

Amerigo Resources Ltd.
Management Discussion and Analysis
For the Year Ended December 31, 2005

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 February 16, 2006 and should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2005.

Overall Performance

Amerigo is a producer of copper and molybdenum concentrates with operations in Chile. On July 3, 2003 the Company completed the acquisition of Minera Valle Central ("MVC"), a Chilean copper producer that 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.

Net earnings after tax for the year ended December 31, 2005 were US\$17,992,467, 79% higher than restated earnings of US\$10,049,614 in fiscal 2004. Net earnings in 2005 are after year-end adjustments of US\$770,000 and settlement provisions of US\$1.7M in Q4 due to lower year end molybdenum prices. Annual earnings were higher in 2005 due to higher copper prices and the contribution of molybdenum production starting in May 2005. Net earnings in 2004 were restated for adjustments to future income tax assets to accord with Canadian GAAP.

Revenue of \$52,910,575 is derived from the sale of 28.92 million pounds of copper and 651,071 pounds of molybdenum. Total revenue of \$58,328,082 includes fees from a molybdenum tolling contract.

In March 2005 the Company completed the construction and commissioning of a plant to obtain molybdenum concentrates as a by-product of copper production. In 2005, MVC produced 631,843 pounds of molybdenum.

In fiscal 2005, the Company's activities contributed to operating cash flow of \$21,874,229, which includes the effect of changes in non-cash working capital accounts. Investing activities used \$26,682,309 of cash resources during fiscal 2005, as part of MVC's copper plant expansion program and the construction of the molybdenum plant. Net financing cash flow of \$9,512,174 includes inflows of \$12,141,295 from the exercise of stock purchase warrants and options during the year and an outflow of \$3,152,777 for the payment of Amerigo's first semi-annual dividend.

At December 31, 2005 the Company had a strong balance sheet, with \$12,953,516 in cash and cash equivalents and working capital of \$8,236,363, after capital expenditures of \$26,682,309 in the year. Amerigo continues to be positioned to finance ongoing capital projects from existing cash resources and operating cash flow in 2006.

The Company is exposed to changes in copper prices. The Company's copper concentrate sales are recognized at the London Metal Exchange three-month forward price. Given that the



Company accounts for changes in copper price during the settlement period, gross copper sales will be favorably impacted in rising price markets and negatively impacted when copper prices decline.

Amerigo is also exposed to changes in prices for molybdenum. The Company's molybdenum sales are subject to a settlement period determined by the roaster, which could be up to three months, during which adjustments to recorded revenue are made at the end of each month to reflect changes in published monthly moly prices until the sale price is settled. As in the case of copper sales, molybdenum sales will be favorably impacted in rising price markets and negatively impacted when moly prices decline.

Selected Annual Information

| | 12 months ended December 31, 2005 | 12 months ended December 31, 2004 | 10 months ended December 31, 2003 |
|-----------------------------|--------------------------------------|--------------------------------------|---|
| Total revenue | \$58,328,082 | \$35,241,609 | \$9,638,759 |
| Net income | 17,992,467 | 10,049,614* | 799,921** |
| Earnings per share | 0.23 | 0.16* | 0.02** |
| Diluted earnings per share | 0.20 | 0.12* | 0.01** |
| | | | |
| | At December 31, 2005 | At December 31, 2004 | At December 31, 2003 |
| Total assets | \$87,239,450 | \$49,747,412*** | \$34,978,640**** |
| Total long-term liabilities | 6,933,480 | 9,100,919**** | 7,070,496***** |
| Cash dividends declared | 3,152,777 | Nil | Nil |

* Adjusted from Net Income of \$10,941,614 to account for retroactive restatements to earnings of (\$891,584) due to the elimination under Canadian GAAP of certain Chilean future income tax assets.

** Adjusted from Net Income of \$1,881,013 to account for retroactive restatements to earnings of (\$1,081,092) due to the adoption of new accounting standards on January 1, 2004 (see Changes in Accounting Policies).

*** Adjusted from Total Assets of \$48,469,945 to account for a future income tax asset of \$1,277,467 in connection with the Company's contractual rights.

**** Adjusted from long-term liabilities of \$6,185,287 to account for adjustments of \$2,915,632 to future income tax liabilities.

