

# **Amerigo Resources Ltd.**

**Condensed Interim Consolidated Financial Statements  
Three and six months ended June 30, 2020 and 2019  
Unaudited – Prepared by Management**

(Expressed in thousands of United States dollars)

# Amerigo Resources Ltd.

## Condensed Interim Consolidated Statements of Financial Position - Unaudited

(expressed in thousands of U.S. dollars)

		June 30, 2020	December 31, 2019
	Notes	\$	\$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	14	489	7,164
Trade and settlement receivables		5,872	7,741
Taxes receivable		139	1,491
Prepaid expenses		771	969
Inventories	5	8,414	10,317
		<u>15,685</u>	<u>27,682</u>
<b>Non-current assets</b>			
Property, plant and equipment	6	190,919	198,582
Intangible assets		3,910	4,022
Investments		2,119	2,534
Other non-current assets		829	841
Deferred income tax asset		7	1
<b>Total assets</b>		<u>213,469</u>	<u>233,662</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		20,363	19,837
Current portion of borrowings	7	9,898	10,108
DET royalties	3	6,543	9,284
Interest rate swap	7	2,502	665
Current portion of leases	8	1,470	1,631
Current portion of related party derivative liability	9,15	1,598	1,219
Current income tax liabilities		30	55
		<u>42,404</u>	<u>42,799</u>
<b>Non-current liabilities</b>			
Borrowings	7	41,249	45,789
Deferred income tax liability		20,667	25,060
Related party derivative liability	9,15	8,857	10,962
Leases	8	4,243	5,447
Severance provisions		972	973
<b>Total liabilities</b>		<u>118,392</u>	<u>131,030</u>
<b>Equity</b>			
Share capital	10	80,461	80,300
Other reserves		10,173	10,179
Accumulated other comprehensive loss		(1,306)	(1,227)
Retained earnings		5,749	13,380
<b>Total equity</b>		<u>95,077</u>	<u>102,632</u>
<b>Total equity and liabilities</b>		<u>213,469</u>	<u>233,662</u>
<b>Going concern</b>	1		
<b>Commitments and contingencies</b>	16		
<b>Subsequent events</b>	17		

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Approved by the Board of Directors

"Robert Gayton"

Director

"George Ireland"

Director

# Amerigo Resources Ltd.

## Condensed Interim Consolidated Statements of Loss and Comprehensive Loss - Unaudited

(expressed in thousands of U.S. dollars)

	Notes	Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
		\$	\$	\$	\$
<b>Revenue</b>	12	26,046	22,692	41,684	50,428
<b>Tolling and production costs</b>	13 (a)	(26,441)	(28,794)	(51,010)	(54,558)
<b>Gross loss</b>		(395)	(6,102)	(9,326)	(4,130)
<b>Other expenses</b>					
General and administration	13 (b)	(434)	(1,172)	(1,135)	(2,295)
Derivative to related parties including changes in fair value	13 (c)	(2,100)	256	1,642	(662)
Other (losses) gains	13 (d)	(382)	(296)	613	40
		(2,916)	(1,212)	1,120	(2,917)
<b>Operating loss</b>		(3,311)	(7,314)	(8,206)	(7,047)
Finance expense	13 (e)	(904)	(1,501)	(3,737)	(3,298)
		(904)	(1,501)	(3,737)	(3,298)
<b>Loss before income tax</b>		(4,215)	(8,815)	(11,943)	(10,345)
Income tax recovery		613	2,251	4,312	2,382
<b>Net loss</b>		(3,602)	(6,564)	(7,631)	(7,963)
<b>Other comprehensive income (loss)</b>					
<b>Items that may be reclassified subsequently to net loss:</b>					
Unrealized gains (losses) on investments, net of tax		763	563	(340)	868
Realized loss on investments, net of tax		-	-	(1)	-
Cumulative translation adjustment		(158)	(116)	290	(239)
Actuarial (losses) gains on severance provision		(61)	(13)	(28)	13
<b>Other comprehensive income (loss)</b>		544	434	(79)	642
<b>Comprehensive loss</b>		(3,058)	(6,130)	(7,710)	(7,321)
Weighted average number of shares outstanding, basic		180,769,351	178,292,940	180,749,571	178,002,296
Weighted average number of shares outstanding, diluted		180,769,351	178,292,940	180,749,571	178,002,296
<b>Loss per share</b>					
Basic		(0.02)	(0.04)	(0.04)	(0.04)
Diluted		(0.02)	(0.04)	(0.04)	(0.04)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

