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**Amerigo Resources Ltd.
Management's Discussion and Analysis
For the Three and Six Months Ended June 30, 2017**

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CORPORATE PROFILE

Amerigo Resources Ltd. (“Amerigo” or the “Company”) owns a 100% interest in Minera Valle Central S.A. (“MVC”), a Chilean producer of copper concentrates.

MVC has a long-term contractual relationship with the El Teniente Division (“DET”) of Corporación Nacional del Cobre de Chile (“Codelco”) to process fresh and historic tailings from Codelco’s El Teniente mine, the world’s largest underground copper mine, in production since 1905.

Effective January 1, 2015 and up to December 31, 2022, MVC’s production of copper concentrates is being conducted under a tolling agreement with DET under which, title to the copper concentrates produced by MVC remains with DET and MVC earns tolling revenue, calculated as gross revenue for copper produced at applicable market prices, net of notional items (treatment and refining charges, DET copper royalties and transportation costs). Refer to **Agreements with Codelco’s El Teniente Division** (page 16).

MVC also has a molybdenum sales agreement with Chile’s Molibdenos y Metales S.A. (“Molymet”) that expires on December 31, 2019. In addition, up to Q2-2017 MVC had an agreement with Chile’s Minera Maricunga (“Maricunga”), under which MVC tolled Maricunga copper concentrate, dried the material and delivered blended concentrates through its tolling contract with DET.

MVC completed the first phase of development of the higher grade Cauquenes historic tailings deposit in December 2015, extending MVC’s life to at least 2037. Completion of the first phase of expansion at Cauquenes enabled Amerigo to generate record annual copper production in 2016.

Subsequent to June 30, 2017, the Group secured debt financing to complete the construction of phase two of the Cauquenes expansion in the second half of 2018 (page 21).

Amerigo’s shares are listed for trading on the Toronto Stock Exchange and the OTCQX Stock Exchange in the United States.

INTRODUCTION

The following MD&A of the results of operations and financial position of Amerigo together with its subsidiaries (collectively, the “Group”), is prepared as of August 8, 2017, and should be read in conjunction with the Company’s condensed consolidated interim financial statements and related notes for the three and six months ended June 30, 2017, and the Company’s audited consolidated financial statements and related notes for the year ended December 31, 2016.

This MD&A’s objective is to help the reader understand the factors affecting the Group’s current and future financial performance.

The Company’s financial statements are reported under International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and those applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The financial data in this MD&A is derived from the Company’s financial statements, except non-GAAP measures which are indicated as such.

Reference is made in this MD&A to various non-GAAP measures such as cash cost and total cost, which are terms that do not have a standardized meaning but are widely used as performance indicators in the mining industry. A tabular reconciliation of the Group’s cash and total costs to tolling and production costs in Q2-2017 and Q2-2016 is presented on page 11.

Comparative Overview

| | Q2-2017 | Q2-2016 | Change | |
|--|---------|---------|---------|-------|
| | | | \$ | % |
| Copper produced ¹ million pounds | 16.3 | 14.4 | 1.9 | 13% |
| Copper delivered ¹ million pounds | 16.2 | 14.5 | 1.7 | 12% |
| Percentage of production from historic tailings | 63% | 57% | | 11% |
| Revenue (\$ thousands) ² | 39,267 | 19,276 | 19,991 | 104% |
| DET notional copper royalties (\$ thousands) | 7,856 | 4,985 | 2,871 | 58% |
| Tolling and production costs (\$ thousands) | 26,166 | 22,438 | 3,728 | 17% |
| Gross profit (loss) (\$ thousands) | 3,694 | (3,162) | 6,856 | - |
| Net loss (\$ thousands) | (1,653) | (3,613) | 1,960 | - |
| Operating cash flow (\$ thousands) ³ | 4,470 | (595) | 5,065 | - |
| Cash flow paid for purchase of plant and equipment (\$thousands) | (2,006) | (2,138) | 132 | (6%) |
| Cash and cash equivalents (\$ thousands) ⁴ | 20,144 | 9,043 | 11,101 | 123% |
| Borrowings (\$ thousands) ⁵ | 63,367 | 70,363 | (6,996) | (10%) |
| Gross copper tolling price (\$/lb) | 2.59 | 2.10 | 0.49 | 23% |

¹ Copper production is conducted under tolling agreements with DET and Maricunga.

² Revenue is reported net of notional items (smelting and refining charges, DET copper royalties and transportation costs).

³ Operating cash flow before changes in non-cash working capital.

⁴ Includes \$13.4 million held in operating cash accounts and \$6.7 million held in a debt service reserve account.

⁵ Total borrowings at June 30, 2017 include short and long-term portions of \$22.7 and \$40.6 million, respectively.

Financial results

- Gross tolling revenue was \$39.3 million (Q2-2016: \$19.3 million), due to a 13% increase in copper production and stronger copper prices. The Group's recorded copper tolling price was \$2.59/lb (Q2-2016: \$2.10/lb).
- Revenue from molybdenum and the Maricunga tolling contract was \$4.4 million (Q2-2016: \$1.1 million).
- Revenue after notional items was \$29.9 million (Q2-2016: \$19.3 million).
- Tolling and production costs were \$26.2 million (Q2-2016: \$22.4 million), a 17% increase driven by higher copper production and an increase of \$1.5 million in molybdenum production costs and Maricunga tolling costs (offset by stronger revenue). Unit tolling and production costs were \$1.62/lb (Q2-2016: \$1.55/lb).
- Cash cost (a non-GAAP measure equal to the aggregate of smelting and refining charges, tolling/production costs net of inventory adjustments and administration costs, net of by-product credits, page 11) before DET notional copper royalties and DET molybdenum royalties decreased to \$1.53/lb (Q2-2016: \$1.65/lb) due to higher production and stronger by-product credits.
- Total cost (a non-GAAP measure equal to the aggregate of cash cost, DET notional copper royalties and DET molybdenum royalties of \$0.52/lb and depreciation of \$0.23/lb, page 11) increased to \$2.28/lb (Q2-2016: \$2.25/lb), due to higher DET notional royalties/royalties from higher metal prices.
- Gross profit was \$3.7 million (Q2-2016: gross loss of \$3.2 million). Net loss was \$1.7 million (Q2-2016: net loss of \$3.6 million), after a non-cash, fair market value expense adjustment to a royalty derivative to related parties of \$2.5 million (Q2-2016: derivative gain adjustment of \$0.4 million).

- In Q2-2017 the Group generated cash flow from operations before working capital changes of \$4.5 million (Q2-2016: used cash of \$0.6 million in operations).

Production

- Q2-2017 production was 16.3 million pounds of copper, 13% higher than the 14.4 million pounds produced in Q2-2016.
- Q2-2017 copper production includes 10.3 million pounds from Cauquenes, 5.4 million pounds from fresh tailings and 0.6 million pounds from Maricunga.
- Molybdenum production was 0.4 million pounds. There was no molybdenum production in Q2-2016.

Cash and Working Capital

- The Group's cash balance was \$20.1 million (December 31, 2016: \$15.9 million), including \$14.4 million in operating accounts and \$6.7 million in a debt service reserve account "(DSRA)" as required under the terms and provisions of MVC's finance agreement for the Cauquenes expansion. Funds in the DSRA must be used to: /i/ pay the principal and interest of the bank loan and the amounts owing under a related interest rate swap ("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 must replenish the DSRA at each month end with funds necessary to maintain a balance equal to one hundred percent of the sum of the principal and interest pursuant to the bank loan and the IRS that are payable in respect of the following six months.
- At June 30, 2017, the Group had a working capital deficiency of \$12.7 million (December 31, 2016: working capital of \$0.6 million). The working capital deficiency was caused by the Group's current estimated schedule of repayment of the balance of the DET Price Support Facility (page 17) from July 2017 to September 2018, which may change depending on MVC's actual cash flows. The Group does not consider its working capital deficiency as a liquidity risk, as it is only required to repay the DET Price Support Facility by December 2019 and at a rate of \$1.0 million per month, and the Group anticipates generating sufficient operating cash flow to meet current liabilities as they come due. Working capital deficiencies are not uncommon in companies with short-term portions of debt.

