

# Deloitte.

## Industry outlook Mining in Argentina.

Financial Advisory Services Argentina  
June 2016





# Macroeconomic overview

## Argentina's current situation.

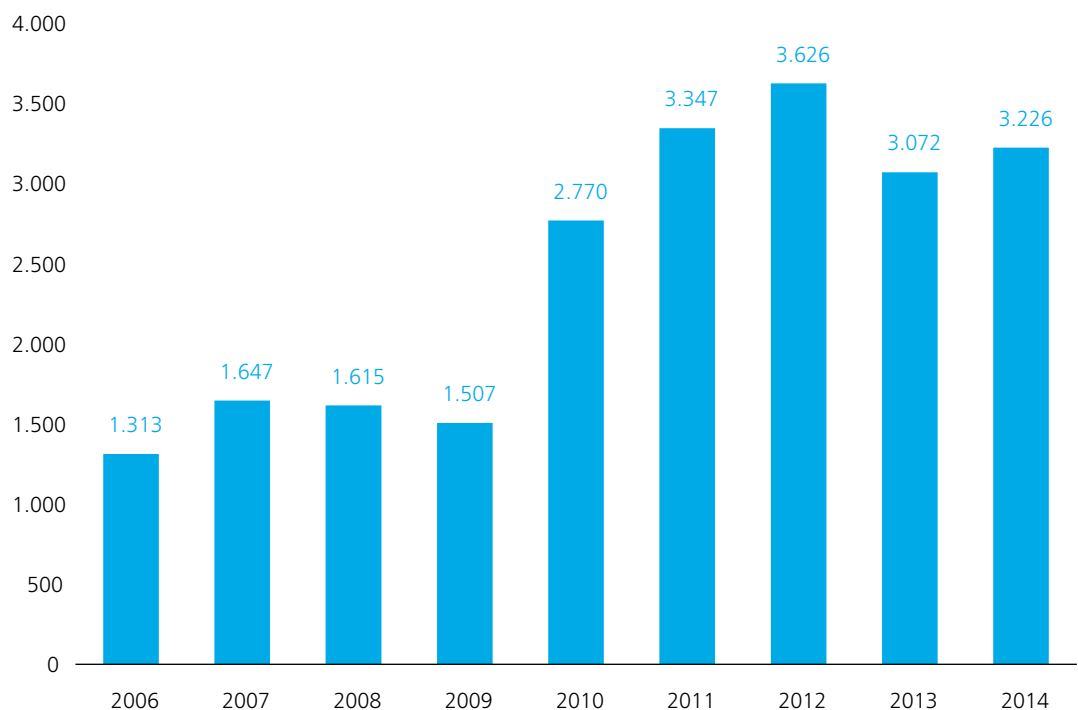
- Argentinean GDP growth is expected to be null in the short term as macroeconomic policy tightening and rapid currency depreciation reduce aggregate demand, but this will set the stage for a pick-up in exports, investment and private consumption in the medium term.
- Macroeconomic adjustments will subdue activity in the short term and prompt a contraction in real GDP in 2016 of 0.3%, but will boost net exports and pave the way for GDP growth rates approaching 4% in 2018-20.
- After 15 years of struggle between Argentina and the holdout creditors of its sovereign restructured debt, the conflict that keeps the country on Selective Default status seems to be coming to an end. Argentina has reached an agreement with holdout creditors and has also repealed laws that were preventing the payment of the defaulted debt.
- President Mauricio Macri announced the removal of export taxes in many sectors such as meat, wheat and corn. This decision was taken as part of his plan to revitalize the country's massive farm sector following years of conflict with the previous administration. Export tax on soybeans were cut from 35% to 30%, and would be reduced by 5% every year.
- Macri has shut-down a series of strict capital controls which generated a positive perspective in the local market.
- The new administration replaced the DJAI (anticipated declaration on oath for importations) import permits system, which required individual authorizations from the AFIP, the Argentine tax authority, and which were forbidden by the World Trade Organization, with the simplified Integral System for Import Monitoring (SIMI). Even Though, SIMI is not yet fully operational, it is expected to become more efficient than DJAI.

