



**Amerigo Resources Limited  
Management Discussion and Analysis  
For the Quarter Ended March 31, 2004**

All figures expressed in US Dollars except where noted

May 5, 2004

**Overall Performance**

***For the ten months ended December 31, 2003***

Amerigo Resources Ltd. ("Amerigo") or together with its subsidiaries ("the Company") was a development stage company with mineral properties located in Canada and no source of revenue other than that derived from the sale of certain mineral properties up to July 3, 2003, when it acquired, through a subsidiary, all of the issued and outstanding shares of Minera Valle Central S.A. (MVC). MVC is a Chilean copper producer with a contract with Chile's state-owned copper producer Codelco through at least 2021 to process the tailings from the El Teniente mine in Chile. As a result of this acquisition the overall performance of the Company during the ten months ended December 31, 2003 substantially differs from performance in prior periods.

During the period, Amerigo raised \$20,851,590 in equity proceeds for the acquisition of MVC and to strengthen its working capital position. Additional capital became available to Amerigo through the exercise of stock purchase options and warrants. The Company recorded revenues of \$12,243,150 and achieved operating profits of \$2,322,525 and net earnings of \$1,881,013, or \$0.05 per share (non-diluted).

Due in part to stronger international copper prices, operating cashflows for the period were strong at \$2,271,730. The Company started an expansion program aimed at increasing production capacity in 2004 and invested \$870,574 in the purchase of property, plant and equipment. Also in the period, \$1,073,958 of working capital loans were repaid.

At December 31, 2003 the Company had a strong balance sheet, with \$4,366,419 in cash and cash equivalents and working capital of \$4,321,297.

The Company is exposed to changes in prevailing international copper prices. The Company through MVC's operations, has limited exposure to changes of the Chilean Peso with respect to the US Dollar, as the Company's revenue is quoted in US Dollars and 65% of its costs are either quoted in US Dollars or quoted in Chilean Pesos indexed to the US Dollar.

***For the three months ended March 31, 2004***

Under strong copper prices, Amerigo recorded revenues of \$10,238,720 in the quarter ended March 31, 2004, achieving operating profits of \$4,694,927 and cash operating profits (after adding back non-cash items such as depreciation, amortization and asset retirement accretion costs) of \$4,974,058. Net earnings for the quarter were \$3,776,182, or \$0.06 per share (non-diluted).

Under the company's copper concentrate smelting and refining contract, copper deliveries are priced at T+3, meaning at the copper price prevailing at the delivery date plus 3 months. Due to changes in the accounting standard for revenue recognition commencing in 2004, a substantial part of the Company's copper concentrate sales are provisionally recognized based on the price of copper on the London Metal Exchange for those future pricing dates. The effect of this new standard may be to increase earnings sensitivity to trends in the copper price. During periods of downward price movement after a quarter end, the provisionally priced sales will have to be adjusted downward for actual pricing and therefore impact negatively on earnings in the following quarter; the reverse will occur in periods of upward price



movement after period end, when provisionally priced sales will have to be adjusted upward for actual prices and will therefore impact positively on earnings in the subsequent period. For Amerigo, this effect will be mitigated to some extent given that MVC's production is projected to increase during the course of 2004.

During the period, Amerigo produced 6.78 million pounds of copper and continued its plant capacity expansion project. To this effect, an investment of \$1,113,878 in plant and equipment took place in the three months.

The Company fully repaid outstanding working capital loans owed to Empresa Nacional de Minería, a Chilean government-owned smelting company, which had an outstanding balance of \$1,397,166 at the beginning of the period.

At March 31, 2004 the Company had cash and cash equivalents of \$5,275,648, with working capital of \$7,363,352.