Outlook

- MVC maintains its 2017 production guidance of 60.0 to 65.0 million pounds of copper at an annual cash cost (page 11) of \$1.60 to \$1.75/lb.
- MVC also maintains its guidance in respect of production of 1.5 million pounds of molybdenum.
- Subsequent to June 30, 2017, the Group secured debt financing to complete the construction of phase two of the Cauquenes expansion in the second half of 2018. The project has an estimated cost of \$30.0 to \$35.0 million and is planned to increase production to 85.0 to 90.0 million pounds of copper per year, at an estimated cash cost of \$1.40 to \$1.60/lb (page 21).
- Refer to **Cautionary Statement on Forward Looking Information** (page 22).

SUMMARY OF FINANCIAL RESULTS Q2-2016 TO Q2-2017¹

| | Q2-2017 | Q1-2017 | Q4-2016 | Q3-2016 | Q2-2016 |
|---|----------|----------|----------|----------|----------|
| Copper production, million pounds | 16.262 | 15.141 | 13.591 | 16.027 | 14.355 |
| Copper deliveries, million pounds | 16.197 | 15.175 | 13.417 | 15.599 | 14.509 |
| Financial results (\$ thousands) | | | | | |
| Revenue | | | | | |
| Gross tolling revenue | 39,267 | 38,650 | 36,571 | 32,500 | 28,361 |
| Notional items deducted from gross tolling revenue: | | | | | |
| Smelting and refining | (5,410) | (5,087) | (4,678) | (5,246) | (4,784) |
| DET notional royalties - copper | (7,856) | (7,715) | (5,731) | (5,495) | (4,985) |
| Transportation | (534) | (503) | (393) | (460) | (401) |
| | 25,467 | 25,345 | 25,769 | 21,299 | 18,191 |
| Molybdenum and other revenue | 4,393 | 4,399 | 3,704 | 2,084 | 1,085 |
| | 29,860 | 29,744 | 29,473 | 23,383 | 19,276 |
| Tolling and production costs | | | | | |
| Tolling and production costs | (21,068) | (22,666) | (18,763) | (19,845) | (18,018) |
| DET royalties - molybdenum | (338) | (134) | (193) | (84) | - |
| Depreciation and amortization | (3,578) | (3,584) | (3,319) | (3,295) | (3,301) |
| Administration | (1,182) | (1,377) | (1,340) | (1,076) | (1,119) |
| | (26,166) | (27,761) | (23,615) | (24,300) | (22,438) |
| Gross profit (loss) | 3,694 | 1,983 | 5,858 | (917) | (3,162) |
| Other expenses | | | | | |
| Office and general expenses | (118) | (294) | (101) | (278) | (113) |
| Salaries, management and professional fees | (388) | (418) | (925) | (346) | (399) |
| Share-based payment compensation | (223) | (241) | (11) | (28) | (58) |
| | (729) | (953) | (1,037) | (652) | (570) |
| Other expenses | | | | | |
| Foreign exchange (expense) gain | (28) | 18 | (128) | (113) | 378 |
| Other gains | 8 | 15 | 10 | 96 | 97 |
| | (20) | 33 | (118) | (17) | 475 |
| Royalty derivative | (2,472) | (1,093) | (231) | 254 | 439 |
| | (3,221) | (2,013) | (1,386) | (415) | 344 |
| Operating profit (loss) | 473 | (30) | 4,472 | (1,332) | (2,818) |
| Finance expense | (1,662) | (1,353) | (1,105) | (973) | (1,389) |
| (Loss) earnings before tax | (1,189) | (1,383) | 3,367 | (2,305) | (4,207) |
| Income tax (expense) recovery | (464) | 73 | (383) | (240) | 594 |
| Net (loss) earnings for the period | (1,653) | (1,310) | 2,984 | (2,545) | (3,613) |
| (Loss) earnings per share - basic | (0.01) | (0.01) | 0.02 | (0.02) | (0.02) |
| (Loss) earnings per share - diluted | (0.01) | (0.01) | 0.02 | (0.02) | (0.02) |
| Unit tolling and production costs | 1.62 | 1.83 | 1.76 | 1.56 | 1.55 |
| Cash cost (\$/lb) ¹ | 1.53 | 1.71 | 1.87 | 1.60 | 1.65 |
| Total cost (\$/lb) ¹ | 2.28 | 2.52 | 2.60 | 2.18 | 2.25 |
| Uses and sources of cash (\$thousands) | | | | | |
| Operating cash flow before working capital changes | 4,470 | 4,255 | 7,051 | 1,656 | (595) |
| Operating cash flow after working capital changes | 6,422 | 7,438 | 567 | 10,188 | 7,139 |
| Cash used in investing activities | (2,006) | (451) | (1,145) | (1,341) | (2,138) |
| Debt (repayments) proceeds | (7,367) | 57 | (4,367) | 3,000 | (7,673) |
| Ending cash balance ² | 20,144 | 23,097 | 15,921 | 21,056 | 9,043 |

¹ Cash and total costs are non-GAAP measures. Refer to page 11 for the basis of reconciliation of these measures to tolling and production costs.

² Includes \$13.4 million held in operating cash accounts and \$6.7 million held in a debt service reserve account.

OPERATING RESULTS

In Q2-2017 the Group produced 16.3 million pounds of copper under tolling agreements with DET and Minera Maricunga, 13% higher than Q2-2016 production. Copper deliveries were 16.2 million pounds. 63% of MVC's copper production in Q2-2017 was from the higher-grade Cauquenes historic tailings.

MVC does not anticipate processing Maricunga concentrates from Q3-2017 as Maricunga has suspended operations.

Q2-2017 production from Cauquenes was 10.3 million pounds. MVC also produced 5.4 million pounds of copper from El Teniente's fresh tailings and 0.6 million pounds of copper produced and sold pursuant to the tolling contract with Maricunga.

Molybdenum production in Q2-2017 was 0.4 million pounds.

While tolling and production costs increased to \$26.2 million in Q2-2017 (Q2-2016: \$22.4 million) because of higher copper production and higher molybdenum and Maricunga tolling costs, MVC's unit cash cost (page 11) decreased to \$1.53/lb (Q2-2016: \$1.65/lb), benefitting from stronger by-product credits.

Production

| | Q2-2017 | Q2-2016 |
|---|------------|------------|
| FRESH TAILINGS FROM EL TENIENTE | | |
| Tonnes processed | 10,708,437 | 10,620,849 |
| Copper grade (%) | 0.110% | 0.117% |
| Copper recovery | 20.8% | 21.3% |
| Copper produced (lbs) | 5,403,569 | 5,640,314 |
| HISTORIC TAILINGS FROM EL TENIENTE | | |
| Tonnes processed | 5,530,942 | 5,149,732 |
| Copper grade (%) | 0.253% | 0.224% |
| Copper recovery | 33.5% | 32.2% |
| Copper produced (lbs) | 10,288,673 | 8,190,929 |
| TOLL PROCESSING FROM MARICUNGA | | |
| Copper produced (lbs) | 569,453 | 523,818 |
| COPPER | | |
| Total copper produced (lbs) | 16,261,695 | 14,355,061 |
| Total copper delivered to DET (lbs) | 16,196,946 | 14,509,089 |
| MOLYBDENUM | | |
| Total molybdenum produced (lbs) | 424,794 | - |
| Total molybdenum sold (lbs) | 437,532 | - |

FINANCIAL RESULTS – Q2-2017

The Group's financial performance improved to a net loss of \$1.7 million (\$0.01 basic and diluted loss per share) from a net loss of \$3.6 million posted in Q2-2016 (\$0.02 basic and diluted loss per share) because of higher production and stronger metal prices.