***** Adjusted from Total Assets of \$31,818,446 to account for retroactive restatement to Mineral Property, Plant and Equipment of \$1,799,637 and to Future Tax Assets of \$19,756 due to the adoption of new accounting standards on January 1, 2004 (see Changes in Accounting Policies) and from a future income tax asset of \$1,340,801 in connection with the Company's contractual rights.

***** Adjusted from Total Long-term Liabilities of \$5,154,654 to account for retroactive restatement to Asset Retirement Obligation of \$1,915,842 due to the adoption of new accounting standards on January 1, 2004 (see Changes in Accounting Policies).

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 year ended December 31, 2005

In the year ended December 31, 2005, net earnings were \$17,992,467 (\$0.2287 per share, non-diluted; \$0.2035 per share, diluted) on total revenue of \$58,328,082, compared to restated net earnings of \$10,049,614 (\$ 0.1586 per share, non-diluted; \$0.1156 per share, diluted) and total revenue of \$35,241,609 in the year ended December 31, 2004. Earnings increased 79% from the previous year.

Sale and delivery of copper and molybdenum

Revenue has been reclassified to include molybdenum sales. The Company formerly reported only gross copper sales, which included smelter and refinery charges, and accounted for the net benefit of both molybdenum sales and a molybdenum tolling fee contract as credits to production costs. The reclassification of revenue reflects current GAAP guidelines and does not affect earnings.

Copper produced by the Company was sold under a sales agreement with Chile's Empresa Nacional de Minería ("Enami" or the "smelter"), which provides that the sale price is the market price at the end of the third month after delivery. Accordingly, all copper delivered by the Company to the smelter in one quarter is sold at market prices prevailing in the following quarter. The Company believes that this pricing arrangement is a standard industry term for 2005.

Molybdenum produced by the Company was sold under a sales agreement with Chile's Molibdenos y Metales S.A. ("Molydet" or the "roaster") which provides that the sale price is the market price at the end of the first, second, or third month after delivery, as determined by the roaster. During fiscal 2005 the sale price as determined by Molydet was the market price at the end of the third month after delivery.

Revenue recognition and reporting

Revenue from the sale of the Company's copper and molybdenum concentrates is recorded net of smelter and refinery 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 fixed and determinable.

The agreements for the sale of the Company's concentrate provide that the sale price for copper is the market price at the end of the third month after delivery and the sale price for molybdenum is determined by the roaster and could be the market price at the end of the first, second or third month after delivery. The current molybdenum settlement period is three months from the month of delivery; accordingly, all deliveries by the Company in one quarter are sold at market prices prevailing in the following quarter. Sales are provisionally priced using forward copper prices for the expected date of final settlement and published 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.

MVC's 2005 revenue for the sale of copper and molybdenum concentrates was \$52,910,575, net of copper smelter and refinery charges and molybdenum roaster charges. Revenue was derived from the sale of 28.92 million pounds of copper at an average gross price of \$1.7023 per pound of copper and settlement adjustments of \$869,551 for copper delivered in 2004 and settled in 2005, and from the sale of 651,071 pounds of molybdenum at an average gross price of \$26.4017. Moly delivered during Q4-2005 was priced at a gross price of \$25.95/lb at December 31, 2005.

During fiscal 2005 the Company signed a tolling agreement with Codelco's Chuquicamata division to process certain of Codelco's molybdenum-copper bulk concentrates at MVC's plant. This revenue is recognized when the processing is completed, the amounts to be received are known and collection is reasonably assured. In 2005, revenue for the tolling arrangement was \$5,417,507, shown as other revenue in the Company's statement of operations.

Production

Production in 2005 was 29.88 million pounds or 13,552 tonnes of copper, below the original 2005 production forecast of more than 18,000 tonnes and the revised forecast of 14,000 tonnes. The main cause of lower than expected production was lower extraction throughout the year from Colihues. A number of factors contributed to this, including late delivery of replacement pumps and underperformance of pumping equipment. As a result the Company has adopted a new extraction process that includes hydraulic monitors and became operational in early 2006. Extraction from Colihues is targeted to show improvements as of Q1-2006. The first stage of monitoring equipment for the extraction of Colihues tailings was commissioned in early February 2006 with initial operating results performing to design expectations. Installation of the second stage of equipment is expected to be commissioned in March 2006, following scheduled completion of the tailings bund. Management continues to expect that the targeted extraction rate of 45,000 tonnes per day for Colihues will be achieved in 2007.

