

# **Amerigo Resources Ltd.**

## **Consolidated Financial Statements**

**December 31, 2005**

(expressed in U.S. dollars)

# Amerigo Resources Ltd.

## Consolidated Balance Sheets

(expressed in U.S. dollars)

	<b>December 31 2005 \$</b>	<b>December 31 2004 (Restated) \$</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	12,953,516	8,239,089
Accounts receivable	9,267,610	3,383,211
Prepaid expenses	638,337	690,946
Plant supplies and inventory (Note 4)	2,392,017	1,153,105
	<u>25,251,480</u>	<u>13,466,351</u>
<b>Investment in Nikos Explorations</b> (Note 10)	936,747	477,230
<b>Mineral property, plant and equipment</b> - net (Note 5)	52,725,600	26,965,818
<b>Contractual rights</b> - net (Note 6)	8,305,083	8,791,450
<b>Other</b>	20,540	46,563
	<u>87,239,450</u>	<u>49,747,412</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	9,906,820	3,143,076
El Teniente royalty payable (Note 7)	3,205,525	1,692,374
Due to related parties (Note 8)	59,789	46,264
Note and interest payable (Note 3)	3,842,983	-
	<u>17,015,117</u>	<u>4,881,714</u>
<b>Note payable</b> (Note 3)	-	3,400,000
<b>Other payables</b>	569,920	469,858
<b>Asset retirement obligation</b> (Note 2)	2,193,448	2,049,951
<b>Future income tax</b> (Note 12)	4,169,112	3,180,110
<b>Minority interest</b> (Note 8)	1,000	1,000
	<u>23,948,597</u>	<u>13,982,633</u>
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (Note 9)	39,451,043	26,891,142
<b>Value assigned to stock options</b> (Note 9)	1,219,194	1,092,711
<b>Retained earnings</b>	22,642,726	7,803,036
<b>Cumulative translation adjustment</b>	(22,110)	(22,110)
	<u>63,290,853</u>	<u>35,764,779</u>
	<u>87,239,450</u>	<u>49,747,412</u>

Subsequent events (Note 18)

Approved by the Board of Directors

\_\_\_\_\_  
"Robert Gayton" Director

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"Ruston Goepel" Director

# Amerigo Resources Ltd.

## Consolidated Statements of Operations

(expressed in U.S. dollars)

	Twelve months ended December 31, 2005 \$	Twelve months ended December 31, 2004 (Restated) \$
<b>Revenue, net of smelter and refinery charges</b>	52,910,575	35,241,609
Other revenue	5,417,507	-
<b>Total revenue</b>	58,328,082	35,241,609
<b>Costs</b>		
Production costs	24,227,606	13,419,698
El Teniente royalty (Note 7)	8,437,862	4,771,005
Depreciation and amortization	1,338,189	1,127,386
Administration	1,206,267	912,861
Transportation	671,328	593,597
Asset retirement accretion cost	143,497	134,109
<b>Cost of sales</b>	36,024,749	20,958,656
	22,303,333	14,282,953
<b>Other expenses</b>		
Transfer agent and filing fees	75,150	140,645
Salaries, consulting and professional fees	473,211	302,209
Office expense	228,061	169,137
Interest expense	477,035	102,661
Management fees	259,068	379,852
Stock-based compensation (Note 9(b))	545,089	154,746
Insurance expense	48,208	39,383
Shareholder information	68,268	24,421
	2,174,090	1,313,054
<b>Earnings before the undernoted items</b>	20,129,243	12,969,899
Write-off of mineral properties (Note 11)	-	(49,529)
Gain on disposition of mineral properties (Note 10)	427,455	146,259
Interest income	374,604	211,041
Investment income (Note 10)	32,062	-
Other income	94,423	54,725
Foreign exchange gain	1,944,800	321,158
<b>Earnings before taxes and minority interest</b>	23,002,587	13,653,553
<b>Income tax expense, net of tax recoveries</b> (Note 12)	4,390,854	3,137,107
<b>Earnings before minority interest</b>	18,611,733	10,516,446
<b>Minority interest</b> (Note 8)	619,266	466,832
<b>Net earnings for the year</b>	17,992,467	10,049,614
<b>Retained earnings (Deficit) – Beginning of year</b>		
As previously reported	8,694,620	(1,165,486)
Accounting changes (Note 2)	(891,584)	(1,081,092)
As restated	7,803,036	(2,246,578)
<b>Dividends</b>	(3,152,777)	-
<b>Retained earnings – end of year</b>	22,642,726	7,803,036
<b>Weighted average number of shares outstanding, basic</b>	78,681,602	63,373,131
<b>Weighted average number of shares outstanding, diluted</b>	88,403,590	86,943,597
<b>Earnings per share</b>		
Basic	0.2287	0.1586
Diluted	0.2035	0.1156

