dollar (PEN / USD)



*Estimate: January 2014
Source: BCRP

05

Economic overview

A country of 30.5 million people, Peru has rich deposits of copper, gold, silver, lead, zinc, natural gas and petroleum. It is a very diverse country due to climatic, natural and cultural variations of its regions. Peru's economy reflects its varied geography, an arid coastal region, the Andes further inland, and tropical lands bordering Colombia and Brazil. Abundant mineral resources are found mainly in the mountainous areas, and Peru's coastal waters provide excellent fishing grounds.

Mining is the dominant sector of the Peruvian economy. Substantial additional investment has flowed to the sector over the past 20 years. As a result there has been an increase in exploration and development activities. Peru is among the major producers of mineral commodities in the world and accounts for more than 60% of the country's exports. Copper and gold are the most important mineral exports by value.

In recent years, Peru has achieved significant advances in social and development indicators as well as in macroeconomic performance, with very dynamic GDP growth rates, reduction of external debt, a stable exchange rate, low inflation which in 2013 was below the upper limit of the Central Bank target range of 1% to 3%.

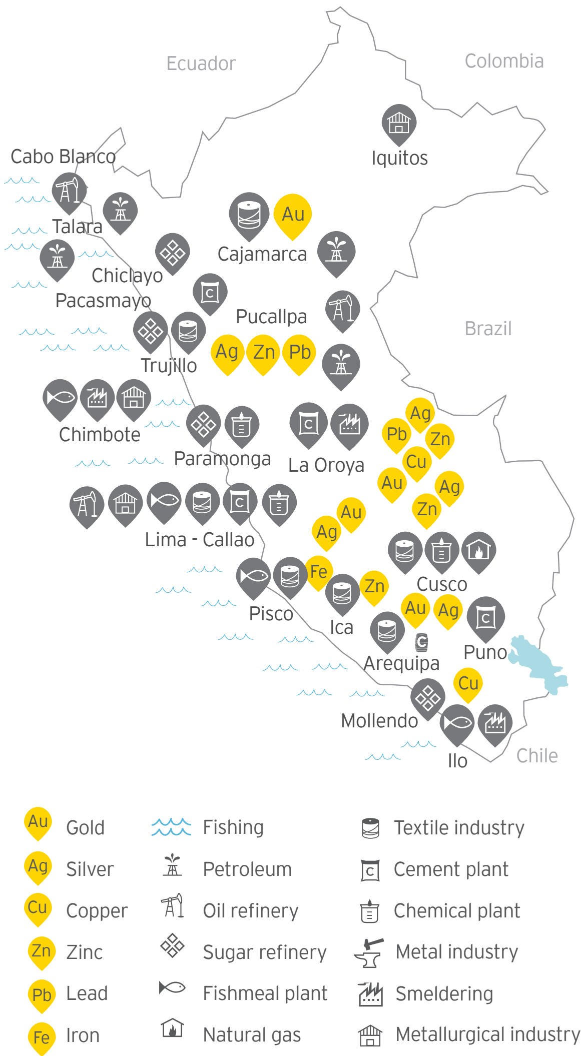
The country has had continuous economic and political stability since the early 1990's. The Peruvian economy has been growing by an average 6.4% between 2002 and 2012 (the highest 10-year average growth in Peru's history). This growth was largely driven by prudent macroeconomic policies, investor-friendly market policies and the government's aggressive trade liberalization strategies. Growth is now slowing within a context of lower prices for Peru's largest commodity exports, although the country's economy remained strong in 2013, growing about 5%, down from 6.3% in 2012.

Despite the slowdown in 2013, Peru's economic growth will continue to be one of the strongest among peers, as the central bank now expects growth of around 6% in 2014. It is expected that the increase in mineral production will support Peru's economic growth over the next few years as metal prices have weakened. Peru's rapid expansion has helped to reduce the national poverty rate from 48.5% in 2004, to about 24.5% of its total population in 2013.

Economic overview	
External debt	US$29.5 billion (3Q 2013)
Investment	22.8% of GDP
Unemployment rate	6.0%
Population below poverty line	24.5%
Export partners	Canada, China, Germany, Brazil, Chile, Japan, Switzerland, US, Venezuela
Exports commodities	Gold, copper, zinc, crude petroleum and by-products, coffee, potatoes, asparagus, textiles, fish meal
Import partners	Brazil, Chile, China, Ecuador, US, Japan, Argentina, Colombia
Import commodities	Petroleum and by-products, plastics, machinery, vehicles, iron and steel, wheat, corn

Sources: BCRP / Ministry of Economy and Finance

Main economic activities by region



Source: University of Texas - Perry Castaneda Library Map Collection

The country's positive recent growth performance has much to do with the competent monetary and fiscal policy pursued particularly over the last decade, with falling levels of public indebtedness (from 37.8% of GDP in 2005 to 19.7 in 2013) and foreign reserves reaching US$65.6 billion based on information available in December 2013. This has gone hand in hand with trade and foreign direct investment (FDI) opening, operational independence of the central bank, and maximization of the revenues from the country's rich natural and mineral resources, with expenditures keeping pace.

Despite the negative economic conditions, Peru recorded its third consecutive fiscal surplus (0.4 % of GDP) in 2013. Thanks to its strong macroeconomic performance, the main rating agencies (Standard & Poor's, Fitch and Moody's) upgraded Peruvian sovereign debt to investment grade and currently such credit rating isn't at risk. Peru also benefits from strengths such as the fairly large size of its market and its sophisticated and rather deep financial sector.

Peru has also maintained an aggressive trade policy that has allowed it to sign free trade pacts with the United States, Chile, Mexico, Nicaragua, Canada, Costa Rica, Japan, Panama, Thailand, Singapore, EFTA States (Iceland, Liechtenstein, Norway and Switzerland), the European Union, South Korea, Venezuela and China, opening the way to greater trade and investment.

Peru belongs to the Andean Community, the Asia-Pacific Economic Cooperation (APEC) forum and the World Trade Organization.

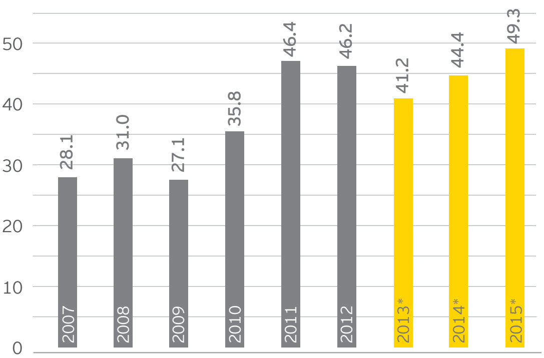
"Peru's economy continues to grow and the mining industry is the engine."

Elizabeth Rosado
Tax Partner
EY Peru

Peru's exports reached US$41.2 billion at the end of 2013 estimated, 11% less compared with the same period of 2012, as softer demand from major buyers like China and weaker mineral prices have set the stage for Peru's first trade deficit in more than a decade.

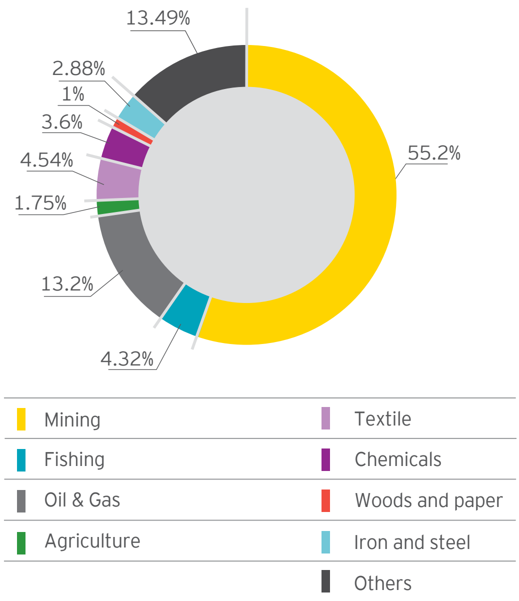
There are, however, signs of an improving economic outlook and exports are set to pick up in 2014, as the expected increase in mineral production is pointing in the right direction. Peru's main exports are copper, gold, zinc, textiles and fish meal; its major trade partners are China, United States, Switzerland, Canada and Japan.

Exports (in US$ billions)



*Estimate
Sources: BCRP / ComexPeru

Exports by economic sector



Sources: BCRP / Ministry of Energy and Mines

Notwithstanding Peru's improvements in macroeconomic stability, it still faces a number of important challenges that hamper its competitiveness potential.

For Peru to continue to grow in a sustained fashion going forward, a number of challenges will need to be addressed. This will include improving the quality of the institutional environment, upgrading the country's infrastructure (in particular its insufficiently developed transport infrastructure network) and educational standards. Peru's overdependence on minerals and metals subjects the economy to fluctuations in world prices.

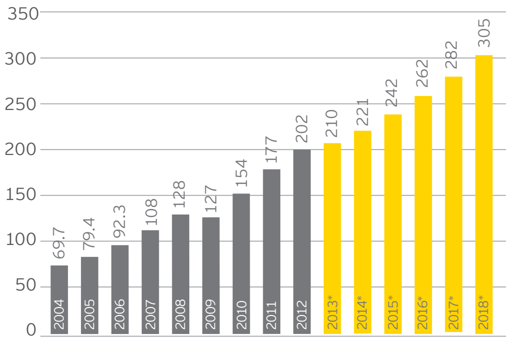
Matching or beating the GDP growth rates that are required to undertake the necessary investments and reforms will depend mainly on how much of the US$59.5 billion in mining investment for the next five to ten years actually goes ahead. Poverty levels and income and regional inequalities continue to loom as a cause of social unrest in the country. Not all Peruvians have shared in the benefits of growth, despite the current administration's efforts to increase social spending with the goal of reducing poverty in Peru and improving wealth distribution in the country.

Since he took office as president in July, 2011, Ollanta Humala has maintained orthodox economic and pro-business policies of several prior administrations. President Humala has proven to be determined to attract foreign investment to maintain Peru's rapid economic growth while still pursuing a social inclusion agenda.

GDP / Trade Balance

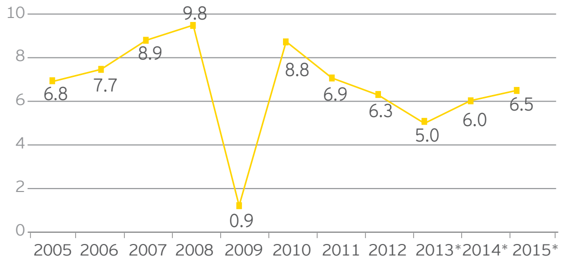
GDP at the end of 2013 is estimated in US$210 billion. Total exports reached US$ 41.2 billion FOB in the same period while imports reached US$ 43.4 billion. The leading exports are mining and fishing.

Peru's real GDP (in US$ billions)



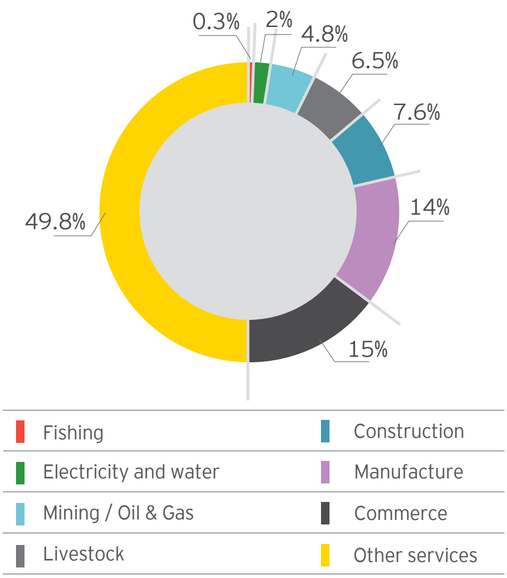
*Estimate
Sources: BCRP / Ministry of Economy and Finance / FMI / EY

GDP variations



*Estimate
Source: BCRP

Peru's GDP by productive sector (2013)



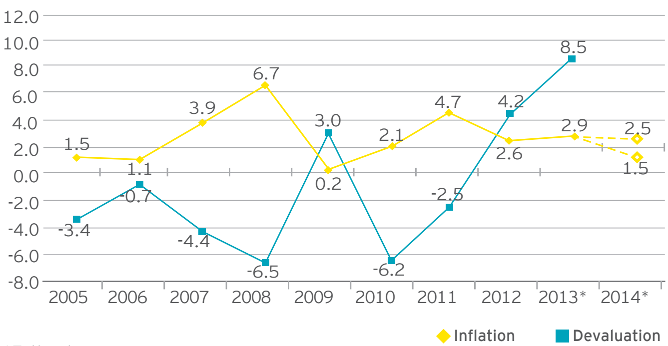
Source: BCRP

Devaluation and inflation

Exchange rate depreciation: the market value of the PEN (S/.) fell 9.72% against the US$ in 2013.

The annual inflation rate was 2.86% in 2013 (2.6% in 2012), which is within the Central Reserve Bank of Peru's annual target range. Peru's central bank aims to keep the annual inflation rate within a target range of 1% to 3%. The bank's officials had said they expected inflation to finish 2013 within the target range.

Devaluation and inflation



*Estimate
Sources: BCRP / EY

06

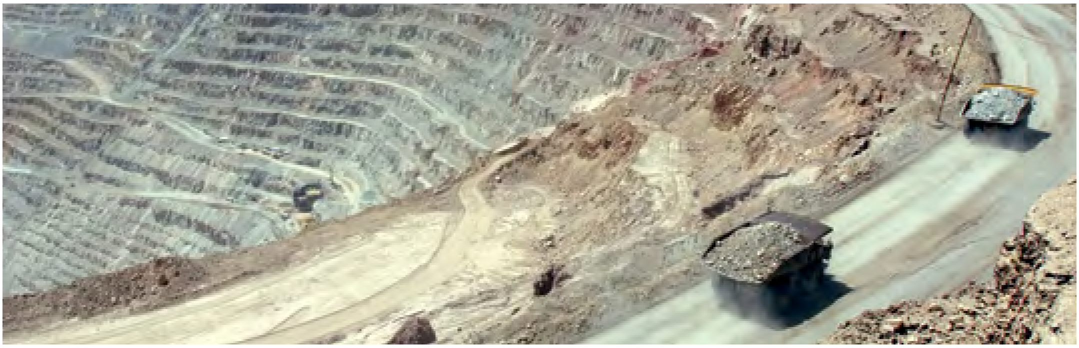
Infrastructure access

It is expected that Peru will only realize its full economic potential after reducing its infrastructure bottlenecks. Estimates vary, but the investment required runs into billions of dollars. In recent years, Peru has begun to take the necessary measures to improve its underprivileged infrastructure (transport facilities, electricity, water and communications) in order to promote new investments which will contribute to the development of the productive sectors of the country. Mining is one of the sectors affected by this constraint since mining and metals companies need to have access to transportation facilities to deliver their products to national and international markets. These needs are in addition to the standard mine infrastructure. Well-developed infrastructure reduces the effect of distance between regions, with the result of truly integrating the national market and connecting it at low cost to markets of other countries and regions.

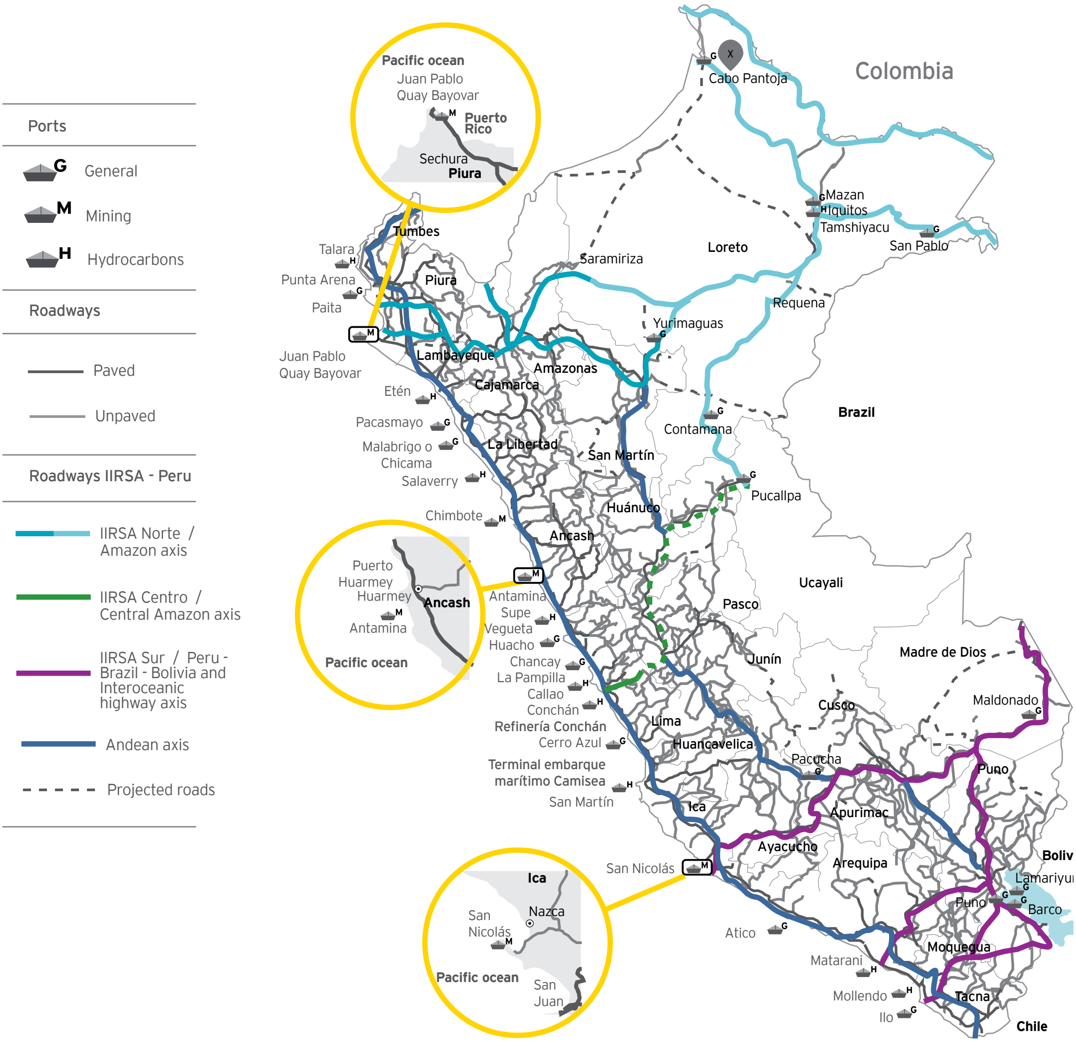
In recent years, it is not so much the lack of availability of financing but the lack of administrative capacity in the provinces for the spending shortfalls in infrastructure that contribute to feed anti-mining sentiments.