Revenue

Revenue in Q2-2017 was \$29.9 million (Q2-2016: \$19.3 million).

| | | Q2-2017 | | Q2-2016 | |
|---|----|---------|----|---------|--|
| Average LME copper price per pound | \$ | 2.57 | \$ | 2.15 | |
| Gross tolling revenue (thousands) | \$ | 39,267 | \$ | 28,361 | |
| Notional items deducted from gross tolling revenue: | | | | | |
| Smelting and refining charges (thousands) | | (5,410) | | (4,784) | |
| DET royalties - copper (thousands) | | (7,856) | | (4,985) | |
| Transportation costs (thousands) | | (534) | | (401) | |
| Copper net revenue (thousands) | | 25,467 | | 18,191 | |
| Molybdenum and Maricunga tolling revenue (thousands) | | 4,393 | | 1,085 | |
| Total revenue (thousands) | \$ | 29,860 | \$ | 19,276 | |
| | | | | | |
| Company's gross copper tolling price per pound ¹ | \$ | 2.59 | \$ | 2.10 | |
| Company's gross molybdenum price per pound ² | \$ | 8.00 | \$ | - | |

¹ Copper recorded price for the period before smelting and refining charges, DET notional copper royalties, transportation costs and settlement adjustments to prior quarters' sales.

² Molybdenum recorded price for the period before roasting charges and settlement adjustments to prior quarters' sales.

Production of copper concentrates by MVC is being conducted under a tolling agreement with DET for the period from January 1, 2015 to December 31, 2022, under which title to the copper concentrates produced by MVC is retained by DET and MVC earns tolling revenue, calculated as gross revenue for copper produced at applicable market prices, net of notional items (treatment and refining charges, DET copper royalties and transportation costs). The notional DET copper royalties precisely mimic the former copper royalty arrangements between MVC and DET.

MVC's compensation is determined in accordance with annual industry benchmarks for pricing terms and smelting and refining charges, and in 2017 is based on the average London Metal Exchange ("LME") copper price for the third month following the delivery of copper concentrates produced under the tolling agreement ("M+3"). Accordingly, final pricing for copper produced by MVC is determined based on the average LME copper price of the third month following delivery of copper produced under the tolling agreement.

The average LME copper price in Q2-2017 were \$2.57/lb (Q2-2016: \$2.15/lb) and the Group's recorded copper tolling price was \$2.59/lb (Q2-2016: \$2.10/lb). Differences between the average LME copper price and the Group's recorded tolling price result from the pricing terms that applied in the period.

At June 30, 2017, the provisional copper price used by MVC was \$2.60/lb. A 10% increase or decrease from that price would result in price-driven revenue settlement adjustments of \$4.2 million.

DET royalties on copper production are a notional item deducted from gross tolling revenue. In Q2-2017, DET notional copper royalties were \$7.9 million, \$2.9 million higher than in Q2-2016, due to higher production and copper prices. The terms for DET notional copper royalties and molybdenum royalties are disclosed under **Agreements with Codelco's El Teniente Division** (page 16).

Transportation was \$0.5 million in Q2-2017 (Q2-2016: \$0.4 million).

MVC's molybdenum sales price in Q2-2017 was \$8.00/lb. MVC's sales agreement with Molymet provides in 2017 that the sale price is the average market price for the third month after delivery. Sales of molybdenum were provisionally priced at the average Platt's molybdenum dealer oxide price which for June 30, 2017 was \$7.15/lb.

Tolling and Production Costs

| (Expressed in thousands) | Q2-2017 | | Q2-2016 | |
|---|----------------|--------|----------------|--------|
| Direct tolling and production costs | | | | |
| Power costs | \$ | 7,578 | \$ | 6,991 |
| Lime | | 2,152 | | 955 |
| Grinding media | | 1,733 | | 2,008 |
| Labour costs | | 2,294 | | 2,330 |
| Other direct tolling / production costs | | 7,311 | | 5,734 |
| | | 21,068 | | 18,018 |
| Depreciation and amortization | | 3,578 | | 3,301 |
| DET royalties - molybdenum | | 338 | | - |
| Administration | | 1,182 | | 1,119 |
| Tolling and production costs | \$ | 26,166 | \$ | 22,438 |
| Unit tolling and production costs (\$/lb) | | 1.62 | | 1.55 |

Direct tolling costs were \$21.1 million (Q2-2016: \$18.0 million), a cost increase of 17% in the context of a 13% increase in production.

Power costs increased by \$0.9 million or 8% compared to Q2-2016, as a result of higher production and a decrease of \$0.5 million in the power credit provided through the operation of MVC's power generators.

Lime is now MVC's second most significant direct cost, due to the acidic nature of the Cauquenes tailings.

Grinding media costs of \$1.7 million were 14% lower than in Q2-2016 despite higher production, due to the finer characteristics of the Cauquenes tailings.

Direct labour costs were \$2.3 million in Q2-2017 and Q2-2016.

Other direct tolling costs increased by \$1.6 million, predominantly from an increase of \$1.4 million in molybdenum production costs (\$nil in Q2-2016) and an increase of \$0.1 million in Maricunga tolling costs (from higher copper prices). The cost increase was more than offset by an increase of \$3.3 million in revenue from molybdenum and Maricunga in Q2-2017 compared to Q2-2016.

The most relevant other direct tolling costs are summarized in the following tables:

| (Expressed in thousands) | Q2-2017 | | Q2-2016 | |
|---|----------------|-------|----------------|-------|
| Other direct tolling costs | | | | |
| Historic tailings extraction | \$ | 1,289 | \$ | 1,117 |
| Maintenance, excluding labour | | 1,632 | | 1,444 |
| Molybdenum production costs | | 1,422 | | - |
| Maricunga tolling costs | | 974 | | 861 |
| Industrial water | | 483 | | 526 |
| Copper reagents | | 545 | | 492 |
| Subcontractors, support services, etc. | | 527 | | 447 |
| Filtration and all other direct tolling costs | | 137 | | 82 |
| Process control, environmental and safety | | 466 | | 393 |
| Inventory adjustments | | (164) | | 372 |
| | \$ | 7,311 | \$ | 5,734 |

| (\$/lb Cu) | Q2-2017 | | Q2-2016 | |
|---|----------------|--------|----------------|------|
| Other direct tolling costs | | | | |
| Historic tailings extraction | | 0.08 | | 0.08 |
| Maintenance, excluding labour | | 0.10 | | 0.10 |
| Molybdenum production costs | | 0.09 | | - |
| Maricunga tolling costs | | 0.06 | | 0.06 |
| Industrial water | | 0.03 | | 0.04 |
| Copper reagents | | 0.03 | | 0.04 |
| Subcontractors, support services, etc. | | 0.03 | | 0.03 |
| Filtration and all other direct tolling costs | | 0.01 | | 0.01 |
| Process control, environmental and safety | | 0.03 | | 0.03 |
| Inventory adjustments | | (0.01) | | 0.03 |
| | | 0.47 | | 0.42 |

Depreciation and amortization increased to \$3.6 million (Q2-2016: \$3.3 million) from a higher asset base.

Administration expenses were \$1.2 million in Q2-2017 and Q2-2016.