# Amerigo Resources Ltd.

## Condensed Interim Consolidated Statements of Cash Flows - Unaudited

(expressed in thousands of U.S. dollars)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
<b>Cash flows from (used in) operating activities</b>				
Net loss	(3,602)	(6,564)	(7,631)	(7,963)
Adjustment for items not affecting cash:				
Depreciation and amortization	4,338	4,398	9,074	8,762
Changes in fair value of derivative	1,826	(474)	(2,119)	234
Finance expense (gain)	684	(304)	1,772	961
Unrealized foreign exchange loss (gain)	114	(161)	(379)	(361)
Share-based payments	29	577	39	1,068
Other	10	55	(7)	140
Impairment charges	-	-	2,303	-
Deferred income tax recovery	(614)	(2,281)	(4,399)	(2,425)
	2,785	(4,754)	(1,347)	416
Changes in non-cash working capital				
Trade, other receivables and taxes receivable	(4,087)	8,178	3,404	8,133
Inventories	1,871	1,213	(441)	(3,477)
Trade and other payables	2,633	(1,876)	879	(996)
DET royalties	(2,070)	190	(2,741)	(2,573)
<b>Net cash from (used in) operating activities</b>	<b>1,132</b>	<b>2,951</b>	<b>(246)</b>	<b>1,503</b>
<b>Cash flows used in investing activities</b>				
Purchase of plant and equipment	(810)	(2,486)	(1,278)	(5,719)
Proceeds from the sale of investments	-	-	75	-
<b>Net cash used in investing activities</b>	<b>(810)</b>	<b>(2,486)</b>	<b>(1,203)</b>	<b>(5,719)</b>
<b>Cash flows used in financing activities</b>				
Repayment of borrowings	-	(8,567)	(4,686)	(8,567)
Lease repayments	(403)	(363)	(612)	(726)
Issuance of shares	-	334	116	465
<b>Net cash used in financing activities</b>	<b>(403)</b>	<b>(8,596)</b>	<b>(5,182)</b>	<b>(8,828)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(81)</b>	<b>(8,131)</b>	<b>(6,631)</b>	<b>(13,044)</b>
<b>Effect of exchange rate changes on cash</b>	<b>(2)</b>	<b>(51)</b>	<b>(44)</b>	<b>121</b>
<b>Cash and cash equivalents - Beginning of period</b>	<b>572</b>	<b>16,597</b>	<b>7,164</b>	<b>21,338</b>
<b>Cash and cash equivalents - End of period</b>	<b>489</b>	<b>8,415</b>	<b>489</b>	<b>8,415</b>
<b>Supplementary cash flow information (Note 14)</b>				

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

# Amerigo Resources Ltd.

## Condensed Interim Consolidated Statements of Changes in Equity - Unaudited

(expressed in thousands of U.S. dollars)

	Share capital		Other reserves	Accumulated other comprehensive loss	Retained earnings	Total equity
	Number of shares	Amount				
		\$	\$	\$	\$	\$
Balance - January 1, 2019	177,280,740	79,296	9,202	(2,081)	22,793	109,210
Share-based payments	-	-	1,068	-	-	1,068
Expenses settled with shares	82,770	62	-	-	-	62
Exercise of share purchase options	2,805,841	942	(479)	-	-	463
Cumulative translation adjustment	-	-	-	(239)	-	(239)
Unrealized gains on investments	-	-	-	868	-	868
Actuarial gains on severance provision	-	-	-	13	-	13
Net loss	-	-	-	-	(7,963)	(7,963)
Balance - June 30, 2019	180,169,351	80,300	9,791	(1,439)	14,830	103,482
Share-based payments	-	-	388	-	-	388
Cumulative translation adjustment	-	-	-	(76)	-	(76)
Unrealized gains on investments	-	-	-	325	-	325
Realized gains on investments	-	-	-	19	-	19
Actuarial losses on severance provision	-	-	-	(56)	-	(56)
Net loss	-	-	-	-	(1,450)	(1,450)
Balance - December 31, 2019	180,169,351	80,300	10,179	(1,227)	13,380	102,632
Balance - January 1, 2020	180,169,351	80,300	10,179	(1,227)	13,380	102,632
Share-based payments	-	-	39	-	-	39
Exercise of share purchase options	600,000	161	(45)	-	-	116
Cumulative translation adjustment	-	-	-	290	-	290
Unrealized losses on investments	-	-	-	(340)	-	(340)
Realized loss on investments	-	-	-	(1)	-	(1)
Actuarial losses on severance provision	-	-	-	(28)	-	(28)
Net loss	-	-	-	-	(7,631)	(7,631)
Balance - June 30, 2020	180,769,351	80,461	10,173	(1,306)	5,749	95,077

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

# Amerigo Resources Ltd.

Notes to the Condensed Interim Consolidated Financial Statements - Unaudited  
June 30, 2020

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(tabular information expressed in thousands of U.S. dollars)

## 1) REPORTING ENTITY AND GOING CONCERN

### a) Reporting entity

Amerigo Resources Ltd. ("Amerigo") is a company domiciled in Canada. Its shares are listed for trading on the Toronto Stock Exchange and traded in the United States on the OTCQX.

Amerigo owns a 100% interest in Minera Valle Central S.A. ("MVC"), a producer of copper concentrates. MVC, located in Chile, has a long-term contract with the El Teniente Division ("DET") of Corporación Nacional del Cobre de Chile ("Codelco") to process fresh and historic tailings from El Teniente (Note 3). El Teniente, in production since 1905, is the world's largest underground copper mine.

