

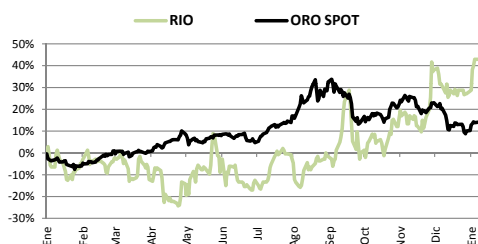
Río Alto Mining Limited (BVL:RIO)

Equity Fair Value (US\$ million)	852.39
Share's fair value (US\$)	5.09
Potential upside	44.25%
Market Price (US\$)	3.53
Shares Outstanding (million)	169.25
Market Capitalization (US\$ million)	597.44
Exchanges	LSE, NYSE
52 Week Range (US\$)	1.69 - 3.70
YTD Change	13.48%
PER 2011	39.23

Financial Indicators	2011	2012	2013
Gross margin	72%	65%	64%
EBITDA Margin	67%	61%	61%
Operating margin	28%	39%	42%
NET Margin	20%	27%	29%
Net Profit - US\$ Mill	15.2272	49.86	64.39
EPS - US\$	0.09	0.29	0.38
P/EBITDA	11.65	5.36	4.49
PER	39.23	11.98	9.28

Figure 1. - Evolution RIO vs ORO Spot

Base= Dic 2010



Source: Bloomberg y Kallpa SAB

EQUITY RESEARCH

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Figure 2.- Gold oxides - first ingot


Alex Black, President, Director & COO, holding the first ingot produced in May 2011.

Source: Río Alto Mining

INVESTMENT RECOMMENDATION:

We incorporate 2012's fair value
 2011's fair value

OVERWEIGHT +
US\$ 5.09 ▲
 US\$ 3.94

Kallpa Securities SAB updates the valuation report of **Río Alto Mining Limited (BVL:RIO, TSXV:RIO)**, recommending to **overweight** the shares in their portfolio. Our new fair value of **US\$ 5.09** per share exceeds by **44.25%** the market price of **US\$ 3.53** as of closing January 6, 2012.

La Arena: World class deposit

On January 5th, RIO's management announced an update of the last resource estimation report, published in July 2010, in compliance with the Canadian classification standards NI 43-101, which shows a substantial increase in the gold and copper resources in La Arena. We consider that after the announcement, La Arena will become a world class deposit, increasing the value of the company and its potential as an acquisition focus for senior mining companies looking for medium-scale gold and copper projects. It is worth mentioning that the increase of resources was carried out in the Gold Oxides Mine, as well as in the Copper and Gold Sulphides Project. The new estimations are listed below:

i) Gold Oxides Mine - Cut-off Grade Cut-off - 1 g/t Au

- Measured and indicated resources (M&I) add up to 100.7MT @ 0.46 g/t Au totaling 1,484K Au Oz. An increase in resources of 434K Au Oz.
- The inferred resources add up to 10.4MT @ 0.27 g/t Au totaling 90K Au Oz. An increase in resources of 33K Au Oz.

ii) Copper and Gold Sulphides Project Cut-off - 0.18% Cu

- Indicated Resources of 312.7MT @ 0.29% Cu and 0.24 g/t for 2B Lb Cu + 2.4M Au Oz. An increase in resources of 285M Cu Lb + 490K Au Oz.
- Inferred Resources add up to 319.7MT @ 0.30% Cu and 0.20 g/t Au for 2.1B Lb Cu + 2M Au Oz. An increase in resources of 963M Cu Lbs + 859K Au Oz.

RIO ends 2011 with a 51K Au Oz production

The annual production of gold for 2011 added up to 51.3K Oz, larger than the 30K Oz mentioned in our previous report, published on June 2011, and according with the 50K - 60K Oz estimated by the company in September 2011. It is worth mentioning that Management complied with the annual projections despite the illegal blocks developed in La Arena last September 2011, which lead Management to suspend operations in the mining camp for a week. Also, by the end of December 2011, La Arena reached a 24K tpd production level -initially operating at a 10K tpd (tons per day), and as we mentioned later, it's on its way to reach the 36K tpd by 2012.