Other expenses

Other expenses of \$3.2 million (Q2-2016: other gains of \$0.3 million) are costs or gains not related to MVC's production operations, and are comprised of the following:

- General and administration expenses of \$0.7 million (Q2-2016: \$0.6 million) which include salaries, management and professional fees of \$0.4 million (Q2-2016: \$0.4 million), office and general expenses of \$0.1 million (Q2-2016: \$0.1 million) and share-based payments of \$0.2 million (Q2-2016: \$0.1 million).
- Other expenses of \$0.1 million (Q2-2016: other gains of \$0.5 million), comprised of a foreign exchange expense of \$0.1 million (Q2-2016: gain of \$0.4 million) and in Q2-2016: other gains of \$0.1 million.
- A \$2.5 million expense associated with the royalty derivative to related parties (Q2-2016: recovery of \$0.4 million), which includes actual royalty dividends paid or accrued to related parties of \$0.3 million (Q2-2016: \$0.3 million) and a \$2.2 million increase in the fair value of the derivative (Q2-2016: decrease in fair value of \$0.7 million).

Finance expense

The Group recorded a finance expense of \$1.7 million in Q2-2017, (Q2-2016: \$1.4 million) which includes finance, interest charges and a change in value on an interest rate swap.

Taxes

Income tax expense was \$0.5 million in Q2-2017 (Q2-2016: recovery of \$0.6 million).

Cash Cost and Total Cost

Cash cost and total cost are non-GAAP measures prepared on a basis consistent with the industry standard Brook Hunt definitions. The Group believes that these measures provide investors with an improved ability to evaluate corporate performance by providing information on control of production costs, trends in cash and total costs, and the underlying operating performance of the core mining business. Management also uses these measures to monitor internal performance.

Cash cost is the aggregate of copper and molybdenum tolling and production costs, smelting and refining notional charges, administration and transportation costs, minus by-product credits. Total cost is the aggregate of cash cost, DET notional copper royalties and molybdenum royalties, depreciation and amortization.

A reconciliation of tolling and production costs to cash cost and total cost in Q2-2017 and Q2-2016 is presented below:

| | | Q2-2017 | | Q2-2016 |
|---|----|-------------|----|-------------|
| Tolling and production costs (thousands) | \$ | 26,166 | \$ | 22,438 |
| Add (deduct): | | | | |
| DET notional royalties - copper (thousands) | | 7,856 | | 4,985 |
| Smelting and refining charges (thousands) | | 5,410 | | 4,784 |
| Transportation costs (thousands) | | 534 | | 401 |
| Inventory adjustments (thousands): | | 164 | | (372) |
| By-product credits (thousands) | | (4,393) | | (1,085) |
| Total cost (thousands) | \$ | 35,737 | \$ | 31,151 |
| Deduct: | | | | |
| DET notional royalties - copper (thousands) | | (7,856) | | (4,985) |
| DET royalties - molybdenum (thousands) | | (338) | | - |
| | | (8,194) | | (4,985) |
| Depreciation and amortization (thousands) | | (3,578) | | (3,301) |
| Cash cost (thousands) | \$ | 23,965 | \$ | 22,865 |
| Pounds of copper tolled from fresh and old tailings (millions) ¹ | | 15.69 | | 13.83 |
| Cash cost (\$/lb) | | 1.53 | | 1.65 |
| Total cost (\$/lb) | | 2.28 | | 2.25 |

¹ Excludes 0.6 million pounds produced in Q2-2017 from Maricunga toll processing, a by-product (Q2-2016: 0.5 million pounds).

The Group's trailing annual and quarterly cash costs (see table above) (\$/lb of copper produced) were:

| | Q2-2017 | Q1-2017 | Q4-2016 | Q3-2016 | Q2-2016 |
|---------------------|---------------|---------------|---------------|---------------|---------------|
| Power costs | 0.49 | 0.52 | 0.52 | 0.50 | 0.50 |
| Lime | 0.14 | 0.14 | 0.13 | 0.11 | 0.07 |
| Grinding media | 0.11 | 0.12 | 0.12 | 0.12 | 0.15 |
| Other direct costs | 0.62 | 0.76 | 0.88 | 0.57 | 0.55 |
| By-product credits | (0.28) | (0.31) | (0.29) | (0.14) | (0.08) |
| Smelting & refining | 0.34 | 0.36 | 0.37 | 0.34 | 0.35 |
| Administration | 0.08 | 0.09 | 0.11 | 0.07 | 0.08 |
| Transportation | 0.03 | 0.03 | 0.03 | 0.03 | 0.03 |
| Cash Cost | \$1.53 | \$1.71 | \$1.87 | \$1.60 | \$1.65 |

Cash cost in Q2-2017 was \$1.53/lb (Q2-2016: \$1.65/lb).

Power is MVC's most significant cost, and was \$0.0988/kWh in Q2-2017 (Q2-2016: \$0.0964/kWh). MVC operates its generators when the grid price exceeds the generators' operating costs. There was an economic contribution from operating the generators in Q2-2017 of \$0.2 million (Q2-2016: \$0.3 million). Unit power costs of \$0.49/lb (Q2-2016: \$0.50/lb) decreased as a result of higher production.

Lime costs were \$0.14/lb in Q2-2017, compared to \$0.07/lb in Q2-2016. Lime costs are associated with higher production from Cauquenes tailings, which are more acidic than fresh tailings.

Unit grinding media costs were \$0.11/lb (Q2-2016: \$0.15/lb), as a result of lower grinding ball consumption associated with the processing of the finer Cauquenes tailings.

Other direct costs were \$0.62/lb (Q2-2016: \$0.55/lb), influenced by a volume-driven increase of \$0.09/lb in molybdenum and Maricunga costs which was more than offset by an increase of \$0.20/lb in by-product credits.

The Group's trailing annual and quarterly total costs (\$/lb of copper produced) were:

| | Q2-2017 | Q1-2017 | Q4-2016 | Q3-2016 | Q2-2016 |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash cost | 1.53 | 1.71 | 1.87 | 1.60 | 1.65 |
| DET notional royalties/royalties | 0.52 | 0.55 | 0.47 | 0.36 | 0.36 |
| Amortization/depreciation | 0.23 | 0.26 | 0.26 | 0.22 | 0.24 |
| Total Cost | \$2.28 | \$2.52 | \$2.60 | \$2.18 | \$2.25 |

Total cost was \$2.28/lb (Q2-2016: \$2.25/lb), due to a \$0.16/lb increase in DET notional royalties (from higher metal prices), mitigated by a reduction of \$0.12/lb in cash cost (due to stronger production).

COMPARATIVE PERIODS

The Company's financial statements are reported under IFRS issued by the IASB. The following tables provide highlights from the Company's financial statements of quarterly results for the past eight quarters.

| | Q2-2017 | Q1-2017 | Q4-2016 | Q3-2016 |
|-----------------------------------|---------|---------|---------|---------|
| | \$ | \$ | \$ | \$ |
| Total revenue (thousands) | 29,860 | 29,744 | 29,473 | 23,383 |
| Net (loss) earnings (thousands) | (1,653) | (1,310) | 2,984 | (2,545) |
| (Loss) earnings per share | (0.01) | (0.01) | 0.02 | (0.02) |
| Diluted (loss) earnings per share | (0.01) | (0.01) | 0.02 | (0.02) |

| | Q2-2016 | Q1-2016 | Q4-2015 | Q3-2015 |
|---------------------------|---------|---------|---------|---------|
| | \$ | \$ | \$ | \$ |
| Total revenue (thousands) | 19,276 | 19,255 | 7,809 | 10,770 |
| Net loss (thousands) | (3,613) | (4,357) | (4,673) | (6,161) |
| Loss per share | (0.02) | (0.03) | (0.03) | (0.03) |
| Diluted loss per share | (0.02) | (0.03) | (0.03) | (0.03) |

Quarterly revenue variances result mostly from varying volumes of copper sales or deliveries (a factor of quarterly production) and the Group's realized copper price (a factor of market prices). The Group's revenues are highly sensitive to these two variables, as summarized below:

| | Q2-2017 | Q1-2017 | Q4-2016 | Q3-2016 | Q2-2016 | Q1-2016 | Q4-2015 | Q3-2015 |
|--|----------|---------|---------|---------|----------|---------|----------|----------|
| Copper sales/deliveries ¹ | 16.20 | 15.18 | 13.42 | 15.60 | 14.51 | 12.75 | 7.44 | 8.12 |
| MVC's realized copper price ² | 2.59 | 2.65 | \$2.57 | \$2.14 | \$2.10 | \$2.24 | \$2.08 | \$2.36 |
| Settlement adjustments ³ | (\$1.19) | \$0.92 | \$4.02 | \$0.43 | (\$0.96) | - | (\$1.02) | (\$2.61) |

¹ Million pounds of copper sold under agreements with DET and Maricunga.

