

**Amerigo Resources Ltd.**  
**Management Discussion and Analysis**  
**For the Quarter and Six Months Ended June 30, 2006**

All figures expressed in US Dollars except where noted

The following discussion and analysis of the results of operations and financial position of Amerigo Resources Ltd. ("Amerigo") together with its subsidiaries (the "Company"), is prepared as of July 31, 2006 and should be read in conjunction with the Company's unaudited consolidated financial statements and the notes thereto prepared as at June 30, 2006 and the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2005.

***Company Overview***

Amerigo is a producer of copper and molybdenum concentrates with operations in Chile. Its operating subsidiary Minera Valle Central S.A. ("MVC") has a contract with Chile's state-owned copper producer Codelco through at least 2021 to process the tailings from El Teniente, the world's largest underground copper mine.

***Quarterly Highlights***

- **Net earnings after tax** for the quarter ended June 30, 2006 were a record **\$12,444,608**, 168% higher than earnings of \$4,635,764 in Q2-2005, mainly due to higher copper prices.
- **Earnings per share** for the quarter ended June 30, 2006 were **\$0.1322** non-diluted, compared to earnings per share of \$0.0607 in Q2-2005.
- **Cash flow from operating activities** was **\$10,208,246** or \$0.1084 per share in Q2-2006, compared to cash flow from operations of \$2,202,756 or \$0.0288 per share in Q2-2005, an increase of 363%. Actual cash flow was lower than earnings substantially due to an increase in accounts receivable from metal sales.
- **Production** in Q2-2006 was **6.57 million pounds of copper** and **203,548 pounds of molybdenum**, a decrease of 7% in copper production due to a temporary plant shutdown from El Teniente. Moly production increased 31% from Q2-2005.
- **Gross copper selling price** was **\$4.15/lb** after settlement adjustments, compared to an LME average of \$3.27/lb during the quarter. **Realized copper price** was **\$3.52/lb**, also after settlement adjustments.
- **Cash costs** (the aggregate of smelter, refinery and other charges, production costs net of molybdenum-related net benefits, administration and transportation costs) before El Teniente royalty were **\$0.90/lb** in Q2-2006, compared to cash costs of \$0.59/lb in Q2-2005. The increase in cash costs was caused by lower copper production, higher smelter and refinery costs due to the effect of copper price participation to the smelter and higher production and maintenance costs overall from a stronger Chilean peso.
- **Total costs** (the aggregate of cash costs, El Teniente royalty, depreciation and accretion) for the quarter ended June 30, 2006 were **\$1.50/lb** compared to \$0.89/lb in Q2-2005. The increase in total costs was driven by higher cash costs and higher royalty payments to El Teniente, mainly from higher copper prices.

- **Capital plant expenditures** for the construction of two thickeners and an industrial water recovery system required to meet upcoming Chilean environmental regulations and for a pipeline system to allow Colihues tailings to be processed at MVC and then recycled back into Colihues, were **\$5,818,880 in Q2-2006**, funded substantially from operating cash flow.
- **Cash balance** was **\$18,964,216** at June 30, 2006 after \$5,818,880M of capital expenditures and an increase in Amerigo's strategic investment in Chariot Resources Limited of **\$1,018,974**, taking Amerigo's interest in Chariot to approximately 17% of Chariot's issued and outstanding share capital.
- **Dividend** – In accordance with Amerigo's stated policy, on July 31, 2006 the Board of Directors of Amerigo declared a semi-annual dividend of Cdn 4.5 cents per share, payable on September 1, 2006 to shareholders of record as of August 18, 2006. A dividend of \$3,630,307 was paid on April 7, 2006.

## **Results of Operations – Q2-2006**

### **Revenue**

Total revenue during Q2-2006 was \$27,482,949, which includes copper revenue of \$21,064,390, molybdenum revenue of \$4,952,708 and tolling fees of \$1,465,851. Copper and molybdenum revenues are net of smelter, refinery and roasting charges.

