



Commerce Place, Suite 1950 - 400 Burrard Street, Vancouver, B.C. Canada V6C 3A6 P + 1.604.681.2802 F + 604.682.2802

**Amerigo Resources Ltd.  
Management's Discussion and Analysis  
For the Three and Six Months Ended June 30, 2014**

---

## TABLE of CONTENTS

This Management's Discussion & Analysis ("MD&A") is comprised of the following sections:

1. **Company Profile** – An executive summary of Amerigo's business and its long-term contractual relationship with Codelco/ El Teniente Division...(PAGE 3)
2. **Introduction** – Information on accounting principles, reporting currency and other background factors to facilitate the understanding of this MD&A and related consolidated financial statements... (PAGE 3)
3. **Highlights and Significant Events** – A summary of the key operating and financial metrics of the Company during the three months ended June 30, 2014 ("Q2-2014") and as at June 30, 2014...(PAGE 4)
4. **Five-Quarter Financial Results and Summary Cash Flow Information**– A summary of financial results and uses and sources of cash presented on a quarterly basis for the five most recent reporting quarters... (PAGE 7)
5. **Operating Results** – An analysis of the Company's production, sales, cash cost and total cost for Q2-2014 and compared to the three months ended June 30, 2013 ("Q2-2013")... (PAGE 8)
6. **Financial Results for Q2-2014** – An analysis of the Company's financial performance during Q2-2014, compared to the Company's performance during Q2-2013 and during the six months ended June 30, 2014 ("YTD-2014") compared to the six months ended June 30, 2013 ("YTD-2013")...(PAGE 12)
7. **Comparative Periods** – A summary of financial data for the Company's most recent eight reporting quarters...(PAGE 16)
8. **Liquidity and Capital Resources** – Review of the Company's cash flow during Q2-2014 and analysis of the Company's liquidity and financial position as at June 30, 2014...(PAGE 17)
9. **Cauquenes Expansion**... (PAGE 19)
10. **Other** –Disclosure of related party transactions and other MD&A requirements...(PAGE 21)

THIS DOCUMENT CONTAINS FORWARD-LOOKING STATEMENTS. PLEASE REFER TO THE CAUTIONARY LANGUAGE UNDER THE HEADING "CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION" BELOW.

**REPORTED IN U.S. DOLLARS, EXCEPT WHERE INDICATED OTHERWISE**

**COMPANY PROFILE**

Amerigo Resources Ltd. (“Amerigo”) owns a 100% interest in Minera Valle Central S.A. (“MVC”), a Chilean company that produces copper and molybdenum concentrates.

MVC has a long-term contractual relationship with the El Teniente Division (“DET”) of Corporación Nacional del Cobre de Chile (“Codelco”) to treat fresh and old tailings from Codelco’s El Teniente mine. El Teniente is the world’s largest underground copper mine and has been in production since 1904. Codelco has begun construction of a new mine level at El Teniente that is scheduled for completion in 2017 and is expected to extend El Teniente’s useful life by 50 years.

On April 8, 2014 MVC and DET entered into a contract (the “Master Agreement”) granting to MVC the rights to process tailings from DET’s Cauquenes historic tailings deposit, extending MVC’s rights to process DET tailings from 2021 to 2037 and amending MVC’s contracts with DET to process tailings from El Teniente’s current production (the “Fresh Tailings Contract”) and from DET’s Colihues historic deposit (the “Colihues Contract”) (See **Cauquenes Expansion**, page 19).

The Master Agreement is expected to provide substantial economic benefits to the Company which will be recognized as income is earned. Upon entering into the Master Agreement, the Company reassessed a series of material accounting estimates, with a resulting negative impact on earnings of \$6.2 million in Q2-2014 (the “Changes in Estimates”). Changes in Estimates are explained in Note 4 of the Company’s Q2-2014 financial statements and on page 12 of this MD&A.

Amerigo’s shares are listed for trading on the Toronto Stock Exchange (“TSX”), the OTCQX Stock Exchange in the United States and the Lima Stock Exchange in Peru.

**INTRODUCTION**

The following MD&A of the results of operations and financial position of Amerigo together with its subsidiaries (collectively, the “Company”), is prepared as of August 5, 2014, and should be read in conjunction with the Company’s condensed consolidated interim financial statements and related notes for the three and six months ended June 30, 2014 and the Company’s audited consolidated financial statements and related notes for the year ended December 31, 2013.

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

The Company’s financial statements are reported under International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). The disclosure of financial data and results in this MD&A is also reported under IFRS, except non-GAAP measures and when indicated otherwise.

Reference is made in this MD&A to various non-GAAP measures such as cash flow per share from operating activities, cash cost and total cost. Cash cost and total cost are terms that do not have a standardized meaning but are widely used in the mining industry as performance indicators. Refer to page 10 of this MD&A for a tabular reconciliation of the Company’s cash and total costs to cost of sales in Q2-2014 and Q2-2013.

## HIGHLIGHTS and SIGNIFICANT EVENTS

### Comparative Financial Overview

	Three months ended June 30,			
	2014	2013	Change \$	%
Copper produced, million pounds	9.34	9.55	(0.21)	(2%)
Copper sold, million pounds	9.32	9.44	(0.12)	(1%)
Molybdenum produced, pounds	152,340	176,155	(23,815)	(14%)
Molybdenum sold, pounds	153,970	177,845	(23,875)	(13%)
Percentage of copper production from old tailings	38%	37%	-	1%
Revenue (\$ thousands)	27,325	31,446	(4,121)	(13%)
Cost of sales <sup>1</sup> (\$ thousands)	26,127	31,203	(5,076)	(16%)
EI Teniente royalty costs (\$ thousands)	6,250	7,317	(1,067)	(15%)
Gross profit (\$ thousands)	1,198	243	955	393%
Net loss <sup>2</sup> (\$ thousands)	(8,290)	(837)	(7,453)	890%
Operating cash flow (\$ thousands) <sup>3</sup>	1,473	4,142	(2,669)	(64%)
Cash flow paid for plant expansion (\$ thousands)	(2,723)	(3,676)	953	(26%)
Cash and cash equivalents (\$ thousands)	7,265	3,881	3,384	87%
Bank debt (\$ thousands)	-	-	-	-
Average realized copper price per pound	3.16	3.40	(0.24)	(7%)
Cash cost per pound <sup>4</sup>	2.22	2.24	(0.02)	(1%)
Total cost per pound <sup>4</sup>	3.23	3.48	(0.25)	(7%)

<sup>1</sup> Includes EI Teniente royalty costs

<sup>2</sup> Includes \$6.2 million in Changes in Estimates (page 12)

<sup>3</sup> Excluding working capital changes

<sup>4</sup> Cash and total costs are non-GAAP measures, refer to page 10 for a reconciliation of these measures to cost of sales

### Financial results

- Revenue was \$27.3 million, compared to \$31.4 million in Q2-2013. Revenues decreased 13% due to lower copper and molybdenum sales volume and lower average copper prices.
- Cost of sales was \$26.1 million compared to \$31.2 million in Q2-2013, a decrease of 16% driven by lower production levels and a \$2.4 million gain from Changes in Estimates.
- Gross profit was \$1.2 million, compared to \$243,000 in Q2-2013.
- Net loss was \$8.3 million, compared to \$837,000 in Q2-2013 and included Changes in Estimates of \$6.2 million.
- In Q2-2014, the Company generated cash flow from operations before changes in non-cash working capital of \$1.5 million, compared to \$4.1 million in Q2-2013.

### Production

- The Company produced 9.3 million pounds of copper, 2% lower than the 9.6 million pounds produced in Q2-2013.
- Molybdenum production was 152,340 pounds, 14% lower than the 176,155 pounds produced in Q2-2013.

- Copper production in Q2-2014 was below target due to low grades for both fresh and old tailings. Sulphide content in the fresh tailings was also low and negatively impacted recovery. Low grades have persisted in Colihues for longer than originally anticipated, as wet conditions in the extraction zone have limited access to better grades located in deeper layers.

