

# **Amerigo Resources Ltd.**

## **Consolidated Financial Statements September 30, 2005**

(expressed in U.S. dollars)

Not audited or reviewed by external auditors

# Amerigo Resources Ltd.

## Consolidated Balance Sheets (Unaudited)

(expressed in U.S. dollars)

	September 30 2005 \$	December 31 2004 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	12,222,109	8,239,089
Accounts receivable	10,392,098	3,383,211
Prepaid expenses	1,671,271	690,946
Plant supplies and inventory	1,628,142	1,153,105
	25,913,620	13,466,351
<b>Investment in Nikos Explorations</b> (Note 6)	904,685	477,230
<b>Mineral property, plant and equipment</b> - net (Note 2)	50,873,898	34,479,801
<b>Other</b>	39,486	46,563
	77,731,689	48,469,945
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	7,682,304	3,143,076
El Teniente royalty payable (Note 5)	2,691,433	1,692,374
Due to related parties (Note 3)	60,053	46,264
Note and interest payable	3,795,741	-
	14,229,531	4,881,714
<b>Note payable</b>	-	3,400,000
<b>Other payables</b>	552,936	469,858
<b>Asset retirement obligation</b>	2,156,360	2,049,951
<b>Future income tax</b>	1,095,422	264,478
<b>Minority interest</b>	1,000	1,000
	18,035,249	11,067,001
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (Note 4)	39,416,314	26,891,142
<b>Dividends</b> (Note 4)	(3,152,777)	-
<b>Value assigned to stock options</b> (Note 4)	1,229,911	1,092,711
<b>Retained earnings</b>	22,225,102	9,441,201
<b>Cumulative translation adjustment</b>	(22,110)	(22,110)
	59,696,440	37,402,944
	77,731,689	48,469,945

Approved by the Board of Directors

"Robert J. Gayton"

Director

"Ruston Goepel"

Director

# Amerigo Resources Ltd.

## Consolidated Statements of Operations (Unaudited)

(expressed in U.S. dollars)

	Quarter ended Sept. 30, 2005 \$	Quarter ended Sept. 30, 2004 \$	Nine months ended Sept. 30, 2005 \$	Nine months ended Sept 30, 2004 \$
<b>Copper sales, gross</b>	12,506,851	10,762,727	34,880,372	29,219,601
Smelter, refinery and other charges	(2,697,391)	(1,690,824)	(8,199,186)	(4,163,173)
<b>Net revenue</b>	9,809,460	9,071,903	26,681,186	25,056,428
<b>Costs</b>				
Production costs	(1,463,576)	3,690,214	3,220,869	9,375,754
El Teniente royalty (Note 5)	2,294,314	1,092,879	5,457,070	3,151,346
Depreciation and amortization	343,362	288,951	964,362	813,305
Administration	277,335	216,525	771,827	654,140
Transportation	158,794	148,311	478,095	408,642
Asset retirement accretion cost	37,087	32,393	106,409	97,180
<b>Cost of sales</b>	1,647,316	5,469,273	10,998,632	14,500,367
<b>Operating profit</b>	8,162,144	3,602,630	15,682,554	10,556,061
<b>Other expenses</b>				
Stock based compensation	40,329	-	545,089	41,153
Salaries, consulting and professional fees	52,754	53,038	298,018	189,289
Transfer agent and filing fees	5,769	1,854	72,794	138,377
Management fees	64,776	40,690	183,822	130,341
Office expense	37,270	29,062	114,860	126,534
Insurance expense	11,798	7,553	34,199	27,744
Shareholder information	4,637	5,743	49,302	20,629
Interest expense	70,945	2,094	429,530	101,882
	288,278	140,034	1,727,614	775,949
<b>Earnings before undernoted items</b>	7,873,866	3,462,596	13,954,940	9,780,112
Foreign exchange gain (expense)	1,098,029	383,421	1,694,631	62,497
Interest income	124,757	42,763	237,836	172,623
Gain on disposition of mineral Properties (Note 6)	-	-	427,455	146,259
Write-off of mineral properties	-	-	-	(49,529)
<b>Earnings before taxes and minority interest</b>	9,096,652	3,888,780	16,314,862	10,111,962
<b>Income tax expense</b>	2,418,269	810,800	3,082,959	1,414,652
<b>Earnings before minority interest</b>	6,678,383	3,077,980	13,231,903	8,697,310
<b>Minority interest</b> (Note 3)	174,968	117,329	448,002	335,019
<b>Net earnings for the period</b>	6,503,415	2,960,651	12,783,901	8,362,291
<b>Retained earnings – Beginning of period</b>				
As previously reported	15,721,687	3,135,306	9,441,201	(1,165,486)
Accounting changes	-	-	-	(1,100,848)
As restated	15,721,687	3,135,306	9,441,201	(2,266,334)
<b>Retained earnings – end of period</b>	22,225,102	6,095,957	22,225,102	6,095,957
<b>Weighted average number of shares</b>	85,927,137	63,876,143	76,141,711	62,997,155
<b>Earnings per share</b>				
Basic	0.0757	0.0463	0.1679	0.1327
Diluted	0.0735	0.0340	0.1447	0.0961