Copper revenue increased from Q2-2005 due to significantly higher copper prices, despite a reduction in quarterly sales of 18%. In Q2-2006 the Company sold 2,711 tonnes or 5.98 million pounds of copper, down from 7.34 million pounds in Q2-2005 following a temporary plant shutdown from El Teniente, however in Q2-2006 the Company's quarterly realized copper price was \$3.52/lb, a significant increase from its realized copper price of \$1.15/lb in Q2-2005. Quarterly realized copper prices result from dividing copper revenue net of smelter and refinery charges and including settlement adjustments to the prior quarter's sales, over copper pounds sold in the quarter.

During Q2-2006, the Company's gross copper selling price was \$4.15/lb (Q2-2005: \$1.54/lb). Gross copper selling price results from dividing copper revenue before smelter and refinery charges and including settlement adjustments to the prior quarter's sales, over copper pounds sold in the quarter. The Company's gross copper selling price in Q2-2006 of \$4.15/lb was higher than the average LME cash copper price of \$3.27/lb due to pricing adjustments related to the M+3 basis, given the increase in copper price.

Copper produced by the Company is sold under a sales agreement with Chile's Empresa Nacional de Minería ("Enami" or the "smelter"). The agreement with Enami establishes a delivery schedule of monthly sales quotas and sets the Company's copper sale price at the average market price for the third month after delivery ("M+3"). Accordingly, provided monthly quotas are met, all copper delivered by the Company to the smelter in one quarter is sold at market prices prevailing in the following quarter. However, where production falls short of the monthly quota for a scheduled month of delivery, the quota is carried forward to a subsequent calendar month and the Company receives a sale price calculated for the originally scheduled month of delivery until the quota is met. , The Company believes that this pricing arrangement is standard in the industry.

Molybdenum revenue increased in Q2-2006 due to stronger sales, despite a decline in molybdenum prices from Q2-2005. In Q2-2006 the Company sold 224,649 pounds of molybdenum at a gross moly selling price of \$26.89/lb, compared to 142,153 pounds sold in Q2-2005 at a gross selling price of \$35.65/lb. Gross molybdenum selling prices result from dividing moly revenue before roasting charges and including settlement adjustments to the prior quarter's sales, over moly pounds sold in the quarter

Molybdenum produced by the Company is sold under a sales agreement with Chile's Molibdenos y Metales S.A. ("Molymet"), which provides that the sale price is the average market price for the first, second, or third month after delivery, with each delivery period nominated at the election of Molymet. During Q2-2006 the sale price nominated by Molymet was the average market price of the third month after

delivery, except for April sales, for which the sale price nominated by Molytmet was the average market price of the following month, May 2006.

Revenue from the sale of the Company's copper and molybdenum concentrates is recorded net of smelter, refinery and roaster charges when persuasive evidence of an arrangement exists, delivery has occurred, the rights and obligations of ownership have passed to the customer and the sale price is determinable.

Sales are recognized into revenue using forward copper prices for the expected date of final settlement and spot prices for molybdenum, and adjustments to revenue are made at the end of each month to reflect changes in market prices until the sale price is settled under the terms of the agreement. This practice increases the sensitivity of the Company's reported revenue to increases and decreases in copper and molybdenum prices. In a period of rising prices, not only will the Company record higher revenue for deliveries in the period, but it will also record favourable adjustments to revenue for copper and molybdenum delivered in the prior period. Similarly, in a period of declining prices, the Company will be required to record lower revenues for current deliveries and negative adjustments to revenue for the prior period's deliveries.

The Company has a tolling agreement with Codelco's Chuquicamata division to process certain of Chuquicamata's molybdenum-copper bulk concentrates at MVC's plant. In Q2-2006, 1,807 tonnes were processed and revenue for the tolling agreement was \$1,465,851, shown as Other Revenue in Amerigo's Statement of Operations. In Q2-2005, 213 tonnes were processed and tolling revenue was \$168,470. Tolling revenue is recognized when the processing is completed, the amounts to be received are known and collection is reasonably assured.

