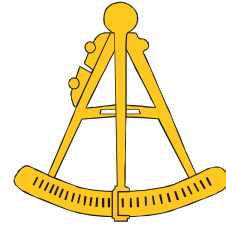


# Amerigo Resources Ltd.

Suite 2684, Four Bentall Centre  
Box 49298, 1055 Dunsmuir Street  
Vancouver, BC V7X 1L3  
Canada



## 2Q Report to August 31, 2003

### Operating Profit of US\$619,198 for first 2 months of MVC Ownership

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#### Highlights for the Second Quarter

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- **Net Earnings after tax** for the second quarter were **US\$537,313** up from a **loss** of **US\$45,384** in the previous corresponding quarter.
- **Amerigo acquired** the Chilean MVC copper property on July 3, 2003. As Amerigo has a February year end, the second quarter is the period June 1 to August 31, 2003. Accordingly this report includes only 2 months of Operating results from MVC
- **Amerigo produced** and sold **4.72 million pounds** of Copper in the months of July and August, for a cash cost of **58.7c** per pound, and a total cost of **61.7c** per pound.

The average copper price **received** in July was **77c** per pound, and for August **78.5c** per pound.

- **Copper production** for July and August represent an annualized rate of approximately 13,000 tonnes, **up 18%** on production rates prior to Amerigo's acquisition.
- **Operating cashflow** from MVC for the 2 months reported in the quarter was **US\$768,556**.
- **Earnings per share** were **US1.25c** (Canadian 1.67c) for essentially 2 months of operations.
- **US Dollar Reporting** - due to the change in the Amerigo asset base, all future financial reports will be expressed in US dollars.

- **Production expansion plans** remain on track to achieve an annualized production rate of approximately 15,000 tonnes of refined copper, up from 11,000 tonnes or a 36% increase.

The additional classification and flotation equipment has been ordered and is expected to be fully commissioned by January 2004, at a cost of US\$1.5m, significantly below the original budget of US\$ 3.0m.

- **Further production increases**-Preliminary planning is well underway for Stage 2 of the expansion which will increase annual copper production to approximately 20,000 tonnes in 2005. Both stages of expansion positions Amerigo well to take advantage of expected increases in the Copper price due to strong demand from China and improving economies in other parts of Asia, the US, and Europe.

This production increase will be generated from increased production from the Colihues tailings project from the present 2000 tonnes of plant feed per day trial operation to a fully commercial rate of 10,000 tonnes per day.

Further studies are planned for 2004 to examine the potential to increase production from Colihues beyond this rate.

- **New business** – Amerigo holds the view that there continues to be significant acquisition opportunities in both sulphide and oxide copper projects within Chile. Chile is the world's largest copper producer, and for several years this region has been short of capital to develop projects which typically are not large enough to capture the attention of the world's major copper producers. Amerigo believes it can participate in such opportunities provided they offer similar potential for rates of return to the Company's MVC acquisition.

# **Amerigo Resources Ltd.**

Consolidated Financial Statements  
(Unaudited)

**August 31, 2003**

(expressed in U.S. dollars)

# Amerigo Resources Ltd.

## Consolidated Balance Sheet

(expressed in U.S. dollars)

	<b>August 31, 2003</b>	<b>February 28, 2003</b>
	\$	\$
	(Unaudited)	
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 4)	2,976,193	91,654
Accounts receivable	758,771	13,049
Prepaid expenses	30,931	3,490
Plant supplies and inventory (note 5)	638,085	-
	<hr/>	
	4,403,980	108,193
<b>Deferred charges</b>	31,250	-
<b>Mineral property, plant and equipment</b> - net (note 6)	22,954,958	254,498
<b>Future income tax</b>	2,463,629	-
	<hr/>	
	29,853,817	362,691
	<hr/>	
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	1,433,157	16,546
<b>Notes payable</b> (note 3)	3,400,000	-
<b>Enami loan</b> (note 7)	2,360,365	-
<b>Other payables</b> (note 8)	370,860	-
<b>Future income tax</b>	1,257,118	-
<b>Minority interest</b>	1,000	-
	<hr/>	
	8,822,500	16,546
	<hr/>	
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (note 9)	23,262,401	3,390,897
<b>Contributed surplus</b>	1,747	1,747
<b>Deficit</b>	(2,555,196)	(3,046,499)
<b>Cumulative translation adjustment</b>	322,365	-
	<hr/>	
	21,031,317	346,145
	<hr/>	
	29,853,817	362,691
	<hr/>	