These condensed interim consolidated financial statements ("interim financial statements") as at and for the three and six months ended June 30, 2020 include the accounts of Amerigo and its subsidiaries (collectively the "Company").

### b) Going concern

These interim financial statements have been prepared in accordance with IFRS applicable to a going concern.

In the six months ended June 30, 2020 ("YTD-2020"), the Company incurred a net loss of \$7.6 million, which includes \$3.9 million in negative adjustments to the fair value of copper settlement receivables (Note 12(a)). The negative settlement adjustments were the result of the sharp decline in market copper prices during the period in response to the global COVID-19 pandemic (Note 4).

The price the Company receives for the copper produced by MVC under the agreement with DET is based on the average London Metal Exchange ("LME") copper price for the third month following delivery of the copper concentrates ("M+3"). Accordingly, in a period of declining copper prices, the Company is impacted both from recording quarterly copper production at a low provisional copper price, and from adjusting down the three preceding months of production to adjust from a higher provisional price to a lower final settlement price. The adjustments can be material, as was the case in Q1-2020 when the Company recorded charges of \$5.3 million from fair value settlement adjustments, impacting financial results, cash flow and working capital. The lowest average monthly copper price in 2020 was in April (\$2.29/lb), increasing to \$2.37/lb in May and \$2.60/lb in June. During Q2-2020 the Company booked \$1.4 million in positive revenue settlement adjustments. Copper prices have continued to improve subsequent to June 30, 2020.

At June 30, 2020, the Company had a working capital deficiency of \$26.7 million, compared to a working capital deficiency of \$15.1 million on December 31, 2019. The major components affecting the Company's working capital position were a decrease in cash of \$6.3 million used for scheduled debt and interest payments in March 2020 (Note 7), and the impact of the sharp decline in copper prices during YTD-2020, when the average LME copper price was \$2.49/lb compared to 2019's ending copper price of \$2.75/lb. The decline in copper price affected the Company's ability to generate cash flow from operations, reduced trade and settlement receivables due to realized fair value adjustments and increased trade and other payables as the Company deferred payments to suppliers to preserve minimum levels of cash at hand.

In response to these circumstances, the Company reduced operating costs, suspended most capital expenditures, and structured deferred payment programs with key suppliers. During Q2-2020 the Company generated cash flow

# Amerigo Resources Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements - Unaudited June 30, 2020

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(tabular information expressed in thousands of U.S. dollars)

from operations before changes in non-cash working capital of \$2.8 million, compared to cash used in operations before changes in non-cash working capital accounts of \$4.1 million in Q1-2020.

Subsequent to June 30, 2020, MVC reached an agreement with DET to defer payment of \$7.3 million in copper settlements (Note 17), to be paid in 2021.

MVC has maintained an ongoing dialogue with its lenders to maintain the existing loan in good standing. The MVC lenders waived MVC's debt covenants compliance obligations on June 30, 2020, although the Company was technically in breach of its debt covenants.

The price of copper has recovered to levels where it is sufficient to cover the Company's production costs and royalty obligations to DET (Note 3) and the Company expects to meet its debt obligations for the next 12 months from operating cash flows, assuming copper prices average at least \$2.75/lb and production and cost targets continue to be met.

Notwithstanding, the Company's working capital deficiency gives rise to material uncertainties that may cast significant doubt as to the Company's ability to meet its obligations as they come due and accordingly, the appropriateness of using accounting principles applicable to a going concern.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that may be necessary were the going concern assumption to be inappropriate. Such adjustments could be material.

## 2) BASIS OF PRESENTATION

### a) Statement of compliance

These interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

These interim financial statements do not include all the information required for a complete set of IFRS statements and should be read in conjunction with Amerigo's audited consolidated financial statements as at and for the year ended December 31, 2019, which have been prepared in accordance with IFRS. However, selected notes are included to explain events and transactions that are significant to an understanding of the changes in Amerigo's financial position and performance since the last annual consolidated financial statements.

These interim financial statements were authorised for issuance by Amerigo's board of directors on August 10, 2020.

### b) Significant accounting policies

These interim financial statements follow the same accounting policies and methods of application as Amerigo's most recent annual financial statements.

The interim financial statements should be read in conjunction with Amerigo's most recent annual financial statements.

# Amerigo Resources Ltd.

Notes to the Condensed Interim Consolidated Financial Statements - Unaudited  
June 30, 2020

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(tabular information expressed in thousands of U.S. dollars)

## 3) AGREEMENTS WITH CODELCO'S EL TENIENTE DIVISION

MVC has a contract with DET (the "DET Agreement") to process the fresh tailings from El Teniente and the tailings from the Cauquenes and Colihues historic tailings deposits. The DET Agreement has a term to the earlier of 2033 or deposit depletion for Cauquenes, the earlier of 2037 or deposit depletion for Colihues and 2037 for fresh tailings.