## **Production**

In Q2-2006, the Company produced 2,981 tonnes or 6.57 million pounds of copper and 203,548 pounds of molybdenum. Results are below budget on a year-to-date basis. In Q2-2005, copper production was 3,208 tonnes or 7.07 million pounds of copper and 155,726 pounds of molybdenum. Accordingly, Q2-2006 production shows a reduction of 7% for copper and an increase of 31% for moly compared to Q2-2005.

Copper production was lower in Q2-2006 due to various factors. Most significantly, MVC experienced a plant shutdown for a number of days following a construction incident at El Teniente's tailings operations. Also during the quarter, the Company was notified by El Teniente that the structural condition of a portion of El Teniente's tailings launder from MVC to the Caren tailings impoundment required MVC to limit the quantity of its tailings flow, and MVC was asked to temporarily stop processing tailings from Colihues. To address this issue, the Company built a separate pipeline system to allow tailings from Colihues to be processed at MVC, and then recycled back into Colihues in an effort to reduce MVC dependence on El Teniente operational constraints. The system was essentially completed in July and will be operational as soon as MVC receives authorizations from El Teniente to commence operations. The system has a capacity of recycling tailings at a rate of 10,000 tpd.

Molybdenum production increased in Q2-2006 as compared to Q2-2005, which was not a quarter of full production as the moly plant started operating in May 2005.

Management's expectations are for 2006 production to surpass 2005 production levels. The Company remains committed to attain its goals of annualized production rates of 60 million pounds of copper and 1 million pounds of molybdenum by the end of 2007, subject to approval from El Teniente to recommence operations at Colihues.

## **Cash Cost and Total Cost**

Cash costs and total costs are non-GAAP measures prepared on a basis consistent with the industry standard Brook Hunt definitions. Cash costs are the aggregate of copper and molybdenum production costs, smelter and refinery charges, administration and transportation costs, minus molybdenum by-product credits. Total costs are the aggregate of cash costs, El Teniente royalty, depreciation, amortization and asset retirement accretion costs.

The Company's cash costs from Q2-2005 to Q2-2006 (\$/lb of copper produced) are the following:

	<b>Q2-2006</b>	<b>Q1-2006</b>	<b>Q4-2005</b>	<b>Q3-2005</b>	<b>Q2-2005</b>
Cu and Mo production	1.24	1.07	1.14	0.85	0.74
Smelter & refinery	0.57	0.59	0.40	0.36	0.40
Administration	0.05	0.05	0.06	0.04	0.04
Transportation	0.03	0.03	0.02	0.02	0.02
By-product credits	(0.99)	(0.35)	(0.95)	(1.05)	(0.61)
<b>Cash Cost</b>	<b>\$0.90</b>	<b>\$1.39</b>	<b>\$0.67</b>	<b>\$0.22</b>	<b>\$0.59</b>

Cash costs are driven mainly by production costs, smelter/refinery costs and moly by-product credits. The increase in production costs results from lower production and the overall effect on costs of a stronger Chilean peso. Smelter and refinery costs have increased consistently due to higher copper prices. Smelter and refinery costs will decrease if copper prices decline due to the price protection formula.

Molybdenum by-product credits are volatile in nature as they are impacted by the Chuquicamata tonnes processed in a given quarter and by settlement adjustments to prior quarter's moly sales. In periods of rising moly prices, there will be positive settlement adjustments resulting in higher molybdenum by-product credits, while the opposite will occur in periods of declining moly prices.