Approved by the Board of Directors

"Steven G. Dean"

Director

"Ian Gallie"

Director

# Amerigo Resources Ltd.

## Consolidated Statement of Operations and Retained Earnings

(expressed in U.S. dollars)

	Three months ended August 31,		Six months ended August 31,	
	2003 \$ (Unaudited)	2002 \$ (Unaudited)	2003 \$ (Unaudited)	2002 \$ (Unaudited)
<b>Revenue</b>	3,536,211	-	3,536,211	-
<b>Costs</b>				
Production costs	1,288,446	-	1,288,446	-
Smelter refinery and other charges	911,638	-	911,638	-
Maintenance and services	372,084	-	372,084	-
Depreciation and amortization	149,358	-	149,358	-
Administration	110,751	-	110,751	-
Transportation	84,736	-	84,736	-
<b>Cost of sales</b>	2,917,013	-	2,917,013	-
<b>Operating profit</b>	619,198	-	619,198	-
<b>Other income and expenses</b>				
Professional fees	45,085	11,909	58,545	15,916
Interest expense	41,505	-	41,505	-
Management fees	18,900	9,145	31,268	18,473
Transfer agent and filing fees	13,184	8,708	16,413	12,981
General prospecting	-	9,149	-	18,184
Office expense	2,410	4,662	14,325	7,654
Shareholder and investor information	990	2,115	6,796	2,616
Interest income	(11,920)	(246)	(12,688)	(260)
Foreign exchange gain	(73,706)	(58)	(73,706)	(58)
	36,448	45,384	82,458	75,506
<b>Earnings (loss) before minority interest</b>	582,750	(45,384)	536,740	(75,506)
<b>Minority interest</b> (note 8)	45,437	-	45,437	-
<b>Net earnings (loss) for the period</b>	537,313	(45,384)	491,303	(75,506)
<b>Deficit - Beginning of period</b>				
As previously reported	(3,201,903)	(3,014,286)	(3,046,499)	(2,984,164)
Accounting change (note 10)	109,394	-	-	-
As restated	(3,092,509)	(3,014,286)	(3,046,499)	(2,984,164)
<b>Deficit - End period</b>	(2,555,196)	(3,059,670)	(2,555,196)	(3,059,670)
<b>Weighted average number of shares outstanding</b>	42,886,820	3,707,935	25,056,135	3,260,531
<b>Earnings (loss) per share</b>				
Basic	0.0125	(0.01)	0.0196	(0.02)
Diluted	0.0114	(0.01)	0.0168	(0.02)

# Amerigo Resources Ltd.

## Consolidated Statement of Cash Flows

(expressed in U.S. dollars)

