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16.0 ECONOMIC ANALYSIS

16.1 Summary of Results

The financial analysis for the Guanaco project using a discount rate of 8% indicates that the after tax project NPV is US\$32.9 million and the IRR is 36.9%. The cumulative undiscounted cash flow value for the project is US\$57.4 million and the payback period is 3 years.

The financial results are summarized in Table 16.1-1 for life of mine (LOM). C1 cash costs are as defined by Brook Hunt and are shown as costs per ounce of payable gold.

Table 16.1-1: Summary of Financial Results (after tax)

Item	Unit	LOM
Gold payable	Koz	278
Silver payable	Koz	550
Total cash costs	\$/oz	586.9
Silver credit	\$/oz	(30.02)
Cash costs net of credits (C1 Net Direct Cash Cost)	\$/oz	556.88
Cumulative net cash flow	\$M	57.4
Internal rate of return	%	36.9%
Net present value @ 8%	\$M	32.9
Mine life	Years	5.5
Payback period	Years	3.0
Total start-up capital	\$M	56.2
Total LOM capital (inc. closure cost and salvage)	\$M	55.1

The annual cash flows and cumulative cash flow are shown in the Figure 16.1-1. As can be seen, payback is three years after the start of the project.

Figure 16.1-2 shows the project rate of return before tax and after tax.

Figure 16.1-1: After Tax Net Cash Flow (Undiscounted)

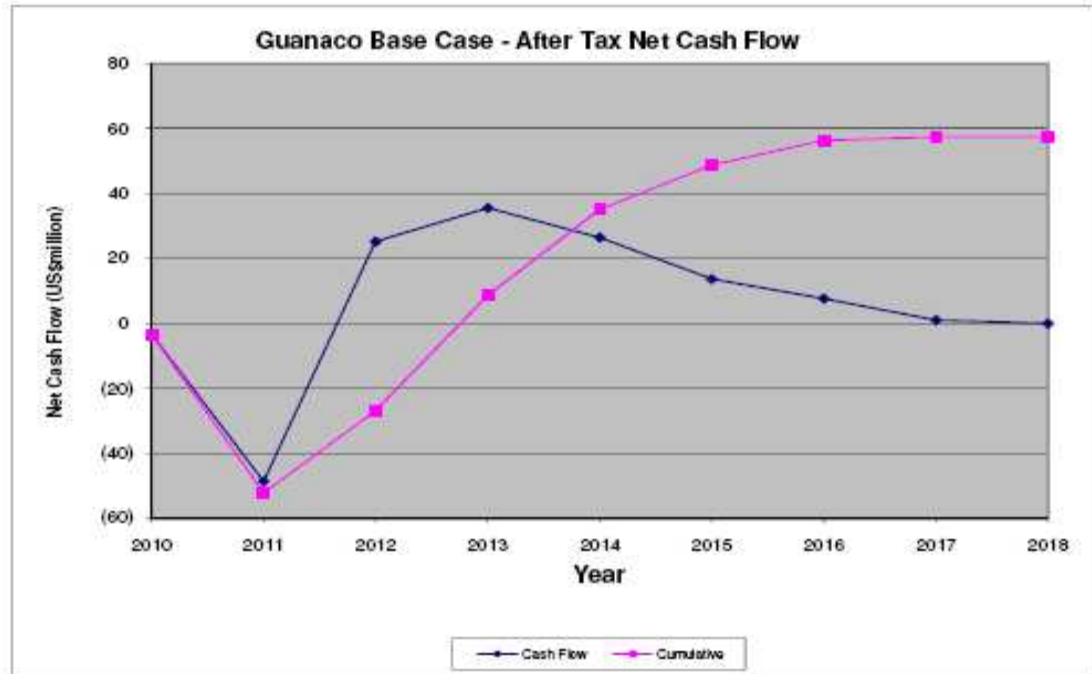
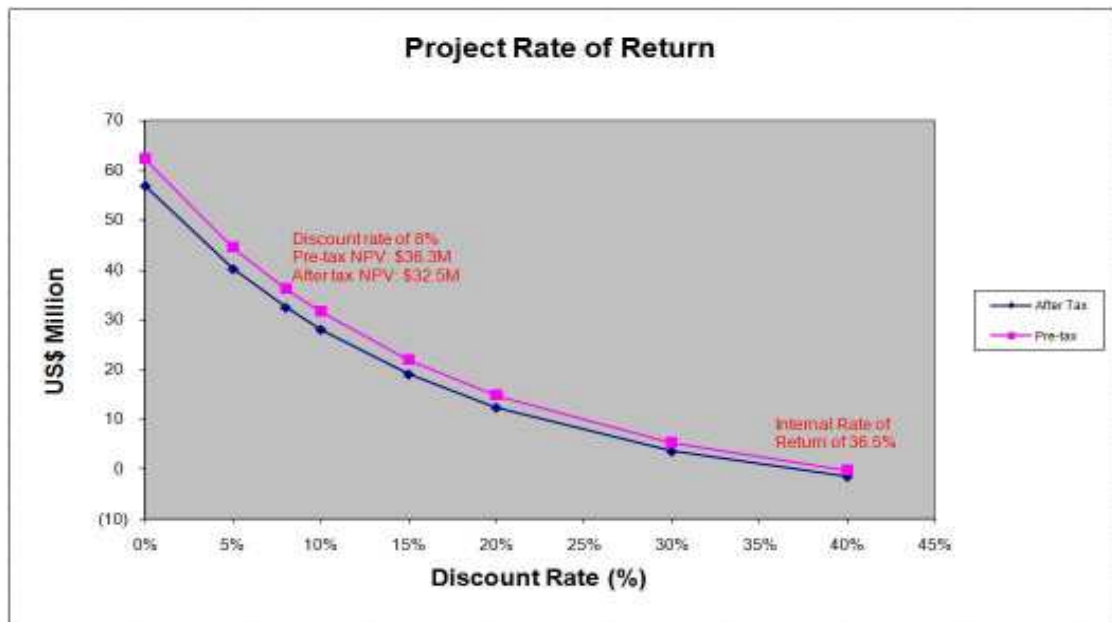