The DET Agreement establishes a series of royalties which are payable by MVC to DET, calculated using the average London Metal Exchange copper price for the month of concentrates production.

The DET Agreement currently operates as a tolling contract under which title to the copper concentrates produced by MVC remains with DET. MVC earns tolling revenue, calculated as the gross value of copper produced at applicable market prices net of notional items. Notional items include treatment and refining charges, DET copper royalties and transportation costs.

Notional royalties for copper concentrates produced from fresh tailings are determined through a sliding scale formula tied to copper prices ranging from \$1.95/lb (13.5%) to \$4.80/lb (28.4%).

Notional royalties for copper concentrates produced from Cauquenes are determined through a sliding scale for copper prices ranging from \$1.95/lb (16%) to \$5.50/lb (39%).

Notional royalties for copper concentrates produced from Colihues are determined through a sliding scale for copper prices ranging from \$0.80/lb (3%) to \$4.27lb (30%).

MVC pays a sliding scale global molybdenum royalty for molybdenum prices between \$6.00/lb (3%) and \$40.00/lb (19.7%).

The DET Agreement anticipates that in the event monthly average prices fall below \$1.95/lb in the case of fresh tailings and Cauquenes tailings and projections indicate the permanence of such prices over time, the parties will meet to review cost and notional royalty/royalty structures to maintain the DET Agreement's viability and the equilibrium of the benefits between the parties.

The DET Agreement also contains three early exit options exercisable by DET within 2021 and every three years thereafter only in the event of changes unforeseen at the time the Agreement was entered into. Amerigo has currently judged the probabilities of DET exercising any of these early exit options as remote.

At June 30, 2020, the accrual for DET notional copper royalties and DET molybdenum royalties, was \$6.5 million (December 31, 2019: \$9.3 million).

## 4) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In preparing these interim financial statements, the Company makes judgements, estimates and assumptions concerning the future which may vary from actual results. Sources of estimation uncertainty include estimates used to determine the recoverable amounts of long-lived assets, the provision for income taxes and related deferred tax liabilities and the valuation of other assets and liabilities including inventory.



# Amerigo Resources Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements - Unaudited June 30, 2020

(tabular information expressed in thousands of U.S. dollars)

The Company's critical accounting estimates and judgements applied in the preparation of these interim financial statements are consistent with those reported in our 2019 annual consolidated financial statements, except for those arising as a result of the COVID-19 pandemic which are discussed below.

### COVID-19 Estimation Uncertainty

In March 2020, the World Health Organization declared a global pandemic related to COVID-19. The current and expected impacts from the pandemic on the global economy could be far reaching. To date, there has been significant volatility in stock markets, commodity and foreign exchange markets and the global movement of people and some goods has become restricted.

There is continued ongoing uncertainty surrounding COVID-19 and the extent and duration of the impact that it may have on the global economy and on global financial markets.

The Company's financial results were substantially impacted during YTD-2020 as a result of lower copper prices (Note 1). Commodity market volatility resulting from COVID-19 may continue to impact the Company's financial results and liquidity for some time.

## 5) INVENTORIES

	June 30, 2020	December 31, 2019
	\$	\$
Plant supplies and consumables	3,618	3,855
Work in progress	4,520	5,717
Molybdenum concentrates	276	745
	<u>8,414</u>	<u>10,317</u>

During the YTD-2020, the Company recorded a charge of \$2.3 million in tolling and production costs as a result of net realizable value ("NRV") adjustments in the months in which NRV was lower than cost.

At June 30, 2020 and December 31, 2019, work-in-progress on the production of copper concentrates under a tolling agreement and molybdenum concentrates were valued at cost.

# Amerigo Resources Ltd.

Notes to the Condensed Interim Consolidated Financial Statements - Unaudited  
June 30, 2020

(tabular information expressed in thousands of U.S. dollars)

## 6) PROPERTY, PLANT AND EQUIPMENT

	Plant and infrastructure \$	Machinery and Equipment and other assets \$	Total \$
<b>Six months ended June 30, 2020</b>			
Opening net book amount	162,534	36,048	198,582
Exchange differences	-	(12)	(12)
Additions	1,205	106	1,311
Depreciation charge	(4,312)	(4,650)	(8,962)
<b>Closing net book amount</b>	<b>159,427</b>	<b>31,492</b>	<b>190,919</b>
<b>At June 30, 2020</b>			
Cost	285,423	89,061	374,484
Accumulated depreciation	(125,996)	(57,569)	(183,565)
<b>Net book amount</b>	<b>159,427</b>	<b>31,492</b>	<b>190,919</b>

## 7) BORROWINGS

	June 30, 2020 \$	December 31, 2019 \$
Consolidated bank loan	51,147	55,897
Comprise:		
Short-term debt and current portion of long-term debt	9,898	10,108
Long-term debt	41,249	45,789
	<b>51,147</b>	<b>55,897</b>

On March 25, 2015, MVC obtained a \$64.4 million loan facility from Scotiabank Chile (“Scotiabank”) and Export Development Canada (“EDC”) to finance the Cauquenes Phase One expansion (the “Cauquenes Phase One Loan”). The Cauquenes Phase One Loan had a maximum repayment term of six years consisting of twelve equal semi-annual principal payments of \$5.4 million which commenced on June 30, 2016.