# Amerigo Resources Ltd.

## Consolidated Statements of Cash Flows (Unaudited)

(expressed in U.S. dollars)

	Quarter ended Sept. 30, 2005 \$	Quarter ended Sept. 30, 2004 \$	Nine months ended Sept. 30, 2005 \$	Nine months ended Sept. 30, 2004 \$
<b>Cash flows from operating activities</b>				
Net earnings for the period	6,503,415	2,960,651	12,783,901	8,362,291
Items not affecting cash -				
Income tax expense, net of (tax recoveries)	(34,325)	798,341	671,729	1,342,228
Stock-based compensation	40,329	-	545,089	41,153
Depreciation and amortization	343,362	288,951	964,362	813,305
Asset retirement accretion cost	37,087	32,393	106,409	97,180
Write-off of mineral properties	-	-	-	49,529
Gain on disposition of mineral properties	-	-	(427,455)	(146,259)
	6,889,868	4,080,336	14,644,035	10,559,427
Changes in non-cash working capital, net of effects of acquisition of subsidiary				
Accounts receivable	(3,805,728)	(734,683)	(7,008,887)	(731,851)
Prepaid expenses	(145,856)	(16,061)	(980,325)	(179,463)
Plant, supplies and inventory	(459,377)	(108,987)	(475,037)	(529,115)
Accounts payable	4,291,232	50,112	4,539,228	(312,195)
Due to related parties	(2,712)	6,283	13,789	(145,683)
El Teniente royalty payable	954,063	335,139	999,059	817,617
Note and interest payable	47,241	-	395,741	-
	7,768,731	3,612,139	12,127,603	9,478,737
<b>Net cash provided by operating activities</b>				
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	(8,197,486)	(3,803,885)	(17,358,459)	(5,809,681)
<b>Net cash used in investing activities</b>				
	(8,197,486)	(3,803,885)	(17,358,459)	(5,809,681)
<b>Cash flows from financing activities</b>				
Repayment of Enami loans	-	-	-	(1,397,166)
Issuance of shares for cash – net of issue costs	354,091	265,539	12,117,283	1,393,211
Payment of dividends	(3,152,777)	-	(3,152,777)	-
Other payables	47,472	18,482	83,078	31,485
<b>Net cash provided by financing activities</b>				
	(2,751,214)	284,021	9,047,584	27,530
<b>Increase in cash and cash equivalents due to exchange rate changes</b>				
	244,812	(30,989)	166,292	43,228
<b>Net increase in cash and cash equivalents</b>				
	(2,935,157)	61,286	3,983,020	3,739,814
<b>Cash and cash equivalents – Beginning of period</b>				
	15,157,266	8,044,947	8,239,089	4,366,419
<b>Cash and cash equivalents – End of period</b>				
	12,222,109	8,106,233	12,222,109	8,106,233

