Amerigo Resources Limited
Management Discussion and Analysis
For the Year Ended December 31, 2004

<u>All figures expressed in US Dollars except where noted</u>

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, 2005 and should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2004.

Overall Performance

The overall performance of the Company for the year ended December 31, 2004 substantially differs from prior annual results as a result of the acquisition of Minera Valle Central ("MVC") on July 3, 2003. MVC, a Chilean copper producer, has a contract with Chile's state- owned copper producer Codelco through at least 2021 to process the tailings from the El Teniente mine in Chile.

In the year ended December 31, 2004, net earnings were $10,941,198 ($0.1726 per share, non-diluted; $0.1258 per share, diluted) on gross copper sales of $41,583,363. Gross copper sales are derived from the sale of 30.49 million pounds of copper under strong international copper prices.

In fiscal 2004, the Company's activities contributed to operating cash flow of $14,029,775, which includes the effect of changes in non-cash working capital accounts. Investing activities used $10,646,958 of cash resources during fiscal 2004, as part of MVC's expansion program. Financing activities included full repayment of $1,397,166 of Enami loans outstanding at December 31, 2003 and cash inflows of $1,733,353 from the exercise of stock purchase options and warrants during the year.

At December 31, 2004 the Company had a strong balance sheet, with $8,239,089 in cash and cash equivalents and working capital of $8,584,637, after capital expenditures of $10,646,958 in the year. Amerigo is positioned to finance further plant expansions from existing cash resources and operating cash flow in 2005.

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

Selected Annual Information

	12 months ended December 31, 2004	10 months ended December 31, 2003	12 months ended February 28, 2003
Total gross copper sales	$41,583,363	$12,243,150	$Nil
Net revenue	35,296,334	9,638,759	85,492
Net income (loss)	10,941,198	1,546,502 (1)	(62,334)
Earnings (loss) per share	0.17	0.04 (1)	(0.01)
Diluted earnings (loss) per share	0.13	0.03 (1)	(0.01)
	At December 31, 2004	At December 31, 2003	At February 28, 2003
Total assets	$48,469,945	$34,384,420(2)	$362,691
Total long-term liabilities	6,185,287	7,070,496(3)	Nil
Cash dividends declared	Nil	Nil	Nil

(1) Adjusted from Net Income of $1,881,013 to account for retroactive restatements to earnings of ($334,511) due to the adoption of new accounting standards on January 1, 2004 (see Changes in Accounting Policies).
(2) 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 $766,337 due to the adoption of new accounting standards on January 1, 2004 (see Changes in Accounting Policies).
(3) 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).

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

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, 2004

In the year ended December 31, 2004, net earnings were $10,941,198 ($0.1726 per share, non-diluted; $0.1258 per share, diluted) on gross copper sales of $41,583,363, compared to restated net earnings of $1,546,502 ($ 0.0375 per share, non-diluted; $0.0254 per share, diluted) and gross copper sales of $12,243,150 in the ten months ended December 31, 2003, which is the comparative period due to the Company's change of fiscal year end.

Sale and delivery of copper

Copper produced by the Company was sold under two sales agreements with Chile's Empresa Nacional de Minería ("Enami" or the "smelter") which provide 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 2004.

Revenue recognition and reporting

Commencing January 1, 2004 a new accounting standard required the Company to take into revenue on the date of delivery of copper concentrates to the smelter an amount based on the LME three month forward price for copper. Adjustments to recorded revenue are subsequently made at the end of each month to reflect changes in future copper prices until the sale price is settled. The effect of this new accounting standard is to increase the sensitivity of the Company's reported revenue to increases and decreases in copper prices. In a period of rising copper prices, not only will the Company ultimately record higher revenue for copper delivered in the period, but it will also record favourable adjustments to revenue for copper delivered in the prior quarter. Similarly, in a period of declining copper prices, the Company will be required to record lower revenues for current deliveries and negative adjustments to revenue for the prior quarter's deliveries.

MVC's 2004 gross copper sales were $41,528,638, derived from the sale of 30.49 million pounds of copper at an average price of $1.2971 per pound of copper and settlement adjustments of $1,980,021 for copper delivered in 2003 and settled in 2004.