On August 3, 2017, MVC obtained a \$35.3 million facility (the “Cauquenes Phase Two Loan”) from Scotiabank and EDC to finance the Cauquenes Phase Two expansion. The Cauquenes Phase Two Loan had a maximum repayment term of three years consisting of six equal semi-annual principal payments of \$5.9 million which commenced on June 30, 2019.

On September 26, 2019, MVC completed a refinance of the Cauquenes Phase One and Phase Two loans, which at the time of refinance had an outstanding principal of \$56.3 million and accrued interest of \$0.8 million. Under the refinance

# Amerigo Resources Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements - Unaudited June 30, 2020

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(tabular information expressed in thousands of U.S. dollars)

provisions, the principal outstanding on the Cauquenes loans was structured as a four-year senior secured term loan facility (the “Consolidated Bank Loan”) of \$56.3 million, provided jointly by Scotiabank and EDC.

The Consolidated Bank Loan has a maximum repayment term of 4 years to September 26, 2023 that may be shortened without penalty in accordance with the provisions of the debt agreement. Seven semi-annual installments of \$4.7 million are to be made together with accrued interest. The first scheduled installment was paid on March 26, 2020. A final installment of \$23.5 million plus accrued interest is to be made on September 26, 2023. Any prepayments made during the term of the loan will reduce the amount due on the final installment.

On closing of the refinance, MVC paid \$0.8 million in interest accrued on the Cauquenes loans, an interest rate swap (“IRS”) break fee of \$0.3 million and bank commissions of \$1.1 million. MVC also recognized a loss on modification of debt of \$1.6 million, included as finance expense in 2019. The loss on modification of debt was a non-cash item arising from the application of *IFRS 9 - Financial Instruments*, under which the present value of the cash flows of the original and renegotiated debt were compared using the Company’s effective interest rate, with a resulting loss and an adjustment to the carrying value of the Consolidated Bank Loan.

Interest on the Consolidated Bank Loan is synthetically fixed through an IRS, accounted for at fair value through profit or loss, at a rate of 5.70% per annum for 80% of the facility. The remaining 20% of the facility is subject to a variable rate based on the US Libor six-month rate, currently 3.83% per annum. The IRS has a term to September 26, 2023.

The balance of the Consolidated Bank Loan (net of transaction costs) at June 30, 2020 was \$51.1 million (December 31, 2019: \$55.9 million).

MVC has provided security on the Consolidated Bank Loan in the form of a charge on all of MVC’s assets.

MVC is required to meet four bank covenants: current ratio (requirement of 1.2), tangible net worth (requirement of \$125.0 million), debt service coverage ratio (requirement of 1.2) and debt/EBITDA ratio (requirement < 3), measured semi-annually on June 30 and December 31. At June 30, 2020, MVC did not meet certain debt covenants, however it received waivers from Scotiabank and EDC in respect of covenant compliance.

MVC is also required to have a debt service reserve account (the “DSRA”) which must be used to: /i/ pay the principal and interest of bank loans and amounts owing under the IRS if MVC has insufficient funds to make these payments and /ii/ fund MVC’s operating expenses. If it becomes necessary to fund MVC’s operations with funds from the DSRA, MVC will need to replenish the DSRA at each month’s end with funds necessary to maintain a balance equal to one hundred percent of the sum of the principal, interest and IRS that are payable in the following six months. On March 26, 2020, the totality of funds in the DSRA were used to make scheduled principal and interest payments and at June 30, 2020, MVC had insufficient funds to replenish the DSRA. MVC is actively discussing options with the lenders to defer replenishing the DSRA to a mutually agreeable date.

# Amerigo Resources Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements - Unaudited June 30, 2020

(tabular information expressed in thousands of U.S. dollars)

### 8) LEASES

	June 30, 2020	December 31, 2019
	\$	\$
Molybdenum plant lease	5,506	6,787
Other leases	207	291
	<u>5,713</u>	<u>7,078</u>
Comprise:		
Current portion of long-term leases	1,470	1,631
Long-term leases	4,243	5,447
	<u>5,713</u>	<u>7,078</u>

In 2018, MVC entered into a lease of 201,903 Chilean Unidades de Foment (“UF”) to finance the expansion of MVC’s molybdenum plant. Terms of the lease include a term to November 2023, monthly capital payments of approximately \$0.1 million, a balloon payment at the end of the lease term of approximately \$1.5 million and interest at a rate of 0.45% per month. The lease can be prepaid without penalty. At June 30, 2020, the lease obligation was \$5.5 million (December 31, 2019: \$6.8 million).