# Industry overview

## Relevant data.

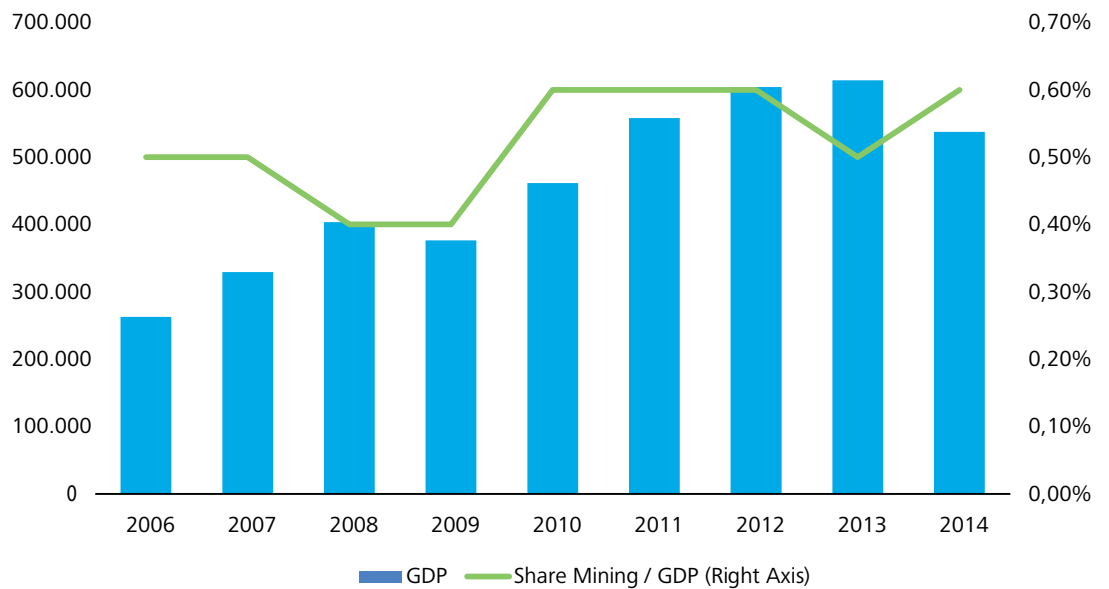
- In 2014, the mining industry contributed with U\$S 15.200 million to GDP, accounting a Compound Annual Growth Rate (CAGR) of 117% since 2003.
- Mining contributes with 3.2% of gross domestic product; 6% of employment, 7.4% of exports and 1% of companies based in Argentina.
- Between 80% and 85% of that contribution to GDP corresponds to the extraction of fuel, followed by non-metallic minerals, and metallic minerals.
- Nowadays, mining industry employs around 41.000 people, with an average monthly gross salary of U\$S 1892. Considering the whole industry, total employees rise to 94.000 (taking into account suppliers, contractors, etc.)
- Actually, nine out of ten companies in the local mining are SMEs. In this context, there are many investment opportunities in unexploited projects, due to the lack of financing for these type of companies.
- The new government has lifted exports restrictions. This will ultimately lead to lower costs (-8%) and a greater perception of sales (+5%). Meanwhile, the national government will no longer collect from this year about U\$S 223 million for the removal of these export duties.
- The tax structure of this activity is exempt from withholding tax, but is made up of royalty payments to the provinces, taxes, duties, taxes and service fees remuneration to the Nation, provincial governments and municipalities.
- Mining has the added benefit of fiscal stability, which does not involve the removal of taxes, but the freezing of the same from the moment it begins running the mining proposal.

## Gross value added (in US\$ millions)



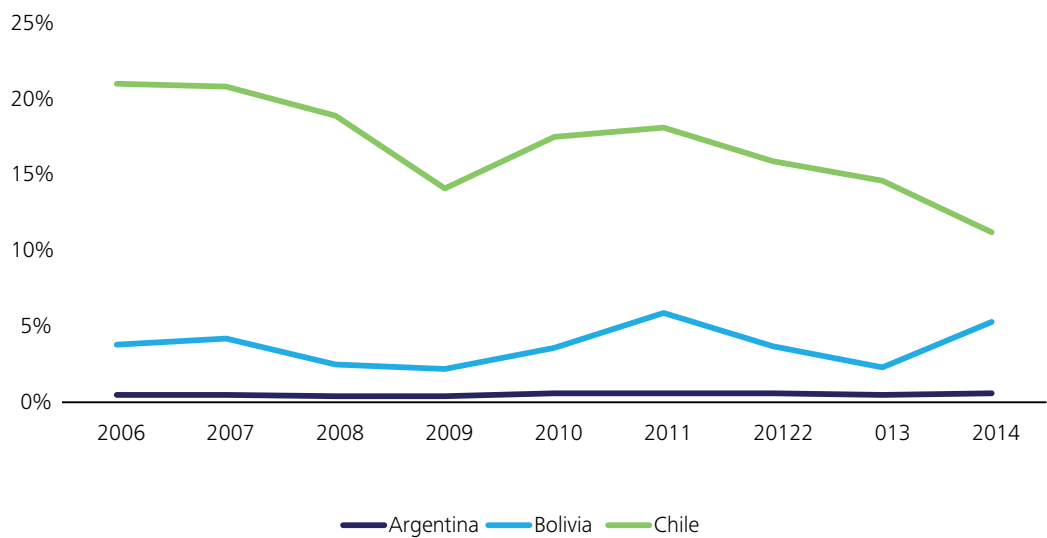
Sources: "Mining Press"; "Economist Intelligence Unit"