Regional and local authorities are still sitting on billions of soles from canon, mining royalties and other levies collected over the last decade lying dormant in bank accounts, which could be used to fund new roads, hospitals, schools and water projects. In 2013, on average, local and regional governments have only spent 75% of the money available to be spent on infrastructure.

What is clear is that the private sector will need to respond to deliver the required investment in infrastructure. Doing so requires changes to historical approaches to infrastructure investment, which have typically been government-led, one which places private sector capital at the forefront. The Peruvian government has become very proactive providing the private sector with incentives to develop investment projects. For example, Peru's tax system includes provisions to grant a form of credit against income taxes to allow third-party investors to recover capital investments made in public infrastructure. Mining and metals companies are responding by building social infrastructure and involving communities at an early stage.



Infrastructure access map



Source: Ministry of Transport and Communications

07

Peru's Investment-Grade Rating

Peru has maintained its investment-grade credit rating since Moody's Investors Services raised it to that level in December, 2009 matching moves made by Standard & Poor's and Fitch Ratings the previous year. Sound economic prospects, with GDP growth rates estimated at 6% over the medium term, are a key supporting factor for the investment-grade rating. Peru's robust growth prospects are supported by rapidly growing investments levels. The upgrade is also supported by the significant decline in Peru's fiscal and external vulnerabilities within a context of high and diversifying sources of growth with low inflation and strengthening macroeconomic fundamentals. It is expected that these trends will remain in place over the medium term despite an increasingly riskier international environment.

The strong support for sound trade and macroeconomic policies from the current administration of President Humala remains a precondition for Peru to maintain its investment-grade rating.

It is well known that countries with investment grade ratings gain a higher level of confidence that generates more foreign and domestic investment. The risk premium demanded by multinationals and foreign investors is slashed after the upgrade. At the same time, the investment horizon is elongated.

The same occurs with domestic investment. Local investors gain more self-confidence, thus allowing themselves to consider opportunities with lower rates of return. The impact is immediate, as consumers gain access to credit with more favorable terms.

Peru's Investment-Grade Rating

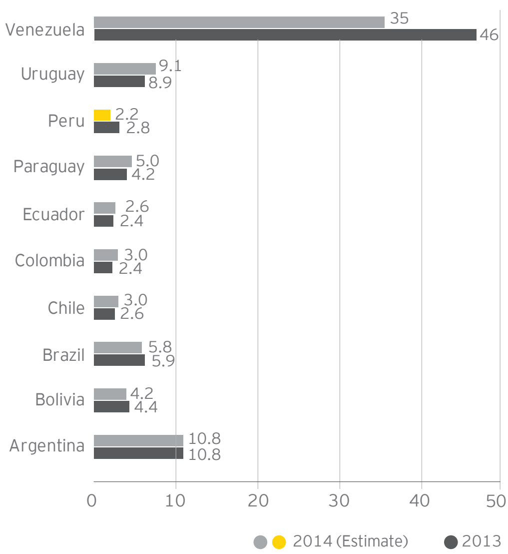
Country	S&P	Fitch	Moody's
Chile	AA-	A+	Aa3
Mexico	BBB	BBB	Baa1
Brazil	BBB	BBB-	Baa2
Peru	BBB+	BBB+	Baa2
Colombia	BBB-	BBB-	Baa3
Bolivia	BB-	BB-	Ba3
Venezuela	n.d.	B+	B2
Argentina	B-	CC	B3
Ecuador	B	B-	Caa1

Sources: Proinversion / Bloomberg
Updated: July 2012

The upgrade to investment grade has brought Peru a lot of positive attention worldwide. More importantly, it has had a positive impact on the local economy and should help to boost the stock market and the appreciation of the Peruvian currency, the sol, in the short term. For this reason, nowadays, many multinational corporations eye the country more seriously, as higher private investment is flowing into the country. This should contribute to alleviate a still complex social situation in Peru, by achieving improvements in employment and decreases in poverty.

As shown in the chart below, a recent international survey indicates that Peru will have one of the lowest inflation levels of the region, with a projected inflation rate of 2.2% in 2014.

Estimated inflation rates in Latin America



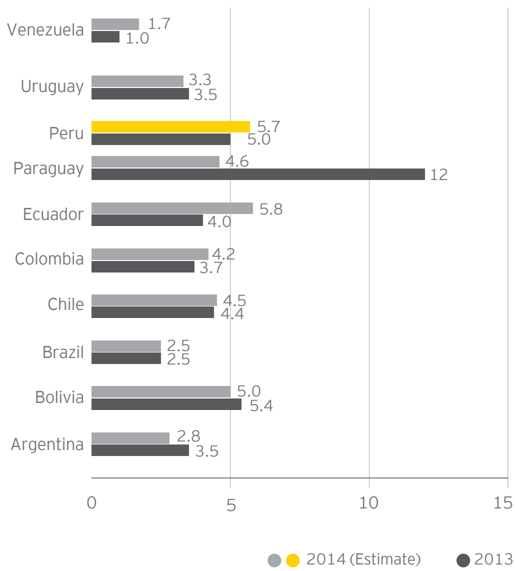
Source: Latin Focus Consensus Forecast

Peru is expected to grow at a rate that will be well above the Latin American average. Latin Focus Consensus Forecast estimates Peru's GDP will grow 5.7% in 2014, as noted in the next chart.

"Overwhelming feedback from foreign companies is that Peru is a good country to do business with."

Jorge Acosta
Advisory Service Leader
EY Peru

Estimated Latin America GDP growth rates



Source: Latin Focus Consensus Forecast

08

Investment promotion conditions

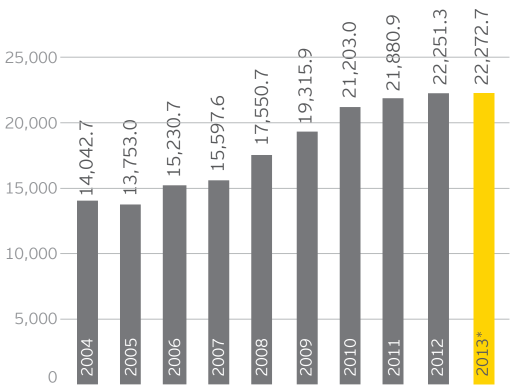
a | Foreign investment legislation and trends in Peru

The Peruvian government is committed to pursuing an investor-friendly policy climate. It actively seeks to attract both foreign and domestic investment in all sectors of the economy. It has therefore taken the necessary steps to establish a consistent investment policy which eliminates all obstacles for foreign investors, with the result that now Peru is considered to have one of the most open investment regimes in the world.

In an attempt to reduce the political risk perception of the country, Peru has adopted a legal framework for investments which offers automatic investment authorization and establishes the necessary economic stability rules to protect private investors from arbitrary changes in the legal terms and conditions of their ventures and reduces government interference with economic activities.

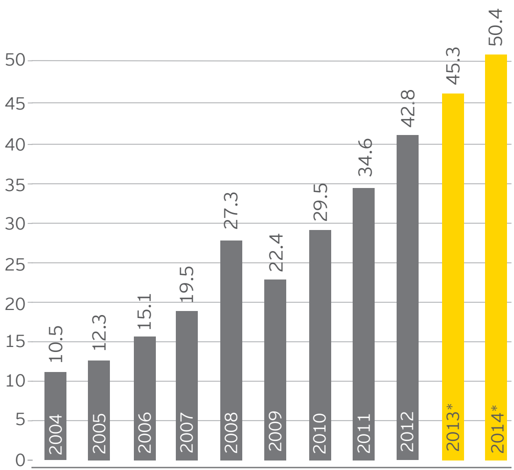
Peru's Central Bank reported that the stock of foreign direct investment (FDI) reached US$22.2 billion in the first half of 2013. The United States, United Kingdom, The Netherlands, Spain, Brazil and Chile are Peru's leading foreign investors.

Foreign investment (US$ millions)



*Estimate
Source: Proinversion

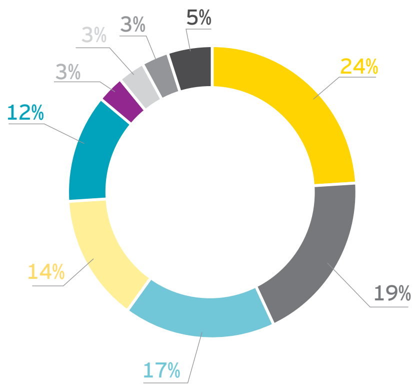
Private investment (US$ millions)



*Estimate
Sources: MEF (Multiannual Macroeconomic Framework) / Proinversion

FDI is concentrated in mining, oil and gas, telecommunications, finance and electricity.

Foreign investment by industry (2013)



Mining	Energy
Finance	Commerce
Communications	Petroleum
Industry	Services
	Others

Source: Proinversion

The Peruvian government guarantees foreign investors legal stability on income tax regulations and dividend distributions. Foreign investors entitled to obtain tax and legal stability are those willing to invest in Peru, in a two-year term, at least US$10 million in the mining and/or hydrocarbon sectors; US$5 million in any other economic activity or to acquire more than 50% of the shares of a privatized state-owned company.

"While foreign investors can find a secure and favorable investment climate in Peru, they can equally benefit from all incentives offered to local investors."

Marcial Garcia
Tax Mining & Metals Leader
EY Peru

Peruvian laws, regulations, and practices do not discriminate between national and foreign companies. Accordingly, national treatment is offered to foreign investors. There are no restrictions on repatriation of earnings, international transfers of capital, or currency exchange practices. The remittance of dividends, interests and royalties has no restrictions either. Foreign currency may be used to acquire goods abroad or cover financial obligations so long as the operator is in compliance with the relevant Peruvian tax legislation.

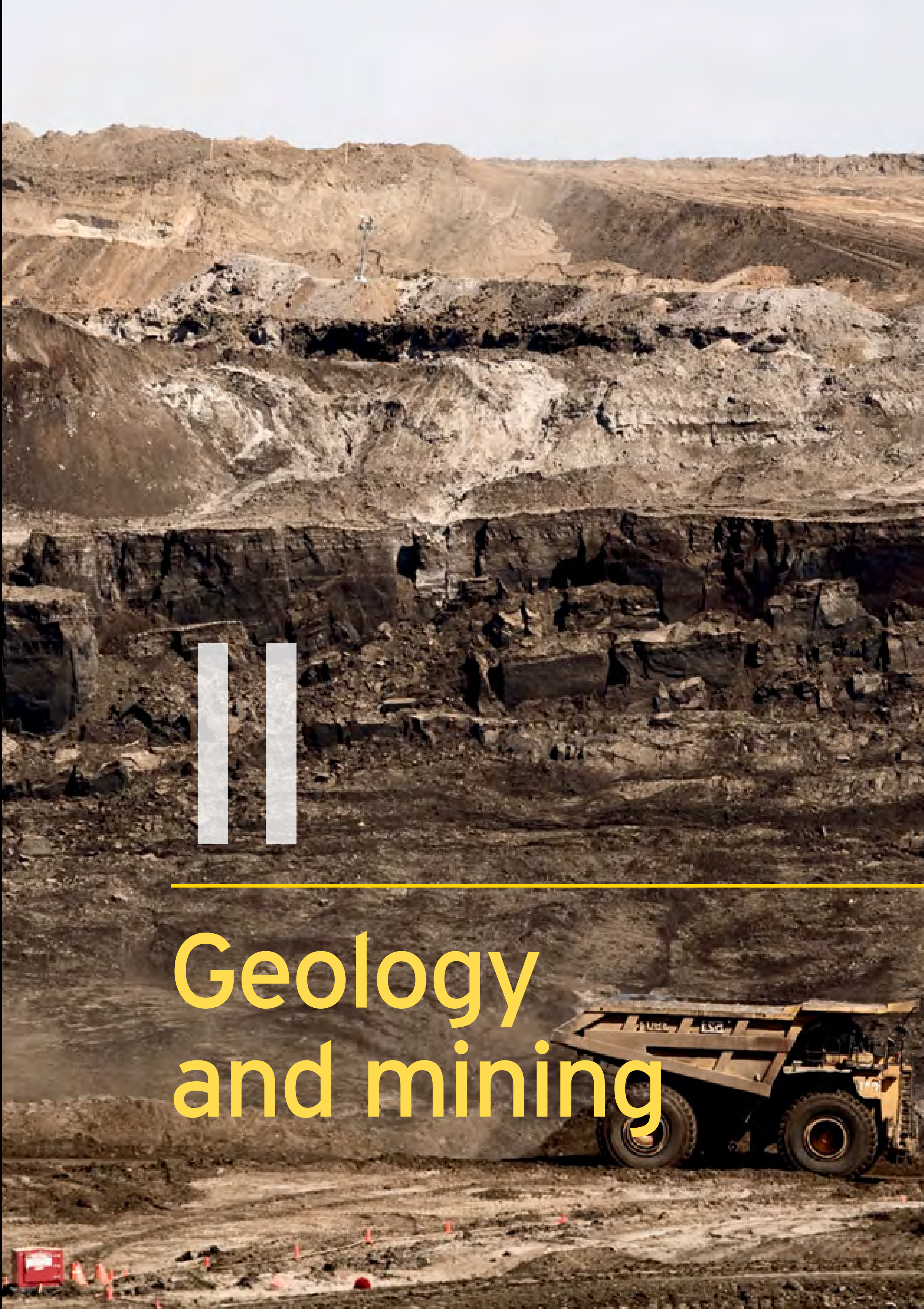
b | Settlement of investment disputes

Foreign investors are protected against inconvertibility, expropriation, political violence and other non-commercial risks through access to the corresponding multilateral and bilateral conventions such as the Overseas Private Investment Corporation (OPIC) and the Multilateral Investment Guaranty Agency (MIGA).

Also, Peru has joined the International Convention for Settlement of International Disputes (ICSID) as an alternative to settle disputes arising between investors and the government. In addition, Peru has signed 31 bilateral investment treaties.

Investment treaties

Source: Proinversion



II

Geology and mining

01

Importance of Peru's mining sector

The mining sector is, and has always been very important to the national economy of Peru. Its well-known mining tradition dates back to the pre-Inca times, and goes on through the Inca, colonial and republican periods. In each of those stages, mining has been one of the major activities in the country's development. Traditionally it has contributed about half of the country's export revenues.

Peru is one of the most extensively mineralized countries of the world. It currently plays host to some of the largest precious and base-metals mines in the world. Most of the world's major mining companies, including Xstrata, Newmont, Glencore, Gold Fields, Freeport-McMoRan, Rio Tinto, Anglo American and Barrick have operations in the country.

Peru has a well recognised mineral wealth. It is considered one of the top ten richest mineral countries in the world. It is one of the world's biggest producers of base and precious metals. Currently, it is the world's third largest producer of copper and zinc and it is also a major producer of gold, silver, among other minerals. Peru has 13% of the world's copper reserves, 4% of its gold, 22% of its silver, 7.6% of zinc, 9% of lead and 6% of tin reserves, according to the most recent data of the Peru's Ministry of Energy and Mines.

In 2013 the mining sector accounted for 5% of the GDP, while mineral export revenues reached US$19 billion at the end of October of that year, representing around 55.2% of the country's total exports. In 2013, copper was the leading export metal, in terms of value, followed by gold, lead, zinc, iron, silver, tin and molybdenum.

Metal production ranking

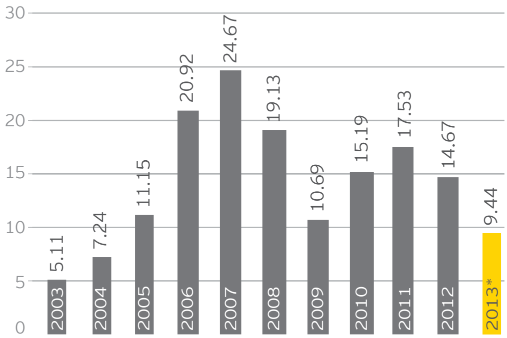
	World				
Metal	2008	2009	2010	2011	2012*
Silver	1	1	2	3	3
Zinc	2	2	3	3	3
Tin	3	3	3	3	3
Lead	4	4	4	4	5
Gold	5	6	6	6	6
Copper	3	2	2	3	3
Molybdenum	4	4	4	4	4
Bismuth	3	2	2	-	-

	Latin America				
Metal	2008	2009	2010	2011	2012*
Silver	1	1	2	2	2
Zinc	1	1	1	1	1
Tin	1	1	1	1	1
Lead	1	1	1	1	2
Gold	1	1	1	1	1
Copper	2	2	2	2	2
Molybdenum	2	2	2	2	2
Bismuth	2	1	1	-	-

*Estimate
Source: U.S. Geological Survey

The mining sector is also important for the generation of employment for thousands of Peruvians and represents one of the main sources of fiscal revenues. Nevertheless, statistics demonstrate that there is a general correlation between metals prices and fiscal revenues in Peru. Tax proceeds from mining and metals companies fell by 45.5% in 2013 compared with 2012, in the face of lower commodity prices and higher costs.