# Amerigo Resources Ltd.

## Consolidated Statements of Shareholders' Equity (Unaudited)

(expressed in U.S. dollars)

	Common shares No. of shares	Amount (\$)	(Cumulative Deficit)/ Retained Earnings (\$)	Value assigned to stock options (\$)	Cumulative Translation Adjustment (\$)	Capital stock to be issued (\$)	Dividends Paid (\$)	Share- holders' equity (\$)
Balance – Dec. 31, 2003	60,197,876	24,813,185	(1,499,997)	986,390	(22,110)	294,062		24,571,530
Issue of shares								
Exercise of warrants	4,767,195	1,934,553	-	-	-	-		1,934,553
Exercise of stock options	230,000	94,979	-	-	-	-		94,979
Options granted	-	-	-	154,746	-	-		154,746
Transfer of value on exercise of stock options	-	48,425	-	(48,425)	-	-		-
Capital stock to be issued	-	-	-	-	-	(294,062)		(294,062)
Net earnings for the period	-	-	10,941,198	-	-	-		10,941,198
Balance – Dec. 31, 2004	65,195,071	26,891,142	9,441,201	1,092,711	(22,110)	-		37,402,944
Issue of shares								
Exercise of warrants	20,317,773	11,404,599	-	-	-	-	-	11,404,599
Exercise of stock options	693,000	712,684	-	-	-	-		712,684
Options granted	-	-	-	545,089	-	-		545,089
Transfer of value on exercise of stock options	-	407,889	-	(407,889)	-	-		-
Dividends paid	-	-	-	-	-	-	(3,152,777)	(3,152,777)
Net earnings for the period	-	-	12,783,901	-	-	-		12,783,901
Balance – Sept. 30, 2005	86,205,844	39,416,314	22,225,102	1,229,911	(22,110)	-	(3,152,777)	59,696,440

# Amerigo Resources Ltd.

## Notes to Consolidated Financial Statements (Unaudited)

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(expressed in U.S. dollars)

### 1 Significant accounting policies

The financial statements of Amerigo Resources Ltd. ("Amerigo") together with its subsidiaries ("the Company") have been prepared in accordance with Canadian Generally Accepted Accounting Principles for interim financial statements and therefore do not include all of the information and notes required for annual financial statements. These interim financial statements and notes thereto should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2004.

Certain comparative figures have been reclassified to conform with the basis of presentation adopted in the current period.

### 2 Mineral property, plant and equipment

	September 30, 2005 \$	December 31, 2004 \$
Plant and infrastructure	22,041,665	16,501,788
Machinery and equipment	13,034,289	9,188,691
Contractual rights	8,029,185	8,029,185
Asset retirement obligations	1,851,055	1,851,055
Office furniture, equipment and other assets	8,835,701	862,717
	<hr/>	<hr/>
	53,791,895	36,433,436
Accumulated depreciation	(2,917,997)	(1,953,635)
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	50,873,898	34,479,801

### 3 Related party transactions

#### a) Minority Interest

The Company holds its interest in MVC through its subsidiary Amerigo International Holdings Corp. ("Amerigo International"). Amerigo International is controlled by the Company and is a wholly-owned subsidiary, except for certain outstanding Class A shares which are shown on the Company's Balance Sheet as Minority Interest at their book value of \$1,000. The Class A shares are owned indirectly by two directors of the Company.

# Amerigo Resources Ltd.

## Notes to Consolidated Financial Statements (Unaudited)

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(expressed in U.S. dollars)

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 calculated as follows:

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

During the nine months ended September 30, 2005, a royalty dividend of \$448,002 was paid or accrued to the Amerigo International Class A shareholders on the basis described above. The royalty dividend is shown as Minority Interest in the Consolidated Statement of Operations. At September 30, 2005 \$60,053 of this amount was payable.

b) Management fees

During the nine months ended September 30, 2005 the Company paid or accrued \$183,822 in management fees to certain directors and officers of the Company.

c) Directors fees and remuneration to officers

During the nine months ended September 30, 2005 the Company paid or accrued \$69,204 in directors' fees and directors' expenses to independent directors and \$60,104 in consulting fees to certain officers of the Company. Directors' fees and consulting fees to officers are categorized as Salaries, Consulting and Professional Fees in the Company's consolidated financial statements.