### Argentine Gross Domestic Product (GDP) Vs. Mining Relevance in GDP (%)



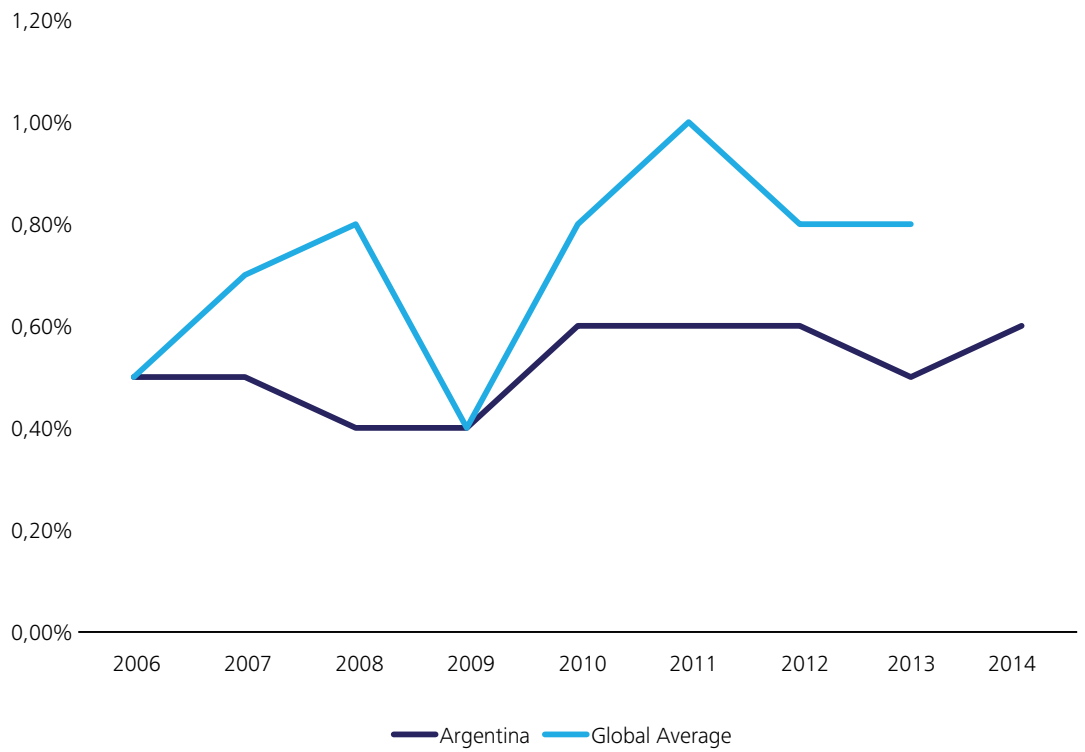
As we can see, according to data provided by the World Bank, the participation of mining in Argentina's GDP has remained in recent years at values ranging between 0.4% and 0.6%. Therefore, the value added by the industry has been more affected by changes in national GDP than by variations in participation on this indicator.

### Comparison between Argentina, Bolivia and Chile



Sources: "World Bank"; "Mining Press"

### Argentina Vs. global average



Note 1: There are no references about the global average in 2014.  
Source: World Bank, World Gold Council

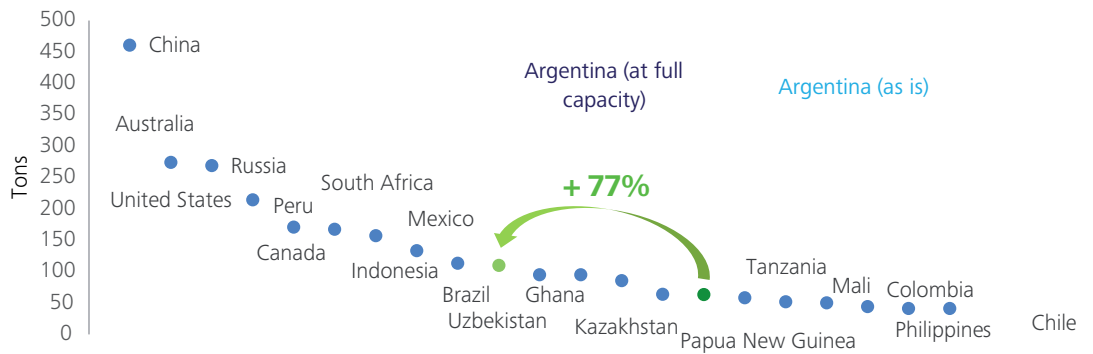


**Potential in the Argentinian mining sector.**

The contribution to the economy of the mining sector in Argentina is considerably low in relation to Bolivia and Chile, and to the world's average. However, it is expected that the industry will gain importance, especially from larger investments that may be attracted by changes in market conditions supported by strong incentives from the national government to

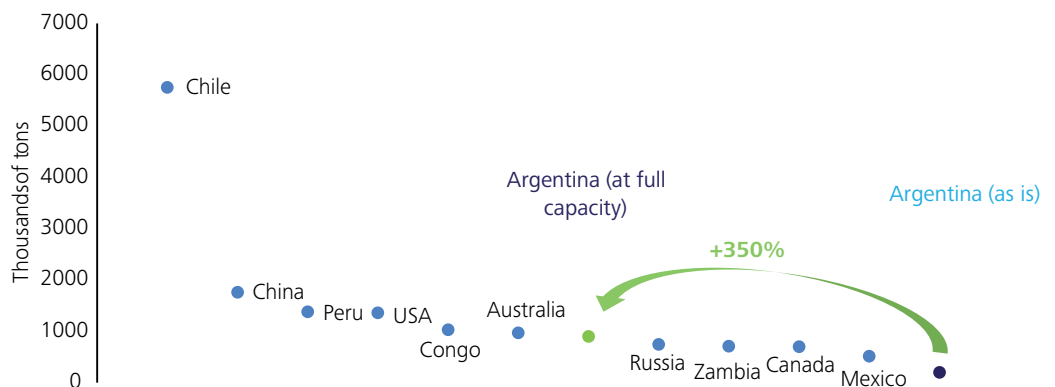
mining industry. In addition to the improvement on the market conditions, the sector offers lots of investment opportunities due that it is considerably underexploited compared to other countries in the region. According to sources from the national chamber of mining companies (CAEM), only 15% of the mining fields have been exploited.

**Gold production world ranking by country - 2015**



Nowadays, Argentina produces 55 tons of gold per year, way behind countries like Australia, Canada, China, USA, Russia and South Africa that account more than 150 tons of annual production. However, according to data from the mining chamber of San Juan province, there have been identified gold mining fields that contain more than 80 million gold ounces. Experts suggest that in the following years with the reactivation of operations on projects like Pascua Lama, Agua Rica, el Altar, Bajo del Durazno and Distrito Vicuña, gold production could reach 110 tons per year, entering in the top 10 of the global ranking of gold production.