## **Revenue**

- Revenue decreased to \$27.3 million, compared to \$31.4 million in Q2-2013, due to lower production levels and lower copper prices. The Company's copper selling price before smelting, refining and other charges was \$3.16/lb compared to \$3.40/lb in Q2-2013, and the Company's molybdenum selling price was \$13.33/lb compared to \$11.00/lb in Q2-2013.

## **Costs**

- Cash cost (a non-GAAP measure equal to the aggregate of smelting, refining and other charges, production costs net of inventory adjustments and molybdenum and tolling-related net benefits, administration and transportation costs, see page 10) before El Teniente royalty was \$2.22/lb, compared to \$2.24/lb in Q2-2013.
- Total cost (a non-GAAP measure equal to the aggregate of cash cost, El Teniente royalty, depreciation and accretion, see page 10) was \$3.23/lb compared to \$3.48/lb in Q2-2013, mainly as a result of lower depreciation charges.
- Power costs in Q2-2014 were \$5.4 million (\$0.0896/kwh) compared to \$5.1 million (\$0.0858/kwh) in Q2-2013. Similar power cost levels are expected to December 31, 2017, the end of the term of MVC's current power contract.
- Total El Teniente royalties were \$6.3 million in Q2-2014, compared to \$7.3 million in Q2-2013, due to lower production and metal prices.

## **Cash and Financing Activities**

- Cash balance was \$7.3 million at June 30, 2014 compared to \$13.1 million at December 31, 2013.

## **Investments**

- Cash payments for capital expenditures ("Capex") were \$2.7 million, compared to \$3.7 million in Q2-2013, and were funded from operating cash flow and cash on hand. YTD cash payments for Capex were \$6.1 million, compared to \$7.3 million in 2013.
- Capex incurred in Q2-2014 totaled \$2 million (Q2-2013: \$3 million) and included project investments in connection with Cauquenes engineering and permitting and sustaining Capex projects. YTD-2014 incurred Capex totaled \$4.8 million (YTD-2013: \$5 million).
- The Company's investments in Candente Copper Corp. and Los Andes Copper Ltd. had an aggregate fair value of \$3.5 million at June 30, 2014 (December 31, 2013: \$3.2 million).

## **Outlook**

- Production YTD-2014 has been lower than anticipated, mostly due to low grades. Although the grades of tailings are expected to improve in the second half of the year, MVC's 2014 production guidance has been revised from 45 to 40 million pounds of copper and from 800,000 to 500,000 pounds of molybdenum.

- Cash cost (see page 10) continues to be projected to be between \$2.15/lb and \$2.25/lb in 2014.
- 2014 sustaining Capex at MVC is estimated to be approximately \$3.8 million. Capex for the Cauquenes expansion project is estimated to be approximately \$140 million excluding escalation, contingencies and finance costs (see **Cauquenes Expansion**, page 19), of which \$8.7 million has been incurred to June 30, 2014.

**SUMMARY OF FINANCIAL RESULTS Q2-2013 TO Q2-2014**

	Q2-2014	Q1-2014	Q4-2013	Q3-2013	Q2-2013
Copper production, million pounds	9.34	10.19	12.25	11.04	9.55
Copper sales, million pounds	9.32	10.18	12.60	10.86	9.44
Moly production - pounds	152,340	125,016	181,464	193,138	176,155
Moly sales - pounds	153,970	110,774	174,211	206,645	177,845
<i>Financial results (\$ thousands)</i>					
Revenue	27,325	32,370	37,035	31,950	31,446
Cost of sales					
Production costs	15,565	19,001	23,827	17,307	17,867
El Teniente royalty	6,250	6,421	8,540	7,258	7,317
Depreciation and amortization	2,668	4,738	4,112	4,143	4,462
Administration	1,297	1,191	1,232	1,117	1,195
Transportation	347	355	402	377	362
	<u>26,127</u>	<u>31,706</u>	<u>38,113</u>	<u>30,202</u>	<u>31,203</u>
Gross profit (loss)	<u>1,198</u>	<u>664</u>	<u>(1,078)</u>	<u>1,748</u>	<u>243</u>
Other expenses					
Office and general expenses	164	419	228	312	186
Salaries, management and professional fees	451	538	809	440	418
Share-based payment compensation	387	-	-	-	21
Royalties to related parties	318	45	(180)	(32)	(299)
Bad debt recovery	-	-	-	-	(52)
	<u>1,320</u>	<u>1,002</u>	<u>857</u>	<u>720</u>	<u>274</u>
Loss from change in estimates	<u>8,066</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other gains and losses					
Foreign exchange (gain) expense	(318)	(197)	694	(397)	1,003
Impairment charges	-	-	668	-	-
Other gains	(47)	(80)	(95)	(90)	(101)
	<u>(365)</u>	<u>(277)</u>	<u>1,267</u>	<u>(487)</u>	<u>902</u>
Operating (loss) profit	<u>(7,823)</u>	<u>(61)</u>	<u>(3,202)</u>	<u>1,515</u>	<u>(933)</u>
Finance costs	95	149	161	166	114
(Loss) profit before tax	<u>(7,918)</u>	<u>(210)</u>	<u>(3,363)</u>	<u>1,349</u>	<u>(1,047)</u>
Income tax expense (recovery)	372	179	(917)	310	(210)
(Loss) profit for the period	<u>(8,290)</u>	<u>(389)</u>	<u>(2,446)</u>	<u>1,039</u>	<u>(837)</u>
(Loss) earnings per share - basic	(0.05)	0.00	(0.02)	0.01	(0.01)
(Loss) earnings per share - diluted	(0.05)	0.00	(0.02)	0.01	(0.01)
Cash cost (\$/lb) <sup>1</sup>	2.22	2.22	2.19	1.93	2.24
Total cost (\$/lb) <sup>1</sup>	3.23	3.38	3.36	2.96	3.48
<i>Uses and sources of cash (\$thousands)</i>					
Operating cash flow before working capital changes	1,473	4,503	2,787	4,872	4,142
Operating cash flow after working capital changes	1,609	(1,702)	11,919	4,164	(4,764)
Cash used in investing activities	(2,723)	(3,402)	(3,537)	(2,533)	(3,676)
Cash from exercise of stock options	157	98	-	-	-
Cash used in debt repayments	-	-	-	-	(993)
Ending cash position	7,265	8,142	13,148	4,655	3,881

<sup>1</sup> Cash and total costs are non-GAAP measures. Refer to page 10 for the basis of reconciliation of these measures to cost of sales.

## **OPERATING RESULTS**

In Q2-2014 the Company produced 9.3 million pounds of copper, 2% lower than in Q2-2013. Copper sales were also 9.3 million pounds, 1% lower than in Q2-2013. Copper production from fresh tailings continued to be affected by low mill tonnage and lower than expected copper sulphide grade.

Colihues tonnage was on target in Q2-2014 but low grades have persisted for longer than originally anticipated, as wet conditions in the extraction zone have limited access to tailings with better grades located in deeper layers. MVC continued to process the lower grade old tailings in the upper portion of the zone that were deposited by DET in Colihues during 2006-2007 when DET was making repairs to its tailings launder.

In order to ensure adequate operating cash flow continues to be generated for the Cauquenes expansion, MVC implemented further cost reductions in H2-2014, including terminating the Colihues mining subcontract. MVC is now processing old tailings with its own employees and resources and will do the same in Cauquenes.

Copper production in Q2-2014 includes 0.4 million pounds of copper produced and sold pursuant to a tolling contract with Maricunga. The tolling contract involves the purchase by MVC of Maricunga copper concentrate, which is blended with MVC's concentrates and sold through MVC's copper sales contract.

Molybdenum production at 152,340 pounds was 14% lower than in Q2-2013, and molybdenum deliveries to the roaster were 13% lower than in Q2-2013.

The Company's cost of sales was 16% less than in Q2-2013, due to lower production, El Teniente royalty and depreciation costs and the effect of a gain from Changes in Estimates.

During Q2-2014 the Company generated cash flow from operations before working capital changes of \$1.5 million, posted a gross profit of \$1.2 million and incurred a net loss of \$8.3 million, which includes Changes in Estimates of \$6.2 million (page 12).