² Copper recorded price per pound for the period, before notional smelting and refining charges and settlement adjustments to prior quarters' sales.

³ Settlement adjustments to prior quarter's sales, expressed in millions of dollars

Q3-2015 revenue was affected by lower copper sales, lower copper prices and negative revenue settlement adjustments due to pricing terms. Q4-2015 revenue was affected by lower production (as it excluded Cauquenes production) and lower copper prices. Q1-2016 to Q3-2016 revenue was positively impacted by stronger copper production from Cauquenes. Q4-2016 revenue was negatively affected by 16 days of lost production due to a strike at MVC and annual maintenance shutdown at El Teniente but benefited from higher copper prices, both for quarterly deliveries and in respect of positive price-driven settlement adjustments to Q3-2016 deliveries. Production returned to expected levels in Q1-2017, positively affecting revenue, which also benefitted from stronger copper prices and positive settlement adjustments to prior quarter sales. Q2-2017 revenue was positively impacted by higher copper sales, partially offset by lower average copper prices and the effect of negative price-driven settlement adjustments.

In addition to revenue variances, the Group's quarterly results in the most recent eight quarters were also affected by variations in cost of sales:

| | Q2-2017 | Q1-2017 | Q4-2016 | Q3-2016 | Q2-2016 | Q1-2016 | Q4-2015 | Q3-2015 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|
| Tolling and production costs ¹ | \$26.17 | \$27.76 | \$23.61 | \$24.30 | \$22.44 | \$21.66 | \$13.26 | \$15.29 |
| Unit tolling and production cost ² | \$1.62 | \$1.83 | \$1.76 | \$1.56 | \$1.55 | \$1.70 | \$1.78 | \$1.88 |

¹ Millions of dollars.

² Tolling and production costs divided over number of pounds of copper delivered.

Tolling and production costs are affected by production levels, input costs (particularly power costs), copper prices and the depreciation or appreciation of the CLP to the U.S. dollar. In Q3 and Q4-2015, total and unit tolling costs decreased consistently each quarter as a result of lower production levels, cost reductions at MVC and a weaker CLP compared to the U.S. dollar. Tolling costs in Q3 and Q4-2015 also decreased due to suspension of Colihues operations. Q4-2015 cost data did not include Cauquenes tolling and production costs which were capitalized as pre-operating costs. In Q1, Q2 and Q3-2016 total tolling and production cost increased due to a substantial increase in production, which also resulted in lower unit costs. Q4-2016 costs were lower due to 16 days of lost production, however lower production resulted in higher unit costs. Q1-2017 tolling and production costs increased due to higher production levels, unit costs were affected by inventory variations. Q2-2017 costs were lower than in the preceding quarter despite higher production due to MVC's ongoing cost containment efforts.

LIQUIDITY and CAPITAL RESOURCES

Cash Flow from Operations

In Q2-2017 the Group generated cash of \$6.4 million from operations (Q2-2016: \$7.1 million). YTD-2017 cash generated from operations was \$13.9 million (YTD-2016: \$8.7 million).

Excluding the effect of changes in working capital accounts, the Group generated cash of \$4.5 million in Q2-2017 (Q2-2016: used cash of \$0.6 million in operations) and \$8.7 million YTD-2017 (YTD-2016: \$0.8 million).

Cash Flow from Financing Activities

YTD-2017 the Company received \$0.1 million in proceeds from various exercises of stock options and made debt repayments of \$7.4 million.

YTD-2016, the Group received \$10.8 million in debt proceeds net of transaction costs and made debt repayments of \$14.1 million.

Cash Flow from Investing Activities

YTD-2017, the Group used cash of \$2.5 million for payments of capital expenditures (YTD-2016: \$5.9 million).

Liquidity and Financial Position

The Group's cash and cash equivalents at June 30, 2017 totaled \$20.1 million (December 31, 2016: \$15.9 million), including \$6.7 million held in a DSRA described on page 5 (December 31, 2016: \$6.7 million). The Group had a working capital deficiency of \$12.7 million at June 30, 2017, compared to working capital of \$0.6 million at December 31, 2016.

The working capital deficiency is caused by the Group's current estimated schedule of repayment of the balance of the DET Price Support Facility (page 17) from July 2017 to September 2018, which may change depending on MVC's actual cash flows. The Group does not consider its working capital deficiency as a liquidity risk, as it is only required to repay the DET Price Support Facility by December 2019 and at a rate of \$1.0 million per month, and the Group anticipates generating sufficient operating cash flow to meet current liabilities as they come due. Working capital deficiencies are not uncommon in companies with short-term portions of debt.

The Group operates in a cyclical industry where levels of cash flow are closely correlated to the market prices for copper. While MVC is a valuable long-life asset with a strategic relationship with El Teniente, the world's largest underground copper mine, its liquidity and financial position were affected in recent years and up to Q3-2016 by lower copper prices. Copper prices started to recover in Q4-2016 (average quarterly LME price of \$2.40/lb) positively impacting the Group's financial results and cash flow generating capacity. In Q1-2017 the average quarterly LME price was \$2.65/lb, and in Q2-2017 it was \$2.57/lb.

Due to stronger copper prices, the Company has generated positive working cash flow from operations consistently since Q4-2016.

MVC estimates to produce 60.0 to 65.0 million pounds of copper at an annual cash cost (page 11) of \$1.60 to \$1.75/lb in 2017. These production projections should enable the Group to meet its financial obligations as they become due in the year.

Subsequent to June 30, 2017, the Group secured debt financing for the construction of phase two of the Cauquenes expansion project, at an estimated cost of \$30.0 to \$35.0 million. The project is planned to increase production to 85.0 to 90.0 million pounds of copper per year, at an estimated cash cost of \$1.40 to \$1.60/lb. Refer to **Subsequent Events** and **Cautionary Statement on Forward Looking Information** (page 22).

At June 30, 2017, the Group had \$13.0 million of undrawn, committed credit facilities.

Borrowings

| (Thousands) | June 30, 2017 \$ | December 31, 2016 \$ |
|---|---------------------------------|-------------------------------------|
| Cauquenes Expansion Loan (a) | 46,633 | 51,739 |
| DET Price Support Facility (b) | 16,734 | 18,108 |
| | 63,367 | 69,847 |
| Comprised of: | | |
| Short-term debt and current portion of long-term debt | 22,733 | 10,733 |
| Long -term debt | 40,634 | 59,114 |
| | 63,367 | 69,847 |

- a) On March 25, 2015, MVC closed a bank syndicate financing with Banco Bilbao Vizcaya Argentaria ("BBVA") and Export Development Canada ("EDC") for a loan facility (the "Cauquenes Expansion Loan") of \$64.4 million for the phase one of the expansion of MVC's operations for the processing of tailings from the Cauquenes deposit. Terms of the loan include interest fixed through an IRS at a rate of 5.56% per annum for 75% of the facility. The remaining 25% of the facility is subject to a variable rate based on the US Libor 6-month rate, which at June 30, 2017 was 4.82% per annum. Interest is paid semi-annually on June and December 30.