**Cooper production world ranking by country - 2015**



Note 1: There are no references about the global average in 2014. Source: World Bank, World Gold Council

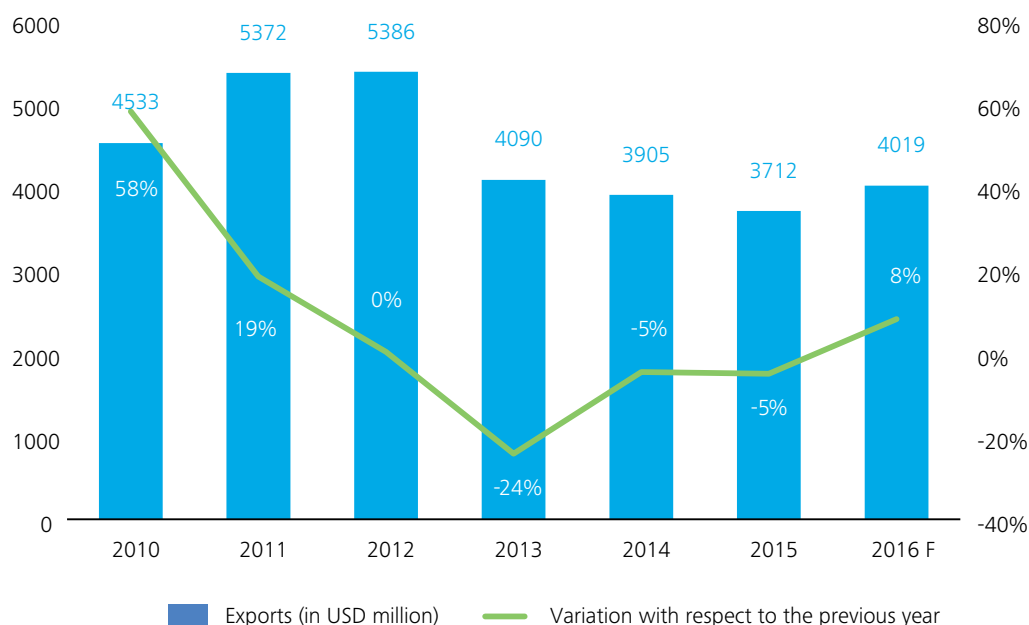
Cooper is even more unexploited than gold, with 200 thousand tons per year compared to the 1 million annual tons produced by countries like Australia, China, Congo, USA and Peru, and way behind the 6 million annual tons of Chile, the world's largest producer. According to national experts in the field, the country has the potential to reach the 900 thousand annual tons, reaching the 7th place on the world cooper production ranking. Regarding Silver, Argentina nowadays contributes for the 3,2% of the global production and there has been discovered reserves of around 1.500 million ounces. Finally, regarding Lithium, although there are no exact figures to measure the existent reserves, many studies suggest that Argentina has the potential to reach a global leading position on the production of this mineral.

### Foreign trade.

According to National Statistics Institute (INDEC), in 2014, the mining industry exported US\$ 3.905 millions to 68 countries world-wide. In terms of total Argentinian exports, this amount represented around 5,4%.

Forecasts for 2016 are favorable for the industry. Gold exports are expected to grow, mainly due to the operations of the new project "Don Nicolas". Meanwhile, lithium projects could double production of 2015 exploitations. This explains the exports forecast for 2016, which are expected to reach more than US\$ 4.000 million by the end of this year.

**Mining exports (in US\$ millions)**



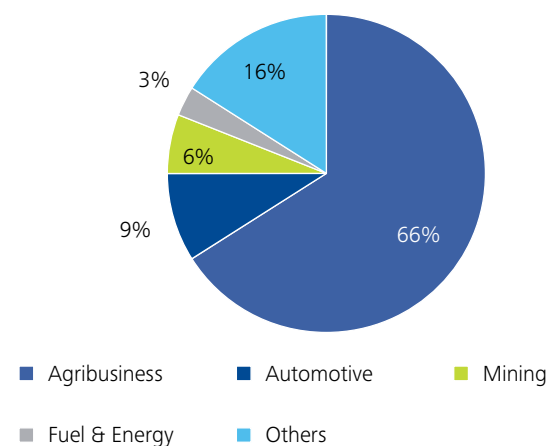
Note: F stands for forecasted values in the graph.



### Ranking of exports (in US\$ millions)

Industry	Exports	% of relevance
Agribusiness	40.669	66%
Automotive	5.749	9%
Mining	3.712	6%
Fuel & Energy	1.849	3%
Others	9.641	16%
<b>TOTAL</b>	<b>61.620(*)</b>	<b>100</b>