### 9) RELATED PARTY TRANSACTIONS

#### a) Derivative

Amerigo holds its interest in MVC through Amerigo International Holdings Corp. (“Amerigo International”), wholly owned by Amerigo except for certain outstanding Class A shares which are owned indirectly by Amerigo’s founders (including Amerigo’s current Executive Chairman). The Class A shares were issued in 2003 as part of a tax-efficient structure for payments granted as consideration to the founders transferring to Amerigo their option to purchase MVC.

The Class A shareholders are not entitled to any participation in the profits of Amerigo International, except for monthly payments, calculated as follows:

- \$0.01 for each pound of copper equivalent produced from DET tailings by MVC or any successor entity to MVC if the price of copper is under \$0.80/lb, or
- \$0.015 for each pound of copper equivalent produced from DET tailings by MVC or any successor entity to MVC if the price of copper is \$0.80/lb or more.

Under IFRS, the payments constitute a derivative financial instrument which needs to be measured at fair value at each reporting date. Changes in fair value are recorded in profit for the period.

The derivative expense includes the actual monthly payments described above and changes in the derivatives’ fair value.

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## Notes to the Condensed Interim Consolidated Financial Statements - Unaudited June 30, 2020

(tabular information expressed in thousands of U.S. dollars)

In YTD-2020, \$0.5 million was paid or accrued to the Class A shareholders (YTD-2019: \$0.4 million) and the derivative's fair value decreased by \$2.1 million (YTD-2019: increased by \$0.3 million), for a total derivative recovery of \$1.6 million (YTD-2019: expense of \$0.7 million) (Note 13(c)).

At June 30, 2020, the derivative totalled \$10.5 million (December 31, 2019: \$12.1 million), with a current portion of \$1.6 million (December 31, 2019: \$1.2 million) and a long-term portion of \$8.9 million (December 31, 2019: \$10.9 million).

Actual monthly payments outstanding at June 30, 2020 were \$0.6 million (December 31, 2019: \$0.2 million) and included the payments from December 2019 to June 2020.

### b) Purchases of Goods and Services

Amerigo incurred the following fees in connection with companies owned by executive officers and directors and in respect of salaries paid to officers. Transactions have been measured at market rates determined on a cost recovery basis.

<u>Entity</u>	<u>Nature of Transactions</u>
Zeitler Holdings Corp.	Management
Delphis Financial Strategies Inc.	Management

	<u>YTD-2020</u>	<u>YTD-2019</u>
	<u>\$</u>	<u>\$</u>
Salaries and management fees	391	344

### c) Key Management Compensation

The remuneration of directors and other members of key management was as follows:

	<u>YTD-2020</u>	<u>YTD-2019</u>
	<u>\$</u>	<u>\$</u>
Salaries and management fees	391	344
Directors' fees	132	120
Share-based payments	23	1,068
	546	1,532

Amerigo has deferred payment of directors' fees from Q4-2019 to Q2-2020 and payment of management's 2019 performance bonuses, in the aggregate amount of \$0.5 million.

Share-based payments are the grant date fair value of options vested to directors and officers.

# Amerigo Resources Ltd.

Notes to the Condensed Interim Consolidated Financial Statements - Unaudited  
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(tabular information expressed in thousands of U.S. dollars)

## 10) EQUITY

### a) Share Capital

Authorised share capital consists of an unlimited number of common shares without par value.

In 2020, Amerigo issued 600,000 shares for the exercise of options for cash proceeds of \$0.1 million. A value of \$0.1 million was transferred from other reserves to share capital as a result.

In 2019, Amerigo issued 2,805,841 shares valued at \$0.5 million in connection with various share option exercises by officers, directors and former officers and directors. The Company also issued 82,770 shares valued at \$0.1 million to settle an amount payable for services rendered.

### b) Share Options

A total of 1,850,000 options were granted YTD-2020 (2019: 3,150,000) with a weighted average fair value estimated at Cdn\$0.15 (2019: Cdn\$0.61) per option at the grant date based on the Black-Scholes option-pricing model using the following assumptions:

	2020	2019
	\$	\$
Weighted average share price	0.40	1.11
Weighted average exercise price	0.31	1.11
Dividend yield	0%	0%
Risk free interest rate	1.10%	1.64%
Pre-vest forfeiture rate	0%	0%
Expected life (years)	4.19	4.31
Expected volatility	69.37%	70.20%

# Amerigo Resources Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements - Unaudited June 30, 2020

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Outstanding share options:

	June 30, 2020		December 31, 2019	
	Share options	Weighted average exercise price Cdn\$	Share options	Weighted average exercise price Cdn\$
<b>At start of the period</b>	12,520,000	0.72	13,370,000	0.53
Granted	1,850,000	0.40	3,150,000	1.11
Exercised	(600,000)	0.26	(2,805,841)	0.38
Repurchased pursuant to cashless exercise	-	-	(1,194,159)	0.38
Cancelled/forfeited	(2,400,000)	0.90	-	-
Expired	(1,400,000)	0.37	-	-
<b>At end of the period</b>	<b>9,970,000</b>	<b>0.70</b>	<b>12,520,000</b>	<b>0.72</b>
Vested and exercisable	8,120,000	0.77	12,520,000	0.72

The weighted average trading price of the Company's stock on the dates in which options were exercised in Q1-2020 was Cdn\$0.54 per share (2019: Cdn\$0.80 per share).