Fiscal revenues - Corporate Income Tax (%)



*Estimate: November 2013
Source: Ministry of Energy and Mines

The Ministry of Energy and Mines reported that a rebound in production of the country's major export metals, including copper, silver, zinc, lead and iron ore in 2013, halting three years of declines in many products. The government hopes to increase its metals output even further in coming years when new mines open and expansions of existing operations (mainly copper, gold and iron ore projects) go into production.

It is estimated that Peru has some 200 operating mines and a pile of major projects currently waiting to be developed worth US$ 59.5 billion. China is the largest foreign investor in Peru in mining projects, followed by the United States, Canada and Australia.

Of the new mining investments expected by 2020, US$ 35 billion is planning to be allocated to copper projects, which represent the 62% of the total. Due to the high potential of this metal, it is expected that Peru will double its copper annual output from 1.3 million metric tons (MT) to 2.8 million MT by 2016.

Peru's mineral production

Production	Units	2010	2011
Copper	FMT	1,247,184	1,235,345
Gold	Fine gr.	164,084,389	166,186,717
Zinc	FMT	1,470,450	1,256,383
Silver	Fine gr.	3,640,465	3,418,862
Lead	FMT	261,990	230,199
Cadmium	FMT	357	572
Iron	LFT	6,042,644	7,010,938
Tungsten	FMT	716	546
Tin	FMT	33,848	28,882
Molybdenum	FMT	16,963	19,141

Production	Units	2012	2013
Copper	FMT	1,298,744	1,245,510
Gold	Fine gr.	161,763,763	139,236,253
Zinc	FMT	1,281,230	1,233,601
Silver	Fine gr.	3,480,641	3,297,463
Lead	FMT	249,183	239,072
Cadmium	FMT	684	no data
Iron	LFT	6,684,539	6,247,523
Tungsten	FMT	365	35
Tin	FMT	26,105	21,572
Molybdenum	FMT	16,790	16,026

Source: Ministry of Energy and Mines

"Despite this year's difficulties, the outlook for Peru's mining and metals sector over the next year or two is encouraging."

Enrique Oliveros
Transactions Mining & Metals Leader
EY Peru

As an investment destination, Peru offers huge opportunities for mining and metals companies. In 2013, Peru attracted a US$ 10 billion record level investment into the mining sector, growing by 17%, compared to the previous year. The most recent data shows that mining investments could reach a new record in 2014 at US$ 14 billion.

The 2013 investment record was primarily driven by increased investments made in a number of large-scale mining projects by Chinalco (US$ 4.8 billion Toromocho copper project), Sociedad Minera Cerro Verde (US$ 4.4 billion expansion project) and Hudbay Minerals (US$ 1.8 billion Constancia project).

Total mining investments in Peru (US$)

	2007	2008	2009	2010	2011	2012
Preparation	50,179,973	131,980,228	196,060,821	510,276,007	788,223,911	638,481,068
Equipment	63,768,994	141,038,944	319,821,374	416,011,993	1,124,690,644	1,134,581,918
Mining equipment	125,551,262	176,688,012	499,659,327	518,078,947	776,128,476	600,815,520
Exploration	136,592,095	167,839,351	393,534,656	615,691,874	865,382,518	894,895,449
Exploitation	338,016,660	440,269,645	531,388,349	737,890,193	869,691,352	1,003,105,455
Infrastructure	336,788,377	321,482,441	376,380,329	827,591,969	1,406,853,179	1,796,866,935
Others	197,918,361	328,783,686	504,747,514	443,653,301	1,411,620,831	2,499,509,914
Total	1,248,815,722	1,708,059,306	2,821,596,371	4,069,194,284	7,242,590,929	8,568,256,259

Source: Ministry of Energy and Mines

02

Mining potential

Increasingly, Peru is being targeted for inbound investment and is perceived by international mining and metals companies as a global player. This is partly due to the scale of opportunity where most of its territory is yet to be subjected to vast exploration and partly as a result of its attractive legislation and regulatory environment.

Although Peru is endowed with large deposits of a variety of mineral resources, it is estimated that only 0.32% of the country's total territory was being explored in 2013 (0.29% in 2012). Likewise, only a small percentage of Peru's mineral reserves are being exploited. It is estimated that in 2013 only 0.9% of its territory was under exploitation (0.8% in 2012). According to recent mining statistics, Peru's production rates are minimal with regards to the country's mineral potential. However, through modern techniques and equipment, a vast potential of diverse marketable minerals are increasingly becoming available from previously inaccessible regions.

Peru has numerous mineralized belts and mineral provinces, a wide variety of world-class ore deposits and a very dynamic mining community. It is regarded as one of the countries with largest and diversified mineral resources in the world. In addition, Peru has an excellent geographical location, in the center of South America, with easy access to the Asian and North American markets.

Within Latin America, Peru has, perhaps, the greatest untapped potential for new discoveries and production. Peru's clear and simple mining law and excellent geological potential has helped the country to attract one of the largest budgets for minerals explorations and development in the world. However, it is believed that Peru has the capacity to double or triple current level of output, especially in base metals.

The following table lists Peru's estimated reserves in 2012 of major minerals, such as copper, gold, zinc, silver, lead, iron ore and tin. These mineral reserves represent "proven" (measured) and "probable" (indicated) categories and exclude quantities reported as "possible" (inferred). For this purpose, reserves were defined as being well delineated and economically recoverable volumes of minable ore from mines committed to production.

Reserves (2012)

Metal	Unit	Million
Copper	FMT	76,000
Gold	FO	2,200
Zinc	FMT	18,000
Silver	FO	120,000
Lead	FMT	7,900
Iron	LFT	1,068,179
Tin	FMT	310,000
Molybdenum	FMT	450

FO= Fine ounces
FMT= Fine metric tons
Source: U.S. Geological Survey

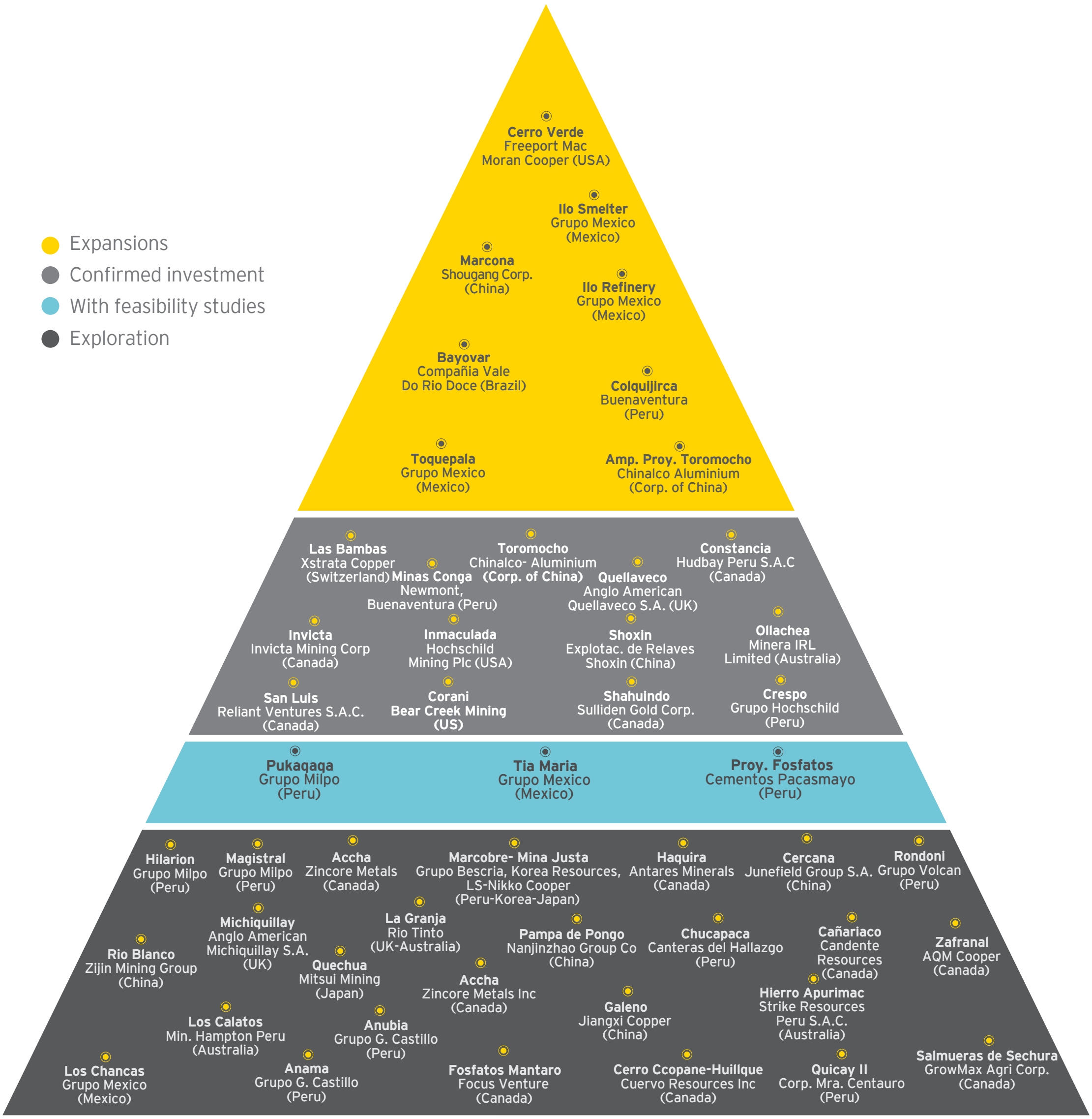
Peru's favorable geology and significant undeveloped mineral resources constitute a very important comparative feature, which has driven many mining companies to commit to invest in the country's mining sector.

President Ollanta Humala's administration has enabled a positive environment for further attracting mining investments. As companies develop new projects expected to boost the country's mineral output, Peru is expected to see a record inflow of mining investments in 2014.

Peru has lined up a number of large-scale projects currently being developed, including mega-projects such as Glencore Xstrata's US$ 6 billion Las Bambas copper deposit. The government is focused on generating new projects that will replace the existing ones and also expects companies to restart work at a number of projects that have been put on hold due to community opposition, including Southern Peru Copper US$ 1 billion Tia Maria project and Newmont's majority-owned US$ 5 billion Minas Conga copper and gold project.

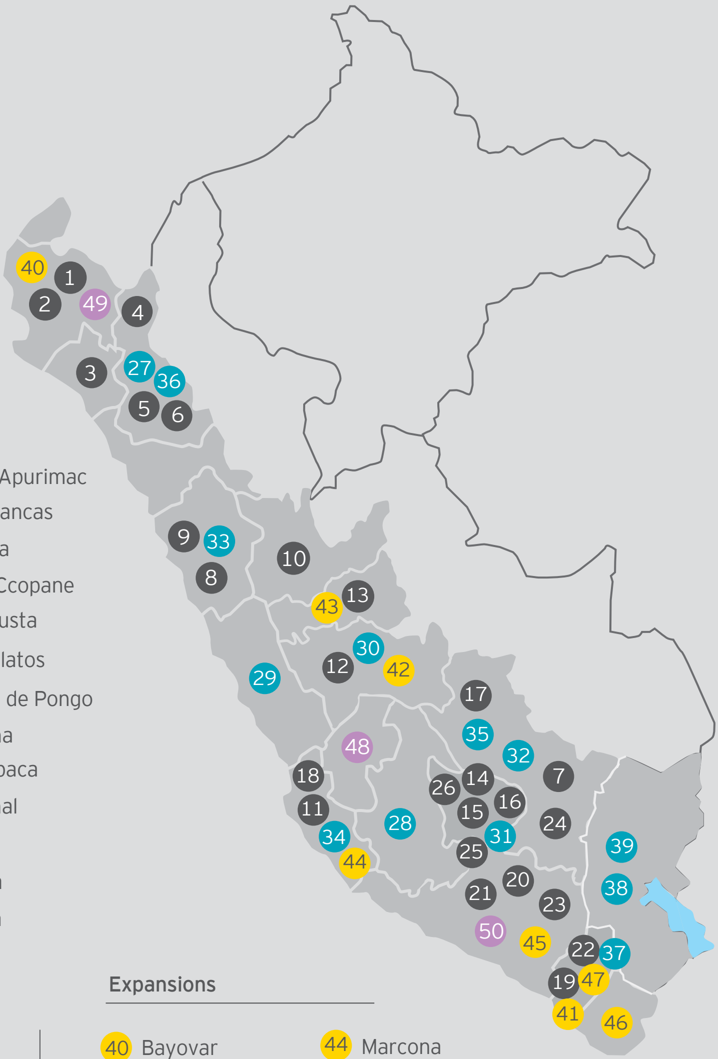
Mining projects pipeline

Mining and metals investment over the period 2014-2020 is estimated by Peru's Ministry of Energy and Mines to be around US$ 59.5 billion. About 62% will be invested in copper projects, with gold and iron ore set for much of the rest. The following figure and chart show which are the projects involved, distinguishing between "expansions" of existing operations; projects under construction for which "investment is confirmed"; projects "for which feasibility studies have been carried out" and "exploration projects".



Source: Ministry of Energy and Mines
*Projects have been sorted randomly

Geographic location of Peru's Main Mining Projects



Exploration

1 Rio Blanco
2 Salmueras Sechura
3 Cañariaco
4 La Granja
5 Michiquillay
6 Galeno
7 Quechua
8 Magistral
9 Hilarion
10 Rondoni
11 Llama Ty01
12 Fosfato Mantaro
13 Quicay II
14 Hierro Apurimac
15 Los Chancas
16 Haquira
17 Cerro Ccopane
18 Mina Justa
19 Los Calatos
20 Pampa de Pongo
21 Cercana
22 Chucapaca
23 Zafranal
24 Accha
25 Anama
26 Anubia

Confirmed investment

27 Conga
28 Inmaculada
29 Invicta
30 Toromocho
31 Las Bambas
32 Crespo
33 San Luis
34 Relaves
35 Constancia
36 Shahuindo
37 Quellaveco
38 Corani
39 Ollachea

Expansions

40 Bayovar
41 Smelter
42 Toromocho
43 Colquijirca
44 Marcona
45 Cerro Verde
46 Toquepala
47 Ref. Ilo

With feasibility studies

48 Pukaqaqa
49 Proyecto Fosfatos
50 Tia Maria

Estimated portfolio of mining projects - Peru

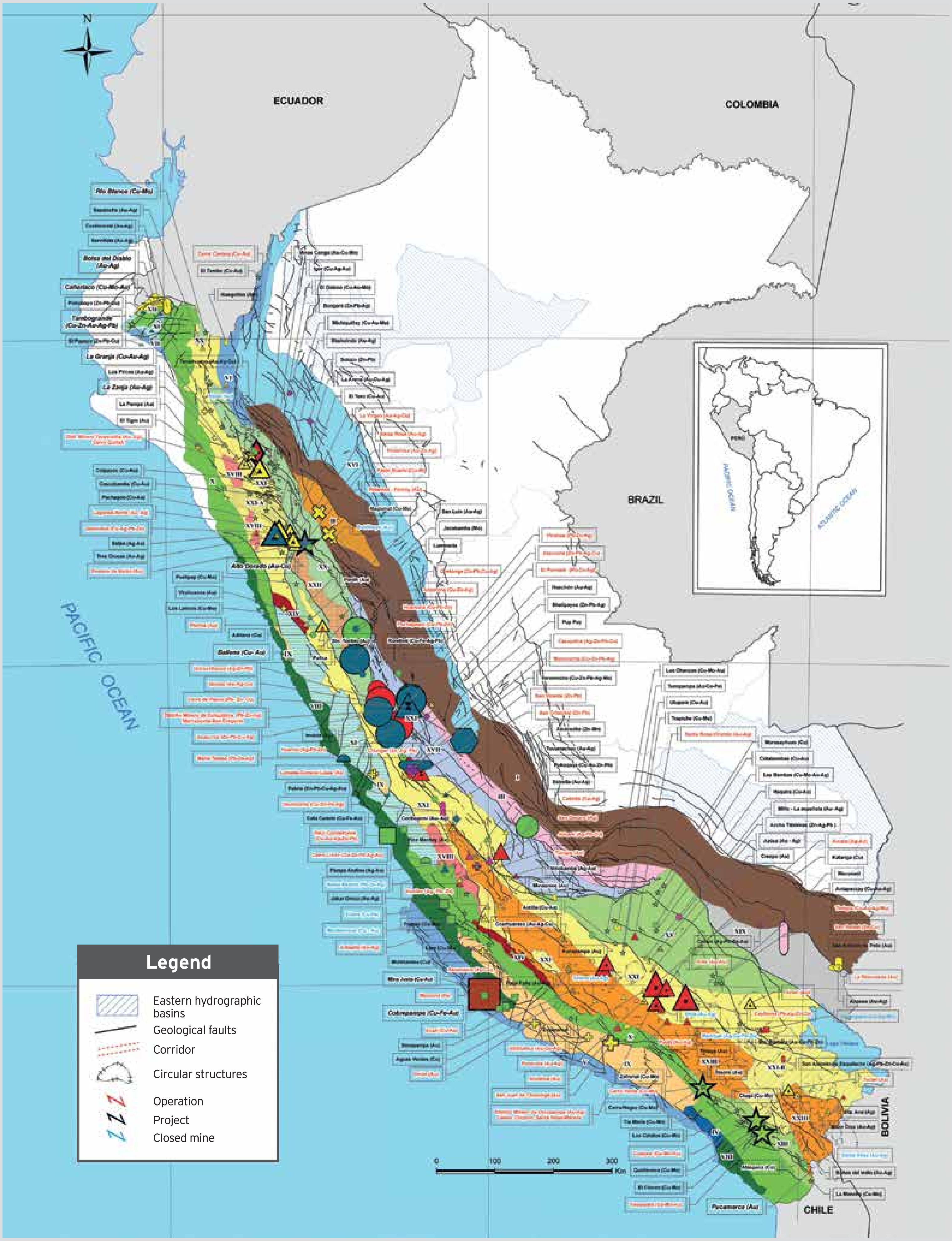
Company	Project / region	Metal	Estimated investment US$ MM
Expansions			
Southern Peru Copper Corporation / Grupo Mexico (Mexico)	‣ Smelter **(Moquegua)** ‣ Toquepala **(Tacna)** ‣ Ilo Refinery **(Moquegua)**	Copper Copper Copper	- 600 -
Compañía Minera Miski Mayo S.R.L. (Brazil)	‣ Bayovar **(Piura)**	Phosphate	520
Shougang Hierro Peru S.A.A. (China)	‣ Marcona **(Ica)**	Iron	1,500
Sociedad Minera Cerro Verde S.A.A. (USA)	‣ Cerro Verde **(Arequipa)**	Copper	4,400
Sociedad Minera El Brocal S.A.A. (Peru)	‣ Colquijirca **(Pasco)**	Polimetalic	432
Minera Chinalco Peru S.A. (China)	‣ Toromocho **(Junin)**	Copper	1,320
Confirmed investment			
Anglo American Quellaveco S.A. (UK)	‣ Quellaveco **(Moquegua)**	Copper	3,300
Invicta Mining Corp S.A.C. (Canada)	‣ Invicta **(Lima)**	Polimetalic	93
Minera Chinalco Peru S.A. (China)	‣ Toromocho **(Junin)**	Copper	3,500
Minera Yanacocha S.R.L. (Peru)	‣ Minas Conga **(Cajamarca)**	Copper / Gold	4,800
Hudbay Minerals INC. (Canada)	‣ Constancia **(Cusco)**	Copper	1,790
Xstrata Peru S.A. (Switzerland)	‣ Las Bambas **(Apurimac)**	Copper	5,200
Reliant Ventures S.A.C. (Canada)	‣ San Luis **(Ancash)**	Silver / Gold	90.4
Minera Suyamarca S.A.C. (USA)	‣ Inmaculada **(Ayacucho)**	Gold / Silver	370
Compañía Minera Ares S.A. (Peru)	‣ Crespo **(Cusco)**	Gold / Silver	110
Minera Shouxin Peru S.A. (China)	‣ Relaves **(Ica)**	Iron / Copper/ Zinc	239
Minera Sulliden Shahuindo S.A.C. (Canada)	‣ Shahuindo **(Cajamarca)**	Gold	132
Bear Creek Mining Company - Sucursal del Peru (USA)	‣ Corani **(Puno)**	Silver	750
Minera Kuri Kullus S.A. (Australia)	‣ Ollaechea **(Puno)**	Gold	170
With feasibility studies			
Compañia Minera Milpo S.A.A. (Peru)	‣ Pukaqaqa **(Huancavelica)**	Copper / Molybdenum	630
Fosfatos del Pacifico S.A. (Peru)	‣ Proyecto Fosfatos **(Piura)**	Phosphate	500
Southern Peru Copper Corporation / Grupo Mexico (Mexico)	‣ Tia Maria **(Arequipa)**	Copper	1,000