## Production

	Q2-2014	Q2-2013
<b>FRESH TAILINGS EL TENIENTE</b>		
Tonnes processed	11,160,416	10,891,273
Copper grade (%)	0.107%	0.138%
Copper recovery	20.4%	18.4%
Copper produced (lbs)	5,358,429	6,081,150
<b>OLD TAILINGS COLIHUES</b>		
Tonnes processed	2,930,367	2,572,904
Copper grade (%)	0.227%	0.246%
Copper recovery	24.2%	24.9%
Copper produced (lbs)	3,546,031	3,469,402
<b>TOLL PROCESSING</b>		
Copper produced (lbs)	439,160	-
<b>COPPER</b>		
Total copper produced (lbs)	9,343,620	9,550,552
Total copper sold (lbs)	9,322,280	9,437,273
<b>MOLYBDENUM</b>		
Total molybdenum produced (lbs)	152,340	176,155
Total molybdenum sold (lbs)	153,970	177,845

## Exploration and evaluation assets

The Company's exploration and evaluation assets ("EEA") related to costs incurred to conduct pilot tests, and for engineering and other associated costs to evaluate potential options for the processing of tailings in DET's Cauquenes tailings deposit. MVC had the legal right to explore this area while it conducted negotiations to obtain the rights to process these tailings. EEA was reclassified to property, plant and equipment ("PPE") in Q2-2014.

## Revenue

	Q2-2014	Q2-2013
Average LME copper price per pound	\$ 3.08	\$ 3.24
Average Platt's molybdenum dealer oxide price per pound <sup>1</sup>	\$ 13.61	\$ 10.87
Total copper net sales during the period (thousands)	\$ 24,094	\$ 29,852
Total molybdenum & tolling sales during the period (thousands)	3,231	1,594
Total revenue during period (thousands)	\$ 27,325	\$ 31,446
Company's recorded copper price per pound <sup>2</sup>	\$ 3.16	\$ 3.40
Company's recorded molybdenum price per pound <sup>3</sup>	\$ 13.33	\$ 11.00

<sup>1</sup> Basis price for the Company's molybdenum sales.

<sup>2</sup> Copper recorded price for the period before smelting and refining charges and settlement adjustments to prior quarters' sales.

<sup>3</sup> Molybdenum recorded price for the period before roasting charges and settlement adjustments to prior quarters' sales.

Revenue in Q2-2014 was \$27.3 million, compared to \$31.4 million in Q2-2013, including copper revenue of \$24.1 million (Q2-2013: \$29.9 million) and molybdenum and tolling revenue of \$3.2 million (Q2-2013: \$1.6 million). Revenues are net of smelting, refining and roasting charges.

Copper produced by the Company is sold under a sales agreement with Chile's Empresa Nacional de Minería ("Enami") that establishes a delivery schedule of monthly sales quotas. For the 2014 quotas the arrangements between the Company and Enami set the Company's copper sale price at the average market price for the preceding month ("M-1"). Accordingly, provided monthly quotas are met, all copper delivered by the Company to Enami in one month is being sold at market prices prevailing in the preceding month.

Average LME copper prices in Q2-2014 were \$3.08/lb compared to \$3.24/lb in Q2-2013, and the Company's recorded copper sales price was \$3.16/lb, compared to \$3.40/lb in Q2-2013. The difference between the average LME copper price and the Company's recorded sales price results from the pricing terms that applied to the Company's sales in the period.

Molybdenum prices increased in Q2-2014. The realized molybdenum sales price for Q2-2014 was \$13.33/lb, compared to \$11.00/lb in Q2-2013.

Molybdenum produced by the Company is predominantly sold under a sales agreement with Chile's Molibdenos y Metales S.A. ("Molymet"), which in 2014 provided that the sale price was the average market price for the third month after delivery ("M+3"). Accordingly, none of the molybdenum sold in Q2-2014 was priced at final prices as of June 30, 2014. Sales of molybdenum are provisionally priced at the average Platt's molybdenum dealer oxide price which for June 30, 2014 was \$14.45/lb

### **Cash Cost and Total Cost**

Cash cost and total cost are non-GAAP measures prepared on a basis consistent with the industry standard Brook Hunt definitions. Cash cost is the aggregate of copper and molybdenum production costs net of inventory adjustments, smelting and refining charges, administration and transportation costs, minus by-product credits. Total cost is the aggregate of cash cost, El Teniente royalty, depreciation and amortization.

A reconciliation of cost of sales to cash cost and total cost in Q2-2014 and Q2-2013 is presented below:

		Q2-2014		Q2-2013	
Cost of sales (thousands)	\$	26,127	\$	31,203	
Add (deduct):					
Smelting and refining charges (thousands)		3,380		3,143	
Gains from change in estimates		2,437			
Inventory adjustments (thousands)		7		446	
By-product credits (thousands)		(3,231)		(1,594)	
Total cost (thousands)	\$	28,720	\$	33,198	
Deduct:					
El Teniente royalties (thousands)		(6,250)		(7,317)	
Depreciation and amortization (thousands)		(2,668)		(4,462)	
Cash cost (thousands)	\$	19,802	\$	21,419	
Pounds of copper produced from fresh and old tailings <sup>1</sup>		8.90M		9.55M	
Cash cost (\$/lb)		<b>2.22</b>		<b>2.24</b>	
Total cost (\$/lb)		<b>3.23</b>		<b>3.48</b>	

<sup>1</sup> Excludes 439,160 pounds produced from toll processing, a by-product.

The Company's trailing annual and quarterly cash costs (see page 10) (\$/lb of copper produced) were:

	Q2-2014	Q1-2014	Q4-2013	Q3-2013	Q2-2013
Power costs <sup>1</sup>	0.61	0.55	0.67	0.46	0.53
Grinding media	0.27	0.29	0.27	0.25	0.27
Other direct costs	1.14	1.12	1.26	0.86	1.11
By-product credits	(0.36)	(0.28)	(0.54)	(0.12)	(0.17)
Smelting & refining	0.38	0.38	0.38	0.34	0.33
Administration	0.14	0.12	0.11	0.10	0.13
Transportation	0.04	0.04	0.04	0.04	0.04
<b>Cash Cost</b>	<b>\$2.22</b>	<b>\$2.22</b>	<b>\$2.19</b>	<b>\$1.93</b>	<b>\$2.24</b>

<sup>1</sup> Power costs include retroactive sub-transmission charges of \$0.09/lb in Q4-2013.

Cash cost in Q2-2014 was \$0.02/lb lower than in Q2-2013. Major components of cash cost include power and grinding media costs, other direct costs (including direct labour costs), smelting/refining costs and by-product credits (molybdenum and Maricunga).

Power is MVC's most significant cost, and was \$0.0896/kWh in Q2-2014, compared to \$0.0858/kWh in Q2-2013. Unit power costs in Q2-2014 were \$0.61/lb (Q2-2013: \$0.53/lb) due to a lower credit from the Company's generators.

MVC operates its generators when the grid price exceeds the generator's operating costs. The economic benefit from operating the generators in Q2-2014 was \$446,000 (Q2-2013: \$1.5 million).

Unit grinding media costs were \$0.27/lb in Q2-2014 and Q2-2013.

Other direct costs of \$1.14/lb (Q2-2013: \$1.11/lb) included tolling costs of \$0.11/lb (\$nil in Q1-2013) and direct labour costs of \$0.24/lb (Q2-2013: \$0.19/lb). All other combined direct costs decreased \$0.13/lb in Q2-2014, compared to Q2-2013.

By-product credits of \$0.36/lb increased from \$0.17/lb as a result of the Maricunga tolling agreement.

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

	Q2-2014	Q1-2014	Q4-2013	Q3-2013	Q2-2013
Cash cost	2.22	2.22	2.19	1.93	2.24
El Teniente royalty	0.70	0.67	0.79	0.66	0.77
Amortization/depreciation	0.31	0.49	0.38	0.37	0.47
<b>Total Cost</b>	<b>\$3.23</b>	<b>\$3.38</b>	<b>\$3.36</b>	<b>\$2.96</b>	<b>\$3.48</b>

Total cost was \$3.23/lb, compared to \$3.48/lb in Q2-2013. The most significant impact on total cost resulted from a \$0.16/lb decrease in amortization and depreciation charges due to the contract extension with DET, followed by a \$0.07/lb decrease in El Teniente royalty and a \$0.02/lb decrease in cash cost.