Information relating to share options outstanding at June 30, 2020 is as follows:

Outstanding share options	Vested share options	Price range Cdn\$	Weighted average exercise price on outstanding options Cdn\$	Weighted average exercise price on vested options Cdn\$	Weighted Average remaining life of outstanding options (years)
1,500,000	1,500,000	0.14 - 0.27	0.14	0.14	0.67
1,850,000	-	0.28 - 0.47	0.40	-	4.67
2,120,000	2,120,000	0.48 - 0.80	0.53	0.53	1.65
2,150,000	2,150,000	0.81 - 1.09	1.06	1.06	2.65
2,350,000	2,350,000	1.10 - 1.11	1.11	1.11	3.70
<b>9,970,000</b>	<b>8,120,000</b>		<b>0.70</b>	<b>0.77</b>	<b>2.76</b>

# Amerigo Resources Ltd.

Notes to the Condensed Interim Consolidated Financial Statements - Unaudited  
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## 11) SEGMENT INFORMATION

Operating segments are determined based on the management reports reviewed by the board of directors to make strategic decisions.

The Company has one operating segment: the production of copper concentrates under a tolling agreement with DET, with the production of molybdenum concentrate as a by-product (Note 3).

The geographic distribution of non-current assets is as follows:

	Property, plant and equipment		Other	
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Chile	190,651	198,236	4,739	4,862
Canada	268	346	-	-
	190,919	198,582	4,739	4,862

## 12) REVENUE

a) Revenue composition:

	Q2-2020	Q2-2019	YTD-2020	YTD-2019
	\$	\$	\$	\$
Gross value of copper produced	33,333	37,278	60,513	73,691
Adjustments to fair value of settlement receivables	1,426	(3,182)	(3,906)	(1,035)
	34,759	34,096	56,607	72,656
Notional items deducted from gross value of copper produced:				
DET royalties - copper	(6,150)	(8,322)	(11,342)	(16,459)
Smelting and refining	(4,257)	(4,830)	(7,280)	(9,302)
Transportation	(444)	(447)	(762)	(891)
Copper tolling revenue	23,908	20,497	37,223	46,004
Molybdenum revenue	2,138	2,195	3,793	4,424
Slag processing revenue	-	-	668	-
	26,046	22,692	41,684	50,428

b) Total revenue by product type and business unit:

The Company has a single business unit, consistent with its single reportable segment (Note 11).



# Amerigo Resources Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements - Unaudited June 30, 2020

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The following table presents the Company's revenue composition by product type.

	Q2-2020	Q2-2019	YTD-2020	YTD-2019
	\$	\$	\$	\$
Copper	23,908	20,497	37,891	46,004
Molybdenum	2,138	2,195	3,793	4,424
	26,046	22,692	41,684	50,428

c) Total revenue by region:

All the Company's revenue originates in Chile.

YTD-2020, the Group's revenue from one customer represented 91% of reported revenue (YTD-2019: 91%).

### 13) (EXPENSES) GAINS BY NATURE

a) Tolling and production costs consist of the following:

	Q2-2020	Q2-2019	YTD-2020	YTD-2019
	\$	\$	\$	\$
Tolling and production costs	(20,740)	(22,772)	(39,199)	(42,148)
Depreciation and amortization	(4,338)	(4,398)	(9,074)	(8,762)
Administration	(1,053)	(1,221)	(2,165)	(2,819)
DET royalties - molybdenum	(310)	(403)	(572)	(829)
	(26,441)	(28,794)	(51,010)	(54,558)

b) General and administration expenses consist of the following:

	Q2-2020	Q2-2019	YTD-2020	YTD-2019
	\$	\$	\$	\$
Share-based payment compensation	(29)	(576)	(39)	(1,068)
Salaries, management and professional fees	(354)	(527)	(790)	(878)
Office and general expenses	(51)	(69)	(306)	(349)
	(434)	(1,172)	(1,135)	(2,295)

# Amerigo Resources Ltd.

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c) Derivative to related parties (Note (9(a)) consist of the following:

	Q2-2020	Q2-2019	YTD-2020	YTD-2019
	\$	\$	\$	\$
Royalties to related parties	(274)	(218)	(477)	(428)
Fair value adjustments to royalty derivative	(1,826)	474	2,119	(234)
	(2,100)	256	1,642	(662)

d) Other (expenses) gains consist of the following:

	Q2-2020	Q2-2019	YTD-2020	YTD-2019
	\$	\$	\$	\$
Other gains	14	89	49	95
Foreign exchange (expense) gain	(396)	(385)	564	(55)
	(382)	(296)	613	40

e) Finance expense consists of the following:

