MINING SECTOR – TAX ISSUES

- Fiscal stability contracts 25 yrs. Renewable
- Accelerated depreciation, investor choice of 5 - 10 years
- Windfall profits tax (70%) only applicable when metal price exceeds 10 yr. rolling monthly average plus one standard deviation (likely 1 of every 7 years). Calculations made using NPV.
- Use of NPV for Sovereign Adjustment formula, to include companies’ cost of capital
- Currency exportation tax (ISD) exemption for mining sector
- VAT (12%) refunds starting in 2018 adds up to 1.5% to IRR
- Limited applicability of capital gains tax

“Extraordinary Income Tax and Sovereign adjustment are unlikely to be paid under normal circumstances, and never before discounted payback of the initial investment” (Wood Mackenzie PDAC 2016 Presentation)
Ecuador’s tax burden is competitive compared with regional countries

**Fiscal comparison – Government take as % of base**

**Large-scale copper project**

- Ecuador: 54%
- Regional Range: 39% to 54%

**Assumptions and considerations**

- **Regional average includes:**
  - Ecuador
  - Brazil
  - Mexico
  - Chile
  - Colombia
  - Peru

- **Calculation assumptions:**
  - NPV basis over the life of the mine, including construction
  - **Same project economics in each method**, but different denominators used

- **Fiscal burden varies depending on project due to different costs structure**

- In all projects, under all metrics, Ecuador is just slightly above average and within the regional range

Projects with other cost structures yield different percentages, but do not alter the conclusion that Ecuador’s tax burden is in the competitive range.

**Fiscal comparison – Government take as % of base**

**Large-scale copper project**
- Ecuador: 54%
- Regional Range: 51%
- Other: 39%

**Medium-scale gold project**
- Ecuador: 50%
- Regional Range: 43%
- Other: 26%

1 – Operational profit considered as Revenue less C1 costs
2 – Free cash flow
Source: Wood MacKenzie