



**Breakaway
Research**

June 2016

Grant Craighead | Research Manager
gcraighead@breakawayinvestmentgroup.com

Mark Gordon | Research Analyst
mgordon@breakawayinvestmentgroup.com

www.breakawayresearch.com

Company Information

ASX Code	ICG
Share Price (24 June 2016)	A\$0.005
Ord Shares	1,238m
Options	0m
Market Cap (undiluted)	A\$6.19m
Cash (est. 24 June 2016)	A\$0.30m
Listed Investments	A\$0.00m
Debt	A\$0.00m
Enterprise Value	A\$5.89m

Directors & Management

Managing Director	Ross Brown
Director & Co. Sec.	Justin Walawski
Non-Exec Director	Gareth Lloyd

Company Details

Address	Unit 1/16 Nicholson Road Subiaco WA 6008
Phone	+618 6145 0300
Web	www.incaminerals.com.au

Top Shareholders

Resource Capital Fund VI	16.79%
Divya Jindal	3.23%
Zoric and Co Pty Ltd	2.09%
Ross Brown	1.96%
Stephen Chewter	1.88%
Directors and Management	2.09%
Top 20	40.63%

1 Year Price Chart



Source: IRESS

Inca Minerals (ASX: ICG)

Highly Prospective Peruvian Zinc

Recommendation: Speculative **BUY**

Key Points

- **Newly acquired Riqueza Polymetallic Zn-Ag-Pb Project in the prolific metal belt of Central Peru**
- **Work to date has identified polymetallic mineralisation with rock chips returning exceptionally high values of up to 43.5% Zn, 2,668g/t Ag & 48.5% Pb**
- **Identified mineralisation includes veins and mantos with extensive strike lengths and with mineralisation open**
- **There is also the potential for skarn and epithermal mineralisation**
- **Underexplored - there has been no drilling to date on the property**
- **Geology and styles of mineralisation sought are similar to other deposits in the prolific metal belts of Peru, including the 598Mt Antamina skarn**
- **Board and Management with South American experience and shareholdings in the Company**
- **Strong support from Resource Capital Fund, who have taken placements totalling 208m shares**
- **Steady news flow expected with current ongoing sampling and drilling later in the year**

Inca Minerals Limited recently entered into an option to purchase 100% of the exciting Riqueza Project, located some 200km southeast of Lima in Central Peru.

The property is considered very prospective for intrusive related vein and replacement style polymetallic mineralisation and work to date strongly supports this view, with a number of high grade Zn-Ag-Pb veins and manto (carbonate replacement) zones being identified at the key Humaspunco prospect, and an extensive gossan being identified at the nearby Uchpanga prospect which also contains Au and Cu in addition to Zn-Ag-Pb.

The property is under-explored - both prospects have seen limited artisanal mining, and no drilling, with an initial drilling programme now in the approvals process and expected to commence by October-November, 2016.

Given the above, and the quality management, we rate Inca Minerals Limited as a SPECULATIVE BUY, with strong leverage to exploration results which will be the key price mover.

Company Overview

Inca Minerals Limited is an ASX-listed, Peruvian focussed mineral explorer, with its head office in Perth. The Company has a number of projects in Peru with its principal focus being the recently secured rights to the Riqueza Polymetallic Project in Central Peru.



Investment Thesis

Highly prospective project

Highly Prospective Project

In the Riqueza Project (“Riqueza”, or “the Project”) Inca Minerals Limited (“Inca” or “the Company”) has a quality, highly prospective exploration project on which drilling is now planned. Results to date have proved very positive, highlighting its prospectivity.

Riqueza is located in a highly prospective and prolific world class mineral belt

Prolific Mineral Belt in a Global Mining Powerhouse

Riqueza is located over the Cordillera Occidental, which contains the prolific and prospective base and precious metals belts of Peru, which host numerous styles of mineralisation including epithermal Au-Ag, porphyry Cu-Au-Mo and replacement/skarn Zn-Cu. Peru is a major global miner, with a number of world class deposits, and a top 5 producer of Cu, Pb, Zn, Au, Ag and Mo.

Work to date has identified high grade base and precious metals mineralisation

Polymetallic Mineralisation Identified to Date

Limited work, including some artisanal mining, mapping and rock chip sampling has identified vein and manto-style Zn-Ag-Pb mineralisation at the Humaspunco prospect, with additional possibly epithermal Cu and Au being identified at the nearby Uchpanga prospect. The mineralisation is characterised by high grades – sampling of veins at Humaspunco has averaged 7.91% Zn, 239g/t Ag and 11.1% Pb, with mantos averaging 7.11% Zn, 166g/t Ag and 9.30% Pb. Limited assaying of a +750m long gossanous zone at Uchpanga has returned Ag values up to 920g/t, and Au up to 2.65g/t, in addition to high grade Pb and Zn and anomalous Cu. Mineralisation remains open in a number of directions.

Geology is a Known Host to Economic Mineralisation

The Jumasha Formation limestone which is the host to mineralisation at Humaspunco is also one of the units (with the overlying Celendin Formation) that host the 598Mt Antamina skarn mineralisation. Closer to home, the geology at Riqueza is the same as that which hosts Sierra Metals Yuaracochi Mine, located 55km along strike to the northwest. 25km and 15km to the northwest of Riqueza are the Minera IRL Corihuarmi and Bethania mines, also believed to be intrusive related.

Results highlight the prospectivity, with ongoing activities now to include an initial drilling programme

Exceptional Prospectivity

The above points highlight the prospectivity of the under-explored Project, and although intrusives (and skarn mineralisation) are yet to be identified at Humaspunco, the style of mineralisation, and that seen at Uchpanga, indicates proximity to a fertile intrusive source and highlights the potential for skarn mineralisation in addition to the already highly prospective vein and manto zones identified thus far.

Ongoing Activities

The Company is currently undertaking further mapping and sampling, to help design future exploration programmes including drilling (up to 3,000m), with drilling expected to commence in October-November 2016 following regulatory approval.

Stable, Mining Friendly Jurisdiction

Peru has seen political and economic stability for the last 20 or so years, and has a well-developed mining law. There have been some issues with anti-mining sentiment; however, these have been largely centred on major development (and not exploration) projects with conflicting stake-holder interests. The recent election of a centre-right President sitting for five years should provide further stability in Peru. Although the drilling approvals process can seem time consuming, there is a mapped out path to obtaining such approvals which Inca has successfully completed at least twice before.

Supportive major shareholder

Supportive Major Shareholder

Resource Capital Funds (“RCF”) is a major supportive shareholder, now holding almost 17% of Inca.