# Amerigo Resources Ltd.

## Consolidated Statements of Cash Flows

(expressed in U.S. dollars)

	Twelve months ended December 31, 2005	Twelve months ended December 31, 2004 (Restated)
	\$	\$
<b>Cash flows from operating activities</b>		
Net earnings for the year	17,992,467	10,049,614
Items not affecting cash -		
Income tax expense, net of tax recoveries	651,803	3,051,320
Depreciation and amortization	1,338,189	1,127,386
Asset retirement accretion cost	143,497	134,109
Stock-based compensation	545,089	154,746
Investment income (Note 10)	(32,062)	-
Write-off of mineral properties	-	49,529
Gain on disposition of mineral properties	(427,455)	(146,259)
	<u>20,211,528</u>	<u>14,420,445</u>
Changes in non-cash working capital		
Accounts receivable	(5,884,399)	(1,284,654)
Prepaid expenses	52,609	(624,887)
Plant, supplies and inventory	(1,238,912)	(620,449)
Accounts payable	6,763,744	1,193,529
Due to related parties	13,525	(142,475)
Note and interest payable	442,983	-
El Teniente royalty payable	1,513,151	1,088,266
<b>Net cash provided by operating activities</b>	<u>21,874,229</u>	<u>14,029,775</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(26,682,309)	(10,646,958)
<b>Net cash used in investing activities</b>	<u>(26,682,309)</u>	<u>(10,646,958)</u>
<b>Cash flows from financing activities</b>		
Repayment of Enami loans	-	(1,397,166)
Issuance of shares for cash – net of issue costs	12,141,295	1,733,353
Payment of dividends	(3,152,777)	-
Other payables	523,656	113,370
<b>Net cash provided by financing activities</b>	<u>9,512,174</u>	<u>449,557</u>
<b>Increase in cash and cash equivalents due to exchange rate changes</b>	<u>10,333</u>	<u>40,926</u>
<b>Net increase in cash and cash equivalents</b>	<u>4,714,427</u>	<u>3,872,670</u>
<b>Cash and cash equivalents – Beginning of year</b>	<u>8,239,089</u>	<u>4,366,419</u>
<b>Cash and cash equivalents – End of year</b>	<u>12,953,516</u>	<u>8,239,089</u>

Supplemental disclosure with respect to cash flows (Note 13)

# Amerigo Resources Ltd.

## Consolidated Statements of Shareholders' Equity

(expressed in U.S. dollars)

	Common shares		Retained Earnings (Deficit) (\$)	Value assigned to stock options (\$)	Cumulative Translation Adjustment (\$)	Capital stock to be issued (\$)	Shareholders' equity (\$)
	No. of shares	Amount (\$)					
Balance – Dec. 31, 2003	60,197,876	24,813,185	(2,246,578)	986,390	(22,110)	294,062	23,842,949
Issue of shares							
Exercise of warrants	4,767,195	1,934,553	-	-	-	-	1,934,553
Exercise of stock options	230,000	94,979	-	-	-	-	94,979
Options granted	-	-	-	154,746	-	-	154,746
Transfer of value on exercise of stock options	-	48,425	-	(48,425)	-	-	-
Capital stock to be issued	-	-	-	-	-	(294,062)	(294,062)
Net earnings for the year	-	-	10,049,614	-	-	-	10,049,614
Balance – Dec. 31, 2004	65,195,071	26,891,142	7,803,036	1,092,711	(22,110)	-	35,764,779
Issue of shares							
Exercise of warrants	20,317,773	11,404,599	-	-	-	-	11,404,599
Exercise of stock options	713,000	736,696	-	-	-	-	736,696
Options granted	-	-	-	545,089	-	-	545,089
Transfer of value on exercise of stock options	-	418,606	-	(418,606)	-	-	-
Dividends paid	-	-	(3,152,777)	-	-	-	(3,152,777)
Net earnings for the year	-	-	17,992,467	-	-	-	17,992,467
Balance – Dec. 31, 2005	86,225,844	39,451,043	22,642,726	1,219,194	(22,110)	-	63,290,853

# Amerigo Resources Ltd.

Notes to Consolidated Financial Statements  
December 31, 2005 and 2004

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(expressed in U.S. dollars)

## 1 Operations

Amerigo Resources Ltd. (“the Company”) was incorporated under the laws of British Columbia, Canada.

The Company is engaged in the business of producing copper and molybdenum concentrates with operations in Chile.

## 2 Significant accounting policies

### Generally accepted accounting principles

These consolidated financial statements have been prepared in accordance with accounting principles generally acceptable in Canada.

### Basis of presentation

These consolidated financial statements include the accounts of the Company and its subsidiaries, Templo Dorado S.A. de C.V. (inactive), Amerigo International Holdings Corp., Amerigo Resources Ltd. Chile I Limitada, Amerigo Resources Ltd. Chile II Limitada, Minera Valle Central S.A, Amerigo Banking Corporation and Amerigo Investments Limited. The results of the operations of these subsidiaries, except for Templo Dorado S.A. de C.V., were consolidated from July 1, 2003. All significant intercompany transactions and balances have been eliminated.