Also, the Company placed an emphasis on maximizing molybdenum production to take advantage of high prices in 2005. Other factors affecting copper production in fiscal 2005 were unfavourable ore characteristics in the fresh tailings received from El Teniente during the year, a longer than anticipated El Teniente maintenance shutdown period in January 2005 (over both of which the Company has no control) and operational shutdowns of certain equipment for maintenance and/or repairs and for installation of new equipment as part of MVC's plant expansion.

At December 31, 2005 the Company was holding an inventory of approximately 430 tonnes of copper, in finished product and in-circuit copper. Inventory of finished product of approximately 150 tonnes was turned around in January.

Construction of a processing plant to extract molybdenum from MVC's copper concentrate production was completed in March 2005. Amerigo's originally estimated moly production of 500,000 pounds of molybdenum in concentrates for 2005 was upgraded to 600,000 in mid-2005 as a result of substantially higher than anticipated extraction rates. Actual 2005 moly production was 631,843 pounds, 26% higher than original estimates. MVC pays to Codelco a flat 10% royalty of MVC's net revenue received from the sale of molybdenum concentrates.



The economic performance of the molybdenum plant was further enhanced in 2005 by a tolling arrangement with the Chuquicamata division of Codelco, under which MVC initially agreed to process 4,000 tonnes of molybdenum-copper bulk concentrate to produce a saleable molybdenum concentrate and copper concentrate. The tolling arrangement was extended to increase the tonnes to be processed by MVC. A total of 6,810 tonnes were processed in fiscal 2005 for Chuquicamata.

Operating Cash Flows

In the year ended December 31, 2005, the Company's activities contributed to operating cash flow of \$21,874,229, which includes the effect of changes in non-cash working capital accounts.

Cash Cost and Total Cost

For the purpose of determining cash and total costs, which are conventions used in the mining industry, the Company considers the effect of smelter, refinery and other charges and the effect of molybdenum by-product and tolling credits in its cost structure. Accordingly cash cost is defined by the Company as the aggregate of smelter, refinery and other charges, production costs net of molybdenum-related net benefits (molybdenum sales and tolling fees minus their associated production costs), administration and transportation costs.

Smelter and refinery costs in 2005 were \$11,286,250. Since MVC does not ship concentrate overseas, smelter and refinery charges include the participation by the smelter in MVC's cost savings for shipping.

Cash costs were \$17,878,647 or 60c per pound in fiscal 2005. On a quarterly basis, cash costs per pound were 91c in Q1; 59c in Q2; 22c in Q3 and 67c in Q4. The variance in cash costs results mainly from the impact of the value of the moly-by product credits on a quarterly basis.

Given that the Company considers molybdenum to be a by-product of its copper production for the purpose of calculating cash and total costs, the net benefit derived from molybdenum is factored as a credit to cash costs. Accordingly costs are impacted by settlement adjustments to the molybdenum net benefit. In periods of rising moly prices, there will be positive settlement adjustments resulting in higher molybdenum by-product credits to production and lower costs, while the opposite will occur in periods of declining moly prices.

Molybdenum sales were priced at a gross price of \$35.80/lb at the end of Q2, a gross price \$32.40/lb at the end of Q3 and a gross price of \$25.95/lb at the end of Q4. Moly production was 155,726 lbs in Q2, 230,167 lbs in Q3 and 245,950 lbs in Q4. Despite the increase in moly production in Q4, the published price of moly of \$25.95/lb in December, the lowest in 2005, required that all of Q4 production be adjusted to that provisional price. Q3 sales had been booked at \$32.40/lb at September 30 and were settled at lower prices in Q4. These negative adjustments of approximately \$1.7M in Q4 further reduced the moly-by product credits and increased cash and total costs.