Figure 16.1-2: Project Rate of Return



The project is most sensitive to changes in metal price, less so to changes in operating costs, and least sensitive to capital cost changes.

The results of the economic analysis represent forward-looking information that are subject to a number of known and unknown risks, uncertainties, and other factors that may cause actual results to differ materially from those presented here.

16.2 Valuation Methodology

The financial analysis of the Guanaco project was carried out using a discounted cash flow (DCF) approach. This method of valuation requires projecting yearly cash inflows (or revenues) and subtracting yearly cash outflows (such as operating costs, capital costs, royalties, and taxes). The resulting net annual cash flows are discounted back to the date of valuation and totalled in order to determine the Net Present Value (NPV) of the project at selected discount rates.

The internal rate of return (IRR) is expressed as the discount rate that yields an NPV of zero.

The payback period is the time calculated from the start of project cash flows until all initial capital expenditures have been recovered.

This economic analysis includes sensitivities to variations in operating costs, capital costs, and metal prices.

All monetary amounts are presented in United States dollars (US\$). For discounting, cash flows are assumed to occur at the end of each period.

16.3 Financial Model Parameters

16.3.1 Resource and Mine Life

This resource will be processed at an average rate of 1.8 Mtpa over a planned mine life of approximately 5.5 years.

16.3.2 Metallurgical Balance

Gold and silver recoveries are estimated for each year of production and average 72.4% and 49.1% respectively. GCM informed values are shown in Table 16.3-1. Table 16.3-2 shows the gold and silver production for the LOM.

Table 16.3-1: Metal Recovery

Ore Source	Au Recovery to Doré (%)	Ag Recovery to Doré (%)
Underground & stockpiles	93.0	82.0
Leach Pad	46.0	40.0
Open Pit	60.0	50.0
Average	72.4	49.1

Table 16.3-2: Metal Production

	Year	2010	2011	2012	2013	2014	2015	2016	Total
Gold	(Koz)	5	31	65	64	57	39	16	278
Silver	(Koz)	16	93	122	102	95	77	45	550

16.3.3 Smelting and Refining Terms

The Base Case incorporates smelting and refining terms shown in Table 16.3-3. It is assumed that the gold/silver doré will be collected by the refiner from the Guanaco mine.