## FINANCIAL RESULTS Q2-2014

The Company posted a net loss of \$8.3 million (\$0.05 basic and diluted loss per share), compared to a net loss of \$837,000 in Q2-2013 (\$0.01 basic and diluted loss per share). A significant contributor to the loss posted in Q2-2014 was \$6.2 million in Changes in Estimates.

### Changes in Estimates

The Master Agreement with DET is expected to provide substantial economic benefits to the Company as a result of the extension of MVC's productive life from 2021 to 2037 and from processing of the tailings contained in the Cauquenes deposit. These benefits will be recognized as income is earned.

Upon entering into the Master Agreement, the Company proceeded to reassess a series of material accounting estimates (refer to **Critical Accounting Estimates and Judgements**, page 22). There were three major types of estimate revisions:

- a) Reclassification of accounts: Some estimate revisions only required reclassification from one account to another, as was the case with \$22.6 million transferred from EEA to PPE. There was no gain or loss arising from this reclassification.
- b) Prospective changes: Certain estimate revisions resulted in prospective changes, as was the case with an increase in the useful life of assets, which resulted in reduced monthly depreciation expense as of April 2014.
- c) Changes in Estimates affecting earnings or financial position on the reassessment date: These included changes to the asset retirement obligation ("ARO"), severance liabilities and royalties to related parties. These Changes in Estimates resulted in a gain of \$2.4 million (included in cost of sales), a loss of \$8.1 million (included in other expenses) and deferred tax expense of \$503,000 in Q2-2014, as summarized in the following table.

Change in Estimate	Effect on Financial Position	Effect on Earnings (Q2-2014)	Tax Effect on Earnings (Q2-2014)
ARO	Unwinding of ARO asset of \$2.2 million	-	-
	Unwinding of ARO liability of \$7.4 million	-	-
	Unwinding of the two items described above resulted in a \$5.2 million credit to PPE which will be unwound through 2037 as depreciation recovery.	-	-
Severance liability	Unwinding of \$2.3 million statutory severance liability		-
	Increase of \$80,000 in other comprehensive income associated with severance liability	Gain of \$2.4 million included in cost of sales	-
	Reduction of \$182,000 in contractual severance liability		-
	Reduction of \$503,000 in associated deferred income tax asset	-	Expense of \$0.5 million
Royalties to related parties	Increased royalty liabilities by \$8.1 million	Loss of \$8.1million included in other expenses	-
		<b>Loss of \$5.7 million</b>	<b>Tax expense of \$0.5 million</b>
<b>Total negative impact on earnings</b>		<b>\$6.2 million</b>	

## Revenue

Revenue in Q2-2014 was \$27.3 million (Q2-2013: \$31.4 million).

## Production Costs

	Q2-2014		Q2-2013	
(Expressed in \$ thousands)				
Direct production costs				
Power costs	\$	5,418	\$	5,104
Grinding media		2,463		2,565
Labour costs		2,161		1,869
Other direct production costs		7,960		8,329
		18,002		17,867
Gain from change in estimates		(2,437)		-
El Teniente royalty		6,250		7,317
Depreciation and amortization		2,668		4,462
Administration		1,297		1,195
Transportation		347		362
Cost of sales	\$	26,127	\$	31,203

Direct production costs were \$18 million in Q2-2014, compared to \$17.9 million in Q2-2013 in the context of Q2-2014 copper and molybdenum production decreases of 2% and 14%, respectively.

Power costs increased by \$314,000 or 7% compared to Q2-2014, mostly as a result of a lower contribution from the operation of the Company's generators.

Grinding media costs were \$2.5 million, compared to \$2.6 million in Q2-2013.

Direct labour costs were \$2.2 million in Q2-2014 compared to \$1.9 million in Q2-2013. Cost reduction initiatives in H2-2013 resulted in the hiring of additional direct workers by MVC after the elimination of a higher number of subcontractor workers (mostly within maintenance costs).

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

	Q2-2014		Q2-2013	
(Expressed in \$ thousands)				
Other direct production costs				
Colihues extraction <sup>1</sup>	\$	2,937	\$	2,930
Maintenance, excluding labour		1,286		2,130
Molybdenum production costs, excluding labour		697		878
Industrial water		336		502
Copper reagents		415		642
Subcontractors, support services, etc.		632		684
Filtration and all other direct copper production costs		134		166
Lime		221		318
Tolling costs		985		-
Process & environmental control, safety		317		525
Inventory adjustments		-		(446)
	\$	7,960	\$	8,329

<sup>1</sup> Includes a \$340,000 one-time contract termination charge.

(\$/lb Cu)	Q2-2014	Q2-2013
Other direct production costs		
Colihues extraction	0.33	0.31
Maintenance, excluding labour	0.15	0.22
Molybdenum production costs, excluding labour	0.08	0.09
Industrial water	0.04	0.05
Copper reagents	0.05	0.07
Subcontractors, support services, etc.	0.07	0.07
Fuel and all other direct copper production costs	0.02	0.02
Lime	0.02	0.03
Tolling costs	0.11	-
Process & environmental control	0.04	0.05
Inventory adjustments	-	(0.05)
	0.90	0.87

Cost reduction initiatives implemented in H2-2013 continue to show positive results. Other direct production costs decreased by \$369,000 to \$8 million (Q2-2013: \$8.3 million), despite the fact that this amount includes \$985,000 in tolling costs (Q2-2013: \$nil). The most significant reduction was in maintenance costs, which were \$844,000 lower than in Q2-2013.

With the exception of Colihues extraction unit costs (which include a \$0.04/lb one-time contract termination charge), all other unit costs decreased compared to Q2-2013. The increase of \$0.03/lb in total other direct production costs includes \$0.11/lb in tolling costs (\$nil in Q2-2013) and a credit of \$0.05/lb booked in Q2-2013 (\$nil in Q2-2014) from inventory adjustments.

The Company implemented further cost reductions effective July 1, 2014, most notably terminating the subcontract for the processing of Colihues tailings. The Company is now processing these tailings with its own employees and resources, and will do the same in the Cauquenes deposit. This and other cost reduction initiatives are expected to further decrease costs in H2-2014.

The El Teniente royalty at \$6.3 million was 15% lower than in Q2-2013, due to lower average metal prices. Copper royalty costs on fresh tailings are calculated using the LME average price for copper for the month of delivery of the tailings, and invoiced by DET in Chilean Pesos ("CLP") using the higher of either the "Dolar Acuerdo" or the "Dolar Observado" exchange rates. The effect of using the higher Dolar Acuerdo rates in Q2-2014 resulted in \$686,000 in increased royalty costs.

The terms of the royalty payments to El Teniente have been modified pursuant to the Master Agreement, but these changes will only be effective at the earlier of August 1, 2015 or the date of the start of operations for the exploitation of tailings from the Cauquenes deposit. Refer to **Cauquenes Expansion** (page 19).

From time to time the Company may enter into short term modifications to the legal structure of the royalty arrangements with DET which, in the Company's view, do not change the substance of the underlying royalty arrangement.

Depreciation and amortization cost decreased to \$2.7 million (Q2-2013: \$4.5 million) as a result of prospective estimate changes for the useful life of assets upon execution of the Master Agreement.

Administration expenses were \$1.3 million, compared to \$1.2 million in Q2-2013, mostly from higher labour costs at MVC.

Transportation costs were \$347,000 compared to \$362,000 in Q2-2013 as a result of lower sales volume.