Experienced and incentivised Board and Management

Experienced and Incentivised Board and Management

The Managing Director, Ross Brown, who has extensive experience in Peru is the only Australian domiciled member of the Riqueza exploration team, with all others being Peruvian nationals, a key consideration when operating abroad. In addition key personnel have holdings in the Company, which is a major incentive for providing returns to shareholders.

Highly Leveraged to Exploration Success

With an EV of less than \$6 million, Inca is highly leveraged to any exploration success.

Inca Peer Group

Inca is one of a handful of ASX-listed companies operating in Peru, with these shown in the table below. What is clear is that the Company is one of the few ASX-listed companies actively operating in the base and precious metals spaces, with two, Platypus and Latin Resources changing their focus to lithium and a number of others effectively dormant. There are however a significant number of TSX-listed companies operating in the country that are not included in our peer comparison.

Inca has one of the lowest EV's of any of the active companies, and thus there is scope for significant uplift on any exploration success.

Inca peer group – sorted on undiluted EV

Company	Code	Price	Market Cap (\$Am)	Cash (\$Am)	EV (\$Am)	Projects/Activities
Global Geoscience Ltd	GSC	\$0.037	\$31.73	\$0.49	\$31.23	US and Peruvian projects - activities concentrated on the US
Platypus Minerals Ltd	PLP	\$0.019	\$25.88	\$3.50	\$22.38	Lithium focus through acquisition of Lepidico. JV with Latin Minerals. Cash dependent on current rights issue
Latin Resources Ltd	LRS	\$0.017	\$20.65	\$1.00	\$19.65	Focus on lithium in Argentina and Peru through JV with Platypus/Lepidico. MoU with First Quantum Minerals in Southern Peruvian porphyry projects
Metminco Ltd	MNC	\$0.002	\$7.06	\$1.00	\$6.06	Los Calatos Copper-Molybdenum Project, Southern Peru - 372Mt @ 0.76% Cu, 0.032% Mo. Term sheet for equity funding for up to US\$45m to complete Pre-Feasibility and Feasibility Studies
Ausquest Ltd	AQD	\$0.014	\$6.99	\$1.03	\$5.97	JV's over a number of porphyry Cu-Au targets in southern Peru - drilling
Inca Minerals Ltd	ICG	\$0.005	\$6.19	\$0.30	\$5.89	Riqueza – sampling & planned drilling
Laconia Resources Ltd	LCR	\$0.004	\$3.92	\$0.23	\$3.69	Finalising disposal of Peruvian assets
Strike Resources Ltd	SRK	\$0.042	\$6.10	\$7.40	-\$1.30	Apurimac Magnetite Iron Ore Project - no current activities

Source: IRESS, Company reports, values as of close of business, June 27, 2016

Risks

As with any resources stock there are a number of risks. Those pertinent to Inca are given below.

- **Exploration** – This is a key risk (as for any explorer), with Riqueza being an early stage project. However this is somewhat mitigated by the presence of known, exceptionally high-grade mineralisation at surface and results of work to date.
- **Costs/Exchange rates** – There is a risk, given that drilling costs (which are the largest component of planned field activities) are denominated in USD, that adverse movements in the AUD/USD exchange rate will affect the Company's cash position. The all inclusive cost for diamond core drilling is circa US\$300 per

Exploration and funding are key risks.



metre (including metres drilled, additives, sampling, assays, logistical and technical support).

- **Funding** – This is an ongoing risk for all junior explorers, and Inca is no exception. The Company will need to go back to the market to raise funds for the upcoming planned drilling. There is only limited capacity for the Company to place extra stock with Resource Capital Funds given that they currently have a ~17% holding. Ongoing positive exploration results (and the current zinc market) should partly mitigate the funding risk.
- **Permitting** – Unless unforeseen circumstances arise, we can see no major obstacles to permitting of the drilling programme at Riqueza or granting of the recently applied for tenements. Inca has considerable experience with permitting in Peru and has successfully obtained substantive drilling permits on two previous occasions. The issue here will be timing – there is always the chance for delays in the bureaucratic process in Peru.
- **Sovereign** – Given Peru’s recent history, we consider this to be a relatively minor risk. However this is South America!



Project Review

Riqueza Project, Peru (100%, Option to Acquire 100%)

Introduction and Tenure

Key focus on the Riqueza Project in Peru

Inca's focus is on its Riqueza Project in Peru, which has been a timely acquisition following the decision to pull out of the Chanape Project, on which activities had been concentrated over the past few years.

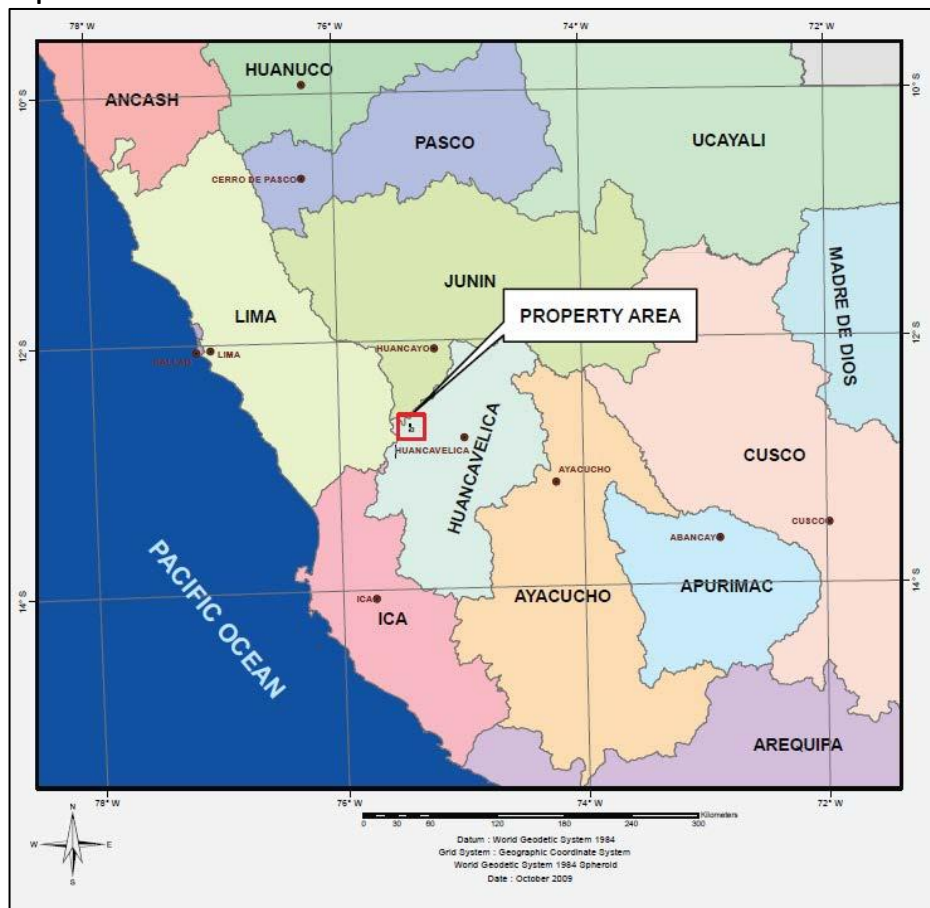
Riqueza is located over an area of known vein and manto style mineralisation in the highly prospective mineral belts of the Cordillera Occidental, with the Project area being subject to historic mining.