Table 16.3-3: Smelting and Refining Terms

Terms	Unit	Value
Doré		
Monthly shipping charge	US\$/month	6,000
Insurance	%	0.25%
Doré metal content	%	99%
Gold		
Pay factor	%	100%
Charge per ounce	US\$/oz	0.25
Silver		
Pay factor	%	100%
Charge per ounce	US\$/oz	0.01
Doré refining charge	US\$/oz	0.58

16.3.4 Metal Prices

This analysis uses a constant silver price and a reverting price curve for gold. These prices are shown in Table 16.3-4.

Table 16.3-4: Metal Prices

	Year	2010	2011	2012	2013	2014	2015	2016
Gold	(US\$/oz)	1,127	1,075	1,038	1,010	990	974	962
Silver	(US\$/oz)	15.15	15.15	15.15	15.15	15.15	15.15	15.15

16.3.5 Operating Costs

Operating costs used for the financial analysis are averaged as follows:

Mining:	US\$5.31/t milled
Process:	US\$9.38/t milled
G&A:	US\$0.67/t milled.

16.3.6 Capital Costs

The distribution of the estimated project capital costs are as follows (see Section 14 for capital costs details):

Construction capital (inc. sustaining capital):	US\$56.2 M
Closure costs:	US\$2.1M
Salvage value:	US\$3.2M
Total project capital cost:	US\$55.1 M

16.3.7 Royalties

Royalty payments are due to Kinross and are calculated as a percentage of the net revenue on 100% of the production. There is also a royalty payable to Enami. This is calculated as 3% of gross income, however, an advance payment of \$6.5M has already been made. The royalties applicable are summarized in Table 16.3-5. Using base case metal prices the current financial model estimates the total value of royalty payments at \$8.7M.

Table 16.3-5: Royalty Terms

Royalty	Unit	Value
Kinross royalty		
Percentage of Net Revenue	%	5%
Enami royalty		
Percentage of gross income	%	3%
Advance payment made	US\$000	6,500

16.3.8 Working Capital

A working capital allocation of one month operating cost was included in the cash flow model. The allocation varies throughout the project life and peaks at \$3.1 million. The assumption is made that all of the working capital can be recovered at project termination. Thus, the sum of all working capital over life of mine is zero.

16.3.9 Taxes

AMEC does not provide expert advice on taxation matters. The tax calculations are made based on information provided by GCM together with documentation that is publicly available.

It is assumed that the Guanaco project will be subject to income and/or revenue taxes as per Table 16.3-6. It was assumed that GCM will re-invest profits in Chile; hence no dividend remittance tax is applicable. No municipal taxes or other levies were considered.

Table 16.3-6: Tax Assumptions

Corporate Income tax rate	%	17%
Government mining tax rate	%	4%

It should be noted that there is a second taxation category of 18% on dividends paid by a Chilean entity. This feasibility analysis has assumed that no dividends are paid.

The amount of income taxes payable for the duration of the project are US\$7.1 million, however, this is adjusted downward to US\$2.5 million due to a pre-payment of US\$4.6M by GCM. The total Mining Tax paid is US\$3.0 million.

16.3.10 Closure Costs and Salvage Value

Closure costs of US\$ 2.1 million and a salvage value of \$3.2 million have been included in the model.

16.3.11 Financing

The Base Case economic analysis is based on 100% equity financing.