Production

Production in 2004 was 31.12 million pounds or 14,116 tonnes of copper, 12% below the 2004 production forecast of 16,000 tonnes. Mainly during Q2 and Q3 of fiscal 2004, MVC received fresh tailings containing lower sulphide grade material from El Teniente, which contributed to production being below budget. Sulphide grade materials in El Teniente tailings normalized as of mid-October 2004.

Recovery of tailings from Colihues was also below budget in fiscal 2004. MVC originally subcontracted the operation of the Colihues extraction pond to an independent third party. The contract was terminated on October 31, 2004 when the subcontractor did not achieve design capacity due to its inappropriate selection of extraction equipment. MVC now operates Colihues directly and is in the process of installing replacement equipment better suited for the process. The equipment is expected to be fully operational during Q1 2005 and therefore, improvements in the Colihues extraction rates were limited during November and December 2004.

Operating Cash Flows

In the year ended December 31, 2004, the Company's activities contributed to operating cash flow of $14,029,775, which includes the effect of changes in non-cash working capital accounts.

Operating Costs and Expenses

Annual cash costs including smelter, refinery and other charges (before El Teniente royalty) were $21,213,185 or 69c per pound. On a quarterly basis, cash costs per pound were 64¢ in Q1; 59¢ in Q2; 73¢ in Q3 and 76¢ in Q4. Unit cost increases result primarily from higher international energy and steel prices, which directly impacted MVC's main production costs. Electricity prices in Chile increased significantly as of mid-2004 and MVC also faced increased prices for consumables, particularly for grinding balls used in the mills. During Q4, smelter and refinery charges were significantly higher than in prior quarters (see *Fourth Quarter* section of this MD&A) due to price adjustments required to meet annual contractual treatment quotas at a higher rate than had been averaged from Q1 to Q3. Lower than budget copper production also results in higher costs per pound. Although MVC has no control over international energy and steel prices, the Company expects that unit production costs will decrease as copper production increases.

Total costs including smelter, refinery and other charges, were $27,245,685 or 88¢ per pound for the year. Actual total production costs were below budget as a result of lower than budgeted production.

Costs not related to MVC's operations are identified as "Other expenses", of which the most significant expenses in 2004 are Management Fees of $379,852 (which include an annual performance bonus of $199,272), followed by Salaries, Consulting and Professional fees of $302,209 and Office Expense of $169,137. In fiscal 2003 Management Fees were $91,767, Salaries, Consulting and Professional fees were $140,522 and Office Expense was $68,893. Costs in 2003 were lower as they were incurred mainly in the July to December period, following the acquisition of MVC. Also, no performance bonus was paid to management in 2003.

"Other expenses" amounts not described in the preceding paragraph are general and administrative expenses. In the year ended December 31, 2004 these were consistent with budget and with anticipated costs required to maintain Amerigo's corporate activities in subsequent periods.

Non-operating items in 2004 include a Foreign Exchange Gain of $321,158, Interest Income of $211,041, a Gain on Disposition of Mineral Properties of $146,259 and a Write-off of Mineral Properties of ($49,529). The foreign exchange gain of $321,158 is derived from changes to the exchange rates of the Chilean peso and the Canadian dollar to the US dollar in the year. The Chilean peso's exchange rate moved from $617.40 to $557.40 with respect to the US dollar and the Canadian dollar exchange to the US dollar changed from $1.2946 to $1.2044 from December 31, 2003 to December 31, 2004.

The Company recorded income tax expense net of recoveries of $2,245,523 in 2004, of which $2,123,592 is income tax on net earnings generated in MVC. Due to the availability and utilization of loss carryforwards in MVC, there is no cash tax payable associated with the MVC tax expense. At December 31, 2004, MVC has approximately $3,638,485 of tax losses available to offset future tax payable, at an estimated tax benefit of $618,542.