continues...

...continuation

Company	Project / region	Metal	Estimated investment US$ MM
Exploration			
Anglo American Michiquillay S.A. (UK)	‣ Michiquillay **(Cajamarca)**	Copper	700
Apurimac Ferrum S.A. (Australia)	‣ Hierro Apurimac **(Apurimac)**	Iron	2,300
Cañariaco Copper Peru S.A. (Canada)	‣ Cañariaco **(Lambayeque)**	Copper	1,599
Canteras del Hallazgo S.A.C. (Peru)	‣ Chucapaca **(Moquegua)**	Gold	1,200
Compañia Minera Milpo S.A.A. (Peru)	‣ Hilarion **(Ancash)**	Zinc	470
Compañia Minera Quechua S.A. (Japan)	‣ Quechua **(Cusco)**	Copper	490
Jintong Mining (Peru) S.A.C. (China)	‣ Llama TY01 **(Ica)**	Gold	-
Jinzhao Mining Peru S.A. (China)	‣ Pampa de Pongo **(Arequipa)**	Iron	3,280
Junefield Group S.A. (China)	‣ Cercana **(Arequipa)**	Copper	-
Lumina Copper S.A.C. (China)	‣ Galeno **(Cajamarca)**	Copper / Gold / Silver / Molybdenum	2,500
Minera Antares Peru S.A.C. (Canada)	‣ Haquira **(Apurimac)**	Molybdenum / Copper	2,800
Minera Cuervo S.A.C. (Canada)	‣ Cerro Ccopane **(Cusco)**	Iron	-
Compañia Minera Milpo S.A.A. (Peru)	‣ Magistral **(Ancash)**	Copper	750
Rio Blanco Copper S.A. (China)	‣ Rio Blanco **(Piura)**	Copper	1,500
Rio Tinto Minera Peru Limitada S.A.C. (UK / Australia)	‣ La Granja **(Cajamarca)**	Copper	1,000
Southern Peru Copper Corporation / Grupo Mexico (Mexico)	‣ Los Chancas **(Apurimac)**	Copper	1,560
Americas Potash Peru S.A. (Canada)	‣ Salmueras de Sechura **(Piura)**	Potassium	125
Compañia Minera Vichaycocha S.A. (Peru)	‣ Rondoni **(Huanuco)**	Copper	350
Marcobre S.A.C. (Peru, Korea, Japan)	‣ Marcobre - Mina Justa **(Ica)**	Copper	744
Minera Hampton Peru S.A.C. (Australia)	‣ Los Calatos **(Moquegua)**	Copper / Molybdenum	1,320
Minera AQM Copper Peru S.A.C. (Canada)	‣ Zafranal **(Arequipa)**	Copper / Gold	1,122
Exploraciones Collasuyo S.A.C. (Canada)	‣ Accha **(Cuzco)**	Zinc / Lead	346
Mantaro Peru S.A. (Canada)	‣ Fosfatos Mantaro **(Junin)**	Phosphate	850
Corporacion Minera Centauro S.A.C. (Peru)	‣ Quicay II **(Pasco)**	Copper / Gold	3,000
Anabi S.A.C. (Peru)	‣ Anama **(Apurimac)**	Gold	40
Anabi S.A.C. (Peru)	‣ Anubia **(Apurimac)**	Copper	90
Total			**59,582**

Metallogenic map of Peru: mining operation and projects (Ingemmet)



Symbols for deposit types

- **XXIV** Hydrographic basins favorable to alluvial and placer Au deposits
- **XXIII** Epithermal Au-Ag deposits from the Mio-Pliocene
- **XXII** Intrusive related W-Mo-Cu deposits from the Upper Miocene
- **XXI** Epithermal Au-Ag deposits from the Miocene hosted in Cenozoic volcanic rocks
- **XXI-A** Epithermal Au-Ag deposits hosted in sedimentary rocks from the Cretaceous
- **XXI-B** Polymetallic deposits with epithermal superposition
- **XX** Cu-Mo-Au porphyries, Pb-Zn-Cu-Ag skarns and intrusive related polymetallic deposits from the Miocene
- **XIX** Intrusive related Sn-Cu-w deposits from the Oligocene-Miocene and epithermal Ag-Pb-Zn (Au) deposits
- **XVIII** Epithermal Au-Ag deposits from the Oligocene
- **XVII** Epithermal Au-Ag deposits from the Eocene and polymetallic deposits from the Eocene-Oligocene-Miocene
- **XVI** Mississippi Valley Type (MVT) deposits of Pb-Zn from the Eocene-Miocene
- **XV** Cu-Mo (Au,Zn) porphyries-skarns and intrusive related CU-Au-Fe deposits from the Eocene-Oligocene
- **XIV** Intrusive related Au-Cu-Pb-Zn deposits from the Eocene
- **XIII** Cu-Mo porphyries and intrusive related polymetallic deposits from the Paleocene-Eocene
- **XII** Epithermal Au-Ag deposits from the Upper Cretaceous-Paleocene
- **XI** Volcanogenic massive sulfide deposits of Pb-Zn-Cu from the Upper Cretaceous - Paleocene
- **X** Cu-Mo porphyries from the Upper Cretaceous
- **IX** Intrusive related Au-Pb-Zn-Cu deposits from the Upper Cretaceous
- **VIII** Fe-Cu-Au (IOCG) deposits from the Lower Cretaceous
- **VII** Volcanogenic massive sulfide deposits or Cu-Zn-Au from the Upper Jurassic-Albian
- **VI** Cu-Au porphyries and skarns from the Upper Jurassic
- **V** Fe-Cu-Au (IOCG) deposits from the Middle-Upper Jurassic
- **IV** Cu-Mo porphyries from the Middle Jurassic
- **III** Cu-Mo-Zn porphyries-skarns and intrusive related Au-Cu-Pb-Zn deposits from the Permian
- **II** Orogenic Au-Pb-Zn-Cu deposits from the Carboniferous-Permian
- **I** Au deposits in metasedimentary rocks from the Ordovician and Silurian-Devonian

Symbols for deposit types

I. Magmatic
Ni-Cu sulfides / Alpine Cr-Ni Cu

II. Pegmatitic
Veins

III. Hydrothermal
Undifferentiated epithermal
High sulfidation epithermal
Low sulfidation epithermal
Intermediate sulfidation epithermal
Polymetallic deposits with epithermal superposition
Skarn
Fe-Cu-Au (IOCG) Deposits
Porphyry
Orogenic deposits
Intrusive related deposits

IV. Stratabound hydrothermal
VMS

V. Stratabound Sedex
Sedex

VI. Stratabound in sediments
MVT
Red bed type

VII. Metamorphic
Metamorphogenic

VIII. Exotic
Placer
Alluvial

IX. Hydrothermal deposits without genetic classification
Bed
Body
Veins
Scattered

X. Uranium deposits
Uranium

Size of the ore deposit (tons)

Element	Project	Small	Medium	Large	Very large
Au	-	<25	5 - 250	250 - 5 000	> 5 000
Ag	-	<250	250 - 5 000	5 000 - 10 000	> 10 000
Cu	-	<50 000	500 000 - 1 000 000	1 000 000 - 10 000 000	> 10 000 000
Mo	-	<2 000	20 000 - 200 000	200 000 - 500 000	> 500 000
Pb	-	<50 000	50 000 - 1 000 000	1 000 000 - 5 000 000	> 5 000 000
Zn	-	<50 000	50 000 - 1 000 000	1 000 000 - 5 000 000	> 5 000 000
Fe	-	<107	107 - 108	108 - 109	> 109
Sn	-	<5 000	5 000 - 50 000	50 000 - 500 000	> 500 000
W	-	<500	500 - 10 000	10 000 - 50 000	> 50 000
U	-	<1 000	1 000 - 5 000	5 000 - 50 000	> 50 000

Metals

- Au - Pb - Zn
- Ag - Pb - Zn
- Cu - Au - Fe
- Cu - Mo - Au
- Cu - Pb - Zn
- Cu - Zn - Ag
- Cu - W - Zn
- Cu - Ag - Au
- Zn - Pb - Ag
- Zn - Cu - Au
- Pb - Ag
- Pb - Zn
- Pb - Cu
- Fe - Zn - Cu
- Sn - Cu
- Sb - Ag - Au
- Mg
- U
- Ti
- Zn - Fe

Source: INGEMMET (2011)

03

Recent developments and future trends in the mining industry in Peru

a | Resource nationalism fades away

In recent years the four main forms of resource nationalism – mandated beneficiation, government ownership, restriction of exports, and increasing taxes or royalties – have spread across the world. Many governments either implemented or considered policies designed to maximize the return on natural resources to the country. These range from rather extreme policies in countries such as Venezuela and Zimbabwe, to more considered approach by jurisdictions such as Australia, Canada (Quebec), Botswana, Ghana and Poland.

Peru has not been immune to this trend. During the election campaign of 2011, President Ollanta Humala promised to place a windfall tax in the mining sector and distribute the proceeds to the poor, as international prices for Peru's major mineral products such as copper, silver and gold remained high. Nevertheless, once elected, Mr. Humala realized that to maintain economic growth his government had to find the right balance to obtain a larger share of the economic rent generated by the mining industry without jeopardizing long-term mining investments.

In the end, to fulfil this key election promise, President Humala, who was sworn into office in July, 2011, reached a friendly agreement with mining companies to redesign and modify some of the existing tax regulations to raise an extra US$1.1 billion a year for the state budget to help finance the new government social programmes, especially those in the poorest areas of the country. This deal removed a cloud of doubt over the policies of the new government and resulted in a comprehensive mineral fiscal system reform, which became effective in October, 2011.

Under the revised fiscal system, mining companies now pay royalties based on their operating profits, ranging from 1% to 12%, rather than the old system where they paid 1% to 3% based on sales. They also pay a new tax known as the "Special Mining Tax" based on a sliding scale, with progressive marginal rates ranging from 2% to 8.40%, of a company's operating profits. These changes apply to all existing and future mineral resource projects as from the last quarter of 2011.

The new legislation does not apply to mining companies with fiscal stabilization agreements in place, under the General Mining Law, at the time it became effective (3Q11). Nevertheless, those companies may elect to make "voluntary" payments, known as the "Special Mining Burden", according to a sliding scale with marginal rates ranging from 4% to 13.12% also applied on operating profits. The Special Mining Burden is not a tax as determined by general legal principles given that it is not a compulsory payment imposed under Peru's authority to levy taxes. Accordingly, it only becomes applicable to those companies that elect to pay it by entering into a standard-form agreement with the Peruvian government with respect to each particular mining project.

President Humala made it clear that his intention was to raise additional revenues to increase social spending at a time of high prices for Peru's major mineral products in the international market, while maintaining foreign investment and encouraging more entrepreneurs to take part of the country's economic growth.

The fiscal changes introduced were largely supported by mining companies and according to industry analysts they have not adversely affected investment decisions or the degree of Peru's mining sector competitiveness compared to other countries. Following present world-wide trends, President Humala's administration appears to have realized that in order to properly develop Peru's mineral industry, in addition to its important geological potential, it has to offer a favorable and competitive investment environment that attracts national and foreign capitals towards exploration and mining activities.

At the same time, the landscape is changing, as the weak external environment took a toll on prices for Peru's largest commodity exports. The industry has entered into an era of a whole new set of challenges. While still on the radar, resource nationalism is not the concern it was in Peru just two or three years ago. The rapid decline in prices, in an environment of escalating costs, has considerably impacted the mineral sector of many mining nations and Peru is no exception. In the context of heightened global uncertainty and price volatility, there are strong signs that the government may take a more considered and cautious approach towards miners.

Peru's Minister of Economy and Finance, Luis Miguel Castilla, response has been to announce that the government is not considering new taxes or royalties, or the modification to ownership requirements in the mining industry. It has even been touted that the current environment of squeezed margins and risk aversion may prompt the government to promote new initiatives to attract mining and metal investment.

"Today Peru offers, in addition to its prospectivity and strong mining tradition, a very attractive and competitive climate for investors."

Victor Burga
Audit Mining & Metals Leader
EY Peru

| b | Mining policy trends

The role of the government over exploration, mining, smelting and refining of minerals is limited to that of a regulator, promoter and overseer. The government has privatized most of its assets in the mining sector. In contrast with the situation two decades ago, large mining operations are now held by domestic and foreign privately-owned mining companies. Private domestic interests own most of the medium and small-sized mining operations.

The marketing of mineral products in Peru is unrestricted, both domestically and externally. Thus, mining companies are not under the obligation neither to satisfy the internal market before exporting its mining products nor to sell them at "official" prices or terms. Nowadays, Peru offers mining investors significant commercial advantages and ample freedom not only to sell their products to the buyer offering the best terms, but to import the machinery and equipment they might require for their mining activities at a lower cost and with less bureaucratic requirements than ever before.

Peru's approach towards its mineral sector development is showing favorable results. International mining companies perceive Peru as an attractive target for their investments with over 100 mining companies of many different countries currently operating in the country, either in joint ventures with Peruvian partners or by themselves. Examples include Anglo American (UK / South Africa), Rio Tinto (UK / Australia), Glencore- Xstrata (Switzerland), Barrick Gold (Canada), Newmont (United States), Gold Fields (South Africa), Freeport-McMoRan (United States), Vale (Brazil), Grupo Mexico (Mexico), Minmetals (China), Jiangxi Copper, Aluminum Corp. of China (China), Zijun Mining Group and Shougang Corporation (China).

| c | Social license to operate

Achieving a social license to operate is the single most important challenge that the mining industry faces in Peru. Income and regional inequalities continue to be a source of social conflicts, which have had a negative impact on a number of mining projects.

Achieving a social license to operate is one challenge, maintaining it is another. The key to both is communicating value through the concept of shared value and, more broadly, of corporate social responsibility, which must be part of mining companies' operations.

In recent years Peru has seen a number highly publicized mega projects being postponed over environmental or community concerns, strikes and anti-mining protests, including the US$ 4.8 billion Conga project, Tia Maria (SPCC), Rio Blanco (Zijin) and Cañariaco (Candente Copper). There is strong evidence that community groups are manipulated by politicians, anti-mining NGO's and other groups with wider political agendas.

The need for a social license to operate is readily accepted by the mining and metals sector. By managing an effective communication process highlighting the positive impact of mining through productive, profitable and sustainable development initiatives can show the government, communities and other stakeholders how their presence in the country can create positive economic and social contributions.

The major mining and metals organizations are trying to implement systems to share and measure the benefit of their operations, demonstrating that they not only make communities wealthier but healthier. This relies on working with local communities to create shared value, listening to what they want, rather than just coming up with initiatives that are not tailored to their needs. Community support for a project is partly dependent on its economic participation and local employment is an important element of that.

Meanwhile, the government is increasingly seeking to fill the gap between community expectations and existing legislation which require community consultation for the development of new projects with increased regulations.

"Corporate social responsibility and a mining company's social license to operate have become critical for modern miners – and the mining sector in Peru is no exception."