## **Other expenses**

Other expenses of \$9 million (Q2-2013: \$1.2 million) are costs not related to MVC's production operations, and are comprised of the following:

- A loss from Change in Estimates of \$8.1 million (Q2-2013: \$nil), as explained on page 12.
- General and administration expenses of \$1.3 million (Q2-2013: \$274,000), including office and general expenses of \$164,000 (Q2-2013: \$186,000), salaries, management and professional fees of \$451,000 (Q2-2013: \$418,000), royalties to related parties of \$318,000 (Q2-2013: recovery of \$229,000) and share-based payments of \$387,000 (Q2-2013: \$21,000). Royalties to related parties include actual royalty dividends to related parties of \$145,000 (Q2-2013: \$154,000) and changes in fair value, as the royalty is a derivative financial instrument (Q2-2014: \$173,000; Q2-2013: recovery of \$453,000).
- Other gains of \$365,000 (Q2-2013: other expenses of \$902,000), comprised of a foreign exchange gain of \$318,000 (Q2-2013: expense of \$1 million) and interest income and other gains of \$47,000 (Q2-2013: \$101,000). Foreign exchange gains or losses are recognized mostly in MVC. Effective January 1, 2014, MVC changed its functional currency prospectively from the Chilean peso to the US dollar<sup>1</sup>. MVC continues to hold monetary assets and/or liabilities denominated in Chilean pesos, however, which results in foreign exchange gains or losses.

<sup>1</sup> Effective January 1, 2014, the functional currency of MVC was changed prospectively from the CLP to the U.S. dollar in anticipation of the level of U.S. denominated indebtedness to be undertaken by MVC in 2014 to finance the Cauquenes expansion project and from a review of the currency-related fact patterns of its current concentrate sales contracts and contracts with DET. While payments from current clients to MVC for concentrate sales and payments by MVC of DET royalties have to be documented and settled in CLP (due to Chilean regulatory provisions requiring all invoices with Chilean parties to be denominated in CLP) the underlying currency in these significant revenue and cost contracts is the U.S. dollar.

## **Finance expense**

The Company recorded a finance expense of \$95,000 (Q2-2013: \$114,000) including interest charges of \$64,000 (Q2-2013: \$72,000) and an ARO accretion cost of \$31,000 (Q2-2013: \$93,000). The Company ceased to recognize ARO accretion costs in Q2-2014 upon the signing of the Master Agreement. In Q2-2013 the Company also recorded a gain from changes in fair value of an interest rate swap of \$51,000.

## **Taxes**

Income tax expense was \$372,000 in Q2-2014 (Q2-2013: income tax recovery of \$210,000), including income tax expense of \$833,000 (Q2-2013: \$49,000) in respect of changes to deferred income tax liabilities and current income tax recovery of \$461,000 (Q2-2013: \$258,000).

Deferred income tax expense of \$833,000 in Q2-2014 includes \$503,000 from tax estimate changes. Excluding this one-time charge deferred income tax expense results predominantly from the differences between the financial and tax carrying value of MVC's PPE, calculated using Chile's current corporate tax rate of 20%. Deferred tax liabilities do not represent income tax due in Chile on a current basis.

Refer to **Subsequent Events** (page 24) for a disclosure update on the Chilean tax reform currently in progress.

## FINANCIAL RESULTS – SIX MONTHS ENDED JUNE 30, 2014

During YTD-2014 the Company posted a loss of \$8.7 million (\$0.05 per share), compared to profit of \$2.4 million (\$0.01 per share) YTD-2013.

The variance in financial performance between the two six-month periods is attributed mainly to a net loss from change in estimates of \$5.7 million previously described, and lower gross profit resulting from lower revenue due to a decrease in sales volume and copper prices. Revenue decreased \$14.9M between the two comparative six month periods, mitigated by an \$11.4M decrease in cost of sales.

Revenue in YTD-2014 was \$59.7 million, 20% lower than YTD-2013 revenue of \$74.6 million, again due to lower sales volume and lower copper prices.

Cost of sales was \$57.8 million, 16% lower than in YTD-2013 (\$69.2 million) due to lower production, lower El Teniente royalties, lower depreciation charges and a \$2.4 million gain from Change in Estimates. Cash cost and total cost (both non-GAAP measures) in YTD-2014 were \$2.22/lb and \$3.31/lb respectively, compared to \$2.10/lb and \$3.29/lb in YTD-2013.

Other expenses increased to \$9.7 million from \$1.9 million in YTD-2013 and include a loss from Change in Estimates of \$8.1 million. Income tax expense decreased to \$551,000 from \$788,000 as a result of a decrease in both current and deferred tax expense.

## COMPARATIVE PERIODS

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

	QE June 30, 2014 \$	QE March 31, 2014 \$	QE Dec. 31, 2013 \$	QE Sept. 30, 2013 \$
Total revenue (thousands)	27,325	32,370	37,035	31,950
Net (loss) profit (thousands)	(8,290)	(389)	(2,447)	1,039
(Loss) earnings per share	(0.05)	0.00	(0.02)	0.01
Diluted (loss) earnings per share	(0.05)	0.00	(0.02)	0.01

	QE June 30, 2013 \$	QE March 31, 2013 \$	QE Dec. 31, 2012 \$	QE Sept. 30, 2012 \$
Total revenue (thousands)	31,446	43,161	47,017	44,231
Net (loss) profit (thousands)	(837)	3,238	(5,311)	(4,189)
(Loss) earnings per share	(0.01)	0.02	(0.03)	(0.02)
Diluted (loss) earnings per share	(0.01)	0.02	(0.03)	(0.02)



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

	Q2-2014	Q1-2014	Q4-2013	Q3-2013	Q2-2013	Q1-2013	Q4-2012	Q3-2012
Copper sales	9.32	10.18	12.60	10.86	9.44	12.48	13.71	13.02
Company's realized copper price <sup>2</sup>	3.16	3.36	3.16	3.19	3.40	3.52	3.52	3.52

<sup>1</sup> Million pounds of copper sold.

<sup>2</sup> Copper recorded price for the period before smelting and refining charges and settlement adjustments to prior quarters' sales.

Copper sales were adversely affected by lower grades in Q1-2013 and by annual maintenance shutdowns in Q2-2013. For the last nine months of 2013 sales volume was negatively impacted by challenging mining conditions, particularly for Colihues. The Company implemented a change in mining plan which improved production and sales in Q3-2013, compared to Q2-2013. Q4-2013 sales were positively impacted by the Maricunga tolling contract which contributed 1.5 million pounds in copper sales. Q1-2014 and Q2-2014 sales were negatively impacted by lower production levels.

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

	Q2-2014	Q1-2014	Q4-2013	Q3-2013	Q2-2013	Q1-2013	Q4-2012	Q3-2012
Cost of sales <sup>1</sup>	26,127	31,706	38,114	30,202	31,203	38,037	49,107	46,285
Unit cost of sales <sup>2</sup>	3.21	3.30	3.54	2.74	3.27	2.96	3.62	3.64

<sup>1</sup> Thousands of dollars, includes royalties to El Teniente.

<sup>2</sup> Cost of sales over number of pounds of copper produced.

Cost of sales is affected by production levels, input costs (particularly power costs), royalty costs and copper prices. Cost of sales was higher in both Q3-2012 (due to bonuses of \$4.6 million paid to MVC workers on the signing of a four-year union agreement) and in Q4-2012 (due to increased El Teniente royalty costs). Cost of sales decreased considerably in Q1-2013 as a result of the change in the Company's current power contract, but unit cost of sales increased in Q2-2013 due to lower production levels. In Q3-2013 cost containment initiatives and higher production levels compared to Q2-2013 resulted in decreases to total cost of sales and unit cost of sales. In Q4-2013 total cost of sales was adversely impacted by higher El Teniente royalty costs, tolling costs of \$3.4 million and a \$980,000 retroactive power charge for the years 2011-2013. In Q1-2014 and Q2-2014 total cost of sales decreased due to lower royalty costs and lower production. In Q2-2014 a gain from Change in Estimates of \$2.4 million was recorded as a component of cost of sales. Depreciation expense decreased as of Q2-2014 due a change in the estimated useful lives of assets as a result of the contract extension with DET.

## **LIQUIDITY and CAPITAL RESOURCES**

### **Cash Flow from Operations**

The Company generated cash of \$1.6 million from operations, compared to cash used in operations of \$4.8 million in Q2-2013. YTD the Company has used cash from operations of \$100,000, compared to cash of \$3.4 million generated YTD-2013.