### **Selected Annual Information**

|                                   | <b>10 months ended<br/>December 31, 2003</b> | <b>12 months ended<br/>February 28, 2003</b> | <b>12 months ended<br/>February 28, 2002</b> |
|-----------------------------------|--|--|--|
| Total revenues                    | \$12,243,150                                 | \$85,492                                     | \$3,726                                      |
| Net Income (loss)                 | 1,881,013                                    | (62,334)                                     | (180,930)                                    |
| Earnings (loss) per share         | 0.05   | (0.01)                                       | (0.07)                                       |
| Diluted earnings (loss) per share | 0.03   | (0.01)                                       | (0.07)                                       |
|                                   |  |  |  |
|                                   | <b>At Dec. 31, 2003</b>                      | <b>At Feb. 28, 2003</b>                      | <b>At Feb. 28, 2002</b>                      |
| Total assets                      | \$31,818,446                                 | \$362,691                                    | \$62,024                                     |
| Total long-term liabilities       | 7,897,048                                    | 16,546                                       | -  |
| Cash dividends declared           | -  | -  | -  |

Variation in results of operation and financial position as outlined in the tables above is derived from the significant change in Amerigo's business following the acquisition of MVC.

On July 3, 2003, the Company, through a subsidiary, acquired all of the issued and outstanding shares of Minera Valle Central S.A. (MVC). MVC, a Chilean copper producer, has a contract with Chile's state-owned copper producer Codelco through at least 2021 to process the tailings from the El Teniente mine in Chile.

Consideration for this acquisition was \$1,854,559 and the assumption of loans of \$18,145,411 due to former shareholders, of which \$16,600,000 was repaid at the time of the acquisition. The remaining loan balance of \$1,545,411 together with the acquisition price, totalling \$3,400,000, plus accrued interest, will be paid in cash or shares of Amerigo, three years after the acquisition if the average copper price is over \$0.82 per pound. Payment in cash or shares is at the option of the Company; however, if Amerigo elects to pay in shares, the vendor has the right to either receive the payment in shares at the then current market price or receive payment in cash within two years counted from the end of the three-year period plus interest at an annual rate of 5%. If the copper price is below \$0.82 per pound, the payment period will be extended to five years. Payment will be made in cash only plus interest at an annual rate of 5%. The MVC acquisition was accounted for using the purchase method and results of operations have been consolidated since the date of acquisition.

The Company's financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles. The Company's reporting currency is the US Dollar.

### **Results of Operations**

#### ***For the ten months ended December 31, 2003***

Revenues during the ten months ended December 31, 2003 were \$12,243,150 derived from the sale of 14.42 million pounds of copper.



After acquiring MVC, the Company proceeded to implement a production optimization plan that allowed it to post only \$9,920,615 in cost of sales during the period, adjusted to \$9,529,898 once depreciation and amortization charges are added back. Operating profits were \$2,322,535. When adding back amortization and depreciation, adjusted gross profits were \$2,713,252.

The Company implemented policies to carefully control non-operational expenses. Non-operating income and expenses in the ten months were \$252,783. The most significant line of expense was salaries, consulting and professional fees, which totalled \$140,522, followed by interest expense of \$125,898 and management fees of \$91,767.

Amerigo recorded earnings before minority interest of \$2,069,752. Net earnings during the ten-month period were \$1,881,013 or \$0.05 per share (non-diluted). On a diluted basis, earnings per share were \$0.03.

In December 2003 the Company entered into a new refining and smelting agreement with Enami, which will result in savings to MVC of more than 2c/lb of refined copper in 2004 compared to smelting and refining terms in 2003.

MVC initiated a two-phase plant expansion project shortly after acquisition, which progressed as anticipated during 2003. Phase 1 consists of the installation and commissioning of additional classification and flotation equipment, which will allow for a budgeted production rate for 2004 of 16,000 tonnes of refined copper. Phase 2 of the expansion will increase copper production further in 2005 to an annual level of approximately 20,000 tonnes. Phase 2 production increases will be generated from the higher rate of extraction from the Colihues tailings project from 2,000 tonnes of plant feed per day trial operation to a fully commercial rate of 10,000 tonnes per day. Further studies to examine the potential to increase production from Colihues beyond this rate are being conducted.