Beatriz Boza
Corporate Governance and
Sustainability Leader
EY Peru

Although the International Labor Organization Convention No. 169 requires that indigenous and tribal peoples are consulted on issues that affect them, the implementing regulations attempted to exclude mining development projects from this obligation. The Supreme Court, however, has recently issued a binding decision providing for the application of the Convention to all indigenous persons without exceptions.

Indigenous communities should be consulted from the outset, even from pre-exploration, to indentify and ideally eliminate potential issues. Communities need to clearly see a full range of benefits from mining, from financial gain to improved infrastructure and expanded business opportunities. Many of these benefits will ensue as a result of a new mine; however, companies need to be more adept at communicating the benefits to the communities at the time of consultation.

d | Environmental concerns

Government still faces the important challenge of formalizing illegal gold miners, who have destroyed 53,000 hectares of the Amazon rain forest with mercury. They concentrate 20% of Peru's gold production, equivalent to US$ 3 billion. At this point, the Peruvian government has approved a widespread ban on illegal mining to rid the country of a dangerous practice that leads not only to extensive environmental damage and deforestation, but to criminal activities associated with them. The country's small scale informal miners have until April 2014 to formalize their mining concessions. It remains to be seen whether this administration will be able to handle this ecological dilemma effectively on the short-term, restoring law and order in areas such as the Madre de Dios region.

e | Exploration trends

The exploration sector faces escalating costs and challenges as access to capital has become critically restricted for those most in need. The absence of risk capital means that funding is both difficult and expensive to access. This has become evident in the ongoing decline in equity funding for exploration and development.

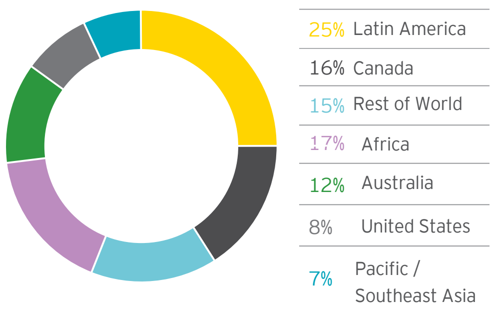
According to leading indicators, the softening of commodity prices in an environment of escalating costs had a major impact on global mining exploration in 2013. Lower prices have limited the amount of cash available to exploration companies. While Peru has not been immune to the general slowdown in overall mining exploration activity, there are still a significant number of projects actively being explored in different regions, as illustrated by the yet relatively strong volume of investment flows to fund drilling activities.

In recent years, the bulk of the exploration spending in the country has been carried out by just shy of 100 Canadian based junior and major companies, representing investments worth in-or around US$ 78 billion, according to the Canadian Ambassador for Peru; however, majors and intermediate companies from the United States, Australia and China expanding beyond their borders also became important investors in exploration.

Although there is a wide variation in the scale of exploration programs by major, intermediate and junior companies, there is data from different sources that suggests that most majors and intermediate companies are focused on advanced projects to move them towards production or in some cases to make them attractive for acquisition, while the emphasis of junior companies remains on early-stage exploration or grassroots work. With risk capital likely to stay absent pending any price-driven improvement in sentiment, many major producers are focused on mine site exploration spending as they view it as a more economical and less risky means of replacing and adding mineral reserves. The level and success of exploration today will strongly influence Peru's future competitiveness in mineral production.

The SNC Metal Economics Group's (MEG) 2013 Corporate Exploration Strategy (CES) study indicates that Latin America remained the most popular destination for nonferrous exploration in 2012, attracting 25% of global total spending, a position it has held for the better part of the past two decades. Six countries - Mexico, Chile, Peru, Brazil, Argentina and Colombia- traditionally attract the lion's share of the regional total, and 2012 was no exception. The following figure shows the regional distribution of worldwide exploration budgets:

Worldwide non - ferrous exploration budgets by region, 2012



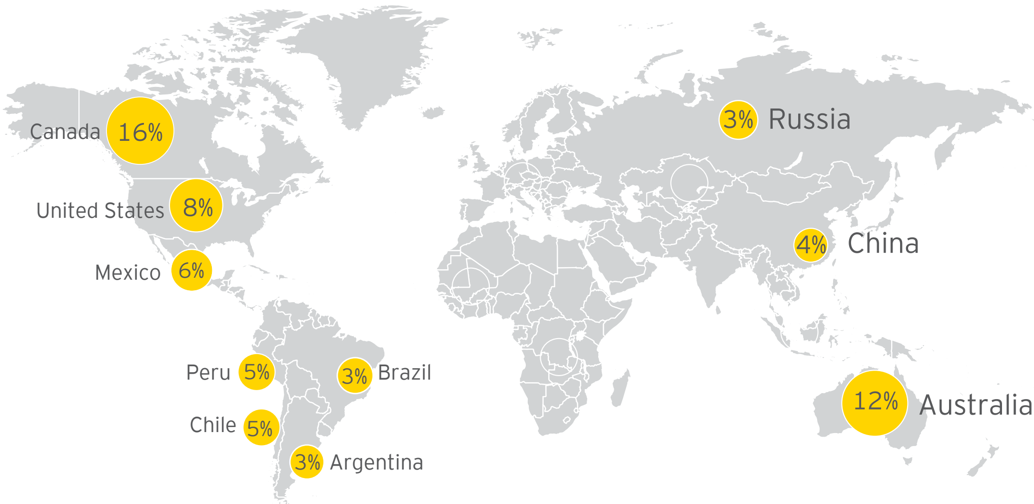
Source: Metals Economic Group

According to SNL Metal Economics Group's (MEG) most recently released Corporate Exploration Strategies (CES) study, global nonferrous metals exploration allocations have fallen by 29% in 2013, dropping to US$ 15.2 billion from US$ 21.5 billion. The figure below illustrates the distribution of 2013's exploration budgets for the top ten individual countries (as well as the total of all other countries), which accounted for two-thirds of the total worldwide exploration budget. Although their relative positions shifted, the top nine countries were the same as in 2012. Peru is a regular member of the top destinations for exploration. While Canada and Australia continued to head the list in 2013, Peru took the seventh position in the world and became the third preferred destination for mine exploration investment in Latin America after Mexico and Chile. Peru's share of worldwide exploration has been around 5% in recent years.

"Despite mineral price volatility, foreign mining and metals companies are determined to invest in Peru. Cash, however, is only available for good and lower risk projects. Exploration budgets are moving away from grassroots activity and focusing on Brownfield projects which are viewed as less risky means of replacing and adding mineral reserves."

Marco Antonio Zaldivar
Mining & Metals Leader
EY Peru

Exploration budgets for the top ten countries (2013)



Source: Metals Economic Group

Mining tax and legal framework

01
Mining terms

Mining operations in Peru are undertaken under a resource regime based on an administrative act, where the grant of a mining right depends on the strict compliance with the procedure laid down in the Law for the grant of that title and not on administrative discretion. The absence of administrative discretion leaves the right to mine more firmly ensured within Peru's mining legal framework than under other regimes.

The right to explore, extract, process and/or produce minerals in Peru is granted by the Peruvian government in the form of mining and processing concessions. The rights and obligations of holders of mining concessions and processing concessions are currently set forth in the General Mining Law. This law clearly determines the terms and conditions under which those mining activities are allowed in Peru; including the way in which mining rights can be obtained and maintained, how they can be lost, what are the obligations of their holders, etc. The law also makes provision for contracts permitting options over mineral rights, assignments and mortgages.

Mining concessions may be separately granted for metallic and non-metallic minerals. A separate processing concession is available, granting the right to concentrate, smelt or refine minerals already mined. Mining concessions and/or processing concessions for treatment of mining ores can be obtained from the Ministry of Energy and Mines ("MEM"), or through the assignment of concessions previously granted by the MEM to independent or related parties. Under the General Mining Law, the same mining concession is valid for exploration and for exploitation operations; hence there is no complicated "conversion" procedure. No concession is required to trade in minerals and exports by producers are not restricted.

Mining concessions are granted on a "first come, first served" basis, with provision for an auction if simultaneous claims are made.

a | Security of tenure

The constitutional protection of property rights and the reasonable completeness and unambiguousness of the General Mining Law in Peru gives mining and metals companies the possibility to obtain a clear and secure title for mining development.

Under Peru's current legal and regulatory regime, mining concessions have an indefinite term provided that (i) a minimum annual level of production or investment is met and (ii) an annual concession fee is paid. The irrevocability of mining rights subject to the fulfilment of these obligations provides security of tenure within the mining regime in Peru and reasonably assures the transition between the exploration and mining phases.

Failure to meet the minimum production requirement within a ten-year term will result in the payment of a fine, until the fifteenth year following that in which the concession was granted. From that point forward the loss of the mining concession may only be avoided by paying a fine and demonstrating investments in the mining rights during of amounts more than ten times greater than the fine to be paid. The mining concession will unfailingly be lost if the minimum production requirement is not met by the twentieth year.

In order to calculate the production and investment in each mining concession, the titleholder may create an operating unit, or "Unidad Económica Administrativa", provided the mining rights are all within a radius of five, ten or twenty kilometres, depending on the type of mineral produced.

Processing concessions enjoy the same duration and tenure as the mining concessions, subject to the payment of a fee based on nominal capacity for the processing plant or level of production. Failure to pay such processing fees or fines for two years could also result in the loss of the processing concession.

b | Mineral and surface land ownership

In Peru, as in many other countries, the government retains ownership of all subsurface land and mineral resources. The ownership of extracted mineral resources, however, is vested on the titleholders of mining concessions.

Under Peruvian law, there is a differentiation between the surface land property and that of natural resources. It is often the case that the titleholders of mining concessions (which confer them the right to explore and mine underground ore reserves in the area of the claim) are not the owners of the surface land.

Clear administrative procedures which holders of mining concessions must follow to gain access to privately owned land for mining activities have been established in the General Mining Law in order to avoid potential conflicts with third parties after a mineral deposit has been discovered. Pursuant to Peruvian regulations, all operators of mining areas in Peru are required to have an agreement with the owners of the land surface above the mining rights or to establish an easement upon such surface for mining purposes. Expropriation procedures have been considered for cases in which landowners are reluctant to allow mining companies to have access to a mineral deposit. The administrative decision originated from these procedures can only be judicially appealed by the original landowner with respect to the amount of his compensation.

c | Right to transfer mining rights

Mining rights can be transferred by their private holders with no restrictions or requirements, other than to register the transaction with the Public Mining Register. The Mining Law clearly defines the rules for the transfer of a mining concession and regulates other so-called mining contracts, such as option contracts, concession assignment agreements, mortgages, joint venture agreements, among others. These legal definitions do not only benefit those "junior" mining companies specialized in obtaining exploration and mining rights to sell them to medium and large-sized mining companies, but it also is convenient for those mining holders who for one reason or another are no longer interested on maintaining a mining right in Peru.

d | Size of exploration blocks / Duration of exploration rights

Concessions for exploration and exploitation of mineral resources are granted in areas that can go from 100 hectares to 1,000 hectares per concession, except in marine zones, where the concession could reach an area of up to 10,000 hectares.

As it has been mentioned before, a concession is irrevocable, as long as its holder complies with all the obligations imposed by the Law. Among these obligations is the requirement to reach a minimum production in a ten year term, however if the required minimum production is not obtained on time the mining holder has the opportunity to pay a penalty in order to maintain its mining right. The flexibility of these terms gives the concession holder ample freedom to plan the magnitude and timing of investments in the concession, as well as to decide whether or not to put the property into production.

e | Availability of mineral agreements

In Peru mining companies may enter into agreements with the government to obtain a series of guarantees and benefits. These contracts, however, do not intend to supplement or stand in place of the Mining Law. In fact, they are not even referred to the terms and conditions under which a mining concession is obtained, maintained or terminated, but rather to investment promotion issues such as the possibility to obtain judicial, tax, foreign exchange and commercial stability.

f | Options to acquire an equity participation

The Peruvian policy towards government participation in mining ventures harmonises with the world-wide current trends. Rather than participate directly as a partner in the mineral operations, Peru shares-in its benefits through fiscal mechanisms.

g | Government policies on the sale of mineral products

The sale of mineral products is also unrestricted, both domestically and externally. Therefore, mining operators are not under the obligation neither to satisfy the internal market before exporting their mining products nor to sell them at "official" prices or terms.

h | Environmental matters

In recent years, Peru has enacted a new regime of environmental laws, which establishes the main environmental guidelines and principles applicable in Peru.

Pursuant to these laws, the MEM and the Environmental Ministry have issued regulations mandating environmental standards for the mining industry and reviews and approves environmental studies for mining operations. These laws and related regulations significantly increased the level of environmental regulation previously in effect in Peru and established a number of environmental management standards as well as guidelines with respect to particulate emissions in air, water quality, exploration, tailings and water discharged, among other requirements.

Under these environmental regulations, new mining development and production activities are required to file and obtain approval for an Environmental Impact Study ("EIS"), which incorporates technical, environmental and social matters, before being authorized to commence operations. The Environmental Evaluation and Oversight Agency, ("OEFA") monitors environmental compliance. OEFA has the authority to carry out unexpected audits and levy fines on mining companies if they fail to comply with prescribed environmental standards.

In addition, mining companies must prepare, submit and execute plans for the closing of mines, or Closure Plans, and grant environmental guarantees to secure compliance with Closure Plans during the life of the concession. The guarantee must cover the estimated amount of the Closure Plan and may be in cash, trusts, and any other guarantee contemplated in the Banking Law.

02

Peruvian mining fiscal system

a | Overview

The economic attractiveness of exploring in a country is strongly influenced by the fiscal system that applies to deposits that are discovered and subsequently developed. If tailored properly, fiscal terms are able to achieve overall objective of collecting an adequate share of the economic benefit generated by the mining industry for the government while maintaining high levels of exploration and production activities. In practice, however, it has proven extremely difficult for mining countries to implement fiscal packages that satisfy the interests of both host governments and mining companies.

Until September, 2011, Peru had a mineral sector fiscal system similar to that in many other mining countries which was based in all the commonly used major taxes. Like in most nations, the largest mining revenues were generated by three tax types: income tax, withholding taxes and royalties. Nevertheless, Ollanta Humala, President of Peru, fulfilled a campaign promise implementing a mineral fiscal reform which entered into force October 1, 2011 creating a special tax system just for the mining sector to raise funds for social programs in a country where a quarter of the people still live in poverty.

As it has been designed, the new mineral sector fiscal system tends to be progressive instead of regressive, as was the case under the old regime, a change that mining companies supported. Fiscal systems which are progressive come the closest to create the flexible conditions needed to achieve the dual objective of collecting an adequate share of the economic benefit generated by the mining industry for the government while encouraging the exploration and development of valuable resources.

Progressive fiscal systems adjust to the actual profitability of each project and, therefore, they tend to enable a fair and reasonable allocation of economic benefits and risks between the mining investor and the host government, whatever the cost, price and risk scenario. Under such schemes the host government's cut, in percentage terms, is higher on large and profitable mines than on small and marginal deposits.

If the profitability of a project increases due to favourable price or cost conditions, then the host government's share of the mineral rent also increases, but if the profitability decreases as a consequence of downward movement in the price of minerals or an unexpected increment in costs, then the government take also decreases. For this reason, in practice, this kind of fiscal systems are generally preferred by mining companies.

While the income tax rules that apply to mining and metals companies remained in place, a new tax known as the "Special Mining Tax" was created and is now imposed in parallel with Peru's mining royalty regime, which in turn was amended in order to be applied on companies' operating income, rather than sales.

The new legislation, however, does not apply to mining companies that had fiscal stabilization agreements, under the General Mining Law, at the time it became effective. Instead, these companies may elect to pay a voluntary levy, which has become known as the "Special Mining Burden". Even though it is voluntary, most mining companies under tax stabilization agreements are likely to elect to pay the Special Mining Burden to help build schools, hospitals, roads, electricity and water supplies that are much needed to reduce infrastructure bottlenecks. Once the election is made by entering into a standard-form agreement with the Peruvian government, it is irrevocable. The existing Peruvian mineral sector fiscal system is described in more detail in this section.

At a glance

Income Tax rate	30%[(1)(2)].
Modified Mining Royalties	1% to 12% imposed on operating mining income. A minium royalty of 1% of sales is applicable.
Special Mining Tax	2% to 8.4% imposed on operating mining income.
Special Mining Burden	4% to 13.12% imposed on operating income [(3)].
Good standing fee	US$3/ha/yr.
Capital allowances	Accelerated depreciation, exploration write-offs.
Investment incentives	Tax losses can be carried forward for 4 years or indefinitely; stabilization agreements; VAT recovery.

(1) Mining companies with tax stabilization agreements are subject to a 2% premium.
(2) In addition, they must pay an 8% employee profit sharing.
(3) Is intended only for mining companies with tax stabilization agreements in place prior to October 1, 2011.

b | Fiscal regime Corporate Income Tax

Basic aspects

Resident companies are subject to income tax on their worldwide taxable income. Resident companies are those incorporated in Peru. Branches and permanent establishments of foreign companies that are located in Peru and non-resident entities are taxed on income from Peruvian sources only.

Taxable income is generally computed by reducing gross revenue by cost of goods sold and all expenses necessary to produce the income or maintain the source of income. Certain types of revenue, however, must be computed as specified in the tax law, and some expenses are not fully deductible for tax purposes.

Business transactions must be recorded in legally authorized books of account that are in full compliance with the International Accounting Standards (IAS). The books must be kept in Spanish and must be expressed in Peruvian currency. However, under certain circumstances, foreign investors who invest in foreign currency may sign an agreement with the government that allows them to maintain their accounting books in foreign currency (see Stability regime in Section f).

The corporate income tax rate is 30%.

In addition, a Dividend Tax at a rate of 4.1% is imposed on distributions of profits to non-residents and individuals by resident companies and by branches, permanent establishments and agencies of foreign companies. This tax is generally withheld at source. However, in certain circumstances, the company must pay the tax directly (see Dividends in Section g).