Inclusion of mining royalties in the analysis

Our previous valuation included the former taxation regime (Law N° 28258: Mining Royalties Law) for the calculation of the amount to pay for the concept of mining royalties, which considered a tax rate in the range of 1 - 3% applied over the revenues. The new taxation scheme (Law N° 29788, N°29789 & N°29790, promulgated in September 2011) establishes that the mining companies that do not have stability contracts (as RIO) must pay mining royalties and the Special Tax on Mining (IEM, according to its Spanish acronym) in a progressive manner and applied over the operating margin.

Gold Oxides Mine increased production from 24K to 36K tpd

In October 2011, RIO's Management announced the decision to increase the production rhythm in the Gold Oxides Mine from 24K to 36K tpd. In order to finance the mine's expansion, RIO agreed with Red Kite Explorer (Red Kite) to increase by US\$25 million the prepayment facility, subscribed in October 2011. According to the new terms, the payment would be in 31 monthly deliveries of 791 ounces, subjected to the spot price of gold. To see the conditions of the agreement, go to:

www.rioalto.com/news/2011/index.php?&content_id=138

Figure 3. - Visit to La Arena, May 2011



Source: Rio Alto Mining

Table 1. - Gold's Quotation
(Price of gold US\$ / Oz)

	2011	2012	2013	LP
Consensus jun -11	1,370	1,400	1,450	1,100
Consensus ene -12	1,570	1,650	1,700	1,100

Source: Bloomberg y Kallpa SAB

Figure 4. - Gold Oxides Mine, La Arena



Source: Rio Alto Mining

Changes in our fair value: US\$ 5.09

We increased our fair value of **US\$ 3.94**, published in June 2011, to **US\$ 5.09** mainly based on new estimations of resources in La Arena and new expectations of metal prices, as we mention below:

A. Gold oxides

- We increased the value of the **Gold Oxides Mine** by **US\$ 94.5 million** (+47.17%) after including i) new resources within the mining plan and ii) better estimates for the price of gold. After the announcement, we modified our assumptions in relation to the production of the mine, estimating a total of **1.04M Au Oz** along the life of mine (LOM), which means an increase of **251K Oz** compared to our previous valuation. Also, we updated our expectations for the ounce of gold from the range of **US\$/Oz 1,350 - 1,450 to US\$/Oz 1,600 - 1,700** for the next two years. We maintain our long-term gold price in **US\$/Oz 1,100**.

- We included the effect of the modified agreement of the **prepayment facility** of gold with Red Kite, subscribed in October 2011. As we mentioned before, the payment of the additional US\$ 25 million granted would be through the delivery of 24.5K Au Oz to Red Kite, subject to the respective credits and penalties in relation to the spot price of gold. Using the spot prices in the range of US\$/Oz 1,600 - 1,700, we believe that RIO will have a **credit** in favor for the prepayment of gold, paying around 20.8K Au Oz.

- We incorporated the effect of the **new taxation scheme** in relation to the **mining royalties** in the valuation. The previous regime established a royalty in the range of 1% - 3% applied to revenues; however, the new scheme establishes a royalty & IEM (Special Tax on Mining) according to the EBIT of the company. We believe that, with the current cost structure of RIO, the effect of the new taxation regime would be meaningful as long as the gold values exceed the US\$/Oz 1,500 - 1,600 range. According to our analysis, after RIO reaches the production rhythm of 36K tpd -and taking into account the mentioned price vector of the metals- the average annual operating margin would be of 43.2%, with a taxing rate around 6.4% in mining royalties and IEM per year. It is worth mentioning that our previous analysis already included a **5% discount** to RIO's value to account for the reduction of the fair value by effect of the new mining royalties.