During the ten-month period ending December 31, 2003, \$870,574 of cash resources were allocated to plant expansion and procurement of new equipment.

In the period, the Company raised \$20,851,590 in the capital markets for the acquisition of MVC and for working capital purposes, and secured an additional \$1,711,369 through the exercise of stock purchase options and stock purchase warrants.

During the ten-month period, the Company made substantial progress in repaying existing working capital loans in MVC. Principal payments of \$1,073,958 took place, reducing outstanding loans to Enami to \$1,397,166 at December 31, 2003.

At the end of the 2003 fiscal period, the Company's cash position remained strong at \$4,366,419, with working capital of \$4,321,297.

***For the three months ended March 31, 2004***

Revenues during the quarter ended March 31, 2004 were \$10,238,720 derived from the sale of 6.61 million pounds of copper. Commencing on January 1, 2004 the Company adopted new accounting recommendations to account for changes in prices of copper during the settlement period. Of the \$10,238,720 revenue reported in the quarter, \$3,056,432 or 30% account for settlement adjustments.

During the period, copper production was lower than the previous three-month period and accordingly the cost of production per pound of copper produced was slightly higher than previous periods at a cash cost before Codelco royalty of US64c per pound, and a total cost after royalty, depreciation and asset retirement accretion cost of US80c per pound. Lower copper production was due to plant interruptions in connection with the commissioning and tying-in of new plant and equipment for the phase I expansion. Production was also negatively impacted in January, 2004 due to scheduled and unscheduled maintenance and expansion commissioning at El Teniente, which reduced source feed tailings production during the period. Cost of sales was \$5,543,793, with operating profits of \$4,694,927. When adding back amortization, depreciation and asset retirement accretion cost, Amerigo reported adjusted gross profits of \$4,974,058 in the quarter.



The Company also continued to carefully control non-operational expenses. Non-operating income and expenses in the quarter were \$573,280, or 6% of revenue. The most significant line of expense –transfer agent and filing fees- totalled \$138,475 and includes a one-time fee paid to the Toronto Stock Exchange pursuant to the Company's initial listing into the TSX, in the amount of \$115,000.

The Company recorded earnings before taxes and minority interest of \$4,121,647. In the period, a charge of \$243,760 for income tax net of recoveries was recognized, derived from MVC's operations in Chile. There is no tax payable on this amount due to the utilization of tax carryforwards available to MVC. Net earnings during the quarter were \$3,776,182 or \$0.06 per share (non-diluted). On a diluted basis, earnings per share were \$0.04.

MVC's plant expansion project progressed as anticipated. Phase 1 of plant expansion was completed on time and under budget on April 7, 2004. \$1,113,878 of cash resources were allocated to plant expansion and procurement of new equipment in the quarter. The Phase 1 expansion represented in aggregate an investment of \$2,475,000, \$525,000 below the \$3,000,000 original budget.

In the first quarter of 2004, the Company received \$1,119,000 from the exercise of stock purchase warrants.

Also during this period, the Company fully repaid existing working capital loans with Enami, allocating \$1,397,166 to this effect. After repaying the loans, the company's cash position remained strong at \$5,275,648, with working capital of \$7,363,352.