In general terms, mining companies in Peru are subject to the general corporate income tax regime. If the taxpayer has elected to sign a Stabilization Agreement or Mining Contract, the applicable rate would be 32%.

50% of income tax paid by a mine to the Central Government is to be remitted as "Canon", by the Central Government back to the regional and local authorities of the area where the mine is located.

The mandatory closing date for business enterprises is December 31st. Tax returns must be filed by between March and April according to the schedule established by the Tax Administration. Taxes and related penalties not paid by the due dates are subject to interest charges, which are not deductible for corporate income tax purposes.

Advanced payments

Companies and branches must make monthly advanced payments of their annual corporate income tax. Such prepayments are determined as estimation over the company's monthly net income.
Monthly advanced payments are due on the ninth to the fifteenth business day of the following month, according to the schedule established by the Tax Administration.

Capital gains

Capital gains derived by resident entities are subject to income tax at a rate of 30%. As general rule, capital gains derived by non-resident entities from Peruvian sources are also subject to 30%. However, in case of the sale of stock or securities in a Peruvian company, the tax rate is reduced to 5% if the transfer is made within the local stock exchange.

c | Capital allowances

Trade or business expenses

In general terms, all corporate expenses incurred in the generation of taxable income or in maintaining its source shall be allowed as a deduction for corporate income tax purposes. This rule is subject to certain exceptions and limitations expressly provided in the income tax law.

Tax depreciation

General

Depreciation rates are applied to the acquisition cost of fixed assets. The following are some of the maximum annual depreciation rates allowed by Law:

Buildings and constructions*	5%*
Vehicles	20%
Machinery and equipment for construction, mining and oil activities	20%
Machinery and equipment for other activities	10%
Data processing equipment	25%
Other fixed assets	10%

*This is a fixed rate rather than a maximum rate

Taxpayers may apply any depreciation method for their fixed assets other than buildings and constructions, as long as the resulting depreciation rate does not exceed the maximum rates stated above. In general, except for buildings and constructions, tax depreciation must match financial depreciation.

Mining activity

A global depreciation rate of 20% for personal property (movable assets) and 5% for real estate is granted to mining investors who have 15-year Stabilization Agreements in place with the Peruvian government (see Stability regime in Section f).

Pre-operative expenses

General

Pre-operative expenses may either be expensed in the year production commences, or may be amortized over a period of up to ten years from the year in which production commences.

Exploration expenses

These costs may either be expensed in the year they were incurred or amortized as from the year minimum production is achieved, over a period determined based on the life of the mine. This is an annual choice with respect to the costs incurred in each year. In one year taxpayers may elect to capitalize their exploration costs for subsequent amortization and claim a deduction the following year, or vice versa. The annual election is irrevocable.

- Mineral properties

Costs incurred in acquiring mineral rights, as well as investments in prospecting and exploration work up to the date the legally required minimum production is achieved shall be capitalized and subsequently amortized by an annual percentage, over the life of the mine, calculated by dividing the total estimated reserves by the minimum production requirement.

The mine operator, however, can choose to deduct from its income the prospecting and/or exploration work during the fiscal year in which these expenditures are incurred. Expenditures for exploration incurred after the concession has reached the minimum mandatory production stage can be deducted in the fiscal year they are incurred, or amortized at an annual rate based on the estimated life of the mine.

- Feasibility studies and other evaluation expenses

Two possible treatments:

As development costs	May either be expensed in the year they were incurred, or amortized over a period of three years as from the year they were incurred.
As pre-operative costs	May either be expensed in the year production commences, or amortized over a period of up to ten years from the year in which production commences.

- Mine site development costs

Taxpayers have an annual choice of electing to deduct development costs in the year they were incurred or amortize them over a period of up to three years from the year they were incurred. Taxpayers may not change their election with respect to the development costs incurred in the year concerned.

- Public service infrastructure costs

Costs incurred by mining companies in infrastructure for public use such as ports, airports, energy plants, schools, hospitals, roads or recreational facilities can be expensed as incurred, if approved by the government, after complying with specific requirements.

Other investments in communities

Many companies make other investments in communities impacted by mining to foster their sustainable development, so that when the mine closes the affected communities will be able to carry-on with social and alternative economic activities. With certain limits, these costs could be allowed as deductions for corporate income tax purposes. For such purposes, however, specific administrative requirements must be complied with.

Reclamation and closure costs

Can be expensed in the year they are incurred. However, because these costs are primarily incurred at the end of the mine life, at a time when production revenues will have ceased or have been reduced, mining companies may receive no useable tax deduction for these important costs of business, unless they have other ongoing projects within Peru.

d | Peruvian Mineral Sector Reform

As noted earlier, on September 29, 2011, Peru enacted three different tax legislation bills to establish a Modified Mining Royalty ("MMR"), Special Mining Tax ("SMT") and Special Mining Burden ("SMB"), with an effective date of October 1, 2011. These three levies are in addition to the existing local country corporate income tax that applies to mining companies.

Each of these new mining levies is calculated on operating income as determined for book purposes, not income tax purposes. Operating income is defined as revenues generated from the sale of mineral resources less (i) cost of goods sold ("COGS") and (ii) operating expenditures. It is important to note that the term "book" refers to Peruvian statutory reporting. To arrive at the tax base for the new levies, a company begins with statutory book operating income and makes minor adjustments, such as to disallow interest expense (whether booked as part of COGS or operating expenses) and to prorate exploration expenditures over the life of the mine.

Generally, depreciation and amortization taken into account for the purposes of these levies is equal to the amount of book depreciation and amortization. However, in particular situations there are differences between book value and tax value related to assets subject to depreciation and amortization. Such differences are due to the fact that the MRT, SMT and SMB do not allow depreciation and amortization related to accounting revaluations.

As discussed further below, some companies will be subject to the MMR and SMT, while those with tax stabilization agreements may be subject to the SMB. Each of these taxes is deductible in determining the company's corporate income tax.

Modified Mining Royalty ("MMR")

In 2004 Peru implemented a mining royalty that required holders of mining concessions to pay between 1 to 3% of the commercial value of sales, based on a three-step sliding scale, to the Peruvian government, for the exploitation of metallic and non-metallic mineral resources. This regime has been substituted by the MMR, currently in force.

The MMR now applies on companies' operating income (as defined above), rather than sales. The MMR is payable on a quarterly basis with marginal rates ranging from 1% to 12%. An "operating income" to "mining operating revenue" measure (operating profit margin) is calculated each quarter and depending on operating margin the royalty rate increases as the operating margin increases.

The new system has been designed to provide both a minimum royalty and an additional amount based on the profitability of each project. The company must always pay at least the minimum royalty rate of 1% of sales, regardless of its profitability.

- Special Mining Tax ("SMT")

The SMT is a new tax imposed in parallel with the MMR. The SMT is applied on operating mining income based on a sliding scale, with progressive marginal rates ranging from 2% to 8.40%. The tax liability arises and becomes payable on a quarterly basis. The SMT applies on the operating profit derived from sales of metallic mineral resources, regardless of whether the mineral producer owns or leases the mining concession.

- Special Mining Burden ("SMB")

The SMB is not a tax as determined by general legal principles given that it is not a compulsory payment imposed under Peru's authority to levy taxes. The SMB is considered a "voluntary" payment and is intended for mining companies with fiscal stabilization agreements in place that elect to be subject to the SMB until their agreements expire. The SMB is computed on a quarterly basis also based upon operating income, with marginal rates ranging from 4% to 13.12%. Mining royalty payments, if applicable, are creditable against SMB payments.

e | Indirect taxes

A 18% Value Added Tax (VAT) applies to the following transactions:

- Sale of goods within Peru
- Services performed or used within Peru
- Construction contracts performed within Peru
- First sale of real estate by the builder
- Importation of goods from outside Peru, regardless of the status of the importer

VAT paid upon acquisition of goods or services can be deducted from VAT related to the sale of finished products or services.

Exporters are reimbursed for any VAT paid on the acquisition of goods and services. Also, exporters can apply such reimbursement as a credit to offset VAT or income tax liabilities.

f | Incentives

- Relief for losses

Taxpayers may select from the following two systems to obtain relief for their losses:

- Carrying forward losses to the four consecutive years following the year of the loss; or,
- Carrying forward losses indefinitely, subject to an annual deductible limit equal to 50% of the taxpayer's taxable income in each.

Loss carrybacks are not allowed.

- Special incentives for mining investors

Stability regime

Mining companies may enter into several types of Stabilization Agreements that assure that a given set of rules, mainly about tax schemes, will remain unchanged for a certain number of years.

Two types are ruled by the Foreign Investment Law and two others by the General Mining Law. They are not mutually exclusive.

Under the Foreign Investment Law, a Stabilization Agreement, a government agency called "Proinversion", guarantees 10 years stability concerning: corporate income tax regime, currency exchange regime, free availability of foreign currency and non-discrimination. In order to qualify for this benefit, the investor must invest a minimum of US$10 million within two years of entering the Stabilization Agreement.

Under the General Mining Law, the investor may enter into a Mining Contract for a period of 10 or 15 years:

- 10 year agreement: The investment must equal US$2 million and be intended to either start up an operation with a production capacity of 350 to 5,000Mt/day,
- 15 year agreement: This contract targets production of at least 5,000Mt/day and requires an investment of US$20 million for a start-up operation, or US$50 million to capitalize an existing operation. The stabilized tax regime includes taxes existing on the date of the agreement and, in this case, the taxpayer may elect to keep its books in US Dollars.

As mentioned before, under this last scenario the mining investor is entitled to apply a global depreciation rate of 20% for its personal property (movable assets) and 5% for real estate (buildings and constructions).

Early recovery VAT system

The early recovery VAT system allows an early recovery of the VAT credit with respect to acquisitions of goods and services, construction contracts, importations and other transactions without having to wait to recover and amount from a client when the corresponding invoice for sales of goods, services or construction contracts, including VAT, is issued to the client.

This regime provides relief of the financial costs (cost of money) with respect to projects if the projects have a significant preoperative stage and if advance invoices transferring the VAT burden cannot be issued periodically to the client.

The law provides for a general and enhanced early recovery system for enterprises performing productive activities.

Under the general system, which applies to all productive companies in a preoperative stage, the VAT paid on the acquisition of capital goods is reimbursed through negotiable credit notes.

The enhanced system is restricted to companies that satisfy the following conditions:

- They enter into investment contracts with the Peruvian government.
- They make a minimum investment commitment of US$5 million to projects with a preoperative stage of at least two years.

Under the enhanced system, VAT paid on construction contracts and on the acquisition of new capital goods and intermediate goods and services can be recovered on a monthly basis through negotiable credit notes (which are redeemable in exchange for a check or cash refund).

The use of one system does not preclude using the other for different items.

In addition, there is a VAT early recovery system provided exclusively for exploration companies. Under this regime, the VAT paid on the acquisition of goods and services used directly in mining exploration activities can be recovered without having to wait until a commercial discovery takes place or production begins.

For this purpose, certain administrative requirements shall be fully met. For example, mining companies must enter into the so-called "Exploration Investment Agreement" with the Peruvian government, making a minimum investment commitment of US$500,000 in mining exploration. In this case, VAT recovery is restricted to the VAT paid after the Agreement is signed.

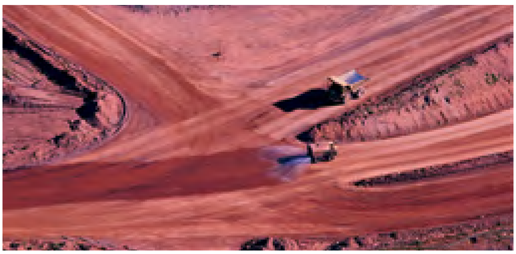
g | Withholding taxes

Dividends

A Dividend Tax at a rate of 4.1% applies to profits distributed to non-residents and individuals. The Dividend Tax applies to distributions by Peruvian companies, as well as to distributions by Peruvian branches, permanent establishments and agencies from foreign companies.

Peruvian Income Tax Law specifies various transactions that are considered as profit distributions for the purposes of the Dividend Tax, including the distribution of cash or assets, the reduction on the capital of the company or the liquidation of the company.

Said Law also provides that if a resident company or branch, permanent establishment or agency, pays expenses that are not subject to further tax control or does not report income, the amount of the payment or income will be subject to the Dividend Tax (i.e. it will be treated as a deemed dividend distribution).



Interest

Interest paid to non-residents is generally subject to a withholding tax at a rate of 30%. For interest paid to unaffiliated foreign lenders, the rate is reduced to 4.99% if all the following conditions are satisfied:

- For loans in cash, the proceeds of the loan are brought into Peru as foreign currency through local banks or are used to finance the import of goods;
- The proceeds of the loan are used for business purposes in Peru;
- The participation of the foreign bank is not primarily intended to avoid the tax treatment applicable to transactions between related parties (e.i. the use of back-to-back loans is consequently precluded); and
- The interest rate does not exceed the US prime rate plus 6% points or the LIBOR plus 7% points.

Technical Assistance Services

Payments for technical assistance services used within Peru are subject to withholding tax at an effective rate of 15%, regardless of the country the services are rendered. To ensure the application of the 15% rate, the local service recipient must obtain and present to the Tax Authorities upon request a report issued by an audit firm certifying that the technical assistance was effectively provided. This is only required, however, when the fees under the corresponding agreement for the technical assistance exceeds of 140 tax units (each tax unit is equivalent to PEN S/. 3,800 in 2014).

Royalties

Peruvian source royalties paid for the use of intangible property are subject to withholding tax at an effective rate of 30%.

h | Financing considerations

Thin capitalization

Debt to equity rule: Interest on loans from related parties in excess of a 3:1 debt to equity ratio is not deductible.

i | Worker's profit sharing

Mining companies are obliged to pay a workers participation of 8% on the net profits of the company. The total sum received by the worker must amount up to 18 times its monthly salary, and the balance must go to a special educational, social and recreational fund. Disbursements are decided by a board comprised of representatives of mining companies, Peruvian government and the workers.

The amount paid is allowed as a tax deduction for corporate tax purposes. Not all foreign governments recognize this as a creditable tax and double taxation can thus occur.

j | Other tax aspects

Good standing fee

Also known as a Validity Tax, is calculated based on the area in mining concession from the moment the claim is filed. The fee is US$3/ha/yr and it is deductible for corporate income tax purposes.

Reduced fees are applicable for small mining producers (US$1/ha/yr) and for artisanal mining producers (US$0.5/ha/yr).

Temporary net assets tax

A so called Temporary Net Assets Tax (ITAN) equivalent to 0.40% of the value of total assets over PEN S/.1 million (approximately US$357,000), determined as of December 31st of the previous year. The amount paid is whether usable as credit against the Corporate Income Tax, or subject to refund.

Pre-operative entities are exempted of this tax, until its first year of operations. They will only be subject to the tax the following year.

Tax on financial transactions

A 0.005% tax is generally imposed on debits and credits in Peruvian bank accounts.

Complementary Mining Pension Fund

This fund has been created for the benefit of mining workers. Employers (i.e. mining companies) are required to contribute 0.5% of their annual income before taxes to this fund, while mining workers contribute 0.5% of their monthly gross salaries during their employment in order to receive defined benefits upon retirement.

Regulatory fees

Regulatory fees are imposed and collected in Peru from specific categories of regulated entities, including those operating in the mining sector. Mining companies pay these fees based on a percentage of their monthly revenues to OSINERGMIN (0. 21% in 2014 and 0.19% in 2015) and OEFA (0.15%) to recover the regulatory costs associated with enforcement activities, policy and rulemaking. Non-payment of regulatory fees on a timely manner may result in penalties and interests.

Although the amount of regulatory fees collected, during each fiscal year, should reasonably be equal to the amount appropriated for such fiscal year for the performance of the activities described above, in practice, the amount collected could be higher because of the way in which the regulatory fees have been structured.

Social Security contribution

The Peruvian Health Social Security Office (EsSalud) runs the National Health System (NHS). The employer contributes 9% of total payroll to the NHS. EsSalud provides employees disability, illness, maternity and death benefits, as well as medical care.

According to the Health Care Law, the NHS will be complemented by the health programs and plans that the employers may grant to their workers with their particular health services or with private Health Care Companies (Empresas Prestadoras de Salud - EPS) that shall be authorized to carry out such activities.

The employers may elect the healthcare plan or program for their employees; however, they shall previously submit it to their vote. Employees, who would like to remain in the NHS, may do so.

The employers that provide healthcare through the complementary plans and programs are also obliged to pay the 9% contribution to the NHS. However, employers may use a portion of the expenses incurred in healthcare as credit against the 9% contribution.

The Health Care Law and regulations also foresee a complementary insurance for workers that carry out activities that are deemed to involve a significant level of risk such as mining activities. This insurance coverage shall be provided by the employer.

In addition, employees have to contribute either to the National Pension System (NPS) or to the Private Pension System (PPS), at their election. The contribution rate in the NPS is 13% of the salary while in the PPS is 12.75% on average. In case of mining employees an additional 4% must be contributed to the PPS; 2% is payable by the employee and 2% is payable by his/her employer. Both pension systems provide employees retirement, disability pensions and funeral costs. Employers are responsible for withholding employees' contributions from monthly salaries.

Transfer pricing rules

Peru has adopted transfer pricing rules which are largely based on the OECD guidelines. These rules also apply to uncontrolled transactions with residents in low-tax jurisdictions (tax havens). Annual information returns and transfer pricing technical studies are generally required.

Transfer pricing methods that may be acceptable, depending on the circumstances, include Comparable Uncontrolled Price (CUP), cost plus, resale price, profit split, residual profit split and transactional net margin.

In addition, Peru has introduced specific rules for applying the CUP method to establish transfer prices in the case of the exportation and importation of commodities (e.g. metals) and other products, whose prices are set by reference to commodity prices. These rules establish that their fair market value (i.e. arm's length price) for Peruvian income tax purposes shall be determined considering the following:

- For products (i.e. commodities) traded on the international market, regulated commodity exchanges or similar markets, the value at which they are exchanged in such markets.
- For agricultural products and their by-products, hydrocarbons and by-products fishmeal and mineral concentrates whose prices are fixed taking as a reference the price of the commodity in the international market, regulated commodity exchanges or similar markets, the price established taking the commodity trading price as a reference.