Excluding the effect of changes in working capital accounts and payments of long-term employee benefits, the Company generated cash of \$1.5 million, compared to \$4.1 million in Q2-2013. YTD cash generated from operations before changes in working capital was \$6 million (YTD-2013: \$11.5 million).

## **Cash Flow from Financing Activities**

Cash received from the exercise of share options was \$157,000 (\$nil in Q2-2013).

## **Cash Flow from Investing Activities**

In Q2-2014, the Company used cash of \$2.7 million for payments of capital expenditures, compared to \$3.7 million in Q2-2013.

In Q2-2014 MVC incurred Capex in connection with expansion of the Colihues extraction capacity, other minor sustaining capital projects and detail engineering for the Cauquenes project.

## **Liquidity and Financial Position**

The Company's cash and cash equivalents at June 30, 2014 totaled \$7.3 million, compared to \$13.1 million at December 31, 2013. The Company had working capital of \$4.4 million at June 30, 2014 compared to \$3 million at December 31, 2013.

At June 30, 2014 the Company had no outstanding bank debt and anticipates incurring long-term bank debt in excess of \$100 million for the expansion of its MVC operations. Refer to **Cauquenes Expansion** (page 19).

In July 2011 MVC entered into an agreement with a Chilean bank to secure a revolving working capital line of credit for up to \$20 million or its equivalent in CLP (the "Line of Credit"). The Line of Credit had a term to July 4, 2014. The Line of Credit required MVC to meet minimum quarterly equity, debt to equity and maximum debt ratios. MVC was in compliance with these covenants at June 30, 2014 and December 31, 2013. No funds were drawn down on this line of credit.

The Company operates in a cyclical industry where levels of cash flow have historically been correlated to market prices for commodities. MVC is a valuable long-life asset. El Teniente, the source of MVC's feed material, is the world's largest underground copper mine with remaining ore reserves expected to last for decades.

The Company's long-term liabilities (severance provisions, long-term portion of royalties due to related parties measured at fair value, ARO, deferred income tax liabilities and other non-current liabilities) at June 30, 2014 were \$28.6 million (December 31, 2013: \$29.4 million).

## **Impairment Analysis**

As at June 30, 2014, management of the Company determined that the continued depressed market price for the Company's shares, resulting in market capitalization for the Company below its net asset value, constituted an impairment indicator, and completed an impairment assessment for MVC that included a determination of fair value less costs to sell.

Key assumptions incorporated in the impairment model included the following:

- Copper prices (\$/lb): 2014: \$3.18; 2015: \$3.22; 2016: \$3.22; 2017: \$3.08; 2018 to 2037: \$2.95
- Power costs (excluding benefit from self-generation): From 2014 to 2017 costs are per contractual estimates (2014: \$0.1006/kWh, 2015: \$0.1148/kWh, 2016: \$0.1267/kWh, 2017: \$0.1277/kWh). From 2018 to 2037: estimated at \$0.1300/kWh
- Operating costs based on historical costs incurred and estimated forecasts
- Production volume and recoveries as indicated in MVC's mining plan from 2013 to 2037, including processing of fresh tailings and old tailings from the Colihues and Cauquenes deposits
- Discount rate: 9% after tax

Management's impairment evaluation did not result in the identification of an impairment loss as of June 30, 2014. Although management believes the estimates applied in this impairment assessment are reasonable, such estimates are subject to significant uncertainties and judgments. Sensitivities to changes in estimated metal prices, operating costs, particularly estimated power costs beyond MVC's current power contracts, operating results from the Cauquenes deposit that differ from current projections and increases in estimated expansion capital costs, might trigger an impairment that could be material.

## **Investments**

At June 30, 2014, Candente Copper Corp. ("Candente Copper"), a company listed on the TSX, had a closing share price of Cdn\$0.26 and the fair value of the Company's approximately 4% investment in Candente Copper was \$975,000. During the six months ended June 30, 2014, the Company recorded other comprehensive loss of \$580,000 (six months ended June 30, 2013: other comprehensive loss of \$940,000) for the changes in fair value of this investment.

At June 30, 2014, Los Andes Copper Ltd. ("Los Andes"), a Company listed on the TSX Venture Exchange, had a closing share price of Cdn\$0.26, and the fair value of the Company's approximately 4% investment in Los Andes was \$2.5 million. During the six months ended June 30, 2014, the Company recorded other comprehensive income of \$878,000 (six months ended June 30, 2013: other comprehensive income of \$197,000) for the changes in the fair value of this investment.

During the six months ended June 30, 2013, the Company recorded other comprehensive loss of \$90,000 for the changes in the fair value of its investment in Candente Gold Corp. and wrote-off this investment on June 30, 2013.

During the six months ended June 30, 2013, the Company recorded other comprehensive loss of \$33,000 for the changes in the fair value of its investment in Cobriza Metals Corp. and wrote-off this investment on June 30, 2013.

## **CAUQUENES EXPANSION**

On April 8, 2014 MVC and DET entered into the Master Agreement granting to MVC the rights to process tailings from DET's Cauquenes historical tailings deposit for a term to the earlier of its depletion or 2033, extending MVC's rights to process tailings from 2021 to 2037 and amending each of the Fresh Tailings Contract and the Colihues Contract.

Major terms of the Master Agreement include the following:

- Extension of the Fresh Tailings Contract from 2021 to 2037;
- Extension of the Colihues Contract to the earlier of its depletion or 2037;
- A sliding scale royalty to DET for copper produced from Cauquenes tailings for LME prices ranging from \$1.95/lb (16% royalty) to \$5.50/lb (39% royalty);
- Changes in the royalty payable to DET for copper produced from fresh tailings, including a change in the royalty calculation to a sliding scale for a range of LME prices from \$1.95/lb (13.5% royalty) to \$4.80/lb (28.4% royalty), elimination of exchange rate provisions that increased royalty costs, and an increase in the threshold below which no royalty is payable from \$0.80/lb to \$1.95/lb, the same minimum level as that for the Cauquenes royalty. The change in fresh tailings royalty is effective at the earlier of August 1, 2015 or the date of the start of operations for the exploitation of the Cauquenes deposit;

- A global molybdenum royalty that will also be sliding scale for molybdenum prices between \$7.31/lb (9% royalty) and \$40/lb (19.7% royalty), effective at the earlier of August 1, 2015 or the date of the start of operations for the exploitation of tailings from the Cauquenes deposit. Until then, the Company will continue to pay a royalty of 10% of MVC's net revenue received from the sale of molybdenum concentrates produced from fresh tailings and 11.9% on net molybdenum revenue from Colihues tailings;
- Provisions requiring the parties to meet and review cost and royalty structures for copper production from fresh and Cauquenes tailings and for all molybdenum production in the event monthly average prices fall below \$1.95/lb for copper or \$7.31/lb for molybdenum, or exceed the upper royalty limits for copper (\$4.80/lb for fresh tailings and \$5.50/lb for Cauquenes tailings) and \$40/lb for molybdenum during 2 consecutive months, and projections indicate the permanence of such prices over time;
- Three early exit options for DET only exercisable in the event of changes unforeseen as of the date of the Master Agreement. The Company has currently judged the probabilities of these early exit options occurring as remote. A summary of the early exit options is provided below.

Exit Option	Notice Date	Termination Date	Terms of Exit	Consideration to MVC
1	Within 2021	1 year from notice date	DET would acquire 100% of MVC's PPE	90% of NPV of future cash flows
2	Within 2024	3 years from notice date	Termination of contractual relationship between DET and MVC	MVC retains ownership of its assets provided they are removed from site within a year of termination.
3	Within 2024 and every 3 years thereafter	1 year from notice date	DET would acquire 100% of MVC's PPE	The lesser of 80% of the NPV of future cash flows and the commercial value

The formula for the computation of royalties payable to DET from copper produced from Colihues tailings remains unchanged under the Master Agreement. MVC is required to pay a sliding scale royalty which is 3% for an LME price below \$0.80/lb and increases to approximately 30% at an LME price of \$4.27/lb. The parties are also required to review and potentially adjust costs and royalty structure for copper production from Colihues tailings where the LME price remains below \$1.95/lb or over \$4.27/lb for three consecutive months.