Riqueza comprises the granted Santa Rita tenement (option to acquire 100%) and four tenement applications (Inca 100%, expected grant in early 2017), totalling 46km². The Project is located in Huancavelica Province some 200km southeast of Lima in central Peru, and is accessible by ~450km of road, including 300km on the Central Highway to Huancayo and then 150km of gravel road to site.

The property is at an altitude of between 4,200 and 4,800m.

Riqueza location

Riqueza is located some 200km SE of Lima, and comprises five tenements for 4,600ha



Source: Inca Minerals

The option to acquire the Santa Rita concession was signed after 12 months of negotiation, and involves a 5 year Mining Option to acquire 100% of the tenement, with half-yearly payments totalling US\$1,773,000, including a final payment of US\$1,000,000 upon transfer of title. Inca has the right to withdraw at any time without penalty, else complete the acquisition at any time during the five-year term through payment of all outstanding amounts.

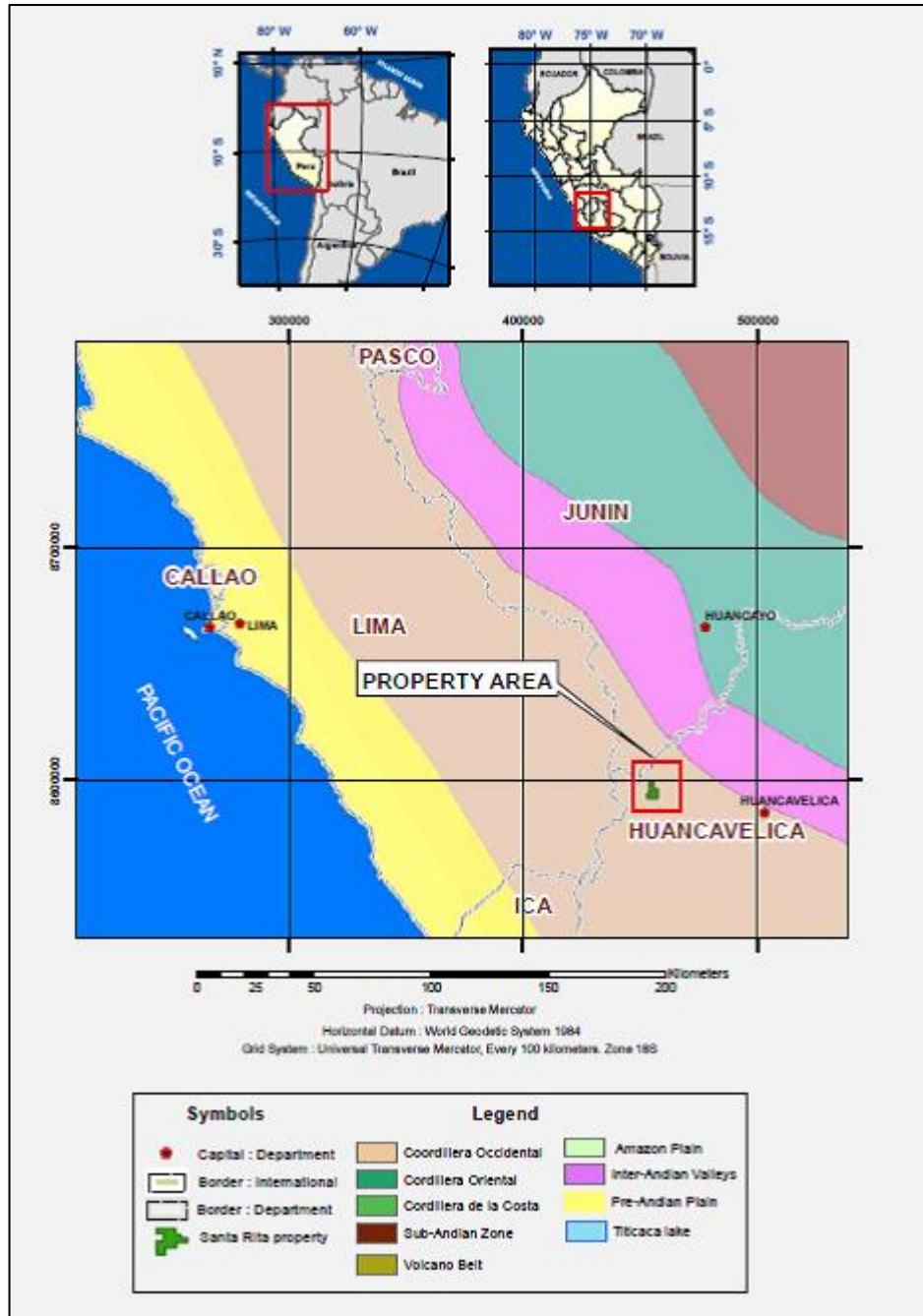
The vendor retains a 2% net smelter return (“NSR”) royalty, however Inca retains a 20-year option to buy back 50% of the NSR for US\$1,000,000.



Regional and Local Geology

The Project is located over the Cordillera Occidental, which is the currently active volcanic belt of the Andes in Peru, related to subduction of the Nazca Plate below the South American Plate along the western margin of the continent from Late Cretaceous (~70Ma) to present.

Riqueza tectonic setting



Riqueza is located within the Cordillera Occidental

Source: Santa Rita NI43-101, 2009, through Inca Minerals

The belt includes Neoproterozoic (ca 1,000-630Ma) basement, on which Ordovician and Silurian sedimentary rocks accumulated, and were subsequently deformed by the ~340Ma Eohercian Orogeny. This was followed by extensive periods of sedimentation during the remainder of the Palaeozoic, which culminated in the formation of extensive carbonate platforms.

Subsequent to the initiation of the Atlantic Ocean rifting in Late Triassic times, two periods of subduction have seen the formation of the Andes Mountains. The first of these, a "Marianas" type event, saw the development, moving from west to east, of an oceanic trench, island arcs and back arc basins. This lasted from the late Triassic (ca



240Ma) to the late Cretaceous (ca 70Ma), and saw the deposition of clastic and chemical sediments (including limestones) in the back-arc basin to the east of the island arc.