Total costs are defined by the Company as the aggregate of cash costs (which includes smelter, refinery and other charges, production costs net of molybdenum-related net benefits, administration and transportation costs), El Teniente royalty, depreciation and amortization and asset retirement accretion costs. In fiscal 2005 total costs were \$27,798,195 or 93 c/lb. On a quarterly basis, total costs per pound were \$1.14 in Q1, 89c in Q2, 57c in Q3 and \$1.11 in Q4.



Operating Costs and Expenses

Production costs in the Company's statement of operations have been reclassified to include plant maintenance costs, copper production costs, molybdenum production costs and third-party (Chuquicamata) processing costs. Under this basis, in Q1, copper production costs were \$3,771,742; in Q2, with two months of moly production, total production costs of copper and moly were \$5,236,587; in Q3, the first complete quarter of moly production contributed to an increase in production costs to \$6,440,386; in Q4 production costs were \$8,778,891. Annual production costs in 2005 were \$24,227,606. The increase in production costs in Q4 resulted from one –off charges for maintenance and labour signing bonuses for a new 44 month labour contract with MVC workers. Costs also increased due to higher processing volume of Chuquicamata material.

The El Teniente royalty increases or decreases as a function of copper prices and copper sales, which increased on a monthly basis throughout 2005. Also, as of June 2005, a royalty of 10% of molybdenum net revenue is payable to El Teniente. In fiscal 2005 the royalties to El Teniente were \$8,437,862.

Costs not related to MVC's operations are identified as "Other expenses", of which the most significant expenses in 2005 are Stock-based Compensation of \$545,089, Interest Expense of \$477,035 and Salaries, Consulting and Professional Fees of \$473,211. In 2004 Stock-based Compensation expense was \$154,746, Interest Expense was \$102,661 and Salaries, Consulting and Professional Fees were \$302,209.

"Other Expenses" not described in the preceding paragraph are general and administrative expenses. In the year ended December 31, 2005 these were consistent with budget. Other Expenses represent a total cost in 2005 of \$2,174,090 compared to \$1,313,054 in 2004.

Non-operating items in 2005 include a Foreign Exchange Gain of \$1,944,800, a Gain on Disposition of Mineral Properties of \$427,455, Interest Income of \$374,604, Other Income of \$94,423 and Investment Income of \$32,062. The foreign exchange gain of \$1,944,800 resulted from a 9% appreciation of the Chilean peso to the U.S. dollar during the year. As MVC invoices for sale of concentrate are issued in Chilean Pesos, in periods when the Chilean Peso appreciates against the US Dollar these receivables are worth more in U.S. Dollars when they are collected, typically within three months of issuance, than they were at the time of issuance. By the same measure, in periods where the Chilean Peso depreciates against the US Dollar, receivables would be worth less at the time of collection, resulting in a foreign exchange expense. In fiscal 2005 the strong Chilean Peso also impacted costs when expressed in US Dollars, so the foreign exchange gain/loss impact of these revenue-related gains or losses on earnings is typically offsetting.

The Company recorded income tax expense net of recoveries of \$4,390,854 in 2005, of which \$4,554,236 is income tax on net earnings generated in MVC.

The loss carryforwards available in MVC were fully utilized by Q2-2005. However, due to capital expenditure tax incentives in Chile, MVC reduced the cash tax payable for its operating profit in Chile in 2005, given that it can effectively write-off for tax purposes an amount equivalent to one third of the capital expenditures incurred in the period.

**Summary of Quarterly Results**

| | Qtr ended Dec. 31, 2005 | Qtr ended Sept 30, 2005 | Qtr ended June 30, 2005 | Qtr ended March 31, 2005 |
|----------------------------|------------------------------------|------------------------------------|------------------------------------|-------------------------------------|
| Total revenue | \$19,459,021 | \$17,702,172 | \$12,768,609 | \$8,398,280 |
| Net income | 5,208,566 | 6,503,415 | 4,635,764 | 1,644,722 |
| Earnings per share | 0.0604 | 0.0757 | 0.0607 | 0.0237 |
| Diluted earnings per share | 0.0588 | 0.0735 | 0.0525 | 0.0186 |

| | Qtr ended Dec. 31, 2004 | Qtr ended Sept. 30, 2004 | Qtr ended June 30, 2004 | Qtr ended March 31, 2004 |
|----------------------------|------------------------------------|-------------------------------------|------------------------------------|-------------------------------------|
| Total revenue | \$10,225,588 | \$9,059,574 | \$6,912,455 | \$9,043,992 |
| Net income | 1,687,323 | 2,960,651 | 1,625,458 | 3,776,182 |
| Earnings per share | 0.0262 | 0.0463 | 0.0256 | 0.0613 |
| Diluted earnings per share | 0.0194 | 0.0340 | 0.0188 | 0.0435 |