### **Summary of Quarterly Results**

|                                   | <b>Qtr ended<br/>March 31, 2004</b> | <b>Qtr ended<br/>Dec. 31, 2003 *</b> | <b>Qtr ended<br/>Nov. 30, 2003</b> | <b>Qtr ended<br/>August 31, 2003</b> |
|-----------------------------------|-------------------------------------|--------------------------------------|------------------------------------|--------------------------------------|
| Total revenues                    | \$10,238,720                        | \$2,837,890                          | \$5,869,049                        | \$3,536,211                          |
| Net income (loss)                 | 3,776,182                           | 372,621                              | 1,017,089                          | 537,313                              |
| Earnings(loss) per share          | 0.0613                              | 0.0062                               | 0.0177                             | 0.0125                               |
| Diluted earnings (loss) per share | 0.0435                              | 0.0043                               | 0.0120                             | 0.0114                               |
|                                   |                                     |                                      |                                    |                                      |
|                                   | <b>Qtr ended<br/>May 31, 2003</b>   | <b>Qtr ended<br/>Feb. 28, 2003</b>   | <b>Qtr ended<br/>Nov. 30, 2002</b> | <b>Qtr ended<br/>August 31, 2002</b> |
| Total revenues                    | Nil                                 | \$14,047                             | \$68,342                           | Nil                                  |
| Net income (loss)                 | (\$46,010)                          | (36,930)                             | (50,102)                           | (\$45,384)                           |
| Earnings(loss) per share          | (0.01)                              | (0.01)                               | -                                  | -                                    |
| Diluted earnings (loss) per share | (0.01)                              | (0.01)                               | -                                  | -                                    |

\*One-month quarter due to change in fiscal year end of the Company, from February 28 to December 31.

### **Liquidity**

Amerigo is able to generate sufficient cash resources, both in the short and long-term, to maintain existing operations and fund projected plant expansions. Since the acquisition of MVC in July 2003, the Company has repaid a \$2,471,124 debt and has completed a \$1,984,452 plant expansion project, without relying on additional capital or debt funding.

As of March 31, 2004 the Company had \$5,275,648 in cash and cash equivalents, with working capital of \$7,363,352.

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



The Company's revenue is dependent on prevailing market prices for copper. During the quarter ended March 31, 2004, average copper prices were \$1.3651, \$1.2521 and \$1.0996 per pound for March, February and January, respectively.

Amerigo's working capital requirements are anticipated to be consistent with Quarter 1 results in the balance of 2004.

Other than for restricted cash outlined above, the company is not subject to debt covenants and does not anticipate it will incur any default or arrears on payment of leases or debt principal or interest.

Summary of contractual obligations:

|                                 | Payments due by periods |                |              |              |                 |
|---------------------------------|-------------------------|----------------|--------------|--------------|-----------------|
|                                 | Total                   | Less than 1 yr | 1 to 3 years | 4 to 5 years | More than 5 yrs |
| Notes payable (1)               | 3,400,000               | -              | 3,400,000    | -            | -               |
| Asset retirement obligation (2) | 5,958,000               |                |              |              | 5,958,000       |
| Total contractual obligations   | 9,358,000               | -              | 3,400,000    | -            | 5,958,000       |

(1) Note payable in relation to the acquisition of MVC. The note, together with accrued interest, will be paid in cash or shares of Amerigo three years after the acquisition if the average copper price is over \$0.82 per pound. Payment in cash or shares is at the option of the Company; however, if the Company elects to pay in shares, the vendor has the right to either receive the payment in shares at the then current market price or receive payment in cash within two years counted from the end of the three-year period plus interest at an annual rate of 5%.

(2) The asset retirement obligation's disclosed value is based on current estimates of what it would cost in 2021 to remove assets and restore the site where MVC's current operations are conducted. This liability is being accreted systematically over time until a \$6,250,000 value is reached in 2021. At March 31, 2004, the asset retirement obligation shows a value of \$1,948,236.

### **Capital Resources**

Under its MVC plant expansion plan, the Company is committed to approximately \$490,000 of further capital expenditures for the purchase of property, plant and equipment in April 2004 which are included in accounts payable at March 31, 2004. These capital outlays will be met with operating cashflows from MVC's operations and no additional sources of debt or equity will need to be accessed to fulfill payment obligations.

Additionally, the Company will continue to maintain and service its existing plant infrastructure. Based on annualizing the results of the quarter ended March 31, 2004, maintenance and services expense for the remaining nine months of the current fiscal year could be expected to reach \$2,165,000. Again, these commitments will be met with MVC operating cashflow.