MVC incurred due diligence, bank fees and legal costs of \$2.4 million, recognized as transaction costs that are being amortized over the term of the loan using the effective interest rate method.

The Cauquenes Expansion Loan has a maximum repayment term of 6 years consisting of 12 equal semi-annual principal payments of \$5.4 million, commencing on June 30, 2016. The repayment term may be shortened without penalty in accordance with the provisions of the Cauquenes Expansion Loan.

The balance of the loan (net of transaction costs) at June 30, 2017 was \$46.6 million (December 31, 2016: \$51.7 million).

MVC has provided security for the Cauquenes Expansion Loan in the form of a charge on all of MVC's assets, and MVC is subject to bank covenants (current ratio, tangible net worth and debt service coverage ratio) measured semi-annually on June 30 and December 31. At June 30, 2017, MVC was in compliance with the debt service coverage ratio (requirement of 1.2) and received waivers from BBVA and EDC in respect of the current ratio (requirement of 1.15) and tangible net worth ratio (requirement of \$125.0 million). Subsequent to June 30, 2017, new covenant requirements for each semi-annual period from December 31, 2017 to the earlier of the repayment of the Cauquenes Expansion Loan or June 30, 2021 became effective.

MVC has a DSRA as required under the terms and provisions of the Cauquenes Expansion Loan. Funds in the DSRA must be used to: /i/ pay the principal and interest of the Cauquenes Expansion Loan and the 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 must replenish into the DSRA at each month end the funds necessary to maintain a balance equal to one hundred percent of the sum of the principal and interest pursuant to the Cauquenes Expansion Loan and the IRS that are payable in respect of the following six months. At June 30, 2017, MVC held DSRA funds in the required amount of \$6.7 million.

Concurrently with the Cauquenes Expansion Loan, MVC entered into an IRS with BBVA to fix 75% of the interest payable on that facility. On June 30, 2017, the fair value of the IRS was determined to be \$0.1 million. The IRS has a term to December 27, 2018.

- b) MVC has a Price Support Facility with DET as described under **Agreements with Codelco's El Teniente Division**.
- c) The Company has a \$13.0 million standby line of credit from three Amerigo shareholders. The standby line of credit had an original availability date to March 25, 2016, was extended to March 25, 2017 and was further extended through to the end of 2018 and thereafter until the date of commencement of commercial production of phase two of the Cauquenes expansion, provided such date occurs no later than March 31, 2019. Amounts drawn from the standby line of credit, if any, will be repaid in the amounts and at such times as permitted under the terms and conditions of the Cauquenes Expansion Loan. All obligations arising from the standby line of credit are to be paid in full on or before the date that is the earlier of December 31, 2019 and the one-year anniversary of the date in which MVC has paid in full all amounts due and owing under the Cauquenes Expansion Loan. No security was provided in connection with these facilities. At June 30, 2017, no funds had been drawn from the standby line of credit. In 2017, the Group incurred an annual commitment fee of \$0.2 million in respect of the standby line of credit, which was settled with the issuance of 403,577 shares of Amerigo (2016: \$0.1 million, settled with cash).

AGREEMENTS WITH CODELCO'S EL TENIENTE DIVISION

In 1991, MVC entered into a contract with DET to process the fresh tailings from El Teniente, the world's largest underground copper mine, for a term to 2021 (the "Fresh Tailings Contract"). In 2009, MVC and DET entered into an agreement to process the tailings from Colihues, one of El Teniente's historic tailings deposits (the "Colihues Contract"). In 2014, MVC and DET entered into a contract (the "Master Agreement") for the purchase by MVC of the rights to process tailings from an additional historic tailings deposit, Cauquenes, for a term to the earlier of its depletion or 2033, and extending the Fresh Tailings Contract from 2021 to 2037 and the Colihues Contract to the earlier of its depletion or 2037.

Until December 31, 2014, royalties were payable to DET in respect of copper concentrates produced by MVC. DET royalties were calculated using the average London Metal Exchange (“LME”) copper price for the month of production of the concentrates, and were recorded as components of production costs.

In 2015, MVC and DET entered into a modification to the Master Agreement which changed the legal relationship between the parties for the period from January 1, 2015 to December 31, 2022. During this period, production of copper concentrates by MVC has and will be conducted under a tolling agreement with DET. Title to the copper concentrates produced by MVC is retained by DET and MVC earns tolling revenue, calculated as gross revenue for copper produced at applicable market prices, net of notional items (treatment and refining charges, DET copper royalties and transportation costs). The notional DET copper royalties precisely mimic the former royalty arrangements between MVC and DET.

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 Colihues historic tailings are determined through a sliding scale for copper prices ranging from \$0.80/lb (3%) to \$4.27/lb (30%). The parties are required to review costs and potentially adjust notional royalty structures for copper production from Colihues tailings if the copper price remains below \$1.95/lb or over \$4.27/lb for three consecutive months.

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

MVC pays a sliding scale global molybdenum royalty for molybdenum prices between \$6.00/lb (3%) and \$40.0/lb (19.7%).

The Master Agreement contains provisions requiring the parties to meet and review cost and notional royalty/royalty structures in the event monthly average prices fall below certain ranges and projections indicate the permanence of such prices over time. The review of all notional royalty/royalty structures is to be carried out in a manner that gives priority to the viability of the Master Agreement and maintains the equilibrium of the benefits between the Parties.

The Master Agreement also contains three early exit options exercisable by DET within 2021 and every three years thereafter only in the event of changes unforeseen as of the date of the Master Agreement. The Company has currently judged the probabilities of DET exercising any of these early exit options as remote.

In 2015, DET provided to MVC a copper price support agreement of up to \$17.0 million (the “DET Price Support Facility”) under which MVC drew down \$1.0 million from the DET Price Support Facility in each month in which the average final settlement copper price to MVC was less than \$2.80/lb, up to the \$17.0 million maximum. The DET Price Support Facility bears interest at a rate of 0.6% per month and is subordinate to MVC’s bank financing. The DET Price Support Facility is scheduled to be repaid in the period from January 1, 2017 to December 31, 2019 at a rate of \$1.0 million per month, provided this repayment schedule does not preclude MVC from making semi-annual principal debt repayments. YTD-2017 MVC repaid \$2.0 million towards the DET Price Support Facility, and MVC currently anticipates the DET Price Support Facility may be fully repaid before its contractual maturity of December 31, 2019. MVC may repay the DET Price Support Facility in advance and without penalty, provided its bank debt holders pre-approve the advance payments. The balance of the loan at June 30, 2017 was \$16.7 million (December 31, 2016: \$18.1 million), including \$1.7 million in accrued interest (December 31, 2016: \$1.1 million).

In 2016, MVC and DET reached an agreement to defer DET notional copper royalties during a four-month period, for a total deferral of \$5.4 million. In June 2017, MVC and DET agreed on a repayment schedule comprised of four equal monthly repayments of \$1.4 million from June to September 2017, plus interest at a rate of 0.6% per month effective from the dates in which royalties were deferred.

At June 30, 2017, the accrual for DET notional copper royalties and DET molybdenum royalties, including deferred amounts and interest, was \$12.6 million (December 31, 2016: \$11.3 million).