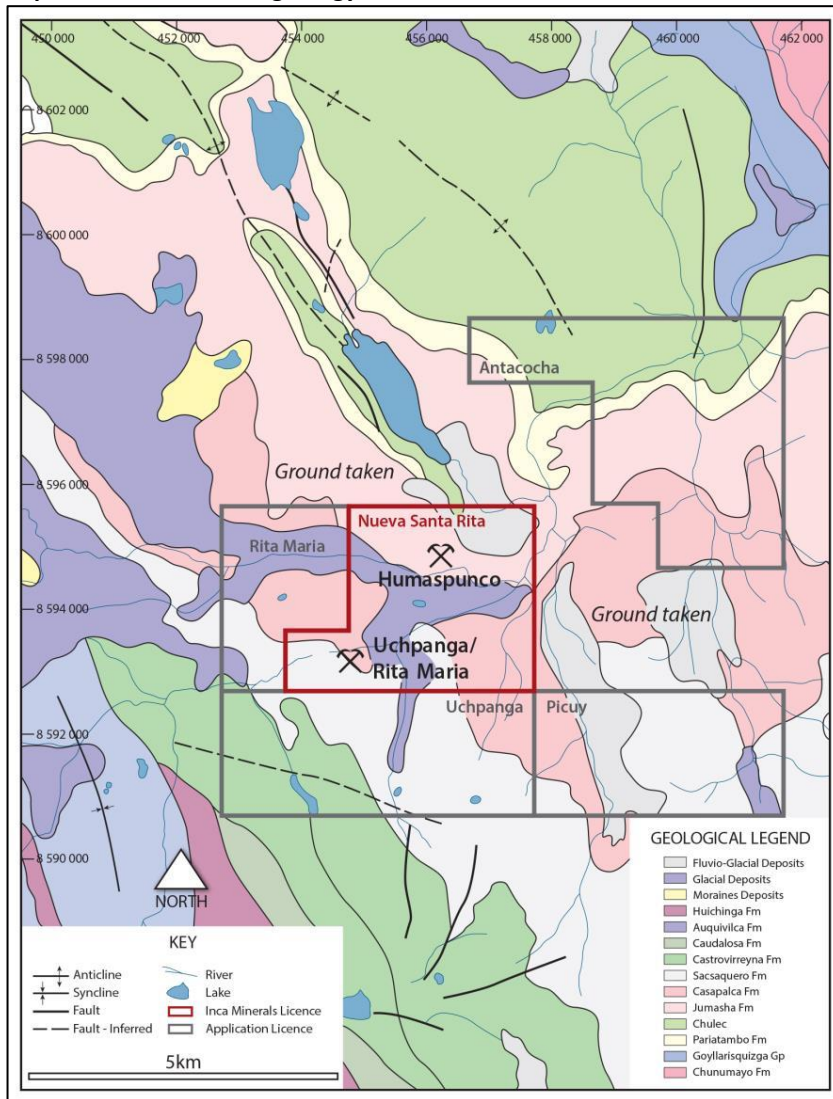
The subsequent subduction event, which started in the late Cretaceous is ongoing, and has deformed the earlier rocks, which now form the bulk of the Cordillera Occidental.

Major rock units include deformed Mesozoic to Tertiary sediments and volcanics

Deformed sedimentary/volcanic units which were originally deposited in the back-arc basin comprise the bulk of units in the project area. These include the Jumasha Formation (limestone), Caspapalca Formation (continental siliciclastic redbeds and calcareous conglomerates, and the Sacsaquero Group, which is a thick volcano-sedimentary sequence including intermediate volcanics and interbedded sediments. Conformably overlying this is the Upper Oligocene-Lower Miocene Castravirreyna Formation, which is largely comprised of explosive breccias, agglomerates and tuffs.

Although not mapped in the Project area as yet it is expected that shallow sub-volcanic intrusives will be present, feeding the younger volcanics in the region.

Riqueza tenements and geology



Source: Inca Minerals

Structure is dominated by NW-SE trending folding (parallel to subduction), with the folds plunging to the southeast, and with the majority of the tenements located over the gently to moderately southwest dipping limb of an anticline.

Most structures strike parallel to the fold hinges, with some orthogonal SW-NE trending structures as well – an orthogonal structure is interpreted as the main feeder zone for Humaspunco.

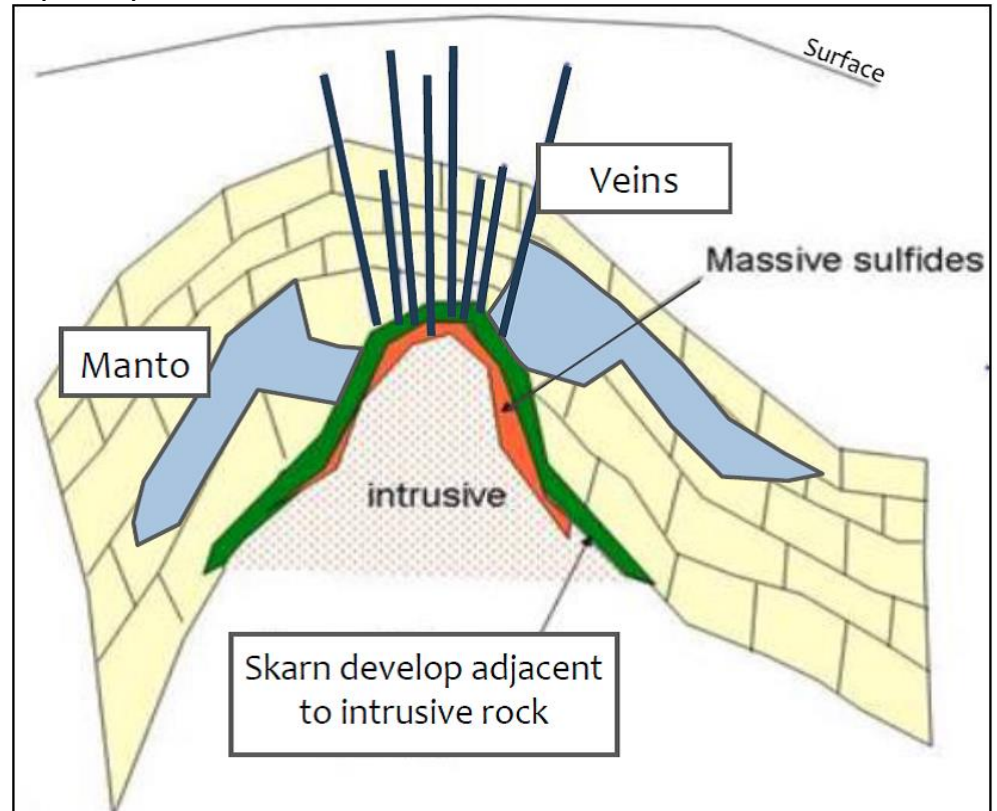


Mineralisation and Exploration

Exploration Model

The Company's exploration model is intrusive related vein and replacement (manto and skarn) style base and precious metal mineralisation, with relationships illustrated in the schematic diagram below.