As of March 31, 2004 the Company had 1,680,000 outstanding share purchase options (with exercise prices ranging from C\$0.20 to C\$1.23) and 21,490,083 outstanding share purchase warrants (with exercise prices ranging from C\$0.20 to C\$0.70). During the quarter ended March 31, 2004, 3,259,134 warrants were exercised for net proceeds of \$1,119,002 and no options were exercised.

### **Transactions with Related Parties**

The share capital of Amerigo International Holdings Corp. (Amerigo International) is composed of Class A and Class B common shares. The Company owns all of the issued and outstanding Class B shares of Amerigo International. The Class A shares are owned indirectly by certain directors and officers of the company.

The holders of 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 calculated as follows:

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



In all other respects, Amerigo International is controlled by the company and is a wholly owned subsidiary for accounting purposes.

The amount included as Minority Interest in the company's Balance Sheet represents the book value of the Class A shares.

As at March 31, 2004 \$38,377 was accrued for the March 2004 dividend described above, subsequently paid in April in the ordinary course of business.

### **Critical Accounting Estimates**

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

The Company depreciates assets, capitalized acquisition costs and contractual rights based on the units of production method, whereby management has estimated copper units of production to 2021 and proceeds to allocate amortization charges based on actual production on a monthly basis.

The Company estimates that recoverable value of plant and equipment at the end of its contract with Codelco will be at least \$2,000,000.

As required by newly enacted accounting pronouncements, Amerigo calculated an asset retirement obligation based on a quoted market price of \$3,500,000 provided by an independent third party. Accordingly, on its March 31, 2004 Balance Sheet, the Company recognized an asset retirement liability of \$1,948,236 and increased the carrying amount of related long-lived assets by \$1,773,928. The asset retirement liability will be systematically accreted to a 2021 value of approximately \$6,250,000 and the increase in asset carrying value will be amortized on a straight-line basis. Accretion and amortization costs are charged to earnings.

### **Changes in Accounting Policies Including Initial Adoption**

During the fiscal year ended December 31, 2003 the Company adopted the following accounting policies, in connection with the acquisition of MVC:

#### ***Foreign currency translation***

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

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

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

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

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

Plant and infrastructure and major equipment are depreciated using the unit of production method over the lesser of the useful life of the asset or the estimated life of the mineral resource. Other fixed assets are depreciated over the useful life of the asset on a straight-line basis. Unit of production method is defined as contained pounds of copper produced over estimated production under the tailings supply



agreement. The tailings supply agreement has a term extending to the latter of 2021 or the date at which a predetermined amount of copper in tailings from El Teniente has been delivered.

***Restoration costs***

MVC is obligated through its operating contract with Corporación Nacional del Cobre de Chile (Codelco) not to spill tailings or contaminants from its facilities into natural waterways, to remove the facilities and equipment that have been used in operations and to leave the land occupied by its operations clean and clear within six months of expiry of the contract or any extensions thereof. The Company believes that the proceeds from the sale of its plant and equipment on expiry of the contract will likely exceed restoration costs, and accordingly did not make any provisions to account for future restoration costs in fiscal 2003. Commencing on January 1, 2004, the Company adopted new accounting standards and recognized an asset retirement obligation with regards to its contract with Codelco.

***Plant supplies and inventory***

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

***Revenue***

Revenue is recognized when production is delivered to the smelter, title passes to the purchaser and the price is determinable. In fiscal 2003, settlement adjustments were recorded when final payable metal content and final prices are determined.

The company has a refining and smelting agreement for part of its copper concentrate production for a period from 2004 to 2007 which provides for copper production to be priced at T+3, meaning at the copper price prevailing at the delivery date plus 3 months. Commencing on January 1, 2004 the company adopted new accounting recommendations to account for changes in prices of copper during the settlement period.

***Contractual right***

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

**Other MD&A Requirements**

As of May 5, 2004, the Company has 63,473,677 common shares outstanding. Additional information, including the company's most recent Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).