CAUQUENES EXPANSION

MVC is undertaking a significant expansion of its operations to extract and process the higher grade Cauquenes tailings. The Cauquenes expansion is being undertaken in phases, which management believes reduces project risk.

Phase one was completed in December 2015 on time and under budget, enabling MVC to extract Cauquenes tailings for processing in MVC's existing processing plant, increasing MVC's copper production. The phase one Capex budget was \$71.1 million and actual Capex was \$66.6 million.

Subsequent to June 30, 2017, the Group secured debt financing to complete the construction of phase two of the Cauquenes expansion project, which will improve flotation recovery efficiency and expand the existing facilities to an output of 85.0 to 90.0 million pounds of copper per year at an estimated cash cost of \$1.40 to \$1.60/lb. Phase two is expected to be completed in the second half of 2018 at an estimated cost of \$30.0 to \$35.0 million. Engineering is 44% complete and long delivery items have been procured (page 21).

OTHER MD&A REQUIREMENTS

Impairment Analysis

As at June 30, 2017, management determined that the Company's market capitalization below its net asset value constituted an impairment indicator, and completed an impairment assessment for MVC that included a determination of fair value less costs to sell.

Key assumptions incorporated in the impairment model included the following:

- Copper prices (\$/lb): 2017: \$2.58; 2018: \$2.65; 2019: \$2.77; 2020: \$2.95; 2021: \$2.89; 2022 to 2037: \$3.00.
- Power costs (excluding benefit from self-generation): From 2017 to 2027 costs are per contractual estimates 2017: \$0.101173/kWh, 2018 to 2037: \$0.096/kWh).
- Operating costs based on historical costs incurred and estimated forecasts.
- Tolling/production volume and recoveries as indicated in MVC's mining plan from 2016 to 2037, including processing of fresh tailings and historic tailings from the Colihues and Cauquenes deposits.
- Discount rate: 7% after tax

Based on these assumptions, management's impairment evaluation did not result in the identification of an impairment loss as of June 30, 2017. Although management believes the estimates applied in this impairment assessment are reasonable, such estimates are subject to significant uncertainties and judgements. The Group's impairment model is sensitive to changes in estimated metal prices and operating costs, particularly estimated power costs beyond MVC's current power contracts and operating results from the Cauquenes deposit that may differ from current projections. Changes in these variables might trigger an impairment that could be material.

Transactions with Related Parties

a) Royalty Derivative to Related Parties

Amerigo holds its interest in MVC through Amerigo International Holdings Corp. ("Amerigo International").

Amerigo International is wholly-owned by the Company except for certain outstanding Class A shares which are owned indirectly by the Company's Chairman, an associate of the Chairman and a former director of the Company. The Class A shares were issued as part of a tax-efficient structure for the payment of the royalty (the "Royalty") granted in exchange for the transfer to the Company of an option to purchase MVC.

In accordance with the articles of Amerigo International, the holders of the Class A shares are not entitled to any dividend or to other participation in the profits of Amerigo International, except for a total royalty dividend, if declared by the directors of Amerigo International, in an amount equal to the amount of the Royalty.

The Royalty is calculated as follows:

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

The Royalty is paid as a royalty dividend on the Class A shares of Amerigo International. During YTD-2017 and YTD-2016, royalties totalling \$0.5 million were paid or accrued to the Class A shareholders. At June 30, 2017, \$0.1 million of this amount remained payable (December 31, 2016: \$0.7 million).

The Royalty is a derivative financial instrument measured at fair value, with changes in fair value recorded in profit for the period.

The royalty derivative to related parties includes the Royalty dividends described above and changes in the fair value of the derivative. The fair value of the derivative increased \$3.1 million YTD-2017 (YTD-2016: \$nil), for a total royalty derivative expense of \$3.6 million (YTD-2016 \$0.5 million). The increase in the fair value of the derivative YTD-2017 was caused by the estimated increase in future production at MVC resulting from the Cauquenes phase II expansion now underway.

At June 30, 2017, the Royalty and the derivative were \$11.5 million (December 31, 2016: \$9.0 million), with a current portion of \$1.1 million (December 31, 2016: \$1.6 million) and a long-term portion of \$10.4 million (December 31, 2016: \$7.4 million).

b) Directors' fees and remuneration to officers

YTD-2017 the Group paid or accrued \$0.4 million in salaries and fees to companies associated with certain directors and officers of Amerigo (YTD-2016: \$0.5 million).

Management fees are paid to the below noted companies owned by executive officers and directors, as follows:

- Zeitler Holdings Corp. – Controlled by Dr. Klaus Zeitler, Executive Chairman of Amerigo
- Delphis Financial Strategies Inc. – Controlled by Aurora Davidson, Executive Vice President and CFO of Amerigo

In the same period, Amerigo paid or accrued \$0.1 million in directors' fees to independent directors (YTD-2016: \$0.1 million). In Amerigo's consolidated financial statements directors' fees and remuneration to officers are categorized as salaries, management and professional fees. These transactions were in the ordinary course of business and measured at the exchange amounts agreed to by the parties.

YTD-2017, 2,950,000 options were granted to directors and officers of the Company (YTD-2016: 3,350,000).

- c) As of June 30, 2017, one of Amerigo's officers acted as an officer and one of Amerigo's directors acted as a director and Chairman of Los Andes Copper Ltd., a company in which Amerigo holds an investment.

Critical Accounting Estimates and Judgements

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2016.

Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is communicated to senior management and to allow timely decisions regarding required disclosure.

The Company has a formal corporate disclosure policy in place which includes the setting up of a Disclosure Policy Committee currently consisting of the members of the Company's Board of Directors, Rob Henderson, the Company's President and CEO and Aurora Davidson, the Company's Executive Vice President and CFO.

Management is reasonably confident that material information relating to the Company, including its consolidated subsidiaries, is being made known to senior management in a timely manner, and that the Company's disclosure controls and procedures are effective not only with respect to the Company's annual filing requirements but on an ongoing basis as of the end of the period covered by this report.

Internal Controls Over Financial Reporting ("ICFR")

Management is responsible for establishing and maintaining adequate ICFR. Any system of ICFR, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. There was no material change in the Company's ICFR during the quarter ended June 30, 2017.

Commitments

- a) MVC entered into power supply agreements from January 1, 2010 to December 31, 2017 which establish minimum stand-by charges based on peak hour power supply calculations, currently estimated to be \$0.4 million per month, and from January 1, 2018 to December 31, 2027 which establish minimum charges based on peak hour power supply calculations, currently estimated to be \$1.4 million per month.
- b) Amerigo entered into an agreement for the lease of office premises in Vancouver for a five-year period commencing December 1, 2016. Amerigo's rent commitments during the term of the lease are expected to be approximately \$0.5 million.

- c) At June 30, 2017, MVC had commitments of \$6.3 million in respect of purchase orders for long delivery equipment for the Cauquenes phase two expansion. The orders had cancellation provisions with an associated cancellation cost to MVC of \$1.1 million.
- d) The Master Agreement with DET has a Closure Plan clause requiring MVC and DET to work jointly to assess the revision of the closure plan for the Cauquenes Deposit and compare it to the current plan in the possession of DET. In the case of any variation in the interests of DET due to MVC's activities extracting and processing tailings contained in Cauquenes, the Parties will jointly evaluate the form of implementation and financing of or compensation for such variation. Until such time as 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 the Company's view there is no obligation to record a provision because the amount, if any, is not possible to determine.