The Company's total costs from Q2-2005 to Q2-2006 (\$/lb of copper produced) are the following:

	<b>Q2-2006</b>	<b>Q1-2006</b>	<b>Q4-2005</b>	<b>Q3-2005</b>	<b>Q2-2005</b>
Cash cost	0.90	1.39	0.67	0.22	0.59
El Teniente royalty	0.53	0.39	0.39	0.30	0.25
Amortization/depreciation	0.07	0.06	0.05	0.05	0.05
Accretion cost	-	-	-	-	-
<b>Total Cost</b>	<b>\$1.50</b>	<b>\$1.84</b>	<b>\$1.11</b>	<b>\$0.57</b>	<b>\$0.89</b>

The analysis of total costs shows that in addition to the impact of cash costs, the effect of a higher cost for El Teniente royalties due to higher copper prices and increased molybdenum sales is evident. El Teniente royalties are based mainly on copper price, the royalty for fresh tailings declines to zero at a copper price of \$0.80/lb or less, making MVC a copper producer whose costs decrease as copper prices decline.

### Operating Costs and Expenses

Production costs include copper and molybdenum production costs, maintenance costs and Chuquicamata tolling costs. In Q2-2006, production costs were \$8,146,369 compared to production costs of \$5,236,587 in Q2-2005. The \$2,909,782 increase in production costs is explained by higher copper production costs, mostly for electricity, grinding balls and reagents, slightly higher molybdenum costs despite an additional month of molybdenum production, and higher costs to earn tolling fees due to increased processing volume of Chuquicamata concentrates. Maintenance costs were also higher in Q2-2006, partly driven by additional maintenance work performed during the MVC plant shutdown.

In Q2-2006 the El Teniente royalty was \$3,464,237 compared to \$1,754,808 in Q2-2005. The royalty increases or decreases as a function of copper and molybdenum prices and sales. The copper price and molybdenum sales increased significantly in Q2-2006, resulting in increased royalty cost.

Amortization cost increased by \$106,019 to \$429,432 in Q2-2006, as MVC now has a higher asset base. Other minor increases are in MVC administration and transportation costs.

Costs not related to MVC's operations are identified as "Other Expenses" and were \$709,873 in Q2-2006 and \$650,498 in Q2-2005. The most significant expenses in the quarter were salaries, management and professional fees of \$252,996, stock-based compensation of \$212,224, and office expense of \$95,769. Compared to Q2-2005, salaries, management and professional fees increased due to higher audit, tax and legal costs incurred in the ordinary course of business, stock-based compensation expense increased as

this cost is being recognized over 2006 as options vest on a quarterly basis, while in 2005 the cost of options was recognized fully in Q1 as options vested on grant; and office expense increased from higher non-MVC administrative expenses incurred in Chile, higher travel expense and higher rent expense.

Non-operating items in Q2-2006 include a foreign exchange gain of \$504,089 (Q2-2005: \$375,865), interest income of \$164,691 (Q2-2005: \$62,243) and other income of \$36,113 (Q2-2005: \$12,592). In Q2-2005 the Company also recorded a gain on disposition of mineral properties of \$427,455.

The Company recorded income tax expense net of recoveries of \$2,343,065 in Q2-2006, from income tax on MVC earnings. In Q2-2005, income tax expense was \$421,514 from significantly lower earnings.

### Operating Cash Flows

In Q2-2006, the Company's activities contributed to operating cash flow of \$10,208,246 (\$0.1084 per share), which includes the effect of changes in non-cash working capital items, compared to operating cash flow of \$2,202,756 or \$0.0288 per share in Q2-2005.

### Results of Operations – Year-to-date June 30, 2006

Net earnings during the six months ended June 30, 2006 ("YTD-2006") were \$17,051,376 (\$0.1873 per share), compared to \$6,280,486 (\$0.0882 per share) in the six months ended June 30, 2005 ("YTD-2005").

Total revenue YTD-2006 was \$44,520,692 derived from the sale of 6,086 tonnes or 13.42 million pounds of copper, 352,368 pounds of molybdenum and 2,665 Chuquicamata tonnes processed. This compares to total revenue of \$21,166,889 YTD-2005 from the sale of 6,543 tonnes or 14.42 million pounds of copper, 142,153 pounds of moly and 213 Chuquicamata tonnes processed.