	<b>Three months ended August 31,</b>		<b>Six months ended August 31,</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Cash flows from operating activities</b>				
Net earnings (loss) for the period	537,313	(45,384)	491,303	(75,506)
Items not affecting cash - Depreciation and amortization	149,358	-	149,358	-
	686,671	(45,384)	640,661	(75,506)
Changes in non-cash working capital - net of effects of acquisition of subsidiary				
Decrease in accounts receivable	(260,818)	(27,793)	(269,549)	(24,308)
Decrease in prepaid expenses	(2,691)	-	(312)	-
Decrease in plant, supplies and inventory	(90,246)	-	(90,246)	-
Increase in accounts payable	(446,274)	(17,293)	(363,242)	(31,944)
Due to related parties	-	(33,460)	-	-
<b>Net cash used in operating activities</b>	<b>(113,358)</b>	<b>(123,930)</b>	<b>(82,688)</b>	<b>(131,758)</b>
<b>Cash flows from investing activities</b>				
Acquisition of subsidiary - net of \$31,083 cash acquired	(319,376)	-	(428,770)	-
Purchase of mineral property, plant and equipment	(42,020)	(108)	(74,615)	(1,549)
<b>Net cash used in investing activities</b>	<b>(361,396)</b>	<b>(108)</b>	<b>(503,385)</b>	<b>(1,549)</b>
<b>Cash flows from financing activities</b>				
Repayment of Enami loan	(92,857)	-	(92,857)	-
Repayment of former owner loans	(16,600,000)	-	(16,600,000)	-
Deferred charges	(37,500)	-	(37,500)	-
Issuance of shares for cash - net of share issue costs	19,566,148	233,638	19,862,721	273,790
Other payables	51,332	-	51,332	-
<b>Net cash provided by financing activities</b>	<b>2,887,123</b>	<b>233,638</b>	<b>3,183,696</b>	<b>273,790</b>
<b>Cumulative translation adjustment</b>	<b>286,734</b>	<b>-</b>	<b>286,916</b>	<b>-</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,699,103</b>	<b>109,600</b>	<b>2,884,539</b>	<b>140,483</b>
<b>Cash and cash equivalents - Beginning of period</b>	<b>277,090</b>	<b>33,484</b>	<b>91,654</b>	<b>2,601</b>
<b>Cash and cash equivalents - End of period</b>	<b>2,976,193</b>	<b>143,084</b>	<b>2,976,193</b>	<b>143,084</b>
<b>Non-cash transactions</b>				
Issuance of shares for mineral properties	8,783		8,783	
Mineral properties for minority interest	1,000		1,000	
Note payable on acquisition	1,854,589		1,854,589	

# Amerigo Resources Ltd.

## Notes to Consolidated Financial Statements

### August 31, 2003

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(expressed in U.S. dollars)

## 1 Continued operations

The company was incorporated under the laws of British Columbia, Canada.

During the period, the company acquired a copper producing company in Chile, Minera Valle Central S.A. (MVC) (note 3).

The company's activities also include the acquisition and exploration of mineral properties.

The company has not determined whether all its properties contain ore reserves that are economically recoverable. The recoverability of the amount shown for mineral interests is dependent upon the existence of economically recoverable reserves, the ability of the company to obtain the necessary financing, licenses and permits to complete the exploration and development of its properties and upon future profitable production or proceeds from the disposition of the properties. The amounts shown as mineral interests represent net costs to date, less amounts amortized and/or written off, and do not necessarily represent present or future values.

## 2 Significant accounting policies

### Basis of presentation

As a consequence of the acquisition of MVC, the company has adopted new accounting policies during the most recent interim period.

These interim financial statements disclose the company's accounting policies and methods of application and other information that management believes is necessary to understand the company's new operations. Other information normally included in annual financial statements has not been included in these interim financial statements, and these financial statements should be read together with the company's most recent audited annual financial statements.

These consolidated financial statements include the accounts of the company and its subsidiaries, Templo Dorado S.A. de C.V., (inactive), Amerigo International Holdings Corp., Amerigo Resources Ltd. Chile I Limitada, Amerigo Resources Ltd. Chile II Limitada and Minera Valle Central S.A. The results of the operations of these subsidiaries, except for Templo Dorado S.A. de C.V., were consolidated from July 1, 2003. In the view of management, these interim consolidated financial statements include all adjustments necessary for a fair presentation of the interim financial results.

### Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

# **Amerigo Resources Ltd.**

## Notes to Consolidated Financial Statements

### **August 31, 2003**

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(expressed in U.S. dollars)

The most significant estimates are related to the physical and economic lives of mineral assets and their recoverability.

#### **Foreign currency translation**

On June 1, 2003, the company changed its reporting currency to U.S. dollars. This change was made for consistency between the reporting currency of the company and its subsidiaries and was applied retroactively to March 1, 2003.