Subsequent Events

Subsequent to June 30, 2017:

- a) MVC closed a loan facility for funding of the second phase of the planned expansion of MVC's operations for the processing of Cauquenes tailings (the "Phase Two Bank Facility") with BBVA and EDC. The Phase Two Bank Facility will allow MVC to draw up to \$35.3 million to fund the costs of phase two of the expansion, and is being provided as a new tranche of MVC's existing financing agreement with BBVA and EDC. The Phase Two Bank Facility is scheduled to be repaid in six equal semi-annual installments commencing on June 30, 2019 and ending on December 31, 2021. The repayment schedule may be shortened without penalty in accordance with the provisions of the finance agreement. Interest for 75% of the facility will be fixed through an IRS at a rate of 6.02% per annum, and the remaining 25% of the facility will be subject to a variable rate based on the US Libor 6-month rate, currently 4.82% per annum. Semi-annual interest payments will commence on December 31, 2017. MVC has provided security for the Phase Two Bank Facility in the form of a charge on all of MVC's assets, and MVC is subject to certain bank covenants to be measured semi-annually starting on December 31, 2017.
- b) MVC reached an agreement with its power supply provider to amend MVC's long-term power supply contract which becomes effective January 1, 2018. Modified terms include: a rate reduction from \$91.1/MwH to \$75.0/MwH (July 2017 rate, April 2017 United States Consumer Price Index ("US CPI")), extending the term of the contract from 10 to 15 years (to December 31, 2032); modifying the indexation provisions from a basket which considered US CPI, liquefied natural gas and coal to only US CPI; and increasing minimum billing from 35% to 56% of 350 GwH/year. The agreement will continue to supply 100% of MVC's power requirements.

Other

As of August 8, 2017, Amerigo has outstanding 175,435,635 common shares and 12,000,000 options (exercisable at prices ranging from Cdn\$0.14 to Cdn\$0.53 per share).

Additional information, including the Company's most recent Annual Information Form, is available on SEDAR at www.sedar.com.

Cautionary Statement on Forward Looking Information

This MD&A contains certain forward-looking information and statements as defined in applicable securities laws (collectively referred to as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "should", "believe" and similar expressions is intended to identify forward-looking statements. Although the Company believes that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond the Company's control, the Company cannot assure that it will achieve or accomplish the expectations, beliefs or projections described in the forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such statements. These forward-looking statements speak only as of the date of this MD&A. These forward-looking statements include but are not limited to, statements concerning:

- a forecasted increase in production and a reduction in operating costs;
- our strategies and objectives;
- our estimates of the availability and quantity of tailings, and the quality of our mine plan estimates;
- prices and price volatility for copper and other commodities and of materials we use in our operations;
- the demand for and supply of copper and other commodities and materials that we produce, sell and use;
- sensitivity of our financial results and share price to changes in commodity prices;
- our financial resources and our expected ability to meet our obligations for the next 12 months;
- interest and other expenses;
- domestic and foreign laws affecting our operations;
- our tax position and the tax rates applicable to us;
- the timing and costs of construction and tolling/production of, and the issuance and maintenance of the necessary permits and other authorizations required for, our expansion projects, including the expansion for the Cauquenes deposit and the timing of ramp-up to full production from Cauquenes;
- our ability to procure or have access to financing and to comply with our loan covenants;
- the production capacity of our operations, our planned production levels and future production;
- potential impact of production and transportation disruptions;
- hazards inherent in the mining industry causing personal injury or loss of life, severe damage to or destruction of property and equipment, pollution or environmental damage, claims by third parties and suspension of operations
- our planned capital expenditures (including our plan to upgrade our existing plant and operations) including the timing and cost of completion of our capital projects;
- estimates of asset retirement obligations and other costs related to environmental protection;
- our future capital and production costs, including the costs and potential impact of complying with existing and proposed environmental laws and regulations in the operation and closure of our operations;
- repudiation, nullification, modification or renegotiation of contracts;
- our financial and operating objectives;
- our environmental, health and safety initiatives;
- the outcome of legal proceedings and other disputes in which we may be involved;
- the outcome of negotiations concerning metal sales, treatment charges and royalties;
- disruptions to the Group's information technology systems, including those related to cybersecurity;
- our dividend policy; and
- general business and economic conditions.

Inherent in forward-looking statements are risks and uncertainties beyond our ability to predict or control, including risks that may affect our operating or capital plans; risks generally encountered in the permitting and development of mineral projects such as unusual or unexpected geological formations, negotiations with government and other third parties, unanticipated metallurgical difficulties, delays associated with permits, approvals and permit appeals, ground control problems, adverse weather conditions, process upsets and equipment malfunctions; risks associated with labour disturbances and availability of skilled labour and management; fluctuations in the market prices of our principal commodities, which are cyclical and subject to substantial price fluctuations; risks created through competition for mining projects and properties; risks associated with lack of access to markets; risks associated with availability of and our ability to obtain both tailings from DET's current production and historic tailings from tailings deposit; risks with respect to completion of all phases of the Cauquenes expansion, the ability of the Group to draw down funds from the Standby LOC; the availability of and ability of the Group to obtain adequate funding on reasonable terms for expansions and acquisitions, including all phases of the Cauquenes expansion; mine plan estimates; risks posed by fluctuations in exchange rates and interest rates, as well as general economic conditions; risks associated with environmental compliance and changes in environmental legislation and regulation; risks associated with our dependence on third parties for the provision of critical services; risks associated with non-performance by contractual counterparties; title risks; social and political risks associated with operations in foreign countries; risks of changes in laws affecting our operations or their interpretation, including foreign exchange controls; and risks associated with tax reassessments and legal proceedings. Many of these risks and uncertainties apply not only to the Group and its operations, but also to Codelco and its operations. Codelco's ongoing mining operations provide a significant portion of the materials the Group processes and its resulting metals production, therefore these risks and uncertainties may also affect their operations and in turn have a material effect on the Group.

Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about:

- general business and economic conditions;
- interest rates;
- changes in commodity and power prices;
- acts of foreign governments and the outcome of legal proceedings;
- the supply and demand for, deliveries of, and the level and volatility of prices of copper and other commodities and products used in our operations;
- the ongoing supply of material for processing from Codelco's current mining operations;
- the ability of the Group to profitably extract and process material from the Cauquenes tailings deposit;
- the timing of the receipt of and retention of permits and other regulatory and governmental approvals;
- the availability of and ability of the Group to obtain adequate funding on reasonable terms for expansions and acquisitions, including all phases of the Cauquenes expansion;
- the ability of the Group to draw down funds from bank facilities and the Standby LOC;
- our costs of production and our production and productivity levels, as well as those of our competitors;
- changes in credit market conditions and conditions in financial markets generally;
- our ability to procure equipment and operating supplies in sufficient quantities and on a timely basis;
- the availability of qualified employees and contractors for our operations;
- our ability to attract and retain skilled staff;
- the satisfactory negotiation of collective agreements with unionized employees;
- the impact of changes in foreign exchange rates and capital repatriation on our costs and results;
- engineering and construction timetables and capital costs for our expansion projects;
- costs of closure of various operations;
- market competition;

- the accuracy of our preliminary economic assessment (including with respect to size, grade and recoverability) and the geological, operational and price assumptions on which these are based;
- tax benefits and tax rates;
- the outcome of our copper concentrate sales and treatment and refining charge negotiations;
- the resolution of environmental and other proceedings or disputes;
- the future supply of reasonably priced power;
- our ability to obtain, comply with and renew permits and licenses in a timely manner; and
- our ongoing relations with our employees and entities with which we do business.

Future production levels and cost estimates assume there are no adverse mining or other events which significantly affect budgeted production levels.

We caution you that the foregoing list of important factors and assumptions is not exhaustive. Other events or circumstances could cause our actual results to differ materially from those estimated or projected and expressed in, or implied by, our forward-looking statements. Except as required by law, we undertake no obligation to update publicly or otherwise revise any forward-looking statements or the foregoing list of factors, whether as a result of new information or future events or otherwise.