### Relevance on Total Exports

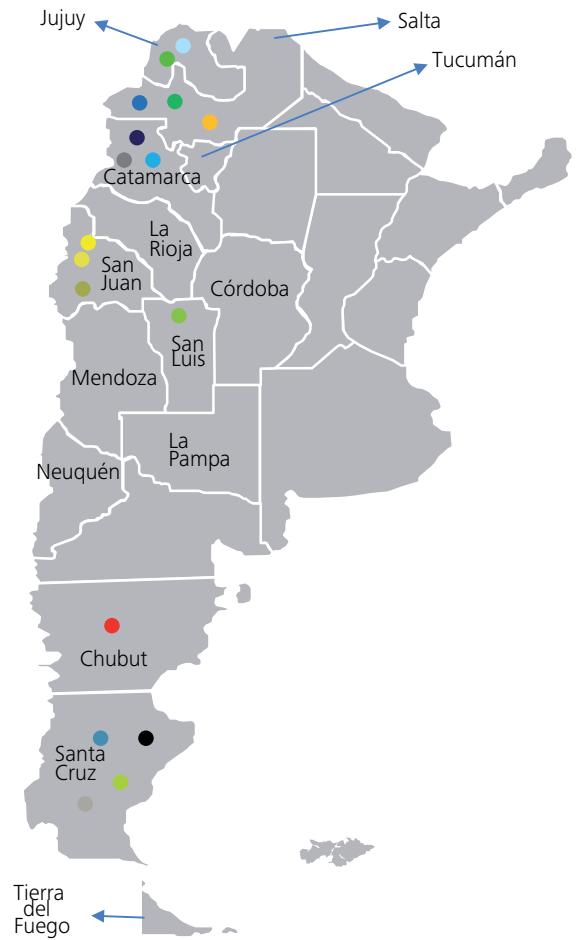


Note: (\*) This value has been estimated with data from Sources: "Diario Clarín", "Asociación de Fábricas de Automotores (ADEFSA)", "Mining Press"

### Current status of the field of mining in the main provinces.

Province	Restriction
Mendoza	Mining is permitted except those activities which involve the use of toxic substances such as cyanide, mercury and sulphuric acid in opencast mining (law number 7722). However, the court of the province of Mendoza is denying every mining activity. In spite of this the Government of the Province of Mendoza is attempting to promote a "non-polluting mining".
Chubut	Mining is permitted, except opencast mining and the use of cyanide for any type of entrepreneurship (law number 5001).
Córdoba	Mining is permitted, except opencast mining for uranium and thorium extraction (law number 9526).
Tierra del Fuego	Mining is allowed, except opencast mining (law number 853)
La Rioja	Law number 9526 prohibits opencast mining and the use of toxic substances such as cyanide, mercury and sulphuric acid
La Pampa	Mining is permitted except those activities which involve the use of toxic substances such as cyanide, mercury and sulphuric acid (law number 2349)
Tucumán	Law Number 7879 prohibits opencast mining and the use of cyanide, mercury and such toxic substances
Neuquén	There are no special restrictions for mining in this province except for the municipalities of Aluminé, Junín de los Andes, Las Coloradas, Loncopué y San Martín de los Andes, where opencast Mining is prohibited
Salta, Catamarca, San Juan, Santa Cruz	None of these provinces have restrictions for mining

## Main projects in Argentina



### Key

- |   |   |   |   |
|---|---|---|---|
| <span style="color: #00AEEF;">●</span> Bajo la Alumbreira | <span style="color: #000080;">●</span> Bajo el Durazno  | <span style="color: #666666;">●</span> Sal de Vida    | <span style="color: #00B050;">●</span> Salar de Ratones |
| <span style="color: #0070C0;">●</span> TACA-TACA          | <span style="color: #FFA500;">●</span> Diablillos       | <span style="color: #ADD8E6;">●</span> Salar Cauchari | <span style="color: #008000;">●</span> Salares de Jujuy |
| <span style="color: #808000;">●</span> El Pachón          | <span style="color: #FFFF00;">●</span> Los Azules       | <span style="color: #FFFF00;">●</span> Veladero       | <span style="color: #FF0000;">●</span> Navidad          |
| <span style="color: #808080;">●</span> Lomada Leiva       | <span style="color: #008080;">●</span> Manantial Espejo | <span style="color: #90EE90;">●</span> Cerro Negro    | <span style="color: #000000;">●</span> Don Nicolás      |
| <span style="color: #008000;">●</span> Agua Rica          |   |   |   |