Liquidity and Capital Resources

Amerigo's cash and cash equivalents on December 31, 2005 were \$12,953,516, compared to \$8,239,089 on December 31, 2004. The increase in cash is mainly attributable to net operating cash flows after investment in new capital equipment generated by MVC and to capital proceeds of \$12,141,295 from the exercise of stock purchase options and warrants in the year.

The Company's working capital on December 31, 2005 was \$8,236,363, compared to \$8,584,637 on December 31, 2004. Amerigo continues to be able to generate sufficient cash resources both in the short and long-term to maintain existing operations and fund ongoing capital requirements.

The Company's gross copper sales are dependent on sales volumes and prevailing market prices for copper. Monthly average per-pound copper prices in 2005 have been the following:

| | | | | | | | |
|----------|----------|-------|----------|-----------|----------|----------|----------|
| January | \$1.4379 | April | \$1.5397 | July | \$1.6394 | October | \$1.8415 |
| February | 1.4759 | May | 1.4738 | August | 1.7226 | November | 1.9365 |
| March | 1.5330 | June | 1.5985 | September | 1.7499 | December | 2.0760 |

The Company's long-term debt (Asset Retirement Obligations, Future Income Tax and Other Payables) at December 31, 2005 was \$6,933,480, compared to \$9,100,919 on December 31, 2004. The reduction in long-term debt results mainly from the reclassification to current debt of a \$3,400,000 note issued in connection with the acquisition of MVC by the Company. The note, together with accrued interest, is payable on or before July 1, 2006 either in cash or by delivery of the number of shares of Amerigo that is calculated by dividing the total amount of principal and interest outstanding at July 1, 2006 by the average trading price of the Company's shares on the Toronto Stock Exchange during the 30 days prior to July 1, 2006. Payment in cash or shares is at the option of the Company; however, if the Company chooses to pay in shares, the vendors may elect to receive the payment in cash, together with interest at an annual rate of 5%, on or before July 1, 2008.



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.

The contract with Enami for all of MVC's production to December 31, 2008 provided that in 2005 the treatment charge would be \$120 per tonne of concentrate and the refining charge would be \$0.12 per pound of contained copper, with an increase in refining charges equal to 10% of the copper price over \$1.00 per pound. In subsequent years, treatment and refining charges will be adjusted annually based on prevailing market terms. Given that copper is refined in Chile, there are no shipping costs in addition to treatment and refining charges, providing an important cost advantage to MVC. Accordingly, these costs are not directly comparable to other refining terms where producers are shipping production to Japanese, European or Chinese smelters, as shipping, port and handling costs per tonne of concentrate need to be taken into account in those cases. MVC's agreement with Enami provides for a sharing of this benefit.

During the year ended December 31, 2005, 1,335,000 share purchase options were granted to directors and officers of the Company and 713,000 share purchase options were exercised for net proceeds of \$736,696. Also in 2005, 20,317,773 warrants were exercised for net proceeds of \$11,404,599 and 6,243 warrants expired unexercised.

As of December 31, 2005 the Company had 2,297,000 outstanding share purchase options (with exercise prices ranging from C\$0.36 to C\$2.00) and no outstanding share purchase warrants.

Investing Activities

Throughout 2005, the Company undertook significant plant expansions in MVC, without relying on additional equity or debt funding. Capital expenditures were \$26,682,309 in the year. In addition to the copper plant expansion, the Company completed its molybdenum production plant in the first quarter of 2005. The capital cost for the molybdenum plant was repaid from less than 3 months of operating profit of the molybdenum plant.