16.3.12 Inflation

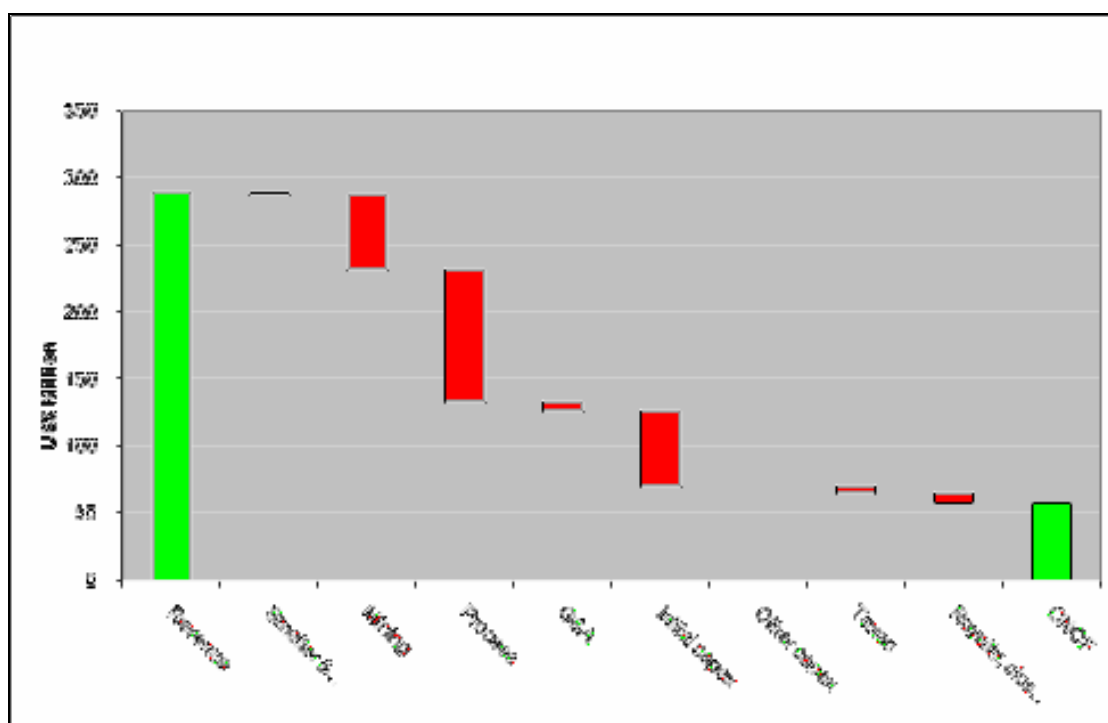
The Base Case economic analysis includes no inflation. Capital and operating costs are expressed in 2nd quarter 2010 US dollars.

16.4 Financial Results

Financial analysis of the Base Case showed the after tax project NPV (discounted at 8%) to be US\$32.9 million and the internal rate of return (IRR) to be 36.9%. The cumulative, undiscounted cash flow value for the project is US\$57.4 million and the payback period is 3 years. Detailed results of the model are included in Appendix D.

Project value creation is shown in the breakdown of total expenditure throughout mine life as compared to revenue (see Figure 16.4-1). The cumulative net cash flow (CNCF) of \$57.4 million can be seen on the lower right.