Comparative numbers were translated using the current method of translation. Under this method, the income statement and the cash flow statement items were translated into the reporting currency using the rates in effect at the date of the transactions, and assets and liabilities were translated using the exchange rate at February 28, 2003. All resulting exchange differences are reported as cumulative translation adjustment as a separate component of shareholders' equity.

The company's subsidiaries, except for MVC, are considered integrated operations and are translated using the temporal method. Under this method, monetary assets and liabilities are translated into U.S. dollars at the balance sheet date rate of exchange, and non-monetary assets and liabilities at historical rates. Revenues and expenses are translated at appropriate transaction date rates. Gains and losses on translation are included in income.

The company's subsidiary, MVC, is considered a self-sustaining operation and is translated using the current rate method. Under this method, assets and liabilities are translated into U.S. dollars at the balance sheet date rate of exchange. Revenues and expenses are translated at appropriate transaction date rates. Gains and losses on translation are deferred and included as part of shareholders' equity.

#### **Cash and cash equivalents**

Cash and cash equivalents consist of highly liquid investments that are readily convertible into cash with maturities of three months or less when purchased.

#### **Mineral property, plant and equipment**

Property, plant and equipment are carried at cost. Assets used in commercial production are subject to depreciation and depletion on the basis described below:

Buildings and major equipment are depreciated using the unit of production method over the lesser of the useful life of the asset or the estimated life of the mineral resource.

Other fixed assets are depreciated over the useful life of the asset.

Unit of production method is defined as contained pounds of copper produced over estimated production under the tailings supply agreement.



# Amerigo Resources Ltd.

Notes to Consolidated Financial Statements

August 31, 2003

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(expressed in U.S. dollars)

## **Mineral interests**

The company follows the method of accounting for its mineral interests whereby all costs related to acquisition, exploration and development are capitalized by project. These costs will be amortized against revenue from future production or written off if the interest is abandoned or sold.

On the commencement of commercial production, net costs will be charged to operations using the unit of production method by project based upon estimated recoverable reserves.

The amounts shown for mineral interests represent costs incurred to date, less recoveries, and do not necessarily reflect present or future values. Management reviews the carrying values of mineral interests, on a property-by-property basis, at least annually to determine if they have become impaired. If impairment is determined to exist, the mineral property will be written down to its net recoverable value. The ultimate recoverability of the amounts capitalized for the mineral properties is dependent upon the delineation of economically recoverable ore reserves, the company's ability to obtain the necessary financing to complete their development and realize profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the company's investment in various projects have been based on current conditions. However, it is reasonably possible that changes could occur in the near term that could adversely affect management's estimates and may result in future writedowns of capitalized property carrying values.

## **Property option agreements**

From time to time, the company may acquire or dispose of properties pursuant to the terms of option agreements. Because options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received.

## **Plant supplies and inventory**

Plant supplies are valued at the lower of cost and replacement cost. Concentrate inventory is valued at the lower of cost of production and net realizable value.

## **Revenue**

Revenue is recognized when production is delivered to the smelter and title passes to the purchaser. Settlement adjustments are recorded when final payable metal content and final prices are determined.

## **Contractual right**

At the time of the acquisition of MVC, the company assigned the excess of the purchase price over the fair value of the tangible assets acquired to the contract between MVC and Codelco to process the tailings of the El Teniente mine. This contractual right is amortized on the basis of the contract.

# Amerigo Resources Ltd.

## Notes to Consolidated Financial Statements

August 31, 2003

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(expressed in U.S. dollars)

### **Income taxes**

The company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is included in the period that includes the enactment date.

### **Deferred charges**

Deferred charges consist of fees related to establishing the debt and are being amortized over the initial term of the loan.

### **Earnings (loss) per share**

Earnings or loss per common share is calculated using the weighted average number of common shares outstanding during each period. Diluted earnings or loss per common share is calculated using the treasury stock method, which assumes that stock options are only exercised when the exercise price is below the average market price during the period, and that the company will use the proceeds to purchase its common shares at their average market price during the period.