Summary of Quarterly Results

	Qtr ended Dec. 31, 2004	**Qtr ended Sept. 30, 2004**	**Qtr ended June 30, 2004**	**Qtr ended March 31, 2004**
Total gross copper sales	$12,363,762	$10,762,727	$8,218,154	$10,238,720
Net revenue	10,239,906	9,071,903	6,928,416	9,056,109
Net income	2,578,907	2,960,651	1,625,458	3,776,182
Earnings per share	0.0400	0.0463	0.0256	0.0613
Diluted earnings per share	0.0297	0.0340	0.0188	0.0435

	Qtr ended Dec. 31, 2003 (1)	Qtr ended Nov. 30, 2003	Qtr ended August 31, 2003	Qtr ended May 31, 2003
Total gross copper sales	$2,837,890	$5,869,049	$3,536,211	Nil
Net revenue	2,425,348	4,588,838	2,624,573	Nil
Net income (loss)	353,254 (2)	(25,657) (3)	1,264,915 (4)	($46,010)
Earnings(loss) per share	0.0059 (2)	0.0004 (3)	0.0295 (4)	(0.01)
Diluted earnings (loss) per share	0.0041 (2)	0.0004 (3)	0.0268 (4)	(0.01)

(1) One-month quarter due to the change in fiscal year end of the Company, from February 28 to December 31.
(2) Adjusted from Net Income of $372,621 to account for retroactive restatement to earnings of ($19,367) due to the adoption of new accounting standards on January 1, 2004 (see Changes in Accounting Policies).
(3) Adjusted from Net Income of $1,017,089 to account for retroactive restatement to earnings of ($1,042,746) due to the adoption of new accounting standards on January 1, 2004 (see Changes in Accounting Policies).
(4) Adjusted from Net Income of $537,313 to account for retroactive restatement to earnings of $727,602 due to the adoption of new accounting standards on January 1, 2004 (see Changes in Accounting Policies).

Liquidity and Capital Resources

Amerigo held cash and cash equivalents on December 31, 2004 of $8,239,089, compared to $4,366,419 held on December 31, 2003. The increase in cash is mainly attributable to net operating cash flows after investment in new capital equipment generated by MVC and to a lesser degree, to capital proceeds of $1,733,353 from the exercise of stock purchase options and warrants in the year.

The Company's working capital on December 31, 2004 was $8,584,637, compared to $4,321,297 on December 31, 2003. Amerigo continues to be able to generate sufficient cash resources –both in the short and long-term- to maintain existing operations and fund projected plant expansions.

The Company's gross copper sales are dependent on sales volumes and prevailing market prices for copper. Monthly average per-pound copper prices in 2004 have been the following:

January	$1.0996	April	$1.3375	July	$1.2739	October	$ 1.3663
February	1.2521	May	1.2402	August	1.2910	November	1.4165
March	1.3651	June	1.2190	September	1.3131	December	1.4268

The Company's long-term debt (Note Payable, Enami Loan and Other Payables) at December 31, 2004 was $3,869,858, compared to $5,153,654 on December 31, 2003. The reduction in long-term debt results from repayment of the Enami Loan during the first quarter of 2004. Included in long-term debt, is a $3,400,000 note issued in connection with the acquisition of MVC by the Company. The note, together with accrued interest, is payable 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 two years after the end of the three-year period plus interest at an annual rate of 5%.

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.

During the year ended December 31, 2004, the Company entered into an agreement in principle with El Teniente to increase the rate of agreed extraction of feed material from the Colihues deposition site from 10,000 tonnes per day to 45,000 tonnes per day. At this increased rate of recovery, Colihues is estimated to provide source material for over 10 years. Future annual production is now projected above 65 million pounds of copper. The Company is working with El Teniente to finalize a detailed agreement in 2005.

MVC will pay a royalty for production from Colihues on a similar basis to the existing royalty agreement for fresh tailings material, with the exception that a nominal 3% royalty will be payable at copper prices below $0.80 per pound, and increasing on a sliding scale, capped at 15% if the copper price is $1.35 per pound or higher. Molybdenum production from Colihues material will attract a flat royalty of 10% of MVC's net revenues from the sale of molybdenum concentrates.