Project	Minerals	Geographical location	Company in charge of the project	Project stage	Annual production
"Bajo la Alumbraera"	Gold Copper Concentrated minerals	Province of Catamarca, Argentina	Yacimientos Mineros de Agua de Dionisio (YMAD) Glencore Goldcorp Yamana Gold	In the process of exploitation	"Bajo el Durazno" will improve "Bajo la Alumbraera" project's productivity and it is going to expand that project's shelf life ("Bajo la Alumbraera" project will be ending in 2017). Meanwhile it is expected to reach production levels of 60,000 tons of concentrate, 15,000 tons of copper and 100,000 tons of gold in the period 2015/2016
"Bajo el Durazno"	Gold Copper Concentrated minerals	Province of Catamarca, Argentina	Yacimientos Mineros de Agua de Dionisio (YMAD) Glencore Goldcorp Yamana Gold	In the process of exploitation	
"Sal de Vida"	Lithium	Province of Catamarca, Argentina	Galaxy	In exploration	No data available
"Agua Rica"	Copper Gold Silver	Province of Catamarca, Argentina	Yamana Gold Goldcorp	Feasibility Analysis	No data available
"Salar de Ratones"	Lithium	Province of Salta, Argentina	Eramet	In exploration	No data available
"TACA – TACA"	Gold Copper	Province of Salta, Argentina	First Quantum Minerals	In exploration	No data available
"Diablillos"	Silver Tin Zinc	Province of Salta, Argentina	Silver Standard	In exploration	No data available
"Salar Cauchari"	Lithium	Province of Jujuy, Argentina	Posco Minera Exar Jujuy Energía y Minería Sociedad del Estado (JEMSE)	In exploration	No data available
"Sales de Jujuy" (Olaroz)	Lithium Potassium chloride	Province of Jujuy, Argentina	Orocobre LTD Toyota Jujuy Energía y Minería Sociedad del Estado (JEMSE)	In exploration	It is expected to reach production levels of 17.500 tons/year in September 2016
"El Pachón"	Molybdenum Copper	Province of San Juan, Argentina	Glencore	Stopped	No data available
"Los Azules"	Copper	Province of San Juan, Argentina	McEwen Mining Inc.	In a "high level" of exploration	No data available
"Veladero"	Gold	Province of San Juan, Argentina	Barrick Gold	Stopped by legal issues	It was expected to reach production levels between 575,000 and 625,000 oz. by the end of 2015
"Navidad"	Silver Lead Copper	Province of Chubut, Argentina	Pan American Silver Corp.	Stopped by legal issues	No data available
"Lomada Leiva"	Gold	Province of Santa Cruz, Argentina	Patagonia Gold S.A.	In the process of exploitation	21,542 oz. of gold
"Manantial Espejo"	Gold Silver	Province of Santa Cruz, Argentina	Pan American Silver Corp.	In the process of exploitation (final stage)	It was expected to reach production levels between 3,650,000 and 3,800,000 oz. of silver and between 69,000 y 72,000 oz. of gold by the end of 2015.
"Cerro Negro"	Gold	Province of Santa Cruz, Argentina	Goldcorp Inc.	In the process of exploitation	It was expected to reach production levels between 425,000 and 475,000 oz. by the end of 2015
"Don Nicolás"	Gold Silver	Province of Santa Cruz, Argentina	Compañías inversoras en minas (CIMINAS)	In the process of exploitation	No data available. The company began its operations in the course of 2015.

### Fiscal Stability Law in Argentina

The mining industry is an industry that requires large investments, high risk and therefore needs to function within a legal framework that gives certainty. Imposing new taxes on companies that have been granted careful not impose them against the security required for investment.

The law stipulates that mining projects within the regime will enjoy fiscal stability for a period of thirty years from the date of its feasibility study.

During the period mentioned above, the law prohibits:

- The creation of new taxes
- The increase in the rates, fees and amounts
- The change in the mechanisms or procedures for determining the taxable amount of a tax
- The repeal of exemptions granted
- The elimination of deductions allowed
- Incorporating the scope of a tax situations that were exempted
- Repeal or implementation of other regulations, general or special modifications, to the extent that it implies taxing the situations or cases that were reached at the date of submission of the feasibility study or increasing a tax with a negative impact on the taxpayer in quantifying corresponding tax

The provinces adhere to the regime and who receive royalties or decide to perceive, may not charge a higher rate to three percent (3%) on the "mine mouth" value of the mineral extracted ("Mineral mine mouth" is considered, the mineral extracted, transported and / or accumulated prior to any transformation process).

Any alteration to the principle of fiscal stability by the provinces and municipalities adhered and in accordance with this regime, will entitle registrants affected to claim before national or provincial authorities, as appropriate, to be withheld from the "shared funds" of the uncompileable fiscal entity (which correspond to the amounts overpaid) to proceed to practice the return to the taxpayer.



## Players of the main projects

Company	Projects in charge	Revenues	Employee	Origin of Capitals
Goldcorp Inc.	<ul style="list-style-type: none"> <li>Bajo La Alumbreira</li> <li>Bajo El Durazno</li> <li>Cerro Negro (The company is the sole owner of this project)</li> </ul>	USD 4,14 billions.	10,652 Employees	USA
Glencore	<ul style="list-style-type: none"> <li>Bajo La Alumbreira</li> <li>Bajo El Durazno</li> <li>El Pachón (The company is the sole owner of this project)</li> </ul>	USD 192.72 billions (including other activities different from mining).	160.000 Employees (including other activities different from mining)	Switzerland
Pan American Silver	Pan American Silver is the sole owner of: <ul style="list-style-type: none"> <li>Manantial Espejo</li> <li>Navidad</li> </ul>	USD 751,9 millions	7,000 employees and contractors working at seven mines in Mexico, Peru, Bolivia and Argentina, plus their corporate office in Canada.	Canada
Yacimientos Mineros de Agua de Dionisio (YMAD)	<ul style="list-style-type: none"> <li>Bajo La Alumbreira</li> <li>Bajo El Durazno</li> </ul>	USD 17,5 millions.	480 employees	Argentina (SOE)
Yamana Gold	<ul style="list-style-type: none"> <li>Bajo La Alumbreira</li> <li>Bajo El Durazno</li> <li>Agua Rica (The company is the sole owner of this project)</li> </ul>	USD 1,28 billions.	7,000 people in America	Canada
Eramet	<ul style="list-style-type: none"> <li>Salar de los Ratones (The company is the sole owner of this project)</li> </ul>	USD 3,11 billions.	14,000 people in 20 countries	France
First Quantum Minerals	<ul style="list-style-type: none"> <li>TACA - TACA (The company is the sole owner of this project)</li> </ul>	USD 2,70 billions.	6,500 employees.	Canada
Silver Standard	<ul style="list-style-type: none"> <li>Diablillos (The company is the sole owner of this project)</li> </ul>	USD 375.32 millions.	1,014 employees.	Canada
Posco	<ul style="list-style-type: none"> <li>Salar Cauchari</li> </ul>	USD 47,31 billions.	17,388 employees.	Korea
Minera Exar	<ul style="list-style-type: none"> <li>Salar Cauchari</li> </ul>	No data available.	100 employees.	Argentina
Jujuy Energía y Minería Sociedad del Estado (JEMSE)	<ul style="list-style-type: none"> <li>Salar Cauchari</li> <li>Salares de Jujuy - Olaroz</li> </ul>	No data available.	No data available.	Argentina (SOE)
Orocobre LTD	<ul style="list-style-type: none"> <li>Salares de Jujuy - Olaroz</li> </ul>	USD 22,31 millions	318 employees.	Australia
McEwen Mining Inc.	<ul style="list-style-type: none"> <li>Los Azules (The company is the sole owner of this project)</li> </ul>	USD 75,23 millions.	273 employees.	USA / Canada
Patagonia Gold S.A.	<ul style="list-style-type: none"> <li>Lomada Leiva (The company is the sole owner of this project)</li> </ul>	USD 34,27 millions.	100 employees.	Argentina
Compañías inversoras en minas (CIMINAS)	<ul style="list-style-type: none"> <li>Don Nicolás</li> </ul>	No data available.	150 employees.	Argentina