In 2006 the Company will invest a further amount of approximately \$9,000,000 for two thickeners and an industrial water recovery system in order to satisfy Chilean environmental regulations, which will come into effect in September 2006. Other capital items totaling approximately \$5,000,000, including equipment for the extraction of tailings from Colihues, are also under consideration.

As a result of these plant expansions and planned increases in extraction rates from Colihues, the Company expects to produce approximately 40 to 45 million pounds of copper and 900,000 to 1 million pounds of molybdenum in 2006.

Maintenance expenditures to plant and equipment during 2005 were \$5,224,797. These expenditures were met from MVC operating cash flow.

*Summary of contractual obligations and maturities:*

| | Total | Less than 1 year | 1 to 3 years | 4 to 5 years | More than 5 years |
|--|------------|------------------|--------------|--------------|-------------------|
| Notes payable ⁽¹⁾ | 3,842,983 | 3,842,983 | - | - | - |
| Asset retirement obligation ⁽²⁾ | 6,256,000 | - | - | - | 6,256,000 |
| Total contractual obligations | 10,098,983 | 3,842,983 | - | - | 6,256,000 |

- (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 above 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, including a market risk premium of 5%. This liability is being accreted systematically over time until a \$6,256,000 value is reached in 2021. At December 31, 2005, the asset retirement obligation is estimated at \$2,193,448.

Transactions with Related Partiesa) **Minority Interest**

The Company acquired MVC by exercising a purchase option that was originally held by a company controlled by two directors of the Company. In consideration for the sale of the purchase option to the Company, these directors hold a Minority Interest in one of the Company's subsidiaries as described below.

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.

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 year ended December 31, 2005, royalty dividends totaling \$619,266 were paid or accrued to the Amerigo International Class A shareholders on the basis described above. The total of the royalty dividend is shown as Minority Interest in the Consolidated Statement of Operations. At December 31, 2005 \$59,789 of this amount was payable.



b) Management fees

During the year ended December 31, 2005 the Company paid or accrued \$259,068 in management fees to certain directors and officers of the Company. Included in accounts payable and accrued liabilities at December 31, 2005 are \$Nil of management fees payable to certain directors and officers of the Company.

c) Directors fees and remuneration to officers

During the year ended December 31, 2005 the Company paid or accrued \$96,864 in directors' fees to independent directors and \$86,631 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.

d) At December 31, 2005 an officer of the Company acted as an officer of Nikos (Note 9). At the time of the disposition of mineral properties described in Note 9, no officers or directors of the Company served as directors or officers of Nikos.

Fourth Quarter

Net earnings after tax in the three months ended December 31, 2005 were \$5,208,566, \$1,294,849 lower than in the quarter ended September 30, 2005 notwithstanding higher copper prices during the quarter, primarily due to the effect of approximately \$1.7M in settlement provisions to molybdenum revenue in Q4 and year end adjustments of \$770,000.

Sale and delivery of copper and molybdenum

Q4 gross copper sales were \$15,261,126. After smelter and refinery charges of \$3,087,064 net copper sales were \$12,174,062. In Q4 MVC sold 7.38 million pounds of copper at an average gross price of \$1.9631/lb copper, a 4% volume improvement over sales of 7.11 million pounds in Q3. There were also positive settlement adjustments of \$773,472 in the period. As a result of higher copper prices and positive gross copper sales adjustments in Q4 for concentrates delivered in Q3, reported gross copper sales in Q4 is approximately \$2.6 million higher than in Q3.

During the fourth quarter, the Company sold 240,923 pounds of molybdenum. Lower moly prices in December (gross price of \$25.95/lb, the lowest since the moly plant became operational), affected provisional pricing of all moly Q4 sales and resulted in negative settlement adjustments for Q3 moly sales that had been priced at a gross price of \$32.40/lb at September 30. Molybdenum provisional price adjustments were \$1.7M in Q4. After the effect of these adjustments, moly sales were lower by \$2,040,616 in Q4 compared to Q3.

Other revenue from the tolling fee arrangement was \$3,335,325 in Q4 compared to \$1,913,712 in the preceding quarter, due to the increase in material processed.