Riqueza exploration model



The exploration model is intrusion related vein and replacement poly-metallic mineralisation

Source: Inca Minerals

The three different styles of mineralisation are as follows:

Mineralisation types include vein, manto and skarn

- Veins (and/or breccias) – mineralisation hosted in structures above a source intrusion, which can be laterally and vertically extensive. These often contain brecciated zones, and can, in what is call a dilatational jog, contain significant widths of mineralisation
- Skarn – replacement style mineralisation within and adjacent to the mineralising intrusive, generally associated with reactive wall rocks such as limestones (here an ideal host is the Jumasha Formation). These contain two sub-classes – endoskarms, which is mineralisation within the intrusive and exoskarms, which is hosted in the wall rocks.
- Manto – more distal replacement style mineralisation, broadly stratabound, and again, like skarns, hosted in reactive units.

Manto and skarn mineralisation has been identified and historically mined

To date, both manto and vein style mineralisation have been identified at the Humaspunco prospect, however there is the potential for skarn-style mineralisation as well. Although intrusives are yet to be identified here, given the presence of the vein and manto mineralisation, it is expected that the prospect is proximal to possibly blind intrusives. Mineralisation at Uchpanga appears to be more proximal in character, given the presence of Au and Cu, and may represent a high-sulphidation epithermal system, similar to that at Minera IRL's Corihuarmi Gold Mine, located 25km NW of Riqueza.

The skarn and epithermal belts of central Peru are important metal producers and host known mineralisation similar to that identified at Riqueza, or else for which Riqueza is considered prospective.



Peru is host to similar styles of mineralisation to those sought, including the 598Mt Antamina Mine, hosted in the same units

A nearby operation is Yauricocha

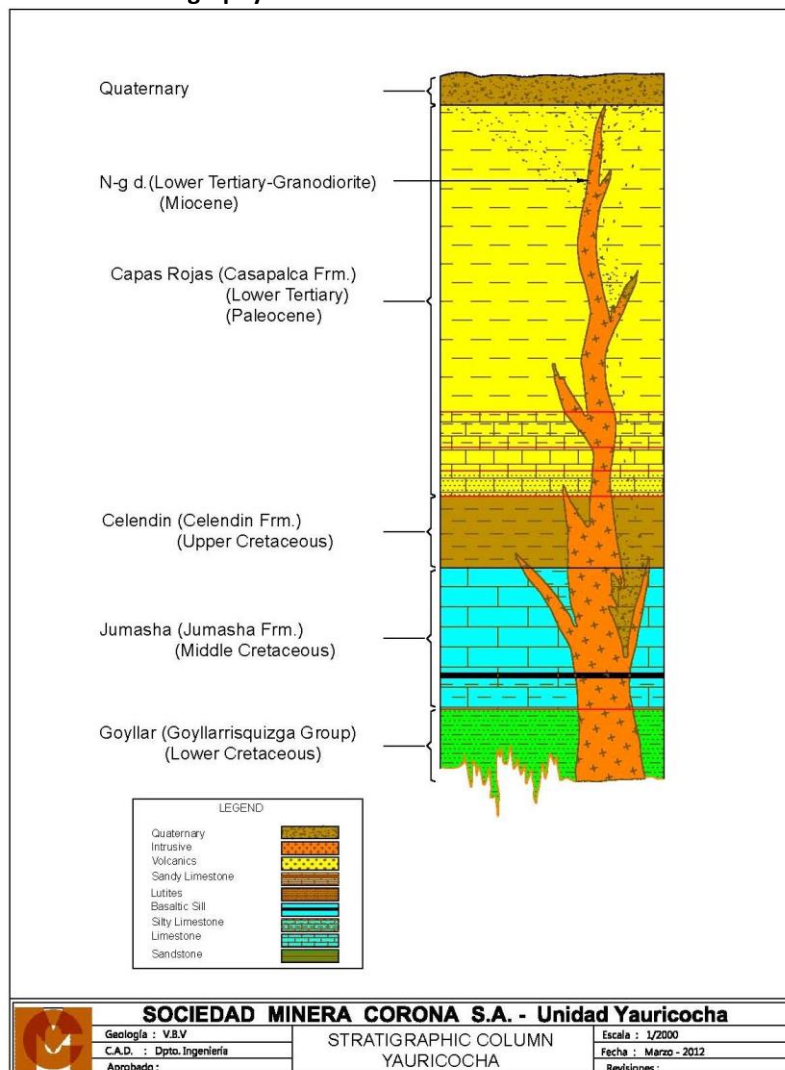
A notable example includes the Antamina mine, a skarn which has total reserves (as of 31/5/15) of 598Mt @ 0.95% Cu, 0.97% Zn, 10.6g/t Ag and 0.023% Mo, which includes a Cu endoskarn and Cu/Zn exoskarn. 75% of the exoskarn Cu/Zn reserves are hosted in the Jumasha Formation, with the sedimentary package being intruded by the mineralising intrusives in the middle Miocene (ca 15Ma). A feature of Antamina is that the igneous activity is controlled by a SW-NE trending structure, orthogonal to the main geologic strike – we also see this same orientation at Humaspunco in the interpreted feeder structure.

Closer to Riqueza is Sierra Metals Inc.'s (TSX: SMT) Yauricocha Mine, located some 55km northwest along strike. The underground operation has total Mineral Reserves of 5.38Mt @ 75.5g/t Ag, 0.8% Cu, 1.41% Pb, 2.34% Zn and 0.92g/t Au in total Mineral Resources of 13.6Mt @ 83.5g/t Ag, 1.31% Cu, 1.08% Pb, 2,67% Zn and 1.12g/t Au.

Replacement style mineralisation at Yauricocha which is hosted largely in limestones and marls of the Jumasha and overlying Celendin Formations (a similar package to that at Riqueza), is comprised largely of fissure veins, breccias and mantos, developed around a ~7.5Ma composite granitic to quartz monzonitic intrusive. Although skarn has developed close to the intrusive it does not host appreciable mineralisation.

One feature of Yauricocha is the development of broad zones of breccia mineralisation associated with vein mineralisation, with true widths of up to 40m. In addition, mineralisation is developed for a vertical extent of up to 650m and is hosted in a number of bodies. We have included a schematic diagram of the Yauricocha stratigraphy below, to demonstrate the similarity to Riqueza.

Yauricocha stratigraphy



Source: Sierra Metals Inc.