The commodity price/quote or the price set taking the commodity trading price as a reference, irrespective of the transport modality, shall be that based on:

- The ending date of the shipment or landing of the goods; or
- The average of quotations of a period of time comprised between 120 calendar days or 4 months prior to the end of the shipment of the products until 120 calendar days or 4 months after the end of the landing of the products; or
- The date the agreement is entered into; or
- The average quotation from a period of time comprised between the day following the date of execution of the agreement until 30 calendar days after that date.

▸ Tax treaties

Peru has entered into a multilateral tax treaty with the Andean Community countries (Bolivia, Colombia and Ecuador), which calls for exclusive taxation at source and bilateral income tax treaties with Brazil, Chile and Canada. More recently, the Peruvian Congress has also approved tax treaties signed with Mexico, South Korea, Switzerland and Portugal. The entry into force of these tax treaties requires ratification in each of the contracting states followed by the exchange of instruments of ratification. In Peru, the procedure requires that the tax treaty approved by Congress is ratified by the President.

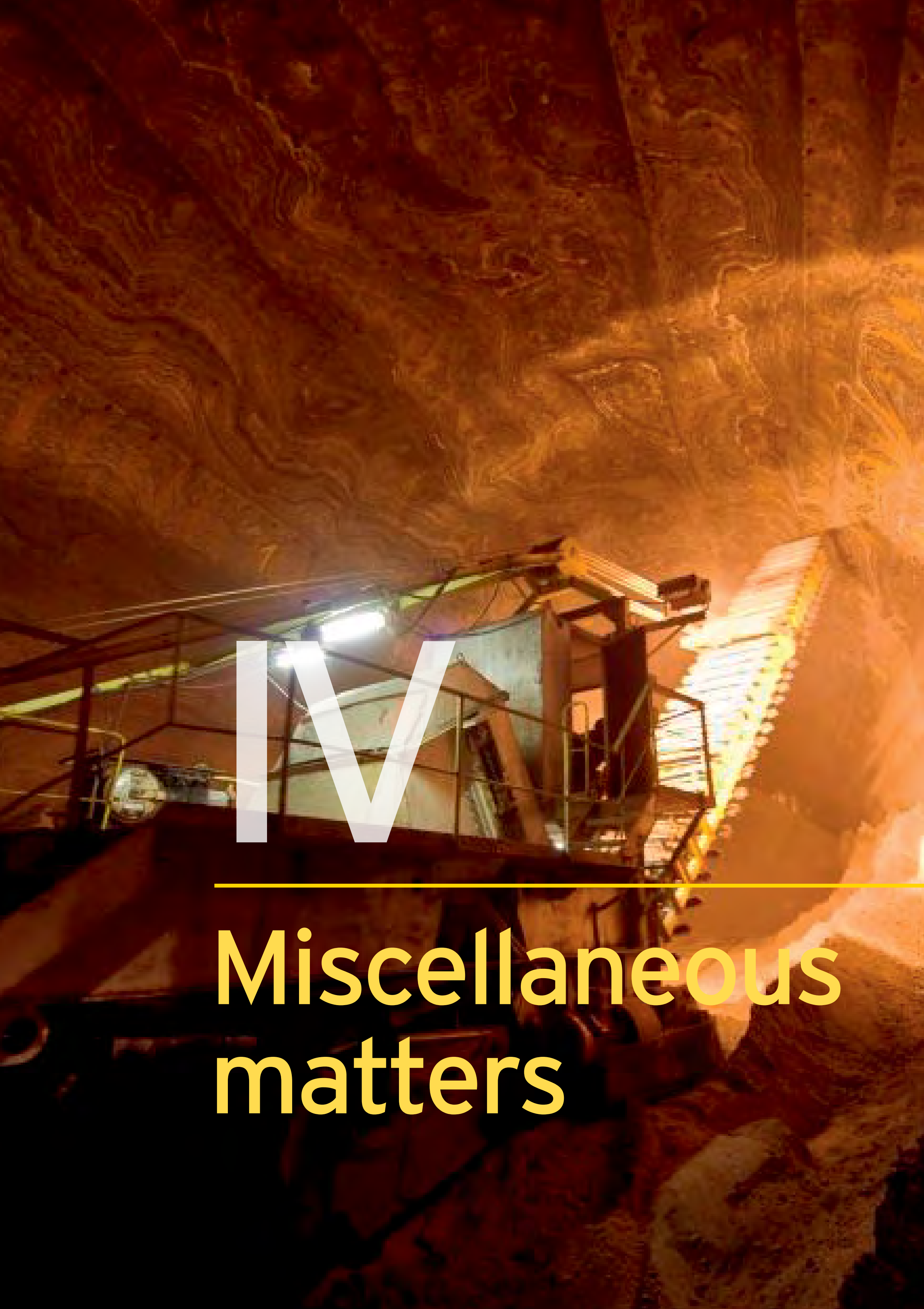
The principal purpose of this still reduced income tax treaty network is to prevent taxes from interfering with the free flow of international trade and investment by mitigating international double taxation with respect to certain income items. This, however, is not a static list. Some existing tax treaties are being renegotiated and others are in various stages of negotiation with countries such as Spain, Sweden, Italy, The Netherlands, Singapore, Thailand, France, Qatar, United Arab Emirates and the UK.

Except for the tax treaty with the other Andean Community countries, tax treaties entered into by Peru generally follow the OECD Model, although they incorporate provisions that are derived from the UN Model, to give more weight to the source principle than does the OECD Model.

Each of the treaties currently in force between Peru and other countries deals with the same matters. Many of the treaties contain common provisions addressing the same issue. It should, however, be noted that Peru's tax treaties show a remarkable degree of individuality, considering that almost every treaty is different in at least some respects. For that reason, it is essential to analyze the specific treaty that may apply to a particular tax issue.

- Stamp Tax: none.

- Exchange controls: none.



IV

Miscellaneous matters

01

Starting a business in Peru

Mining activities can be carried out in Peru through a number of investment vehicles. In practice, the three forms of legal organizations most commonly used by foreign investors are the corporation (Sociedad Anónima - S.A.), limited-liability company (Sociedad Comercial de Responsabilidad Limitada - S.R.L.) and the branch (sucursal), although Peruvian company law also provides for other forms of legal entities, including two special forms of corporations: the closely held corporation (Sociedad Anonima Cerrada) and the public corporation (Sociedad Anonima Abierta).

a | Requirements of an S.A.

A corporation (Sociedad Anonima - S.A.) is composed of shareholders whose liability is limited to the value of their shares. The S.A. is managed by a board of directors and one or more managers. To form an S.A., investors (i.e. the shareholders) must sign the deed of incorporation before a public notary and file it with the Mercantile Registry. The registrar receives the public deed and proceeds to register the company. The registrar is also interconnected with the Tax Authority (SUNAT) to register the company as a taxpayer and obtain the tax identification number (Registro Único de Contribuyente, RUC). The bureaucratic and legal steps that an investor must complete to incorporate and register a new standard S.A. normally take between 15-30 days.

The incorporation documents must include, at least, (a) the company's name; (b) business purpose and duration; (c) the company's domicile; (d) the name, nationality, marital status and residence of any individual shareholder and name, place of incorporation and address of any corporate shareholder (a minimum of two shareholders are required to set up an S.A.); (e) the names of the initial directors, managers and agents; (f) the start-up date of operations; and (h) the capital structure (the shares nominal value and the total number of shares), classes of shares, if applicable, and details of individual initial capital contributions (whether in cash or kind). Sufficient proof that a minimum of 25% of capital stock has been paid into a bank before registration must also be provided.

Requirements of a Corporation ("S.A.") in Peru

Capital

Capital is divided into shares which may be freely transferred unless such transfers are restricted by the corporate bylaws. There are no minimum or maximum capital requirements although issued capital must be fully subscribed and at least 25% thereof paid in upon incorporation. Capital may be supplied in cash or in kind. Value of non-monetary contributions must be reviewed and approved by a majority of the board of directors within 60 days of incorporation and may be challenged in court during the following 30 days.

Founders, shareholders

An S.A. must have a minimum of two individual or corporate shareholders, with no requirements as to their nationality or residence.

The shareholders' general meeting is the supreme body of the S.A. and has power of decision on any subject and the exclusive power of decision with respect to dissolution, amendments of the corporate bylaws and a capital increase or reduction, among other key corporate decisions.

Management

One or more managers are named (and removed) by the board of directors, unless bylaws stipulate naming by a general shareholders meeting. When only one manager is appointed, he/she will be the general manager. There are no nationality requirements.

Types of shares

Shares must be nominative and they represent the unit into which the proprietary interests in a corporation are divided. As a general rule, each share gives the right to one vote, but non-voting shares may be issued. Different classes or series of shares may be issued, with different rights and/or obligations.

All shares must have the same par value but may be issued at a premium or at discount from par. Corporations may purchase their own shares in certain circumstances. Bylaw restrictions on transfer of shares are permitted.

Disclosure

Legal entities with annual sales or total assets equal or above 15,000 tax units (at the end of 2013 each tax unit will be equivalent to PEN S/.3,800) must submit audited financial statements to the securities commission (Superintendencia del Mercado de Valores, former Conasev). Disclosure requirements are more stringent for publicly listed companies.

Control

An annual general meeting is required. Bylaws may specify a higher quorum and larger majorities than those laid down by law. The minimum quorum for a general meeting is 50% of capital on the first call. Most decisions are taken by a simple majority of the paid-up voting shares represented. For major decisions, such as capital increases or decreases or corporate bylaw changes, the minimum quorum is two-thirds of total voting shares represented on the first call and 60% on the second call, and the decision requires in absolute majority of total voting shares represented.

Board of directors

An S.A. must have a minimum of three directors, with no maximum number provided by the law. There are no requirements as to their nationality or residence. Directors need not be shareholders, and they serve one to three-year renewable terms.

Directors may be elected by cumulative voting, in which each share has as many votes as there are directors to be elected, and shareholders either accumulate their votes in favor of one candidate or distribute them among several. A quorum is half the board membership plus one. The board of directors has all the powers vested in it by law and the corporate by-laws.

b | Closely held corporation

A corporation can be classified as closely held if it does not have more than 20 shareholders and its shares are not listed in the Stock Exchange. The closely held corporation has certain features found in a limited-liability company (for example, limited liability of equity owners, absence of freely transferable equity shares and no requirement for a board of directors).

c | Public corporation

A corporation will be considered "public" where (i) it has undertaken an initial public offering (IPO) or stock market launch to sale its stock to the public; (ii) it has more than 750 shareholders; (iii) at least 35% of its shares is held by at least 175 shareholders, each of whom owns at least two per thousand (0.002%) but no more than 5% of the shares representing the corporation's capital (iv) it is incorporated as a public corporation; or (v) all the shareholders with voting rights agree unanimously to subject the company to the legal regime applicable to public corporations.

d | Limited Liability Company

The Limited Liability Company or S.R.L. is subject to registration procedures, reporting and accounting requirements similar to those for the S.A. The minimum number of owners is two, the maximum 20, whose liability is limited to their capital contributions. At least 25% of each participant's contribution to capital must be paid in upon founding. The S.R.L.'s capital is divided into and represented by participating interests which cannot be denominated shares and which are not freely negotiable certificates.

Capital holdings may be transferred outside the company only after they have been offered through the management to other partners or the company itself and they have declined to purchase the offered interests. Further restrictions on transfers may be set out in the bylaws. As a general rule, an S.R.L. is managed and represented by all its partners. However, the partner's general meeting may entrust the company's management to one or more managers who need not be partners in the S.R.L. or Peruvian citizens. Decisions are determined by a majority of capital contributions.

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The main characteristics of the S.R.L. are:

- Limited liability: Partners are not personally liable for the corporation's liabilities.
- Centralized management: Partners general meeting and one or more managers (no board of directors is required).
- Transfer of interest: Transfer of partners' interest to third parties is subject to approval by the existing partners and must be registered in the public register.
- Continuity: Death, illness, bankruptcy, retirement or resignation of any partner does not cause the dissolution of the entity.

f | Establishing a branch

Procedures for organizing a branch in Peru are similar to the procedures applicable to organizing corporations or limited liability companies. It takes between two to three weeks to register a branch once the necessary documents have been submitted to the Peruvian notary. These include copies of the parent firm's corporate charter and bylaws, minutes of the shareholders agreement to set up a branch in Peru, certification of the branch's address, assigned capital and line of business, notifications of the appointment and powers of a legal representative in Peru; and a Peruvian consul's certification that the parent company is duly constituted in the country of origin and entitled to set up a branch in a foreign country.

02

Custom duties

a | Rates and Tax bases

The applicable customs duties and taxes are summarized below:

Tax	Rate	Tax bases
Custom duties*	0%, 4%**, 6% and 11%	Customs Value**
VAT	18%	Customs Value + customs duties

* Customs duties rates depend on the kind of items imported. Capital goods are generally subject to a 0% rate.
** The World Trade Organization (WTO) rules are applicable to arrive at customs value.

b | International Trade Agreements

The main agreements executed by the Peruvian government in order to gain access to international markets are the following:

- Andean Community (CAN): Peru fully enjoys the benefits from the free trade zone established by this agreement for all its member countries (Bolivia, Colombia and Ecuador). Although Venezuela is no longer member of the CAN, it has extended the term of the tariff benefits under the Andean Community. Also, Peru is a member of other Andean Community agreements related to the service market liberalization, transportation, telecommunications and several other matters related to international trade.

- Latin American Integration Association (ALADI): Peru maintains certain customs preferences with countries of the region (Argentina, Brazil, Chile, Cuba, Paraguay and Uruguay) established by the agreements signed under the 1980 Montevideo Treaty.

- Southern Common Market (Mercosur): Partial agreements executed by the Peruvian government with each of the member countries (Brazil, Argentina, Paraguay and Uruguay) are in effect. By means of the aforementioned agreements, Peru and Mercosur's member countries have reciprocally granted each other preferential customs duty margins. Notwithstanding, currently the member countries of the Andean Community are working all together in the implementation of a Free Trade Agreement with Mercosur.

- Free trade agreements with the United States, Canada, China, Chile, EFTA States (Iceland, the Principality of Liechtenstein, the Kingdom of Norway and the Swiss Confederation), Mexico, Japan, Singapore and Republic of Korea: are already in force; as well as the acceleration trade protocol with Thailand.

- Peru has also concluded negotiations with the European Union, Panama, Costa Rica and Guatemala. During 2012, these agreements would be in force.

- Furthermore, Peru maintains negotiations with Honduras, El Salvador and is working to conclude the Trans-Pacific Partnership Agreement (Brunei Darassalam, Chile, New Zealand and Singapore) jointly with Australia, the United States, Malaysia and Vietnam.

In order to apply these preferential treatments, goods shall meet, among others, an origin requirement.

Finally, it is important to mention that Peru is a founding member of the World Trade Organization (WTO). Therefore, the WTO's regulations regarding antidumping practices, subsidies and countervailing duties and, service market liberalization, among others, are applicable in Peru.

c | Other considerations

The customs legislation allows the temporary entry to the country, for an 18 months period of certain capital goods –included in a restrict list– without the payment of the customs duties and import taxes (e.g. machinery and equipments). For these purposes, it is necessary to grant a guarantee for the non paid taxes (besides of a compensatory interest) and the referred goods must be re-exported before the end of the aforementioned term.

This regime will be applicable at to the extent that the goods are identifiable and destined to specific purpose in a specific location, and to be re-exported within a specified period of time without having undergone any change except normal depreciation arising from their usage.

03

Labor legislation

a | Job stability

In accordance with the Constitution, employees are protected against arbitrary dismissal.

This right, called "job stability", is granted to employees who work for the same employer for more than four hours per day in average, after a three month trial period. Once this period is completed, the employees are regarded as permanent and can only be dismissed under circumstances concerned with their behaviour at work or ability to carry out their duties.

Employers may enter into employment contracts for an undetermined period of time or for fixed terms. Fixed term contracts are expressly foreseen by Law and are basically allowed for cases such as business expansion, production increments, temporary labors, extraordinary circumstances and seasonal activities. These contracts must be entered into in writing and communicated to the labor authority.

In the event of unjustified dismissal, an employee may demand a severance payment equivalent to one and a half monthly salary per year of service (under a non term working agreement); and, one and a half monthly salary per pending month (under a fixed term working agreement). The maximum severance payment is twelve salaries. Alternatively, the employee can demand the restitution to the same job he had. The law allows collective dismissals under certain circumstances such as acts of God or force majeure, financial or technical streamlining, dissolution, bankruptcy or operating downsizing without having to grant the severance payment.

b | Employees' benefits

Employers are required to provide the following benefits for employees:

- Family allowance equivalent to PEN 65.4 (approximately).
- One month paid vacation per year.
- One month salary bonus in July and December.
- One month salary per year (approximately) as severance indemnity which should be deposited in advance with a bank elected by the employee. Deposits are regarded as final payments of the accrued liability.
- Profit sharing in cash, which is calculated on the employer's taxable income and distributed among the employees. The rates are 5%, 8% and 10% depending on the employer's activity (8% for mining). This benefit does not apply to companies employing less than 20 individuals.
- All these benefits are deductible for income tax purposes.

Employers can negotiate with workers earning a monthly salary higher than 2 tax units (PEN S/. 7,600 in 2014) a total annual compensation, including all the benefits described above, except for the profit sharing.

c | Expatriates

Expatriates working in Peru and foreign corporations carrying out activities in Peru are subject to Peruvian labor laws. As a general rule, foreign employees should not exceed 20% of total personnel. Additionally, wages paid to foreign employees should not exceed 30% of total payroll cost. Such limits can be waived for professionals and specialized technicians or management personnel of a new entrepreneurial activity or in case of a business reconversion.