Production

Production in Q4 was 7.73 million pounds of copper, compared to 7.58 million pounds in Q3. As anticipated, extraction of tailings from Colihues in Q4 continued to be under budget. This performance is expected to improve during Q1 2006 with new extraction equipment operational in the Colihues tailings pond.

Operating Cash Flows

In the quarter ended December 31, 2005, the Company's activities contributed to operating cash flow of \$7,989,922, which includes the effect of changes in non-cash working capital accounts. The Company incurred capital expenditures of \$9,323,850 in Q4 without reliance on debt financing.

Cash and Total Costs

Cash costs before El Teniente royalty in Q4-2005 including smelter, refinery and other charges and the effect of moly by-product credits were \$5,208,669 or 67c per pound. This compares to cash costs of 22c per pound in the immediately preceding quarter, an increase of 45c/lbs in Q4. The main component of this variance is a lower moly by-product credit of \$1.9M in Q4 due to lower moly prices at year end. This accounts for 26c/lbs of the variance.

Other components of the total variance include one-off charges for maintenance and labour signing bonuses for a new 44 month labour contract with MVC workers. These and other minor production cost variances represent an increase of 12c/lb.

Smelter and refinery costs change with copper prices. These costs represent 4 c/lb variance during the quarter from higher copper prices.

A variance of 2c/lb is introduced by an increase in labour cost-administration from year-end payments to MVC staff. The final variance of 1c/lb results from increased transportation costs due to higher fuel charges.

Total costs including smelter, refinery and other charges, were \$8,600,376 or \$1.11 per pound in Q4-2005, compared to total costs of 57c per pound in the immediately preceding quarter, an increase of 54c/lb which results from the increase of 45c/lbs as shown in the cash cost analysis, plus a further increase of 9c/lbs from the El Teniente royalty, related to the higher copper price.

The El Teniente royalty increases or decreases as a function of copper prices and copper pounds sold, which were higher in Q4-2005 than in Q3-2005. In Q4-2005 the royalty was \$2,786,343, while in Q3-2005 it was \$2,294,314.

Other Costs and Expenses

Costs not related to MVC's operations are identified as "Other Expenses" and were \$446,476 in the quarter ended December 31, 2005. The most significant expense is Salaries, Consulting and Professional Fees of \$147,352, which includes accrual for services rendered in connection with the Company's year-end. In the preceding quarter Other Expenses were \$288,278.



Non-operating items in the quarter ended December 31, 2005 include a Foreign Exchange Gain of \$250,169, Interest Income of \$136,768, Other Income of \$54,453 and Investment Income of \$32,062. The foreign exchange gain is derived from a 3% appreciation of the Chilean peso to the U.S. dollar during the quarter; investment income is derived from the recognition of Amerigo's proportional share of Net Income in Nikos Explorations Ltd., an investment of the Company that is accounted for under the equity method due to significant influence.

The Company recorded income tax expense net of recoveries of \$1,307,896 in the quarter ended December 31, 2005, from income tax on net earnings generated in MVC.

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 accounting standards, Amerigo has calculated an asset retirement obligation based on a quoted market price of \$3,500,000 provided by an independent third party. Management estimates required to calculate the asset retirement obligation include projected annual inflation rates in Chile of 3% per annum and a market risk premium of 5%. The present value of the asset retirement obligation at the time of adoption was estimated to be \$1,851,055, which will be systematically accreted to a 2021 value of approximately \$6,256,000.

On receipt of a second installment of 5,000,000 shares of Nikos Explorations Ltd. on June 30, 2005, the Company became a holder of 27% of Nikos's current outstanding shares, a situation where significant influence exists. Accordingly, on June 30, 2005 the Company started using the equity method to account for its investment in Nikos. The Company had previously considered the Nikos shares to be a long-term investment and used the cost method to account for the investment.

Changes in Accounting Policies Including Initial Adoption

Effective January 1, 2005, the Company adopted Accounting Guideline AcG-15, Consolidation of Variable Interest Entities, which requires consolidation of entities in which the Company has a controlling financial interest. The Company has determined that it has no variable interest entities.



Effective January 1, 2004 the Company adopted the following accounting policies:

Asset retirement obligations

MVC is obligated through its operating contract with Codelco 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.