Previous work

Past work includes artisanal mining, mapping, rock and soil sampling

There has been no drilling

12 veins, three mantos and a feeder structure have been identified at Humaspunco

Mantos and veins have high grade average assays for Pb, Zn and Ag

The property has seen artisanal mining, both at the Humaspunco (Santa Rita) and Uchpanga (Rita Maria) prospects which were sporadically mined from the 1960's, however production is unknown. These activities were targeting both vein and manto style mineralisation. The most extensive mining was at Santa Rita, with well over a dozen adits (up to 140m long) and shafts (up to 40m deep) being developed, with veins up to 3m wide being mined.

Past exploration has included geological mapping, and soil and rock chip geochemical sampling. Soil sampling, completed in 2011, delineated a strongly Zn-Ag-Pb anomalous zone at Humaspunco, including an irregular 700m x 500m +1% Zn anomaly. This soil anomaly extends past the mapped mineralisation, thus indicating the potential for surface extensions.

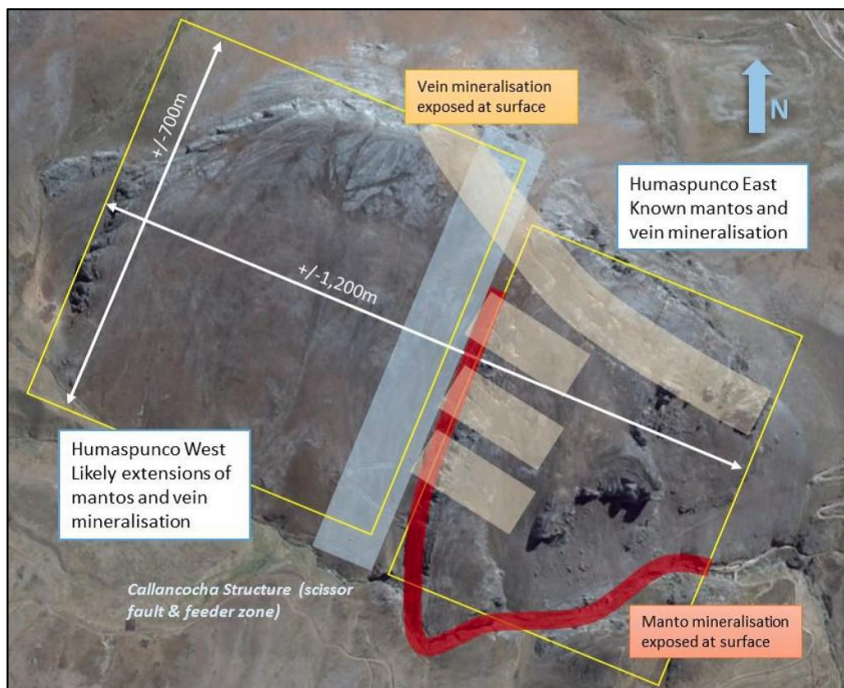
Prior to Inca's involvement a number of rock chip sampling programmes were completed, with the most comprehensive being in 2011 where 254 samples were collected concentrating on Humaspunco. Work by Inca has included follow up mapping and rock chip sampling at both Humaspunco and Uchpanga.

No drilling has been carried out on the property.

Identified Mineralisation - Humaspunco

The mineralisation at Humaspunco includes at least 18 northwest trending mineralised veins (with eight of these being new discoveries in the most recent mapping programme), two un-sampled veins and three manto layers (at the top of the outcropping Jumasha Formation), all returning very high grades. The veins are generally in the order of 0.5-1.5m wide, with strikes of up to 400m, and occurring both east and west of the Callancocha Structure. Average rock chip grades for all sampled veins are 7.91% Zn, 166g/t Ag and 9.30% Pb. Mineralogy includes sphalerite, galena and silver-bearing sulphosalts in a carbonate/quartz/barite gangue. The dominant gangue mineral is barite, indicating that the mineralisation is at a high level in the mineralised system.

Plan view of Humaspunco Hill, showing mineralised features – more recent work has also identified a number of additional veins and manto-style mineralisation west of the Callancocha Structure



Source: Inca Minerals

The manto, which has a shallow south dip and a thickness of between 1 and 2m, has been mapped for around 2,000m along strike on the Humaspunco Hill. The mineralisation has also been identified for a strike length of 500m on the southern side



of a valley at the base of Humaspunco Hill, and thus is open to the south, where the Jumasha Formation is covered by younger formations and recent glacial deposits. Average rock chip grades for the mantos are 7.11% Zn, 239g/t Ag and 9.30% Pb, with mineralisation occurring as semi-massive to massive sphalerite and galena in a barite/Fe-oxide/Fe-carbonate gangue.

Another feature of Humaspunco is the NE-SW trending Callancocha Structure, which is interpreted as a feeder zone for the vein and manto mineralisation.

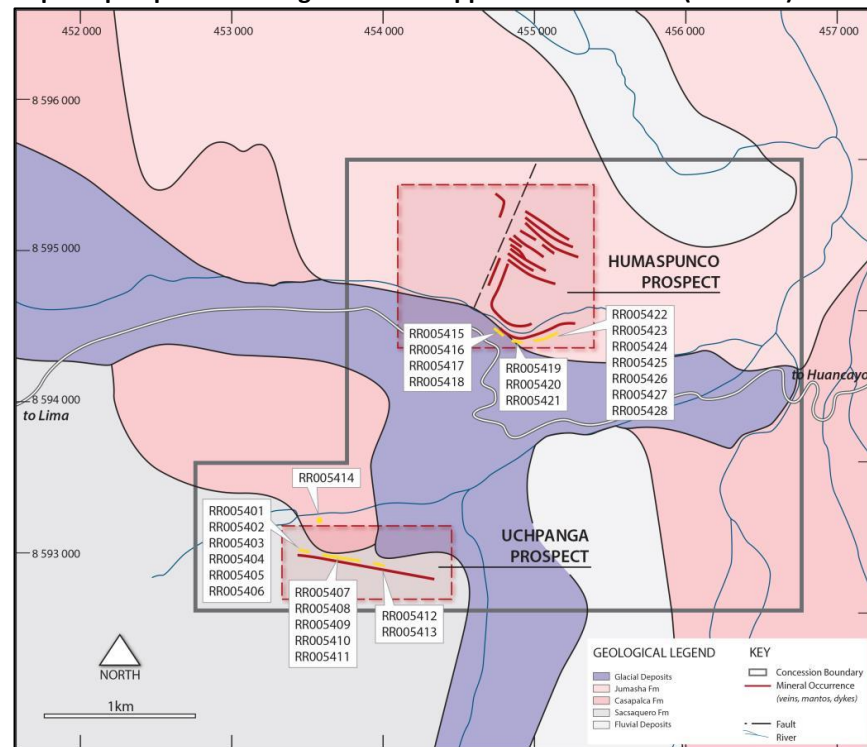
Identified Mineralisation – Uchpanga

A gossan with a strike length of +750m has been identified at Uchpanga

Work by Inca at Uchpanga has identified an east-west striking gossan concordant with stratigraphy, with a strike length of at least 750m that hosts at least five small scale workings.