Cash cost and total cost YTD-2006 were \$1.15/lb and \$1.67/lb respectively, compared to cash cost of \$0.76/lb and total cost of \$1.02/lb in 2005. These costs include smelter and refinery costs of \$0.58/lb (YTD-2005: \$0.38/lb) and El Teniente royalty costs of \$0.46/lb (YTD-2005: \$0.22/lb)

"Other Expenses" YTD-2006 were \$1,562,210, compared to \$1,439,336 in 2005.

Non-operating items YTD-2006 include a foreign exchange gain of \$461,982 (2005: \$596,602), interest income of \$271,783 (2005: \$113,079), other income of \$46,898 (YTD-2005: \$28,721) and in 2005 a gain on disposition of mineral properties of \$427,455.

Income tax expense YTD-2006 was \$3,042,579, compared to \$664,690 in 2005.

### Summary of Quarterly Results

	Qtr. ended June 30, 2006	Qtr. ended March 31, 2006	Qtr. ended Dec. 31, 2005	Qtr. ended Sept. 30, 2005
Total revenue	\$27,482,949	\$17,037,743	\$19,459,021	\$17,702,172
Net income	12,444,608	4,606,768	5,208,566	6,503,415
Earnings per share	0.1322	0.0524	0.0604	0.0757
Diluted earnings per share	0.1285	0.0515	0.0588	0.0735

	Qtr. ended June 30, 2005	Qtr. ended March 31, 2005	Qtr. ended Dec. 31, 2004	Qtr. ended Sept. 30, 2004
Total revenue	\$12,768,609	\$8,398,280	\$10,225,588	\$9,059,574
Net income	4,635,764	1,644,722	1,687,323	2,960,651
Earnings per share	0.0607	0.0237	0.0262	0.0463
Diluted earnings per share	0.0525	0.0186	0.0194	0.0340

### **Liquidity and Capital Resources**

Amerigo's cash and cash equivalents on June 30, 2006 were \$18,964,216, compared to \$15,453,290 on March 31, 2006. The Company's working capital at June 30, 2006 was \$14,471,601 compared to \$8,196,214 on March 31, 2006. The Company continues to be able to generate sufficient cash resources in the short and long-term to maintain existing operations and fund ongoing capital requirements.

During the six months ended June 30, 2006 Amerigo received net proceeds of \$14,554,274 from the issuance of 7 million shares and \$925,698 from the exercise of stock options. Amerigo also purchased and cancelled 71,200 of its common shares for a total cost of \$120,872. The premium on the purchase of shares for cancellation amounted to \$79,687 and was applied against Retained Earnings. The purchase of shares for cancellation took place under the terms of a normal course issuer bid through the facilities of the Toronto Stock Exchange ("TSX"), whereby Amerigo is entitled to purchase for cancellation up to 7,845,154 of its common shares during the one-year period ending on November 13, 2006.

MVC entered into a short-term loan agreement on favourable terms of \$4M with a Chilean bank to finance timing differences between accounts receivable and accounts payable. As of the date of this report, the Company has sufficient cash to repay the loan in full and plans to do so in September 2006.

The Company's gross copper sales are dependent on sales volumes and market prices for copper. Average LME cash copper prices in 2006 have been the following:

January	\$2.1475	April	\$2.8975
February	2.2600	May	3.6495
March	2.3146	June	3.2648

The Company's long-term liabilities (Other Payables, Asset Retirement Obligations and Future Income Tax Liabilities) at June 30, 2006 were \$6,848,968 compared to \$6,752,505 on March 31, 2006.

As of June 30, 2006 the Company owed \$3.4M and interest thereon to the vendors of MVC pursuant to a note payable issued in connection with the acquisition of MVC by the Company. The note and interest were paid on July 6, 2006 (see **Subsequent Events**).

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.