During 2004, with respect to the first 33,600 tonnes of concentrate production per year, the contract with Enami provided for customary terms and conditions with a treatment charge of $78 per tonne of concentrate and a refining charge of $0.078 per pound of contained copper, with an increase in refining charges equal to 10% of the copper price over $1.00 per pound. The balance of production was to be sold on the basis of a spot contract with lower refining and treatment charges. The contract has been extended for all of MVC's production to December 31, 2008.

For 2005, the treatment charge will be $120 per tonne of concentrate and the refining charge will 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. 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 additional 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.

As of December 31, 2004 the Company had 1,675,000 outstanding share purchase options (with exercise prices ranging from C$0.36 to C$2.00) and 20,324,016 outstanding share purchase warrants (with exercise prices ranging from C$0.25 to C$0.70). During the year ended December 31, 2004, 225,000 share purchase options were granted to directors and officers of the Company, 230,000 share purchase options were exercised for net proceeds of $94,979, and 4,767,195 warrants were exercised for net proceeds of $1,934,553 ($294,062 of which were received in December 2003 and recorded as Capital Stock to be Issued in the December 31, 2003 Balance Sheet).

Investing Activities

The Company has been able to complete significant plant expansions in MVC, without relying on additional equity or debt funding. In April 2004, additional classification and flotation equipment at MVC was commissioned on time and under budget as part of Phase 1 of the expansion. The Phase 1 expansion represented in aggregate an investment of $2,475,000, $525,000 below the $3,000,000 original budget.

Work continues on schedule for the next stage of expansion. In July 2004, MVC purchased for a price of $1,870,000 four used mills with a capacity of 140% of the presently installed mills to accelerate the implementation of the expansion process. An additional $1,980,000 has been allocated to refurbish the mills and transport them from North America to Chile, for a total mill cost of $3,850,000 at December 31, 2004.

Construction of a processing plant to extract molybdenum from MVC's copper concentrate production is progressing ahead of schedule and plant completion is scheduled for February 2005, 3 months ahead of schedule. Commissioning of the plant is expected to occur in March 2005 followed by a period whereby concentrate grade and specifications will be optimized. Amerigo estimates production in excess of 500,000 pounds of molybdenum in concentrates in 2005 and expects to increase molybdenum production to approximately 800,000 to 1,000,000 pounds in 2006. MVC will pay Codelco a flat 10% royalty of MVC's net revenue received from the sale of molybdenum concentrates. Notwithstanding recent molybdenum prices of over $30 per pound, the economic feasibility of the extraction plant was calculated on a 5-year average price of approximately $4.20 per pound. Amerigo estimates that a capital expenditure of approximately $3 million will be required to build the extraction plant. The molybdenum plant capital expenditure is being funded from MVC's operating cash flow and cash on hand.

Maintenance expenditure to plant and equipment during 2004 was $3,163,183. These expenditures were met from MVC operating cashflow.

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)	3,400,000	-	3,400,000	-	-
Asset retirement obligation (2)	6,256,000	-	-	-	6,256,000
Total contractual obligations	9,656,000	-	3,400,000	-	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, 2004, the asset retirement obligation has a stated value of $2,049,951.

Transactions with Related Parties

a) Minority Interest

The company holds its interest in MVC through its subsidiary Amerigo International Holdings Corp. ("Amerigo International"). Amerigo International is controlled by the company and is a wholly-owned subsidiary, except for certain outstanding Class A shares which are shown on the company's Balance Sheet as Minority Interest at their book value of $1,000. The class A shares are owned indirectly by certain directors and officers 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 produced by MVC or any successor entity to MVC if the price of copper is under $0.80, or
- $0.015 for each pound of copper produced by MVC or any successor entity to MVC if the price of copper is $0.80 or more.