Cost and royalty adjustments for all copper and molybdenum production where prices are outside of royalty limits are to be made such that the Parties give priority to the viability of the Master Agreement and maintain the equilibrium of the benefits between the Parties.

In Q4-2013, MVC executed a project financing mandate agreement (the "Mandate Agreement") with BBVA Chile and BBVA Securities Inc. (collectively "BBVA") for the financing of the Cauquenes Expansion, which sets out an exclusive arrangement with BBVA for a loan facility (the "Loan Facility"). BBVA will seek credit approval to participate in the Loan Facility, and to act as mandated lead arranger and fronting hedge bank. The funding is expected to be drawn in US dollars.

Total estimated cost of the Cauquenes Expansion is \$140 million excluding escalation, contingencies and finance costs, to be financed by a combination of funding from the Loan Facility and internal cash flow, of which \$8.7 million had been incurred by MVC from cash flow as of June 30, 2014. The Mandate Agreement contemplates technical, environmental, market, insurance and legal due diligence which has been satisfactorily completed, and is subject to customary representations, warranties and conditions precedent, including agreement on final terms and conditions and requisite documentation for the loan, and procurement of credit approvals, which are in progress, both for the Loan Facility and for a Chilean value added tax facility, all of which are expected to be finalized during Q3-2014.

**Transactions with Related Parties**

## a) Non-controlling interests

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

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

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

The Royalty is calculated as follows:

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

The Royalty is a derivative financial instrument. This liability is measured at fair value, with changes in fair value recorded in profit for the period. The fair value of the liability at June 30, 2014 was \$13 million (December 31, 2013: \$4.9 million), with a current portion of \$863,000 (December 31, 2013: \$655,000) and a long-term portion of \$12.1 million (December 31, 2013: \$4.2 million).

In Q2-2014 the fair value of the derivative liability increased by \$8.1 million as a result of the increase in MVC's estimated future production from El Teniente tailings, following the signing of the Master Agreement.

The Royalty is paid as a royalty dividend on the Class A shares of Amerigo International. During the six months ended June 30, 2014, royalties totaling \$296,000 were paid or accrued to the Amerigo International Class A shareholders (2013: \$360,000). At June 30, 2014, \$44,000 of this amount remained payable (December 31, 2013: \$52,000).

Royalties to related parties include the actual royalty dividends described above and changes in fair value of \$67,000 (2013: recovery of \$559,000), for total royalty expense of \$363,000 (2013: recovery of \$199,000).

## b) Directors' fees and remuneration to officers

During YTD-2014, the Company paid or accrued \$522,000 in salaries and fees to companies associated with certain directors and officers of Amerigo (YTD-2013: \$426,000).

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

- Zeitler Holdings Corp. – Controlled by Dr. Klaus Zeitler, Chairman and CEO of Amerigo
- Michael J. Kuta Law Corporation – Controlled by Michael Kuta, General Counsel and Corporate Secretary of Amerigo.
- Delphis Financial Strategies Inc. – Controlled by Aurora Davidson, CFO of Amerigo

In the same period, Amerigo paid or accrued \$190,000 in directors' fees to independent directors (YTD-2013: \$134,000). In Amerigo's consolidated financial statements, directors' fees and remuneration to officers are categorized as salaries, management and professional fees. At June 30, 2014, an aggregate amount of \$107,000 was due to directors and officers for directors' fees and reimbursement of expenses (2013: \$11,000). These transactions were in the ordinary course of business and measured at the exchange amounts agreed to by the parties.

In YTD-2014, 3,500,000 options were granted to directors and officers of the Company (YTD-2013: nil).

- c) As of June 30, 2014 one of Amerigo's officers acted as an officer and another as a director of Nikos Explorations Ltd., a company over which Amerigo exercises significant influence.
- d) As of June 30, 2014 two of Amerigo's officers acted as officers and one of Amerigo's directors acted as a director of Los Andes Copper Ltd., a company in which Amerigo holds an investment.

### **Critical Accounting Estimates and Judgments**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In preparing its consolidated financial statements, the Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2013, except for estimate revisions arising from the changes to the Company's contractual relationship with DET as of April 8, 2014.

#### a) Useful Life of Assets

MVC estimates the economic life of most of its PPE based on their useful life, not to exceed the term of MVC's contractual relationship with DET. During Q2-2014, the Company changed its estimate for the termination of MVC's contractual relationship with DET from December 31, 2021 to December 31, 2037 as a consequence of entering into the Master Agreement.

Due to the extension of the term of the contract with DET, most of the economic lives of PPE were prospectively extended, resulting in lower depreciation expense as of April 2014.

## b) Asset Retirement Obligation

During Q2-2014 the Company reassessed its ARO obligations under the Master Agreement, which provides that MVC will transfer its PPE to DET on December 31, 2037 at no cost and free and clear of all encumbrances, unless DET decides not to take ownership of the PPE and provides 3-year notice to MVC to this effect. The Master Agreement also contains three early exit options which may only be exercised by DET at specific future dates (page 20). If early exit options 1 or 3 were to be exercised, DET would then acquire all of MVC's PPE. In all of these cases, MVC would not have an ARO. MVC would only have an ARO if DET were to decide not to take ownership of PPE in 2037 or exercise early exit option 2.

The Company has concluded that there is a very low probability DET will decide not to take ownership of PPE or exercise early exit option 2 in the future, and as a result the ARO weighted for probability is immaterial. The Company's judgment in relation to DET choosing to exercise an exit option will be reassessed as at each reporting date going forward.

The Company has also concluded that there are no constructive obligations arising from past events that would trigger the recognition of an ARO under the Master Agreement.

As a result of this reassessment, the Company eliminated its former estimates for an ARO asset (\$2.2 million) and an ARO liability (\$7.4 million) with a resulting credit of \$5.2 million to PPE (the "ARO Credit"), as required under IFRS. The ARO Credit will be extinguished through the term of the Master Agreement as a depreciation recovery, further reducing depreciation expense prospectively from April 2014.

## c) Severance Provisions

MVC has a future obligation with some of its managers for severance payments based on their employee contracts, irrespective of whether the employment relationship is terminated by MVC or by the employee. MVC records management severance obligations as liabilities at present value in the Company's consolidated statements of financial position. The value of management severance obligations is evaluated on an annual basis or as new information becomes available on the expected amounts and timing of cash flows required to discharge such obligations. The increase or decrease over time in the present value of the obligations is recorded each period in cost of sales.

MVC also has statutory obligations prescribed by Chilean labour law for severance payments in the event employees are terminated by MVC. Given the former term of its contractual relationship with DET to 2021, MVC had conservatively assessed that it was more probable than not that current employees of MVC would be terminated as of December 31, 2021 as there was no factual evidence suggesting the contract with DET would be extended beyond that date. Accordingly, MVC had also recorded the statutory severance obligations as a liability at present value in the Company's consolidated statements of financial position. During April 2014, the Company reassessed this position given the extension of the contractual relationship with DET to 2037 and concluded that it is currently highly unlikely existing workers at MVC will still be employed by MVC in 2037. There is also evidence in place suggesting 2037 is not necessarily a definitive date to provide for severance payments prescribed by law. Based on these facts, the Company believes that the provision for statutory severance to MVC workers is immaterial at this time. The Company will revisit this estimate as at each balance sheet date.

As a result of its reassessment of severance provision, the Company reduced its estimates for severance liability by \$2.4 million with a resulting gain on change of estimates of \$2.4 million. The Company also eliminated an associated \$503,000 estimate for deferred income tax asset with a resulting deferred income tax expense of \$503,000.

d) Royalties to Related Parties

The Company has an obligation to pay royalties to certain related parties, based on a fixed payment for each pound of copper equivalent produced from El Teniente tailings by MVC. The royalty is a derivative financial instrument measured at fair value, therefore in April 2014 the Company was required under IFRS to reassess its estimate for royalties to related parties based on the revised production estimates associated with the changes in the contractual relationship with DET. As a result of the increase in MVC's estimated future production from El Teniente tailings, the estimate for royalties due to related parties increased by \$8.1 million with a resulting loss on change of estimates of \$8.1 million.

e) Exploration and Evaluation Assets ("EEA")

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits are likely to arise as a result of these expenditures. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable processing operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is written off in the statement of comprehensive income in the period when the new information becomes available. EEA are included in the Company's impairment test along with PPE.