No restrictions apply to foreign individuals working in Peru with Peruvian immigrant visa, individuals married to Peruvians or having Peruvian children, parents or siblings and foreign investors with a permanent investment in Peru of at least 5 tax units (PEN S/. 19,000 in 2014).

Expatriate employees should register their employment contract with the labor authorities and obtain a special non-immigrant work visa. No additional work permit is needed.

d | Immigration

Foreigners can enter Peru under the following migratory qualifications:

Visa	Rate	Tax bases
Tourist visa	Temporal	This visa does not allow the holder to perform paid activities.
Business visa	Temporal	This visa does not allow the holder to perform activities that can be considerate Peruvian source income. This visa allows the expatriate to sign contracts.
Work visa	Resident or Temporal	This visa allows the holder to work in Peru. In the case of a work contract with a Peruvian company, it should be duly approved by the labor ministry.
Designated employee visa	Temporal	This is a visa that applies to an employee of a foreign company. The service agreement and assignment letter must be submitted to the migratory authority. Those documents must be legalized by the Peruvian consulate and the Peruvian foreign minister.
Work visa for service providers	Resident	Investment or independent work.
Immigrant	Resident	No restrictions.

As a general rule, income obtained for personal work or civil, commercial or any other type of business carried out within the Peruvian territory is considered to be Peruvian source income. However, non-resident individuals entering the country temporarily to perform the following activities are not taxed for revenues obtained in their home country, since they are not considered as Peruvian source income:

- Acts that precede a foreign investment or any other business;
- Supervision or control of an investment or business, (i.e. gathering data or information, meeting public or private sector personnel, etc.);
- Hiring local personnel; and,
- Signing agreements or similar documents.

Any other amount an expatriate receives in cash or in kind, as a compensation for work carried out within Peru, is considered as Peruvian source income and, consequently, will be taxable.

04

Accounting standards

a | Public Issuers

By means of a Ruling issued by the Superintend of Stock Markets (SMV by its acronyms in Spanish) in October, 2010, public issuers registered before the Public Register of Stocks Market, except for financial institutions which are not under the supervision of SMV, must prepare and file its first set of financial statements under International Financial Reporting Standards (IFRS) as of December 31, 2011. Effective this date, the private issuers above mentioned are obliged to prepare their financial statements in compliance with IFRS as issued by the International Accounting Standards Board (IASB).

b | Private entities

The Peruvian Business Corporation Law establishes that the financial statements of companies incorporated in Peru must follow the Peruvian GAAP and other legal provisions on the matter. The Peruvian Accounting Standards Board has established that Peruvian GAAP is basically referred to the accounting standards issued by the IASB, duly approved by the Peruvian Accounting Standards Board, and specific provisions issued by a regulator (banks and insurance entities). Supplementary, companies in Peru can use US GAAP by analogy.

Certain IFRS internationally in force are not immediately used in Peru since the Peruvian Accounting Standards Board takes some time in studying and introducing these standards into Peru.

In June, 2011, the Peruvian Congress enacted the law No. 29720 with the aim of promoting the issuance of market securities and strengthening the capital market in Peru.

By means of this law, entities other than those regulated by SMV with total assets or net revenues higher than 3,000 tax units (equivalent to approximately US$4 million) must file before SMV its audited financial information prepared in accordance with IFRS.

The corresponding regulation was enacted on April 27, 2012 and amended on December 6, 2013 and requires the following:

- Entities with expected total assets or net revenues higher than 30,000 tax units (approximately US$40 million) at year-end, must file its audited financial information under Peruvian GAAP for the year ended December 31, 2012. These entities must prepare and file its audited financial information of 2013 under IFRS.
- Entities with expected total assets or net revenues higher than 15,000 tax units (approximately US$20 million) at December 31, 2013, must file its audited financial information under Peruvian GAAP for the year ended December 31, 2013. These entities must prepare and file its audited financial information of 2014 under IFRS.
- Entities with expected total assets or net revenues higher than 3,000 tax units (approximately US$4 million) at December 31, 2014, must file its audited financial information under Peruvian GAAP for the year ended December 31, 2014. These entities must prepare and file its audited financial information of 2015 under IFRS.

c | IFRS for mining entities

Although the following is not a comprehensive list of the issues in mining entities, it should contribute to the understanding of the main accounting topics impacting the financial statements of the mining entities:

Exploration and evaluation

There is diversity in acceptable accounting treatments. Some entities capitalize exploration and evaluation costs, while others record as expenses when incurred.

Stripping costs

A new interpretation has been issued (IFRIC 20 "Accounting for Waste Removal Costs"). According to IFRIC 20:

- Costs incurred in undertaking stripping activities are considered to create two possible benefits: the production of inventory in the current period, and/or improved access to ore to be mined in a future period.
- Production stripping costs are to be capitalized as part of an asset, if an entity can demonstrate that it is probable future economic benefits will be realized, the costs can be reliably measured and the entity can identify the component of an ore body for which access has been improved. The asset is called the "stripping activity asset".

Impairment of assets

- It is performed at the cash generating unit (CGU) level.
- IFRS contains specific rules for the calculation of the value in use related to key assumptions as prices, discount rate, exchange rates and capital expenditures.
- IFRS requires the reversal of impairment losses recorded in prior years for assets subject to depreciation and amortization.
- IFRS requires the performance of an annual impairment test for assets not subject to depreciation and amortization (for example, goodwill), independently of the existence or not of impairment indicators.

Depreciation of property, plant and equipment

- It is required to depreciate the assets using a components approach.
- There are potential risks in connection with the accounting treatment of major maintenances.
- Companies need to consider the use of the units-of-production method to depreciate/amortize their assets, instead of using the straight-line method.
- IFRS requires the estimation of the residual value of the fixed asset in order to determine the depreciable amount.

Functional currency

Many companies keep their accounting records in the local currency and not in the functional currency.

Joint Ventures

Normally, joint venture agreements contain clauses that grant options to increase or decrease participations, which can have a significant accounting impact.

Decommissioning liabilities

- IFRS requires measuring the obligation using future cash flows, discounted at a risk-free rate. There is no a single approach to select the rate.
- It is required to review the future cash flows and the discount rate, if the changes are significant.
- If cash flows are stated in foreign currency, the obligation must be translated at the year-end exchange rate. This is accounted for as a change in estimates according to IFRIC 1.

Financing costs

- IFRS requires an entity to capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognize other borrowing costs as an expense in the period in which it incurs them.
- There may be difficulties to determine the borrowing costs to be capitalized, specifically the exchange difference that is regarded as an adjustment to interest costs.

Inventories

Critical spare parts are to be classified as property, plant and equipment and not as inventories. These items are subject to depreciation.

First Adoption of IFRS

IFRS requires more disclosures than the ones required under Peruvian GAAP.

V

Appendix

Mining sector regulators and stakeholders

01

Regulators

- General Bureau of Environmental Health – DIGESA (www.digesa.sld.pe)

  Technical-regulatory body in aspects related to basic sanitation, occupational health, hygienic food, zoonosis and environmental protection. It issues regulations and assesses environmental health processes in the sector. It is an entity under the Ministry of Health.

- General Bureau of Mining Environmental Matters - DGAAM (www.minem.gob.pe)

  Technical-regulatory body responsible for proposing and assessing the Mining Sector's environmental policy, proposing laws or issuing the necessary rules. It also focuses on promoting environmental protection activities in mining activities.

- General Mining Bureau - DGM (www.minem.gob.pe)

  MINEM Mining Line Unit responsible for ruling and promoting activities to assure the rational use of mining resources in harmony with the environment.

- Geological, Mining and Metallurgical Institute - INGEMMET (www.ingemmet.gob.pe)

  Public agency responsible for granting the titles to mining concessions, administrating the national mining register and processing, administrating and issuing geo-scientific information on the national territory in order to promote investment in Peru.

- Hydric Resources Intendance of the National Institute of Natural Resources - INRENA's IRH (www.inrena.gob.pe)

  Highest technical-regulatory authority responsible for promoting, overseeing and controlling the policies, plans, programs, projects and rules on the sustainable use of hydric resources nationwide. It is part of the National Institute of Natural Resources (INRENA).

- Mining Council (www.minem.gob.pe)

  Highest-level administrative court of last resort over all mining matters that are subject to resolutions by agencies under the Ministry of Energy and Mines (DGM, DGAAM, INGEMMET, and others).

- Ministry of Agriculture - MINAG (www.minag.gob.pe)

  Entity that promotes the development of organized agrarian producers in productive chains, in order to achieve an agriculture that is fully developed in terms of economic, social and environmental sustainability.

- Ministry of Energy and Mines - MINEM (www.minem.gob.pe)

  Central and governing body for the Energy and Mining Sector, a part of the Executive Branch. Its purpose is to formulate and assess national policy in matters of sustainable development in mining-power activities. It is the governing authority in environmental matters in reference to mining-energy activities.

- **Ministry of Labor and Employment Promotion - MTPE (www.mintra.gob.pe)**

  Body governing labor in Peru, with all powers necessary to lead the implementation of policies and programs for generating and improving employment, and also responsible for enforcement of legislation for labor matters.

- **National Environmental Council - CONAM (www.conam.gob.pe)**

  Nation's environmental authority. Its purpose is planning, promoting, coordinating, controlling and safeguarding the nation's environment and natural heritage. It sets the balance among socio-economic development, the sustainable use of natural resources and preservation of the environment.

- **National Superintendency of Tax Administration - SUNAT (www.sunat.gob.pe)**

  A decentralized public entity in the Economy and Finance Sector that enjoys economic, administrative, functional, technical and financial autonomy. It is the main tax-collecting agency in the Peruvian economy.

- **Presidency of the Cabinet - PCM (www.pcm.gob.pe)**

  Technical-administrative body covered by the Executive Law; its highest authority is the President of the Cabinet. It coordinates and conducts follow-up on the Executive's multi-sector policies and programs, coordinates actions with Congress and independent constitutional bodies, among others.

- **Supervisory Body of Private Investment in Energy and Mines - OSINERGMIN (www.osinergmin.gob.pe)**

  Regulatory, supervisory body that regulates, enforces and oversees the activities undertaken by internal public- or private-law legal entities and individuals in the electricity, hydrocarbons and mining sub-sectors.

- **Technical Board of Irrigation District - ATDR**

  Operational, functional and planning units oriented towards the conservation and development of the hydric resources within a hydrographic river basin. Their function is to administer waters for agricultural and non-agricultural uses, in accordance with approved cultivation and irrigation plans.

02

Stakeholders

- **Sociedad Nacional de Mineria, Petroleo y Energia - SNMPE (www.snmpe.org.pe)**

  Non profit organization, groups the companies related to the mining, oil & gas and energetic activities in the country.

03

ProInversion

ProInversion is the Peruvian investment agency in charge of the promotion of business opportunities with high growth and profitability expectation in Peru. Its purpose is to promote investment unrelated to the Peruvian goverment by private parties in order to boost Peru's competitivity and development and to improve the well being of the population.
Likewise, its vision is to be considered by investors and by the population as an efficient and strategically for the development of Peru's investments.
ProInversion provides information to potential investors regarding the incorporation of a legal entity, identifying investment by industries, investment projects (granted and pending) among other.

▸ **Contacts:**

- Web page: www.proinversion.gob.pe
- E-mail: contact@proinversion.gob.pe
- Address (Mail office): Av. Enrique Canaval y Moreyra Nº 150, Piso 9, San Isidro
- Phone: +51 1 200 1200
- Fax: +51 1 221 2941

▸ **Offices:**

- Arequipa: Pasaje Belen Nº 113 – Vallecito, Arequipa. Phone: +51 54 608 114 / Phone - Fax: +51 54 608 115
- Piura: Los Palmitos Mz. Q - lote 13, Los Cocos de Chipe. Phone: +51 73 30 9148 / Fax: +51 73 31 0081

EY services for the mining sector

01

Our strength in the mining and metals sector

EY mining and metals professionals combine technical capabilities with a thorough understanding of the industry's operating processes, strategic and operating risks, growth drivers, regulatory considerations, and market dynamics.

We use our wide experience of working with the world's largest mining and metals companies to help you to address your key business issues. This might involve helping you to overcome current sector issues such as rising costs where we can help you to streamline operational and business processes, and improve productivity on key profit drivers.

In this environment of increased sector consolidation, we can assist you with your divestment strategies, to ensure that you realize full value at exit. If you are looking to expand your operations to new regions, you can draw on our deep understanding of how to manage operational risks-both political and otherwise.

EY has a number of multi-service line solutions to help our clients meet these challenges.

Our services

EY has a global focus on mining and metals, with over 1,000 specialist global professionals including mining engineers, mineral process specialists and geologists. Our global team is closely networked and share industry and technical knowledge to provide our clients with a seamless global service. Some of our specialist mining & metals based services include:

- **Environment and sustainability**

  Providing an extensive range of services in areas such as sustainability reporting and assurance, sustainability strategy, reputation issues, environmental risk management, greenhouse gas emissions advisory, renewable energy and emissions trading.

- **Mining advisory**

  Improving supply chain responsiveness to demand volatility; delivering core business re-engineering (e.g. merging a number of mines into one management structure), and delivering mine-based projects aimed at reducing costs or increasing production.

- Mergers and acquisitions advisory

  Mergers and acquisitions, at either the holding company or asset level, require specific knowledge and skills in order to complete transactions. The knowledge and skills required relate to the regulatory environment, including the rules and regulations of each country's stock exchange, accounting, legal, structuring and taxation disciplines in addition to an understanding of transaction value-drivers.

- Valuation and business modelling (V&BM)

  Providing a range of services to companies in the mining sector including valuations for purchase price allocation/acquisition accounting, tax planning, finance and stamp duty purposes and has specialists with extensive skills ranging from valuations of businesses and intangible assets to specialised mining capital equipment and real estate.

  Our valuations profesionals have experience in the extraction, beneficiation, refining, smelting and processing of base metals, bauxite, coal, diamonds, gold, iron ore, limestone, mineral sands, nickel, salt, etc. Further V&BM has deep expertise in model builds and reviews and is able to construct or review life of mine cash flow models as part of an acquisition strategy.

- Project finance advisory

  Advising on the development, optimisation and implementation of finance plans covering the full range of project financing options for resources projects; non and limited recourse debt and tax effective leasing structures for coal mines, gold mines, copper mines, mineral sands producers and other resources project as well as a number of associated infrastructure projects such as preparation plants, conveyor systems and gas pipelines.

- Transactions advisory

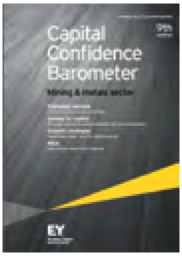
  Our global transaction capability covers over 80 countries and comprises over 5,000 professionals. These transaction professionals work across many elements of the transaction life cycle in the deal critical areas of financial due diligence, tax due diligence and structuring, valuation and business modelling and transaction integration.

- Transaction integration

  Providing commercial and operational due diligence, integration planning and methodology development, synergy assessment, and integration program management; corporate strategy advice on market opportunities and areas to exploit along the mining value chain, as well as practical operational advice in areas such as overhead and capital expenditure cost reduction, process efficiency, supply chain and procurement, and in functional areas such as finance and human resources.

02

EY thought leadership

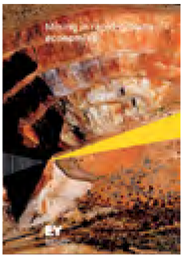


Global Capital Confidence Barometer in Mining & Metals

EY's Global Capital Confidence Barometer is a regular survey of senior executives from large companies around the world conducted by the Economist Intelligence Unit (EIU).

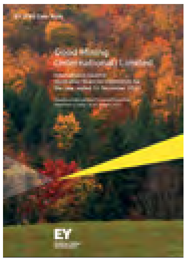
Business risks facing mining and metals 2013-2014

Capital allocation and capital access top the business risk list for mining and metals companies. Read about all 10 critical risks for the sector.



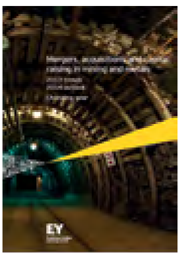
Rapid growth economies: future growth engine for the mining industry

The report takes a look at the major factors shifting mining to rapid-growth economies, the challenges of investing in these markets, and recommendations for success. It also takes a snapshot look at Africa, Latin America, Brazil, China, India and Russia.



Good Mining (International) Limited - illustrative financial statements

This document contains an illustrative set of consolidated financial statements, prepared in accordance with IFRS. Good Mining focuses on the issues and the relevant disclosures specific to the mining and metals sector.



Mergers, acquisitions and capital raising - 2014 outlook, 2013 trends

Seventh edition of this annual report which examines the key challenges, issues and trends surrounding deal-making in the mining and metals sector in 2013 and the outlook for 2014.

Commodity briefcase

Bi-monthly commodity briefcases which includes the latest information on prices, top producers, mergers & acquisitions, industry developments, production, legal and regulatory information and broker reports on each of the following commodities.

03

Our knowledge

How the firm's staff are kept abreast of industry developments.

To ensure our teams are abreast with the hot issues, we provide all our people with regular monthly internal training focusing on the industry, as well as subscribing to a number of specialist resources such as Mining Journal; McCloskey's Coal, Raw Materials Group, Infomine and MiningNews.net.

We have a Global Mining & Metals Community Home Space, which is a portal for our professionals to access all of our global sector content including best practice deliverables, industry insights and thought leadership.

On a monthly basis, our global network receives a monthly hot topics email, Mining Discovery.

On a commodity by commodity basis, to help account teams keep abreast of sector developments, the Mining & Metals center has developed a number of commodity bulletins, the Briefcase series. These briefcases cover a number of regular topics including sector transactions, production disruptions, social license to operate, legal and regulatory issues.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

For more information about our organization, please visit ey.com.

Scan and get Peru's mining & metals investment guide 2014/2015.