	Q2-2020	Q2-2019	YTD-2020	YTD-2019
	\$	\$	\$	\$
Finance, commitment and interest charges	(792)	(1,312)	(1,900)	(2,994)
Fair value adjustments to interest rate swaps	(112)	(189)	(1,837)	(304)
	(904)	(1,501)	(3,737)	(3,298)

## 14) SUPPLEMENTARY CASH FLOW INFORMATION

a) Cash and cash equivalents

	June 30, 2020	December 31, 2019
	\$	\$
Cash at bank and on hand	346	921
Short-term bank deposits	143	143
	489	1,064
Cash held in a debt service reserve account (Note 7)	-	6,100
	489	7,164

# Amerigo Resources Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements - Unaudited June 30, 2020

(tabular information expressed in thousands of U.S. dollars)

b) Cash payments of interest and taxes

	YTD-2020	YTD-2019
	\$	\$
Interest and taxes paid		
Interest paid	1,590	2,671
Income taxes paid	-	2,597
Other		
Decrease in accounts payable related to the acquisition of plant and equipment	(44)	(214)
Cash paid during the year in connection with the derivative to related parties	84	463

### 15) FAIR VALUE MEASUREMENT

Certain of Amerigo's financial assets and liabilities are measured at fair value on a recurring basis and classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The fair value hierarchy has three levels that prioritize the inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority. The levels and valuation techniques used to value Amerigo's financial assets and liabilities are the following:

- Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities that Amerigo can access at the measurement date. Amerigo values its investments using quoted market prices in active markets.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability directly or indirectly. Copper and molybdenum trade and settlement receivables are derivatives because the value of these receivables changes as underlying commodity market prices vary. The fair values of these receivables are adjusted each reporting period by reference to forward market prices and changes in fair value are recorded as a separate component of revenue.
- Level 3 – Significant unobservable inputs that are not based on observable market data. Amerigo includes the related party derivative liability in Level 3 of the fair value hierarchy because it is not tradeable or associated with observable price transparency. Management reviews the fair value of this derivative on a quarterly basis based on management's best estimates, which are unobservable inputs. Fair value is calculated by applying the discounted cash flow approach on a valuation model that considers the present value of the net cash flows expected to be paid to a related party (Note 9(a)). Amerigo has also included the IRS in Level 3 of the fair value hierarchy due to the lack of observable market quotes on these instruments. The fair value of the IRS was determined with the assistance of third parties who performed a discounted cash flow valuation based on forward interest rate curves.

# Amerigo Resources Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements - Unaudited June 30, 2020

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	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>June 30, 2020</b>				
Investments	2,119	-	-	2,119
Trade and settlement receivables	-	5,872	-	5,872
Interest rate swap	-	-	(2,502)	(2,502)
Derivative to related parties	-	-	(10,455)	(10,455)
	2,119	5,872	(12,957)	(4,966)
<hr/>				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>December 31, 2019</b>				
Investments	2,534	-	-	2,534
Trade and settlement receivables	-	7,436	-	7,436
Interest rate swaps	-	-	(665)	(665)
Derivative to related parties	-	-	(12,181)	(12,181)
	2,534	7,436	(12,846)	(2,876)

### 16) COMMITMENTS AND CONTINGENCIES

- On June 25, 2020, MVC received a notification from Chile's Environmental Supervisory Unit (Superintendencia del Medio Ambiente, ("SMA")) under which MVC was charged with three counts of non-compliance in respect of certain of its environmental obligations. Two of the charges were in respect of deficiencies in MVC's environmental compliance reports and the third count was associated with a delay in the application of dust suppressing polymers on certain areas of the Cauquenes deposit. None of the charges caused environmental or safety damages. On July 20, 2020, MVC filed with the SMA a Compliance Plan (Plan de Cumplimiento ("PDC")) which includes MVC's proposal to fully remedy the reporting and operational charges presented by the SMA.
- MVC has a long-term agreement for the supply of 100% of MVC's power requirements to December 31, 2032. The agreement establishes minimum stand-by charges based on peak hour power supply calculations, currently estimated to range from \$1.1 million to \$1.5 million per month.
- The DET Agreement has a Closure Plan clause requiring MVC and DET to jointly assess the revision of the closure plan for Cauquenes and compare it to the current DET plan. In the case of any variation in the interests of DET due to MVC's activities in the Cauquenes deposit, the parties will jointly evaluate the form of implementation and financing of or compensation for such variation. Until the estimation of the new closure plan is available, and the parties agree on the terms of compensation resulting from the revised plan, it is Amerigo's view there is no obligation to record a provision because the amount, if any, is not possible to determine.
- Amerigo has an agreement for the lease of office premises in Vancouver to December 1, 2021. Rent commitments under the agreement are approximately \$0.2 million.

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## 17) SUBSEQUENT EVENTS

Subsequent to June 30, 2020, MVC reached an agreement with DET to defer payment of \$7.3 million in copper settlements (the “Deferred Payments”). The Deferred Payments, which were immediately due to DET, will commence to be paid on January 5, 2021 in 12 equal installments and will bear interest at a rate of Libor 12 months plus 3 %.