Figure 16.4-1: Project Value Creation



16.5 Cash Costs

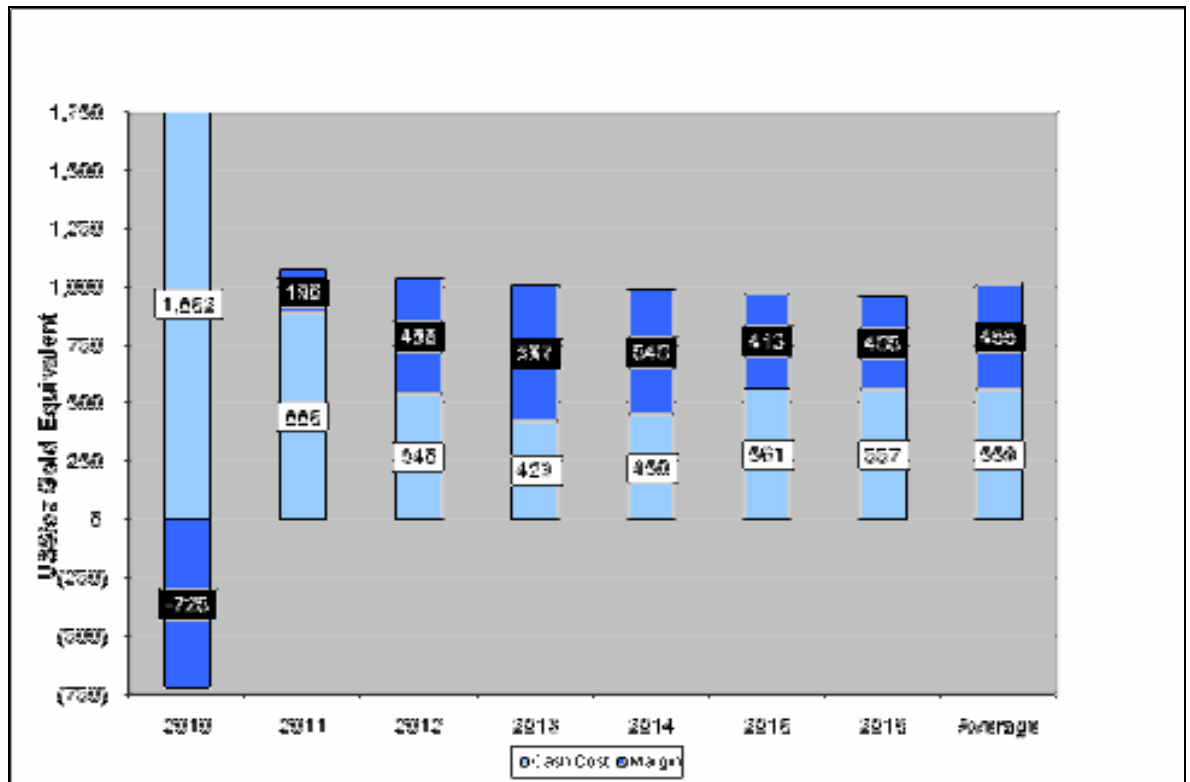
C1 Cash Costs, as defined by Brook Hunt are displayed in Table 16.5-1. The life of mine cash cost per ounce of payable gold is US\$556.88.

Figure 16.5-1 illustrates the varying margin over cash costs throughout the mine life. The initial year of operation shows a negative margin as metal production builds up.

Table 16.5-1: Summary of Cash Costs

Item	LOM total (kUS\$)	Cost per tonne milled (US\$/t)	Cost per ounce Au payable (US\$/oz)
Cash costs			
Mining	55,969	5.31	201.66
Process	98,913	9.38	356.39
G&A	7,053	0.67	25.41
Smelter costs	75	0.01	0.27
Refining costs	485	0.05	1.75
Dore transport	396	0.04	1.43
Sub-total	162,891	15.45	586.90
Credits			
Silver	(8,333)	(0.79)	(30.02)
Sub-total	(8,333)	(0.79)	(30.02)
Adjusted cash costs			
Total	154,558	14.66	556.88

Figure 16.5-1: Margin vs Cash Cost



16.6 Sensitivity Analysis

Sensitivity analysis was performed on the Base Case taking into account variations in metal prices, operating costs, and capital costs. The results are shown graphically for NPV in Figures 16.6-1 and 16.6-2 and for IRR in Figures 16.6-3 and 16.6-4. The results of the analysis show that the project sensitivity is (in order from highest to lowest) metal price, operating expenditure, capital expenditure.