Note: This table shows the players of the main projects.

Source: "Argentinian Center for Engineers (CAI)"; "Argentinian Chamber of Mining Businessmen (CAEM)"; "One Source"; "Mining Press"; "Yahoo Finance"

# Main Investments Vehicles and the General Tax Regime in Argentina

## Main investment vehicles

	Operating as a branch of a foreign entity	Operating as an Argentinian based corporation (Public or Limited)
Registration requirements	<p>Comply with a number of obligations related to the external supervision of the IGJ (authority that inscribes and carries registration of companies, associations and foundations).</p> <p>Inform and submit evidence of whether there is any legal restriction to carry out any of their principal activities in their jurisdiction of incorporation.</p> <p>Prove their operations outside Argentina, when requesting the registration.</p> <p>Annually submission of an accountant's certificate showing the composition and value of its current and non-current assets located outside Argentina.</p>	<p>The entities must be registered with the Public Registry of Commerce of the jurisdiction of incorporation.</p> <p>Foreign companies must record their articles of incorporation and by-laws, in order to be holders of the entities.</p> <p>In order to ask for the registration, foreign entities must:</p> <ul style="list-style-type: none"> <li>• Inform and submit evidence of whether there is any legal restriction to carry out any of their principal activities in their jurisdiction of incorporation.</li> <li>• Prove their operations outside Argentina, when requesting the registration.</li> </ul>

## The general Argentina tax regime

### Potential in the Argentinian mining sector

- **Rate: 10%**
- Withheld at the time of payment to foreign beneficiaries.
- Additionally dividends paid in excess of taxable accumulated retained earnings for the previous fiscal period are taxed at the corporate rate of 35% of such excess.

### Capital Gains Tax on sale of shares or quotas by foreign residents

- **Rate: 13,5% on sales price or 15% on net income**
- Capital gains recognized by non-resident individuals/entities from the sale of shares. To be determined in historical ARS. In principle indirect sales are out of the scope of the tax.

### Tax on debits and credits in bank accounts

- **Rate: 0,6% on debits and 0,6% on credits** (0,2% on credits creditable against income tax).

### Corporate income Tax

- **Rate: 35%**
- Net taxable incomes are taxed by the corporate income tax.
- Mining companies may deduct in the tax balance of income tax, one hundred percent (100%) of

the amounts invested in exploration expenditures, exploration, special studies, mineralogical studies, metallurgical pilot plant, applied research, and other work to identify the technical and economic feasibility of the same.

- Earnings contributions from mines and mining rights, as capital in companies developing activities under this scheme, shall be exempt from income tax.

### Tax on Minimum Presume Income (Corporate Asset Tax)

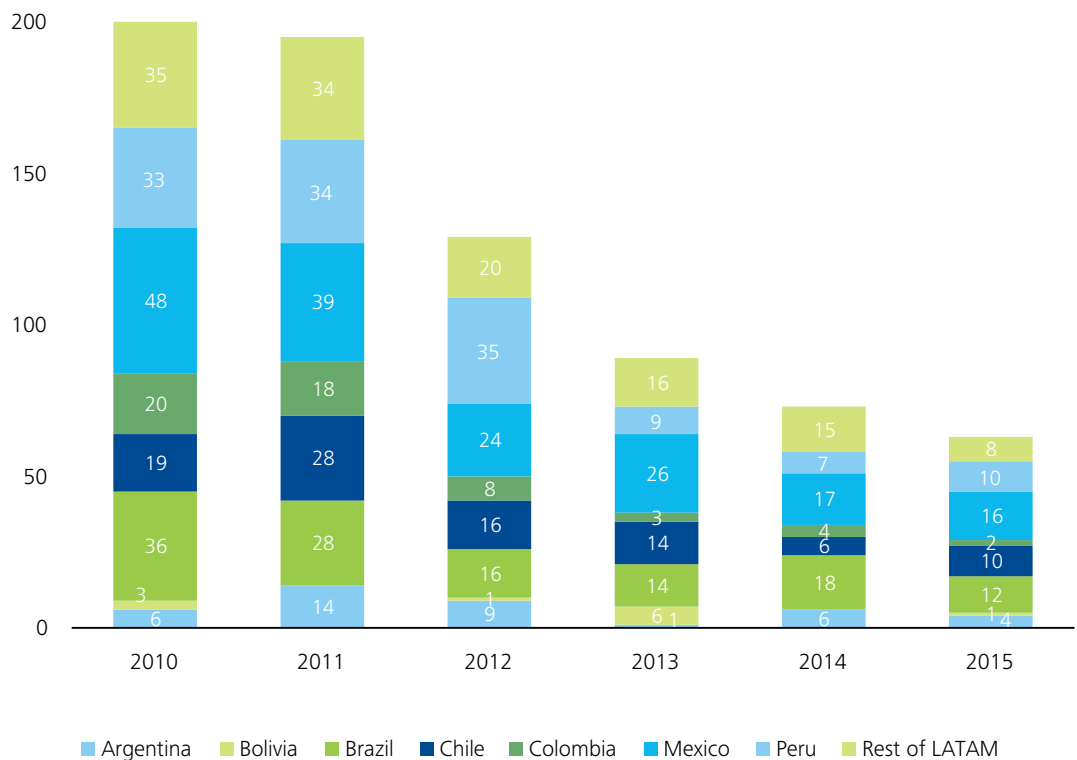
- **Rate: 1%**
- Basis: all assets in Argentina and abroad owned by local companies. This tax complements income tax as the tax liability will coincide with the higher of such taxes.
- Participation in other local companies is not subject to the tax.
- **Assets belonging to the mining are exempt.**