At September 30, 2005 an officer of the Company acted as an officer of Nikos Explorations Ltd. ("Nikos"), a company to which Amerigo sold its Canadian mineral properties in fiscal 2004. At the time of the disposition of mineral properties to Nikos, no officers or directors of the Company served as directors or officers of Nikos.

## 4 Capital stock

Authorized – Unlimited common shares without par value.

a) **Summary of capital stock issued in the period**

In the nine months ended September 30, 2005 the Company received \$11,404,599 from the exercise of 20,317,773 share purchase warrants at exercise prices ranging from Cdn\$0.25 to Cdn\$0.70 per share purchase warrant. The Company also received \$712,684 from the exercise of 693,000 stock options at exercise prices ranging from Cdn\$0.36 to Cdn\$1.60 per stock option.

# Amerigo Resources Ltd.

## Notes to Consolidated Financial Statements (Unaudited)

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(expressed in U.S. dollars)

### b) Stock options

#### Stock option plan

The Company established a stock option plan (the Plan) on April 2, 2003. The Board of Directors of the Company (the Board) administers the Plan, whereby it may from time to time grant options to purchase common shares of the Company to directors, officers, key employees and certain other persons who provide services to the Company or its subsidiaries. The maximum aggregate number of common shares issuable under the Plan will not exceed 5,194,569 and the aggregate number of common shares reserved for issuance to any one person under the Plan in any 12-month period must not exceed 5% of the outstanding common shares of the Company, on a non-diluted basis. The exercise price of an option is determined by the Board and shall be no less than the closing price of the common shares on the Exchange on the day preceding the date of grant, less the maximum discount permitted by the policies of the Exchange subject to the minimum exercise price per common share permitted by the Exchange. Options must be exercised within a five-year period from the date of grant. Vesting periods are determined by the Board.

A summary of the Company's stock options at September 30, 2005 and December 31, 2004 and the changes for the nine and twelve month periods ending on those dates is presented below:

	<u>Nine months ended September 30, 2005</u>		<u>Twelve months ended December 31, 2004</u>	
	<b>Outstanding options</b>	<b>Weighted average exercise price Cdn\$</b>	<b>Outstanding options</b>	<b>Weighted average exercise price Cdn\$</b>
Balance – start of period	1,675,000	1.14	1,680,000	0.96
Granted	1,335,000	1.62	225,000	1.85
Exercised	<u>(693,000)</u>	1.23	<u>(230,000)</u>	0.54
Balance – end of period	<u>2,317,000</u>	1.39	<u>1,675,000</u>	1.14

On January 7, 2005 the Company granted stock options to purchase an aggregate of 1,185,000 common shares to directors, officers and employees, with an exercise price of Cdn\$1.60 per share, expiring on January 7, 2010. The Company recorded a stock-based compensation of \$504,760 associated with this option grant.

On August 30, 2005 the Company granted stock options to purchase an aggregate of 150,000 common shares to Michael Kuta, the Company's newly appointed Corporate Secretary and General Counsel, with an exercise price of Cdn\$1.77 per share, expiring on August 30, 2010. The Company recorded a stock-based compensation of \$40,329 associated with this option grant.