Figure 16.6-1: Sensitivity of After Tax NPV Discounted at 8%

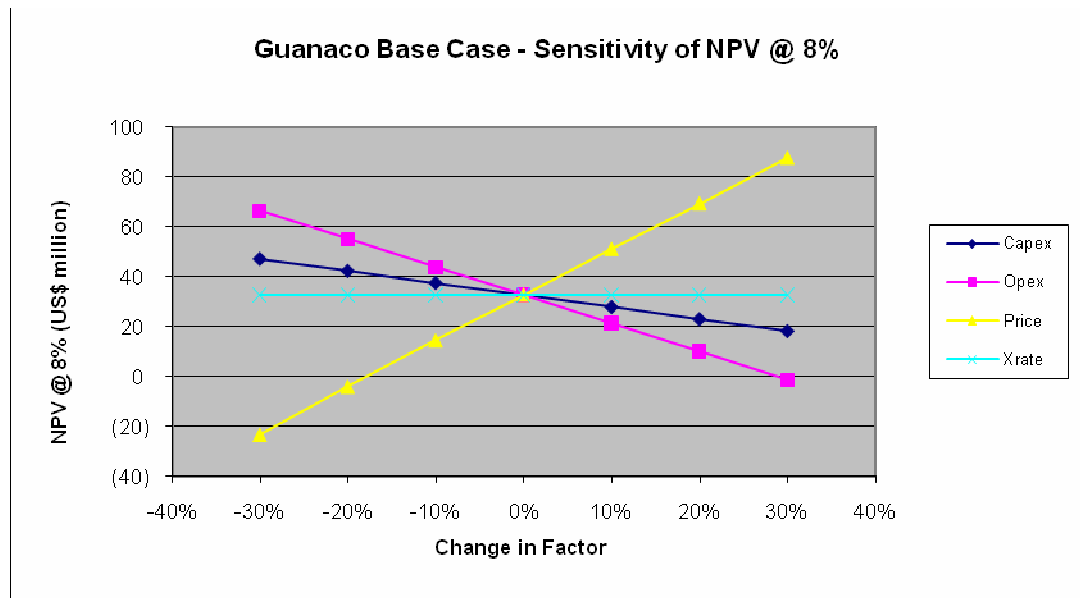


Figure 16.6-2: Sensitivity of After Tax NPV Discounted at 8%

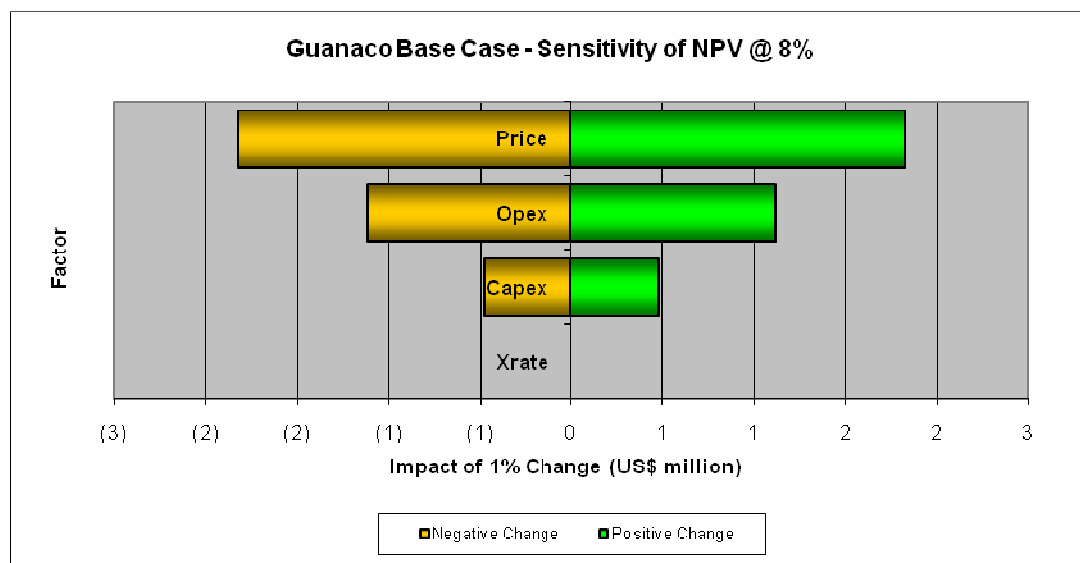


Figure 16.6-3: Sensitivity of After Tax IRR

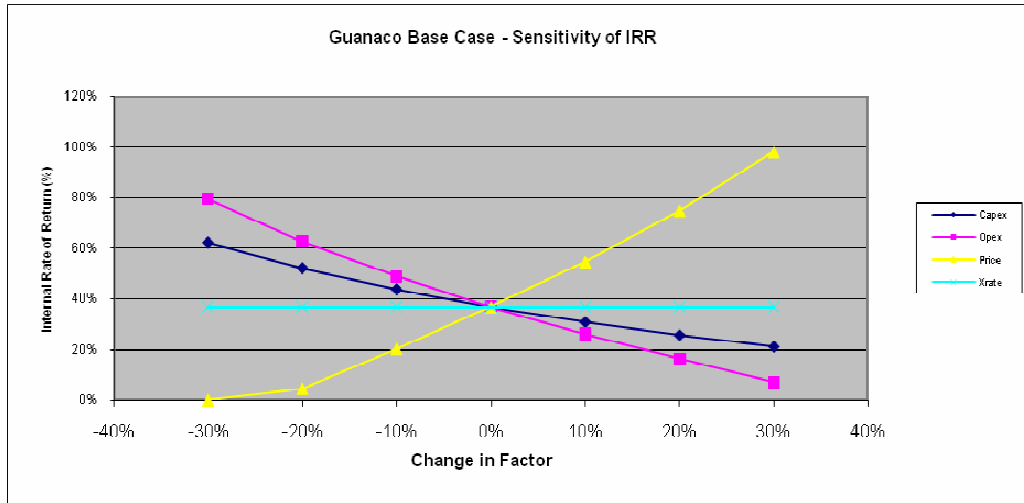


Figure 16.6-4: Sensitivity of After Tax IRR

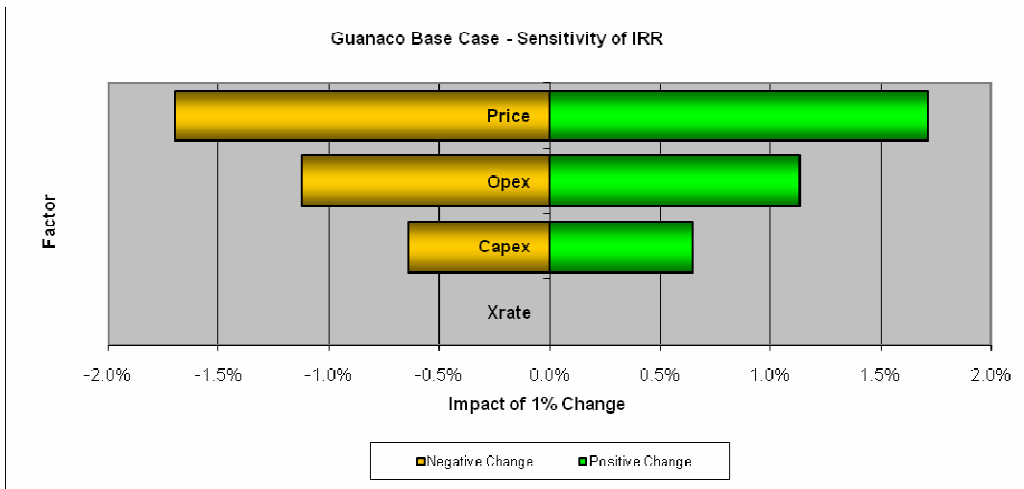


Table 16.6-1 shows the post-tax Internal Rates of Return and Net Present Values for a range of gold and copper prices.

Table 16.6-1: Sensitivity to Metal Price Changes

Item	Base Case	Case 2	Case 3	Case 4	Case 5	Case 6	Case 6
Gold (US\$/oz)	Variable	1,000	800	900	1,100	1,200	1,300
Silver (US\$/oz)	15.15	15.15	14.00	16.00	17.00	18.00	20.00
Internal Rate of Return (%)	36.9%	32.5%	3.7%	18.7%	47.0%	62.5%	79.9%
Cumulative Net Cash Flow (MUS\$)	57	55	6	32	76	97	118
Net Present Value 5% (MUS\$)	41	38	(2)	19	55	73	90
Net Present Value 8% (MUS\$)	33	30	(6)	13	46	61	77
Net Present Value 10% (MUS\$)	28	26	(8)	10	40	55	69