During the year ended December 31, 2004, a royalty dividend of $466,832 was paid or accrued to the Amerigo International Class A shareholders on the basis described above. As at December 31, 2004 $46,264 of this amount was payable.

b) Management fees

During the year ended December 31, 2004 the Company paid or accrued $379,852 in management fees to certain directors and officers of the Company, including a performance bonus of $199,272. Included in accounts payable and accrued liabilities at December 31, 2004 are $199,272 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, 2004 the company paid or accrued $39,034 in directors fees paid to independent directors and $91,093 in consulting fees paid to certain officers of the company. Directors fees and consulting fees are categorized as Salaries, Consulting and Professional Fees in the company's consolidated financial statements.

d) At December 31, 2004 two officers of the Company acted one as a director and the other as an officer of Nikos Explorations Ltd., a company to which Amerigo divested three of its mineral properties in fiscal 2004. At the time of this transaction, 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, 2004 were $2,578,907, 13% lower than in the quarter ended September 30, 2004 primarily due to higher costs, including annual costs determined and recorded in the last quarter of the year.

Gross copper sales

Q4 gross copper sales were $12,363,762, comprised mainly of MVC copper sales of $12,349,443. In Q4 MVC sold 8.94 million pounds of copper at an average price of $1.3643/lb copper, a 15% volume improvement over sales of 7.81 million pounds in Q3. There were also positive settlement adjustments of $152,693 in Q4. 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 $1.6 million higher than in Q3.

Production

Production in Q4 was 8.79 million pounds of copper, compared to 7.82 million pounds in Q3, a12.40% increase in production volume in the quarter. During most of Q4 2004 sulphide grade materials in tailings from El Teniente normalized after a period of low-grade sulphide materials that negatively affected production.

As anticipated, recovery of tailings from Colihues in Q4 continued to be under budget. This situation is expected to improve during Q1 2005 when new extraction equipment is fully operational in the Colihues extraction pond.

Operating Cash Flows

In the quarter ended December 31, 2004, the Company's activities contributed to operating cash flow of $4,551,038 or $0.07 per share, which includes the effect of changes in non-cash working capital accounts. In the preceding quarter, operating cash flow including the effect of changes in non-cash working capital was $3,612,139. The Company incurred capital expenditures of $4,837,277 in Q4 without reliance on debt financing.

Operating Costs and Expenses

Cash costs including smelter, refinery and other charges (before El Teniente royalty) of 76¢ per pound were higher than the 73¢ per pound achieved in Q3, primarily due to increased smelter and refinery charges. During Q4, these charges were $2,123,856, compared to $1,690,824 in Q3. The cost increase is derived from contractual price adjustments required to meet annual treatment quotas at a higher rate than had been averaged from Q1 to Q3.

Total cost including smelter, refinery and other charges was 98¢ per pound compared to 92¢ in the prior quarter. Actual total production costs were below budget as a result of lower than budgeted production. It is expected that costs per pound will decrease as the plant expansion results in increased copper production and the molybdenum plant is commissioned, which may result in significant byproduct credits.

Costs not related to MVC's operations are identified as "Other expenses" of which the most significant expenses in Q4 are Management Fees of $249,511 (which include an annual performance bonus of $199,272), followed by Stock-Based Compensation of $113,593 and Salaries, Consulting and Professional Fees of $112,920.

"Other expenses" amounts not described in the preceding paragraph are general and administrative expenses. In the quarter ended December 31, 2004 these were consistent with general and administrative costs incurred in preceding quarters.

Non-operating items occurring in Q4 include a Foreign Exchange Gain of $258,661 and Interest Income of $38,418.

The Company recorded income tax expense net of recoveries of $830,871 in Q4, of which $781,364 is income tax on net earnings generated in MVC. Due to the availability and utilization of loss carryforwards in MVC, there is no cash tax payable associated with the MVC tax expense. At December 31, 2004, MVC has a loss base of approximately $3,638,485 available to offset future tax payable, for an estimated tax benefit of $618,542.

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 pronouncements, 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.

Changes in Accounting Policies Including Initial Adoption

During the fiscal year ended December 31, 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 $766,337, derived from applying a 40% 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 an increase in earnings of $650,132 (a $766,337 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 $730,193.

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.

Revenue recognition

Commencing on January 1, 2004, the Company adopted new accounting standards to account for changes in prices of copper during the settlement period. This standard was applied on a prospective basis.

Other MD&A Requirements

As of February 16, 2005 the Company has 69,468,071 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.