Rock chip sampling by Inca has returned values of up to 20.96% Zn, 16.71% Pb, 920g/t Ag, 2.63g/t Au and 0.44% Cu from a sample of relatively fresh vein material at the Rita Maria working. Other samples were collected from strongly weathered gossanous outcrop, however these returned very strongly anomalous base and precious metal assays (refer announcement June 2, 2016), pointing towards the weathering of a strongly mineralised sulphide source.

Riqueza prospects showing traces of mapped mineralisation (red lines)



Source: Inca Minerals

This differs from Humaspunco in that it is hosted in volcanics, and contains appreciable gold and anomalous copper

Mineralisation at Uchpanga is different to that at Humaspunco, in that it occurs within a volcanic sequence (Sacsacuerro Group), and includes pervasive alteration associated and the development of stockwork veining in a zone up to 7m wide. Another key difference is the presence of very strong gold and strongly anomalous copper at Uchpanga – these potentially point toward mineralisation being more proximal to an intrusive source, else some mineralisation may be high-sulphidation epithermal in style. The company has also noted mineralised dykes at Uchpanga, which potentially represent a part of the igneous source.

Planned Activities

The Company is currently undertaking further sampling and mapping at both major prospects, with a view to designing a drilling programme of up to 3,000m. An application for a drilling permit has been lodged with the applicable authorities, with approval expected within the next three to four months.



Breakaway's View

In Riqueza Inca has a highly prospective polymetallic project, with the early stage results strongly supporting this view. Without any drilling being completed the Project is largely untested, however the mineralisation identified to date from surface work and the geological setting confirm the prospectivity for significant vein, manto and skarn (and possibly epithermal) style mineralisation, given that the same geology hosts a number of operations in Peru including the world-class Antamina skarn.

We see Peru now as a relatively attractive exploration and mining destination, with the Government over recent years working towards developing an equitable Mining Law that should address some of the largely community-centred issues from the past. Inca's Peruvian based team includes social and community expertise which has proved highly successful for Inca in the past and there is no information currently available that might suggest a different outcome for the Company in future.

Although some of the permitting procedures (for example for drilling) may seem onerous and time consuming, there appears to be a clear procedure in place, that if followed should provide some certainty to activities. Inca's previous experience in this area will be valuable in securing said permits.

The Company has a strong technical team, including the Managing Director, in place with extensive Peruvian experience, and with the Managing Director also being actively involved in field activities. This has resulted in relatively low overheads for the Company, with the bulk of funds being put into the ground.

To fully fund the planned drilling programme (circa 3,000m) Inca will need to go back to the market. RCF has been very supportive, however there is limited capacity for the fund to top up, so Inca will need support from other existing or new shareholders (which they have received in recent raisings).

Should results of upcoming exploration be positive we would see raising additional capital as achievable against a backdrop of improving resources markets, especially in the zinc space.

In summary, Inca has experienced and committed personnel working on a quality project in an attractive destination, and, with a market capitalisation of only around \$6 million is well leveraged to exploration success.

As such we rate Inca as a SPECULATIVE BUY, with price movers being positive exploration results.

*We rate Inca as a
SPECULATIVE BUY*



Why Peru?

Peru is a stable South American country that has come along very strongly in the last 20 years

One key issue holding back stronger growth is infrastructure, however this is being addressed

The country is a major mining destination, being a Top 5 producer of Ag, Cu, Zn, Pb, Mo and Au

There are a number of world class mines operated by major multinationals

Background

Peru is a stable South American country, which has just elected a new President, Pedro Pablo Kuczynski, who defeated Keiko Fujimori (the daughter of incarcerated ex-President Alberto Fujimori) in a very close run-off election. The country has a unicameral democratic political system, with a five year term, and cabinet appointed by the President.

With a population of 30 million (75% urban) Peru has enjoyed significant social and economic advances over recent years, and has generally enjoyed economic and political stability since the early 1990's, partly due to the decline of the radical communist Sendero Luminosa ("Shining Path"). GDP growth has averaged ~6% since the end of the GFC and in 2009 had its credit rating raised to investment grade. There is however a significant divide between the "haves" and the "have nots", with around 25% of the population living in poverty.

One of the key issues holding back further economic development however is infrastructure – there are bottlenecks in road and rail infrastructure which have an impact on mining and other industries, however the country has begun to take the steps to improve infrastructure, which will also include investment by private organisations.

Tardiness in responding to community concerns regarding infrastructure has been one of the causes of anti-mining sentiment in some (generally the poorer) areas of the country, and Ernst and Young (Peru Mining and Metal's Investment Guide 2014/2015) consider that one of the issues has been a lack of administrative capacity rather than a lack of funds – governments are apparently sitting on cash slated for infrastructure development.

World Class Mining Jurisdiction

Peru is a major international mineral producer, with a long history of mining from Inca, through colonial and into the current times. The country is highly prospective for further discoveries, with areas considered underexplored.

It is a global Top 5 producer of a number of minerals, and in 2015 produced (USGS):

- Silver – 3rd globally, producing ca 3,800t, or 14% of world mine supply
- Copper – 3rd globally, producing ca 1,600Mt, or 8.5% of world mine supply
- Zinc – 3rd globally, producing ca 1,370Mt, or 10% of world mine supply
- Lead – 4th globally, producing ca 300Mt, or 6.4% of world mine supply,
- Molybdenum – 4th globally, producing ca 18,100t, or 6.8% of world mine supply, and,
- Gold – Equal 5th globally with Canada, producing 150t, or ca 5% of world mine supply.

In 2013 minerals comprised some 55.2% of Peru's total exports of US\$41.2 billion, with the mining sector contributing some 4.8% of the country's 2013 GDP of \$US210 billion (US\$7,000 per capita).

The country is host to a number of world class mines, operated by a number of major multinational companies. Major operations and owners include:

- Toquepala Copper – Southern Copper Corporation (Grupo Mexico)
- Las Bambas – MMG Ltd, CITIC.
- Cerro Verde Copper – Freeport McMoran, Sumitomo Metal, Companhia de Mina Buenaventura
- Toromocho Copper - Chinalco
- Antamina Copper-Zinc – BHP Billiton, Glencore Xstrata, Teck, Mitsubishi

There are a number of major projects and expansions also in the investment pipeline, with Austrade (2015 Latin American Mining Conference presentation) estimating up to



There is significant planned future investment in mining projects

US\$62b worth of investment through to 2020. Recent major investments have included the US\$4.8b Toromocho Mine, the US\$4.4b Cerro Verde expansion and Hudbay's US\$1.8b Constancia startup.