### Personal Assets Tax

- **Rate: 0,5%**
- Basis: Foreign entities are responsible for the personal asset tax on the value of any shares issued by Argentine entities. Value is based on the net equity book value as of December 31st each year. Argentine issues of such shares must pay this tax in substitution of the relevant shareholders and seek reimbursement from them.

# Historic trend of mining M&A activity in LATAM

**LATAM overview - amount of M&A deals by country**



## LATAM analysis

In the last 6 years, 756 agreements were recorded in the mining industry (LATAM), which mean an investment of around USD 73.670 millions.

In recent years, volume of agreements has steadily decreased mainly due to the decline in metals prices. However, this is not the only reason for the drop in the level of investment. Economic and political crises in the region have "scared away" investors generating a huge impact on the volume of agreements registered.

A clear example of the above is how the Chilean economy has felt the impact of the falling price of copper (the most important metal for the Chilean mining), or decrease in the level of investment in Brazil (one of the countries with increased investment in LATAM) as a result of its political crisis.

Regarding Argentina, its participation in the amount of deals in the mining industry in Latin America is not significant (the country recorded only 5% of the total volume of corresponding agreements to 2010-2015), despite being a country with great potential for growth in mining.

## Main deals in Argentina and LATAM's mining industry

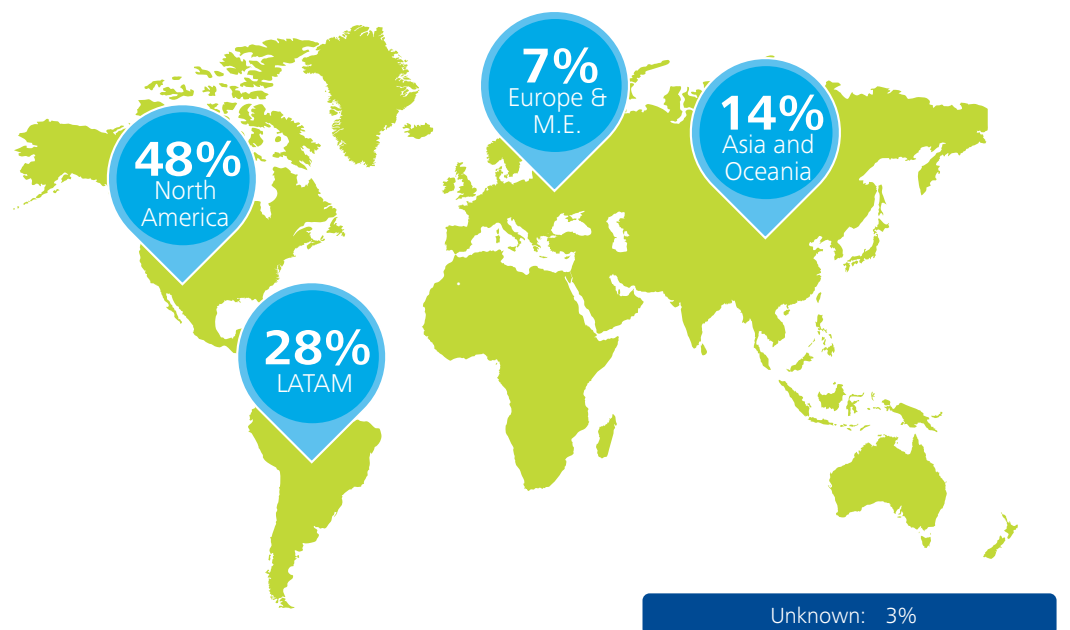
### Main agreements registered in Argentina

Year	Investor	Deal Value (USD millions)
2011	Ternium SA	250
2012	Mirasol Argentina SRL	60,45
2012	Borax Argentina SA	8,5
2011	Oxbow Holdings Corp	8,24
2014	Coro Mining-San Jorge Project	5

### Main agreements registered in the region

Year	Target Nation	Investor	Deal Value (USD millions)
2011	Mexico	Minera Frisco SAB de CV	7.164,62
2014	Peru	Xstrata Peru SA	7.011,26
2011	Chile	Anglo American Sur SA	5.390
2011	Brazil	Vale SA-Aluminum Operations	4948,26
2011	Brazil	Vale SA	3.000

### Origin of capitals





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