B. Copper and Gold Sulphides

- We increased the value of the Copper and Gold Sulphides Project by **US\$ 24.2 million** despite the **substantial increase** in the resources. This due to the strong reduction in the values of gold and copper metals In Situ.

- We increased the resources In Situ of the project of Copper and Gold Sulphides: i) Gold from 3M Au Oz to 4M Au Oz; and ii) Copper from 3B Cu Lbs to 4B Cu Lbs. As we mentioned before, after the increasing of resources, we considered the Copper and Gold Sulphides Project as a medium scale project.

- We reduced the value of the metals In Situ: i) Gold from US\$/Oz 129 to 110; and ii) Copper from US\$/Lb 0.07 to 0.045, according to the new estimations of market consensus. It is worth mentioning that we continued to include a 15% discount to the value of the mineral In Situ, considering the operating, social, environmental risks that the projects have before starting the operating phase (exploitation and production).

C. PIE of Contribution to the FV

- We modified the contribution PIE of the mining units (Oxides & Sulphides) within RIO's fair value. Therefore, in the present valuation, the Gold Oxide Mine and the Copper and Gold Sulphides Project contribute in 34.18% (from 28.34%) and 65.82% (from 71.66%) to RIO's fair value, respectively.

Valuation Methodology - Explanation Note

For effects of the present valuation, we used two types of methodologies: i) DCF (Gold Oxides Mine) and ii) In Situ (Copper and Gold Sulphides Project).

The In Situ valuation is always more conservative and grants a larger discount at the moment of calculating the project's fair value. Also, this type of analysis is frequently used to value projects in the early stage of development. In such way, it's important to note that the value of the Copper and Gold Sulphides can be subject to a DCF valuation methodology, which would lead to a substantial increase in RIO's fair value. In the next update of the report, we will include a DCF type of valuation for such project, which will be an important catalyst of our fair value.

Figure 5. - Changes in the PIE of Contribution to FV



Source: Kallpa SAB

Rio Alto Mining Limited Financial Summary

Estimated Production	2011e	2012e	2013e
A. Gold Oxides			
Gold Production - K Oz ⁽¹⁾	52	124	149
Gold Price (US\$/Oz)	1,570	1,650	1,700
Cash Cost - US\$/Oz	419	520	526
B. Copper and Gold Sulphides			
Copper Production - Mill Lb.	-	-	-
Gold Production - Thousands Oz.	-	-	-
Cash Cost - US\$/Lb.	-	-	-
Total (A + B)			
Gold Production - Thousands Oz	52	124	149
Copper Production - Thousands Oz	-	-	-

(1) Does not include deductions for the prepayment in gold ounces to Red Kite Explorer.

Profit & Loss - Mill US\$

Gold Oxides Mine	2011e	2012e	2013e
Net revenues	76.37	182.91	219.78
Sales Cost	-21.59	-64.53	-78.37
Gross Profit	54.77	118.38	141.41
Corp Overhaul & Others	-2.00	-2.00	-2.00
Royalties & IEM	-1.49	-4.87	-6.28
EBITDA	51.29	111.51	133.13
Depreciation	-29.53	-40.28	-41.14
Operating Profit	21.75	71.23	91.99
Taxes	-6.53	-21.37	-27.60
Net Income	15.23	49.86	64.39

Financial Rates

	2011e	2012e	2013e
Gross Margin	72%	65%	64%
Operating Margin	28%	39%	42%
EBITDA Margin	67%	61%	61%
Net Margin	20%	27%	29%
PER	39.23	11.98	9.28
P/EBITDA	11.65	5.36	4.49

Valuation Components Rio Alto - Mill US\$

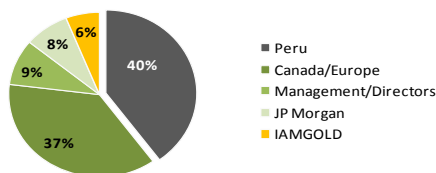
Mine/Project	Methodology	Value	Discount	Value a/ Disc.
1. Gold Oxides	DCF	294.53	1.00x	294.5
2. Copper and Gold Sulphides	In Situ	667.4	0.85x	567.3
Total (1 + 2)		961.9		861.8
Equity Fair Value				861.8

Capital Structure

Debt - Mill US\$	3.00
Equity - Mill US\$	112.10
Shares Outstanding - Mill	169.25
Options Outstanding - Mill ⁽²⁾	13.85
Shares Fully Diluted - Mill	183.10

(2) Numbers to be confirmed by RIO's Management.