On January 1, 2004 the Company adopted new accounting standards for site restoration obligations, which require the recognition of a liability for estimated future restoration costs and the recognition of periodic accretion expense on this liability. To this effect the Company obtained an independent assessment of site restoration costs of \$3.5M, which was adjusted to reflect factors such as inflation, risk premiums and time value of money and which will be accreted over time as required by accounting pronouncements. The Company also obtained an independent assessment of asset recovery values and determined it was not necessary to make adjustments to prospective amortization charges.

The adoption of this standard required retroactive application with restatement to prior periods. On adoption, the company increased its property, plant and equipment by \$1,851,055 and recorded a corresponding asset retirement liability. The asset is being amortized on a straight-line basis. The company also recognized a future income tax asset of \$19,756, derived from applying a 17% tax rate to the \$1,915,842 asset retirement obligation. Upon recognizing the future income tax asset in the Balance Sheet, the company booked a corresponding future income tax recovery to 2003 earnings. The combined effect of the retroactive restatement in 2003 earnings was a decrease in earnings of \$96,449 (a \$19,756 income tax recovery, a \$64,787 expense from the liability accretion and a \$51,418 expense from the asset amortization). At December 31, 2003 the asset retirement liability had been accreted to \$1,915,842. In the year ended December 31, 2004, the company recorded asset retirement accretion costs of \$134,109 and asset retirement amortization charges of \$102,836. At December 31, 2004 the asset retirement liability had been accreted to \$2,049,951 and the associated future income tax asset had been adjusted to (\$16,388). In the year ended December 31, 2005, the Company recorded asset retirement accretion costs of \$143,497 and asset retirement amortization charges of \$102,836. At December 31, 2005 the asset retirement liability had been accreted to \$2,193,448 and the associated future income tax asset had been adjusted to \$101,912.

Expensing of stock options

Effective January 1, 2004, the Company adopted the new accounting standard for stock based compensation under which the fair value method of accounting for stock options granted to employees, officers and directors is followed. The adoption of this standard required retroactive application with restatement to prior periods. The effect of the retroactive restatement to 2003 earnings was a reduction in earnings of \$984,643.

Disclosure Controls and Procedures

During the year ended December 31, 2005, and in light of changes in laws and the regulatory environment concerning continuous disclosure and corporate governance, the Company's General Counsel and Corporate Secretary completed an evaluation of the effectiveness of the Company's existing disclosure controls and procedures, undertook extensive research and



made presentations and recommendations to the Company's certifying officers and board of directors. Based on those recommendations, a draft corporate disclosure policy was presented to the Company's board and adopted subsequent to year end. The disclosure policy included the setting up of a Disclosure Policy Committee that consists of the Company's Chairman, President and Corporate Secretary.

With the new disclosure policy and committee in place, management is reasonably confident that material information relating to the Company, including its consolidated subsidiaries, will be made known to senior management in a timely manner, and that the Company's disclosure controls and procedures will be effective not only with respect to the Company's annual filing requirements but on an ongoing basis.

Subsequent Events

On February 10, 2006 the Company acquired beneficial ownership of 25,600,000 common shares of Chariot Resources Limited ("Chariot") and 11,532,000 share purchase warrants of Chariot. Each share purchase warrant entitles the Company to acquire an additional common share of Chariot at a price of Cdn\$0.35 per share until December 22, 2006. The common shares and warrants acquired represent approximately 19.2% of Chariot's 193,965,147 issued and outstanding common shares, which amount includes common shares issuable on the exercise of the warrants.

As a result of this acquisition, the Company owns 26,643,000 common shares of Chariot and 11,532,000 share purchase warrants of Chariot, representing approximately 19.7% of Chariot's issued and outstanding common shares, which percentage includes common shares issuable on the exercise of the warrants. The Company purchased these securities for investment purposes, as it believes in the potential of Chariot and its Marcona copper project in southern Peru.

On February 16, 2006 the Board of Directors of Amerigo declared a final dividend of Cdn 4.5 cents per share payable on April 7, 2006 to shareholders of record as of March 31, 2006.

Other MD&A Requirements

As of February 16, 2006 the Company has 87,025,844 common shares outstanding. 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 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 Issuer'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 Issuer 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.