# Amerigo Resources Ltd.

## Notes to Consolidated Financial Statements (Unaudited)

(expressed in U.S. dollars)

### Value assigned to stock options

	<u>September 30, 2005</u>	<u>December 31, 2004</u>
Balance – beginning of period	1,092,711	986,390
Options granted	545,089	154,746
Transfer to capital stock on exercise of stock options	(407,889)	(48,425)
Balance – end of period	<u>1,229,911</u>	<u>1,092,711</u>

The Company estimated that the weighted average fair value of the options granted in January 2005 was \$0.43 per option by using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Expected dividend yield	0%
Expected stock price volatility	29.3%
Risk-free interest rate	3.08%
Expected life of options	5 years

The Company estimated that the weighted average fair value of the options granted in August 2005 was \$0.27 per option by using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Expected dividend yield	5.1%
Expected stock price volatility	30.7%
Risk-free interest rate	3.4%
Expected life of options	5 years

The following stock options were outstanding and exercisable as at September 30, 2005:

<b>Range of exercise prices Cdn\$</b>	<b>Number exercisable</b>	<b>Weighted average remaining contractual life</b>	<b>Weighted average exercise price Cdn\$</b>
0.36 to 2.00	<u>2,317,000</u>	3.72 years	1.39

# Amerigo Resources Ltd.

## Notes to Consolidated Financial Statements (Unaudited)

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(expressed in U.S. dollars)

### c) Warrants

During the nine months ended September 30, 2005, 20,317,773 warrants with exercise prices ranging from Cdn\$0.25 to Cdn\$0.70 were exercised for net proceeds of \$11,404,599.

On June 20, 2005, 6,243 warrants with an exercise price of Cdn\$0.70 expired unexercised. There are no warrants outstanding at September 30, 2005.

### c) Dividends

On September 1, 2005 the Company paid an interim dividend of Cdn\$0.045 per share to shareholders of record as of August 19, 2005. Dividends of \$3,152,777 were paid.

## 5 El Teniente Royalty

MVC has a contract with Codelco through at least 2021 to process the tailings from the El Teniente mine in Chile. MVC pays a royalty on copper produced by MVC to Codelco – El Teniente based on a formula that considers both the price of copper and the copper content in the tailings. No royalties are payable if the copper price is below \$0.80 per pound (for copper content in tailings between 0.09% and 0.1499%); if the copper price is between \$0.80 and \$0.95 the royalty varies on a sliding scale from 0 to 10%; if the copper price is between \$0.95 and \$1.30 the royalty is 10%; and if the copper price is \$1.30 or higher, the maximum royalty of 13.5% is payable.

Royalty payments for copper production are calculated using the average LME price for copper for the third month following delivery, and invoiced by Codelco - El Teniente on a monthly basis within 30 days of the end of the third month following the month of delivery of the tailings; payment to Codelco - El Teniente is effected within 10 days of receipt of invoices. Accordingly, royalties payable to Codelco - El Teniente are classified as current liabilities.

Starting on January 1, 2006, MVC will pay to Codelco - El Teniente a royalty for copper extracted from Colihues calculated on a sliding scale from 3% if the copper price is below \$0.80 per pound to a maximum of 15% if the copper price is at \$1.35 per pound or higher. The royalty is calculated using half the volume of tailings extracted from Colihues, at an assumed copper grade of 0.32% and an assumed recovery rate of 40%.

As of June 2005 MVC also pays to Codelco - El Teniente a 10% royalty of MVC's net revenue received from the sale of molybdenum concentrates.

# Amerigo Resources Ltd.

## Notes to Consolidated Financial Statements (Unaudited)

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(expressed in U.S. dollars)

### **6 Disposition of mineral properties**

On January 2004 the Company entered into an agreement to sell a 100% interest in three Canadian exploration properties to Nikos Explorations Ltd. (“Nikos”) for consideration on closing of 5,000,000 shares of Nikos, and contingent consideration of a further 5,000,000 Nikos shares in the event Nikos retained the mineral properties on June 30, 2005. The Nikos shares received on closing were valued at \$477,230, being the fair market value of the shares at the time the agreement with Nikos was executed.

Given that at June 30, 2005 Nikos retained its interest in these mineral properties, the Company received the second and last instalment of 5,000,000 Nikos shares on that date, at a fair market value of \$427,455 (the equivalent of Cdn\$525,000, or Cdn\$0.105 per share). The company recorded a gain on disposition of \$427,455 on receipt of the Nikos shares.