Developments have also seen the start-up of MMG Ltd's Las Bambas copper mine, which at planned full production of 400,000tpa of copper, will be the world's second largest single producer behind Escondida. The current owners bought the project for US\$5.85b from Glencore in 2014.

The country ranked at 36 in the 2015 Fraser Institute Survey, second in South America behind Chile, which ranked at number 11.

Mining Law and Fiscal System

The country has a well-developed mining law and mining fiscal system

The country has a well-developed and transparent mining law, with the law updated in 2011 to address issues and strengthen the law with regards to social welfare, economic growth and environmental protection – part of this came about in response to the mining boom, and the perception that the proceeds from mining were not spread fairly. This was introduced under the outgoing President, Ollanta Humala.

The mining law was updated in 2011 to address social welfare, environmental and development concerns

The single claim category covers both exploration and exploitation, and licences are pegged on a metric grid-based system. Claims can range in size from 100ha to 1,000ha. The claims are issued for an indefinite term, providing certain investment and production requirements are met. Annual licence fees of US\$3.00/ha are required to be paid until year 10, with a minimum production requirement expected to be met after that time.

Should the minimum production requirement be not made by the 10th year, the holder is required to pay an area based penalty of 10x the licence fee until the fifteenth year, when the tenement may be forfeited unless the holder demonstrates investments in the project at least equal to 10 times the penalty to be paid (US\$300/ha). The tenement will be lost should production not commence by the twentieth year.

Drill permitting can be a lengthy process.

One issue that has caused concern is the lengthy permitting process for drilling, with this involving community agreements (a vital and key consideration in operating in Peru), stakeholder mapping, and environmental (flora and fauna) baseline studies. The preparatory work can be a lengthy process, and once submitted to the regulatory authorities can take at least four months to approve. Also, permitting conditions are different dependent upon the size of the drilling programme – if more than 20 drill pads are required the process is more onerous, requiring a more comprehensive environmental study.

Until 2011, the country had an "Ad Valorem" royalty based solely on 1-3% of sales, similar to that in many other jurisdictions. However this has since been modified to a profit tax based system:

- Modified royalty of 1-12% based on operating mining income – minimum of 1% of sales
- Special Mining Tax – this is a profit based tax, ranging from 2-8.4% of operating income
- Special Mining Burden – a voluntary profit based tax to be used for social and infrastructure developments, ranging from 4-13.12% of operating income.

In addition, other tax items include a 30% corporate tax, accelerated depreciation for mining projects and carrying forward of tax losses. There are no restrictions on the movement of, or the currency used for capital in and out of the country, and there is a dividend withholding tax of 4.1% for profits paid to non-residents and individuals.



Board of Directors

Managing Director **Ross Brown**

A geologist by profession, **Ross** has had over 30 years' experience in mineral exploration in Australia, Asia, Africa and South America and he has worked in a broad range of commodities, including gold, base metals, uranium, phosphate and diamonds

In 2009 Ross co-founded the gold/copper exploration company, Mystic Sands Pty Ltd, which was established for the purposes of conducting exploration in Chile, and was subsequently purchased by ASX-listed explorer Whinnen Resources (now Spookfish Limited, ASX: SFI).

Ross turned his attention to Peru in 2009, co-founding the unlisted private company Inca Minerals (now Urcaguay Ltd., a wholly owned subsidiary of the listed Inca) and through his Peruvian-based network assessed the potential of more than a hundred projects, resulting in the option to acquire Chanape. Inca merged with Condor Metals in 2012.

Previously, Ross was instrumental in the \$8 million IPO of Oklo Uranium (ASX: OKU) in 2007, which was floated on a package of tenements identified through an exploration model for "Langer Heinrich" style mineralisation developed by Ross.

Previous activities included the creation and the \$3.9m IPO onto the German Stock Exchange of Central Kimberley Diamonds, with a milestone including the discovery and production of diamonds from a gravel deposit.

Ross has been a member of AusIMM since 1988, and is also a member of GSA, SEG and AICD.

Director & Co. Sec. **Dr Justin Walawski**

Dr Walawski has 20 years' experience in governance and senior management. He is a former member of the ASX Supervisory Liaison Committee, the Federal Australian Government's Mineral Exploration Action Agenda Group and the WA State Government's Tax Review Reference Committee.

He has previously held positions as the Chairman, Deputy Chairman & Chief Executive of the North West Iron Ore Alliance Pty Ltd, Chairman of Special Olympics Australia (WA), Chief Executive of the Association of Mining & Exploration Companies and Director of CPA Australia (WA).

In addition to his position as Director and Company Secretary of Inca Minerals Limited, Dr Walawski's current commitments include acting as a Facilitator for the AICD Company Directors Course (Financial Literacy and Financial Strategy modules).

Non-Executive Director **Gareth Lloyd**

Gareth has over 30 years of relevant experience in both technical and financial expertise relevant to mining and exploration companies, together with a firm grounding in equity analysis and funds management. A mining engineer by training, he has operating experience in gold, base metals and coal operations in Australia, South Africa and the United Kingdom.

Gareth is part owner of the Element group, a Perth-based boutique advisory and funds management group focused on the resources sector. Through the Element group, Gareth provides strategic advice and fund raising services to both listed and unlisted companies (predominantly mining and exploration companies) using both equity and mezzanine instruments.

Prior to establishing Element (in 2008), Gareth was an Associate Director at the Rothschild Group where he helped establish the Golden Arrow Funds I and II, the latter fund becoming the ASX-listed LinQ Resources Fund. At the time of his departure from LinQ, the fund was one of Australia's largest listed resource funds with funds under management of over \$475m. He has held a number of senior positions at Australian resource-focused stockbroking firms including Research Director at Hartleys and Resources Analyst at Eyre's Reed.



Analyst Verification

We, Grant Craighead and Mark Gordon, as the Research Analysts, hereby certify that the views expressed in this research accurately reflect our personal views about the subject securities or issuers and no part of analyst compensation is directly or indirectly related to the inclusion of specific recommendations or views in this research.

Disclosure

Breakaway Investment Group (AFSL 290093) may receive corporate advisory fees, consultancy fees and commissions on sale and purchase of the shares of Inca Minerals and may hold direct and indirect shares in the company. It has also received a commission on the preparation of this research note.

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Breakaway Investment Group

AFSL 290093 ABN 84127962387

T+61293928010

F+61292792727

PO Box H116 Australia Square
Sydney, NSW 2001

Suite 505, 35 Lime Street,
Sydney, NSW 2000