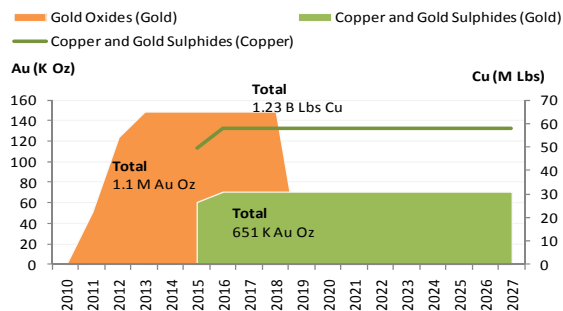
Main Shareholders



Operations in the Gold Oxide Project



Estimated Production: Oxides + Sulphides La Arena



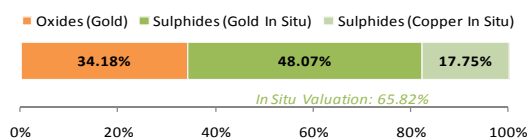
Projects	Stage/State	Estimated Production ⁽³⁾
Gold Oxides	Mine in Production	1.07M Au Oz
Gold and Copper Sulphides	Development - Towards Feasibility	1.4 B Cu Lbs + 680.6K Au Oz
La Florida	Intermediate Exploration	-
Maria Angola	Early Exploration	-
Agua Blanca	Early Exploration	-

(3) Corresponds to the estimated production, coming from part of the total resources, which would be included in the mining plan.

Estimations of Resources - Technical Report NI 43-101

Oxides @ 0.1 g/t Au	Ton	Au g/t	K Au Oz		
Indicated	100.7	0.46	1,484		
Inferred	10.4	0.27	90		
Sulphides @ 0.18% Cu	Ton	Au g/t	K Au Oz	% Cu	B Cu Lbs
Indicated	312.7	0.24	2,422	0.29	2.0
Inferred	319.7	0.2	2.01	0.30	2.10

RIO Valuation Components



Fair Value	5.09
Equity Value - Mill US\$	861.82
Shares Outstanding - Mill	169.25
WACC - %	13.67%
Market Price - US\$	3.53
Potential Upside - %	44%

Board & Management

Name	Position	Experience
Klaus Zeitler	Chairman & Director	Finances & Mining
Alex Black	Director & COO	Mining
Anthony Hawkshaw	Director & CFO	Finances
Drago Kiscic	Director	Finances & Corp. Gov.
Victor Gobbitz	Director	Mining Projects Adm.
Sidney Robinson	Director	Legal
Roger Norwich	Director	Geology and Mining
Ram Ramachandran	Director	Legal

Appendix: Liability Statements

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The economic compensations of the analyst that prepared this report are based on different factors, including but not limited to, the profitability of Kallpa Securities SAB and the earnings created by its different areas, including investment banking. Besides, the analyst does not receive any compensation for the companies in coverage.

The valuation report was prepared by the workers of Kallpa SAB, who maintain the title of Analyst. The people involved in the preparation of this report are authorized to maintain shares.

The analyst who prepared the report has visited the project's installations recently.

The price of the shares in this report is based on the market price at the moment of the closing of the previous day to the publication of this report, unless it is explicitly mentioned.

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Kallpa Securities SAB does not maintain shares of the company in its portfolio.

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Underweight -	< - 31%	> + 31%	Overweight +
Underweight	-16% a -30%	+16% a +30%	Overweight
Neutral	-15% a 0%	+15% a 0%	Neutral

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