## **3 Acquisition of Minera Valle Central S.A.**

On July 3, 2003, the company executed an agreement to acquire all of the issued and outstanding shares of Minera Valle Central S.A. (MVC). MVC is a Chilean copper producer and has a contract with Chile's state owned copper producer Corporacion Nacional del Cobre de Chile (Codelco) through 2021 to process the tailings from the El Teniente mine in Chile.

Consideration for this acquisition was \$1,854,589 and the assumption of loans of \$18,145,411 due to former shareholders, of which \$16,600,000 was repaid at the time of the acquisition. The remaining loan balance of \$1,545,411 together with the acquisition price, totalling \$3,400,000 will be paid in cash or shares of the company, in three years if the average copper price is over \$0.82 per pound. Payment in cash or shares is at the option of the company; however, if the company elects to pay in shares, the vendor has the right to either receive the payment in shares or receive payment in cash within two years counted from the end of the three-year period plus interest at an annual rate of 5%. If the copper price is below \$0.82 per pound, the payment period will be extended to five years. Payment will be made in cash only plus interest at an annual rate of 5%.

This acquisition has been accounted for using the purchase method and results of operations have been consolidated since the date of acquisition. The following table summarizes the purchase price allocation based on preliminary estimates of the fair values of the assets acquired and liabilities assumed; appraisals and valuations are being conducted and final allocation will be made upon completion.

# Amerigo Resources Ltd.

## Notes to Consolidated Financial Statements

August 31, 2003

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(expressed in U.S. dollars)

	\$
<b>Net assets acquired</b>	
Cash	31,083
Accounts receivable	476,173
Inventory	547,839
Other assets	248,530
Property, plant and equipment	14,080,035
Future income tax assets	2,259,547
Contractual right	<u>8,433,064</u>
	26,076,271
<b>Liabilities assumed</b>	
Loan from former shareholders	(18,145,411)
Enami loan	(2,453,222)
Accounts payable	(1,314,703)
Accrued liabilities	(784,678)
Future income tax liabilities	<u>(1,063,815)</u>
	<u>2,314,442</u>
<b>Consideration</b>	
Note payable issued to vendor	1,854,589
Acquisition costs	
Legal and other related costs	257,228
Stamp duties	<u>202,625</u>
	<u>2,314,442</u>

#### 4 Cash and cash equivalents

The company has pledged \$12,600,000 as collateral for a demand loan of \$12,600,000 advanced by a Canadian owned bank. The deposit is restricted under the terms and conditions of the demand loan and may be applied at any time at the option of the company to settle the demand loan. The interest rate on the demand loan is 90 days LIBOR plus 0.5%. The cash deposit and demand loan are part of an interim corporate structure which will eventually be replaced by a structure involving the registration of a subsidiary that has applied for a banking licence in an offshore jurisdiction. For accounting purposes, the cash deposit has been netted off against the demand loan.

**Amerigo Resources Ltd.**  
Notes to Consolidated Financial Statements  
**August 31, 2003**

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(expressed in U.S. dollars)

**5 Plant supplies and inventory**

	<b>August 31, 2003</b>	<b>February 28, 2003</b>
	\$	\$
	(Unaudited)	
Plant supplies	536,695	-
Concentrate inventory	101,390	-
	<u>638,085</u>	<u>-</u>

**6 Mineral property, plant and equipment**

	\$
Construction and infrastructure	13,159,891
Machinery and equipment	<u>10,696,898</u>
	23,856,789
Accumulated depreciation	<u>(10,086,506)</u>
	13,770,283
Contractual right - net	<u>8,354,640</u>
	22,124,923
Office furniture, equipment and other assets - net	521,313
Mineral properties - Canada	<u>308,722</u>
	<u>22,954,958</u>

Mineral properties in Canada consist of:

	<b>February 28, 2003</b>	<b>May 31, 2003</b>		<b>August 31, 2003</b>	
	<b>Balance</b>	<b>Deferred</b>	<b>Balance</b>	<b>Deferred</b>	<b>Balance</b>
	\$	exploration	\$	exploration	\$
		\$	(Unaudited)	\$	(Unaudited)
		(Unaudited)		(Unaudited)	
Island Copper, Ontario	131,867	6,260	138,127	2,737	140,864
Coppercorp, Ontario	67,322	19,374	86,696	16,603	103,299
Bellevue, Ontario	12,368	2,024	14,392	1,039	15,431
Deroche, Ontario	5,930	4,935	10,865	1,251	12,116
Caniapiscau, Quebec	37,012	-	37,012	-	37,012
	<u>254,499</u>	<u>32,593</u>	<u>287,092</u>	<u>21,630</u>	<u>308,722</u>

# Amerigo Resources Ltd.

Notes to Consolidated Financial Statements

August 31, 2003

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(expressed in U.S. dollars)

## 7 Enami loan

MVC has entered into a series of agreements with the Chilean state owned company, Empresa Nacional de Minería (Enami).

Under the terms of the agreements, Enami lent money to MVC for working capital purposes in 1998, 2001 and 2002. These loans accrue interest at an annual rate of prime as set by the Chilean Central Bank plus 2%. As at August 31, 2003, the interest rate was approximately 6.5%.

These loans are collateralized with assets of MVC with a value of approximately \$1,600,000.

The repayment of the principal and interest on these loans is based on production and copper prices, as follows:

If the copper price is above \$0.75 per pound, the company is required to repay to Enami 50% of the excess price over \$0.75.

If the copper price is above \$0.82 per pound, the company is required to repay to Enami 100% of the excess price over \$0.82.

Accordingly, a portion of these loans may be repaid within the upcoming year; however, as there is no minimum payment, the loans have been classified as non-current.

## 8 Other payables

Other payables include \$45,437 payable to related parties for a royalty dividend calculated as \$0.01 per pound of copper produced during the period from July 4, 2003 to August 31, 2003.

# Amerigo Resources Ltd.

## Notes to Consolidated Financial Statements

August 31, 2003

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(expressed in U.S. dollars)

### 9 Capital stock

Authorized

100,000,000 common shares without par value

Issued

	Shares	Amount \$
Balance - February 28, 2003	6,384,688	3,390,897
Private placement at Cdn\$0.16 per share	1,562,500	183,070
Exercise of warrants	600,000	98,858
Exercise of stock options	100,000	14,645
Balance - May 31, 2003 (unaudited)	8,647,188	3,687,470
Private placement at Cdn\$0.60 per share	47,757,833	20,667,802
Exercise of warrants	262,500	47,100
Property option agreement	50,000	7,000
Exercise of stock options	5,000	700
Issuing costs	-	(1,147,671)
Balance - August 31, 2003 (unaudited)	56,722,521	23,262,401

#### Private placement

On April 16, 2003, the company completed a private placement of 1,562,500 units at Cdn\$0.16 per unit for proceeds of Cdn\$250,000 (\$183,070). Each unit consisted of one common share and one-half of one warrant; each warrant entitles the holder to purchase one additional common share at Cdn\$0.32 to April 16, 2005.

On June 24, 2003, the company completed a private placement with net proceeds of Cdn\$25,979,100 (\$18,735,453). Deposit receipts totalling 43,298,501 have been issued at a price of Cdn\$0.60 each. Each deposit receipt was convertible into a unit consisting of one share and one-half of one warrant, with each full warrant exercisable until June 18, 2005 at Cdn\$0.70. On July 18, 2003, the deposit receipts were converted into shares.

On July 18, 2003, the company completed a private placement of Cdn\$1,980,000 (\$1,428,056) oversubscription option for the company's private placement. A total of 3,300,000 units were issued at Cdn\$0.60 per unit. Each unit consists of one share and one-half of one warrant, with each full warrant exercisable until June 18, 2005 at Cdn\$0.70.