As of June 30, 2006 Amerigo had 2,702,000 outstanding share purchase options (with exercise prices ranging from Cdn\$1.23 to Cdn\$2.71). During the six months ended June 30, 2006, 930,000 options were exercised for net proceeds of \$925,698 and Amerigo granted 1,335,000 options, exercisable at a price of Cdn\$2.71 per share. Stock-based compensation is recognized as options vest. The options granted in Q1-2006 vest in four equal installments, on March 31, June 30, September 30 and December 31, 2006. For the options vested on March 31 and June 30, 2006 Amerigo recorded in aggregate a stock-based compensation expense of \$415,822.

### **Investing Activities**

In the six months ended June 30, 2006 Amerigo incurred \$12,616,929 in capital expenditures in MVC. The capital expenditures were funded substantially from operating cash flow. Capital expenditures YTD are primarily for the construction of two thickeners and an industrial water recovery system being built in order to meet Chilean environmental regulations coming into effect later in the year, the construction of a pipeline system to allow tailings from Colihues to be processed at MVC and then recycled back into Colihues, the final stages of the mill expansion project and equipment for the extraction of tailings from Colihues.

Amerigo also purchased for investment purposes 29,363,000 shares and 11,532,000 warrants of Chariot Resources Limited ("Chariot") at a fair market value of \$11,326,020. Subsequent to June 30, 2006, Amerigo acquired additional Chariot shares (see **Subsequent Events**).

Maintenance expenditures for plant and equipment during YTD-2006 were \$2,951,295. These expenditures were met from MVC operating cashflow and are a component of production costs in the quarter.

### ***Transactions with Related Parties***

#### a) Minority Interest

A detailed description of Minority Interest is provided in the Company's Unaudited Consolidated Financial Statements for the six months ended June 30, 2006.

During the six months ended June 30, 2006, a royalty dividend of \$248,513 was paid or accrued to the Amerigo International Class A shareholders. The royalty dividend is shown as Minority Interest in the Consolidated Statement of Operations. At June 30, 2006, \$45,701 of this amount was payable.

#### b) Directors fees and remuneration to officers

During the six months ended June 30, 2006, the Company paid or accrued \$425,666 in fees to companies associated with certain directors and officers of Amerigo. Included in these fees are bonus payments of \$210,804 to senior management. In the same period, Amerigo paid or accrued \$94,671 in directors' fees and directors' expenses to independent directors. Directors' fees and remuneration to officers are categorized as Salaries, Management and Professional Fees in Amerigo's consolidated financial statements.

c) At June 30, 2006 one of Amerigo's officers acted as an officer and another as a director of Nikos Explorations Ltd. ("Nikos"), a company in which Amerigo holds a substantial shareholding.

### ***Subsequent Events***

a) On July 6, 2006, the Company paid in cash a \$3,400,000 note and accrued interest of \$539,006, due in connection with the acquisition of MVC. A 5% discount on the principal and interest of the note was negotiated by the Company, resulting in a \$202,027 gain realized on settlement of the debt.

b) On July 6 and 7, 2006, Amerigo acquired a further 2,449,500 common shares of Chariot, increasing its shareholding in Chariot to 31,812,500 common shares and 11,532,000 share purchase warrants of Chariot, representing 18% of Chariot's issued and outstanding common shares (assuming the exercise of outstanding warrants).

c) In accordance with Amerigo's stated policy, on July 31, 2006 the Board of Directors of Amerigo declared a semi-annual dividend of Cdn 4.5 cents per share, payable on September 1, 2006 to shareholders of record as of August 18, 2006.

### ***Critical Accounting Estimates***

There were no changes to the Company's critical accounting estimates or accounting policies during the six months ended June 30, 2006.

### ***Other MD&A Requirements***

As of July 31, 2006, Amerigo has 94,084,644 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)

***Cautionary Statement on Forward Looking Information***

This Management Discussion and Analysis may contain forward-looking statements that involve risks and uncertainties. When used in this Management Discussion and Analysis, the words “believe,” “anticipates,” “expects” and similar expressions are intended to identify such forward-looking statements. The Company’s actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the Company’s Annual Information Form under “Item 4 - Narrative Description of the Business” and Item 6 - Management’s Discussion and Analysis”. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.