EEA were transferred to PPE once the Company obtained the legal right to process the related tailings and an economically viable processing operation was established.

The Company's EEA of \$22.6 million related exclusively to the Cauquenes project and were therefore reclassified to PPE in April 2014, the month in which the Master Agreement was signed.

f) Power Cost Assumptions

Certain components of MVC's power costs require complex calculations involving data from the Chilean National Energy Commission, the central power grid operating network and the Company's power supply company. The Company relies on the advice of external power consultants to estimate these costs, in particular in the case of newly introduced charges with no historical precedent. Final costs may vary from estimated costs and any such variances are included in earnings in the period in which final costs are determined.

## **Commitments**

- a) MVC entered into an agreement with its current power provider with a term from January 1, 2010 to December 31, 2017 which establishes minimum stand-by charges based on peak hour power supply calculations, currently estimated to be approximately \$365,000 per month for the period January 1, 2014 to December 31, 2017.
- b) The Company has entered into a joint lease agreement together with an unrelated corporation for the lease of office premises in Vancouver. The lease is for a five year term commencing August 1, 2011, and the Company's share of basic rent commitments for the remaining term of the contract is approximately \$264,000.



- c) The Master Agreement with DET has a Closure Plan clause requiring MVC and DET to work jointly to assess, under the new production scenario, the revision of the closure plan for the Cauquenes Deposit and compare it to the current plan in the possession of DET. In the case of any variation in the interests of DET due to MVC's activities extracting and processing tailings in Cauquenes, the Parties will jointly evaluate the form of implementation and financing or compensation of such variation. Until such time as the estimation of the new closure plan is available and the Parties agree on the terms of compensation resulting from the revised plan, it is the Company's view there is no obligation to record a provision because the amount, if any, is not possible to determine.

### **Subsequent Events**

- a) The line of credit described under **Liquidity and Financial Position** (page 17) expired on July 4, 2014.
- b) On July 8, 2014, the Chilean Ministry of Finance and Senate reached an agreement on modifications to the Tax Reform Bill (the "Bill") originally submitted to Congress in April 2014. Highlights of the modifications include the following:
- A 10% withholding tax payable on total income attributed to final shareholders would be eliminated from the Bill;
  - Payment of tax on attributed income at the time income is earned would be optional to the taxpayer. In case a taxpayer does not opt for the attributed system, it would be subject to a "partial integrated system" whereby the First Category Income Tax ("FCIT") would apply at a 27% rate on an accrued basis. Shareholders would be subject to final taxes (Additional Tax or Global Complementary Tax) upon distribution, but the credit against for the FCIT would be limited to a 65% FCIT paid;
  - The one-year instant depreciation transitional provision would be eliminated from the Bill;
  - The General Anti Evasion Standard included in the original Bill would be modified recognizing that taxpayers may opt between legal available options without being re-characterized by the Chilean IRS. The burden of proof on tax abuse transactions subject to re-characterization would fall on the IRS.
- c) On July 9, 2014, Chile's Regional Environmental Commission, COREMA, provided environmental approval of the Cauquenes expansion project, enabling MVC to apply for the permits necessary for the construction and operation of its expanded operations.

### **Internal Controls over Financial Reporting ("ICFR")**

Management is responsible for establishing and maintaining adequate ICFR. Any system of ICFR, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. There were no material changes in the Company's ICFR during the quarter ended June 30, 2014

## **Other**

As of August 5, 2014, Amerigo has outstanding 173,652,844 common shares and 13,865,000 options (exercisable at prices ranging from Cdn\$0.44 to Cdn\$1.32 per share).

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 MD&A contains certain forward-looking information and statements as defined in applicable securities laws (collectively referred to as "forward-looking statements"). These statements relate to future events or our future performance. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "should", "believe" and similar expressions is intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These statements speak only as of the date of this MD&A. These forward-looking statements include but are not limited to, statements concerning:

- forecast production and operating costs;
- our strategies and objectives;
- our estimates of the availability and quantity of tailings, and the quality of our mine plan estimates;
- prices and price volatility for copper and other commodities and of materials we use in our operations;
- the demand for and supply of copper and other commodities and materials that we produce, sell and use;
- sensitivity of our financial results and share price to changes in commodity prices;
- our financial resources;
- interest and other expenses;
- domestic and foreign laws affecting our operations;
- our tax position and the tax rates applicable to us;
- decisions regarding the timing and costs of construction and production with respect to, and the issuance of, the necessary permits and other authorizations required for our expansion projects, including the expansion planned for the Cauquenes tailings deposit;
- the production capacity of our operations, our planned production levels and future production;
- potential impact of production and transportation disruptions;
- our planned capital expenditures and estimates of ARO and other costs related to environmental protection;
- our future capital and production costs, including the costs and potential impact of complying with existing and proposed environmental laws and regulations in the operation and closure of our operations;
- our financial and operating objectives;
- our environmental, health and safety initiatives;
- the outcome of legal proceedings and other disputes in which we may be involved;
- the outcome of negotiations concerning treatment charges and royalties;
- our dividend policy; and
- general business and economic conditions.

Inherent in forward-looking statements are risks and uncertainties beyond our ability to predict or control, including risks that may affect our operating or capital plans; risks generally encountered in the permitting and development of mineral projects such as unusual or unexpected geological formations, unanticipated metallurgical difficulties, delays associated with permit applications and appeals, ground control problems, adverse weather conditions, process upsets and equipment malfunctions; risks associated with labour disturbances and availability of skilled labour and management; fluctuations in the market prices of our principal commodities, which are cyclical and subject to substantial price fluctuations; risks created through competition for mining projects and properties; risks associated with lack of access to markets; risks associated with availability of tailings and mine plan estimates; risks posed by fluctuations in exchange rates and interest rates, as well as general economic conditions; risks associated with environmental compliance and changes in environmental legislation and regulation; risks associated with our dependence on third parties for the provision of critical services; risks associated with non-performance by contractual counterparties; title risks; social and political risks associated with operations in foreign countries; risks of changes in laws affecting our operations or their interpretation, including foreign exchange controls; and risks associated with tax reassessments and legal proceedings.

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

- general business and economic conditions;
- interest rates;
- changes in commodity and power prices;
- acts of foreign governments and the outcome of legal proceedings;
- the supply and demand for, deliveries of, and the level and volatility of prices of copper and other commodities and products used in our operations;
- the timing of the receipt of permits and other regulatory and governmental approvals;
- our costs of production and our production and productivity levels, as well as those of our competitors;
- changes in credit market conditions and conditions in financial markets generally;
- the availability of funding on reasonable terms;
- our ability to procure equipment and operating supplies in sufficient quantities and on a timely basis;
- the availability of qualified employees and contractors for our operations;
- our ability to attract and retain skilled staff;
- the satisfactory negotiation of collective agreements with unionized employees;
- the impact of changes in foreign exchange rates and capital repatriation on our costs and results;
- engineering and construction timetables and capital costs for our expansion projects;
- costs of closure of various operations;
- market competition;
- the accuracy of our mine plan estimates (including, with respect to size, grade and recoverability) and the geological, operational and price assumptions on which these are based;
- tax benefits and tax rates;
- the outcome of our copper concentrate treatment and refining charge negotiations;
- the resolution of environmental and other proceedings or disputes;
- the future supply of reasonably priced power;
- our ability to obtain, comply with and renew permits in a timely manner; and
- ongoing relations with our employees and entities with which we do business.

Future production levels and cost estimates assume there are no adverse mining or other events which significantly affect budgeted production. In 2013 production was at the lower end of the Company's published guidance for the year in part due to the adverse effect of a slide and resulting pit wall failure in the Colihues deposit which occurred in April 2013 and adversely affected production for the remainder of the year. The Colihues slide and required change in mine plan is continuing to adversely affect the Company's production in 2014.

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