The agents received 6% commission and a total of 1,268,974 agent's warrants entitling the agents to purchase units (consisting of one share and one-half of one warrant, with each full warrant exercisable until June 18, 2005 at Cdn\$0.70) for Cdn\$0.60 until June 18, 2005.

# Amerigo Resources Ltd.

## Notes to Consolidated Financial Statements

August 31, 2003

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(expressed in U.S. dollars)

On July 18, 2003, the company completed a non-brokered private placement of 1,159,333 units at Cdn\$0.60 per unit for total proceeds of Cdn\$695,600 (\$501,695). Each unit consists of one share and one-half of one warrant, with each full warrant exercisable until June 18, 2005 at Cdn\$0.70.

### Stock options

During the six months ended August 31, 2003, the company granted stock options to purchase an aggregate of 340,000 common shares to two directors and one senior officer, with an exercise price of Cdn\$0.36 per share, expiring on April 2, 2008.

100,000 stock options were exercised at Cdn\$0.20 netting the company Cdn\$20,000 (\$15,523).

Stock options outstanding and exercisable at August 31, 2003:

	<b>Six months ended August 31, 2003</b>	
	<b>(Unaudited)</b>	
	<b>Outstanding options</b>	<b>Weighted average exercise price Cdn\$</b>
Outstanding - Beginning of period	320,000	0.20
Granted	340,000	0.36
Exercised	(105,000)	0.20
Outstanding and exercisable - End of period	<u>555,000</u>	<u>0.30</u>

At August 31, 2003, the weighted average remaining contractual life of the stock optionees is 4.2 years.

### Stock-based compensation

The company does not record any value for options granted to employees and directors and uses the fair value method for options granted to consultants. The company estimated that the weighted average fair value of the options granted during the first quarter ended May 31, 2003 was Cdn\$0.25 by using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Expected dividend yield	0%
Expected stock price volatility	89.05%
Risk-free interest rate	3.25%
Expected life of options	5 years

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(expressed in U.S. dollars)

Had the company recognized compensation expense for stock options granted to its employees using the fair value method, the following would have been its effect on the company's net earnings:

	<b>Six months ended August 31, 2003 \$ (Unaudited)</b>
Net earnings for the period	
As reported	491,303
Pro forma	428,998
Basic earnings per share	
As reported	0.0196
Pro forma	0.0171
Diluted earnings per share	
As reported	0.0168
Pro forma	0.0147

**Warrants**

On March 14, 2003, 75,000 warrants with the same expiry date were exercised at Cdn\$0.40 per unit, netting the company Cdn\$30,000 (\$21,968). 425,000 warrants expired without being exercised.

During April and May of 2003, 525,000 warrants with August 20, 2004 expiry date were exercised at Cdn\$0.20 per unit netting the company Cdn\$105,000 (\$76,890).

**Share purchase warrants outstanding at August 31, 2003 (unaudited)**

<b>Number of warrants</b>	<b>Exercise price per warrant Cdn\$</b>	<b>Expiry date</b>
1,653,750	0.20	August 21, 2004
389,185	0.25	February 12, 2005
681,250	0.32	April 16, 2005
1,268,974	0.60	June 18, 2005
24,513,406	0.70	June 18, 2005

Each warrant entitles the holder to purchase one common share of the company.



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(expressed in U.S. dollars)

## **10 Adjustment to first quarter interim results**

During the first quarter of fiscal 2003, the company expensed \$109,394 of costs associated with the acquisition of MVC. During the preparation of the second quarter interim financial statements, management determined that these costs should have been capitalized and has adjusted the opening deficit for the second quarter interim results to reflect this change. The correction has been reflected in the six month interim statement of operations.

## **11 Segmented information**

As at August 31, 2003, the company's assets are located mainly in Chile and its revenues arise from its Chilean operations.

During 2002, the company's assets were located mainly in Canada and its results of operations related to operations in Canada.