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

### Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

The most significant estimates are related to the physical and economic lives of mineral assets and their recoverability, the estimation of the Company’s asset retirement obligations and the measurement of stock-based compensation.

### Foreign currency translation

The Company’s subsidiaries are considered integrated operations and are translated using the temporal method. Under this method, monetary assets and liabilities are translated into U.S. dollars at the balance sheet date rate of exchange, and non-monetary assets and liabilities at historical rates. Revenues and expenses are translated at appropriate transaction date rates. Gains and losses on translation are included in income.

# Amerigo Resources Ltd.

Notes to Consolidated Financial Statements  
December 31, 2005 and 2004

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(expressed in U.S. dollars)

## **Cash and cash equivalents**

Cash and cash equivalents consist of cash on deposit and highly liquid investments that are readily convertible into cash with maturities of three months or less when purchased. Interest earned is recognized immediately in operations.

## **Investment in Nikos Explorations**

On June 30, 2005 the Company increased its holdings to 27% of the outstanding shares of Nikos Explorations Ltd. ("Nikos"), and is considered to have significant influence in this investment. Accordingly, the Company started using the equity method to account for its investment in Nikos. The Company had previously considered the Nikos shares to be a long-term investment and used the cost method to account for the investment.

## **Mineral property, plant and equipment**

Plant and equipment are carried at cost. Assets used in commercial production are subject to depreciation on the basis described below:

Plant and infrastructure and major equipment are depreciated using the unit of production method over the lesser of the useful life of the asset or the estimated life of the mineral resource. Other fixed assets are depreciated over the useful life of the asset on a straight-line basis.

Unit of production method is defined as contained pounds of copper produced over estimated production under the tailings supply agreement. The tailings supply agreement has a term extending to the later of 2021 or the date at which a predetermined amount of copper in tailings from El Teniente has been delivered.

## **Asset retirement obligations**

Minera Valle Central S.A. ("MVC") a copper and molybdenum concentrate producer in Chile, is obligated through its operating contract with Corporación Nacional del Cobre de Chile ("Codelco") to remove the facilities and equipment being used in its 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 end the Company obtained an independent assessment of site restoration costs of \$3.5M, which was adjusted to reflect factors such as inflation (estimated at an annual rate of 3%), risk premiums (estimated at 5%) and time value of money (estimated at 7%), which will be accreted over time as required by accounting pronouncements. The Company obtained an independent assessment of asset recovery values and determined it was not necessary to make adjustments to prospective amortization charges.

The adoption of this standard required retroactive application with restatement to prior periods. On adoption, the Company increased its property, plant and equipment by \$1,851,055 and recorded a corresponding asset retirement liability. The asset is being amortized on a straight-line basis. The Company also recognized a future income tax asset of \$19,756, derived from applying a 17% tax rate to the \$1,915,842 asset retirement obligation

# Amerigo Resources Ltd.

## Notes to Consolidated Financial Statements December 31, 2005 and 2004

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(expressed in U.S. dollars)

less the unamortized balance of the asset of \$1,799,637. Upon recognizing the future income tax asset in the Balance Sheet, the Company booked a corresponding future income tax recovery in 2003 earnings. The combined effect of the retroactive restatement in 2003 earnings was a decrease in earnings of \$96,449 (a \$19,756 income tax recovery, a \$64,787 expense from the liability accretion and a \$51,418 expense from the asset amortization). At December 31, 2004 the asset retirement liability had been accreted to \$2,049,951 and the associated future income tax asset had been adjusted to \$(16,388). In the year ended December 31, 2005, the Company recorded asset retirement accretion costs of \$143,497 and asset retirement amortization charges of \$102,836. At December 31, 2005 the asset retirement liability had been accreted to \$2,193,448 and the associated future income tax asset had been adjusted to \$101,912.

The Company has undertaken a study to determine the impact, if any, that additions to property, plant and equipment during 2005 will have on the estimated asset retirement obligation. Upon completion of this study, expected by mid-2006, the Company will record any adjustments required. It is possible that these adjustments will be material.

### **Plant supplies and inventory**

Plant supplies are valued at the lower of cost and replacement cost. Concentrate inventory is valued at the lower of cost and net realizable value.

### **Revenue recognition**

Revenue from the sale of the Company's copper and molybdenum concentrates is recorded net of smelter and refinery charges when persuasive evidence of an arrangement exists, delivery has occurred, the rights and obligations of ownership have passed to the customer and the sale price is known at the time of sale, subject to adjustments during the settlement period. Sales of concentrate are based on written sales agreements with Chile's Empresa Nacional de Minería ("Enami" or the "smelter") for copper sales and with Chile's Molibdenos y Metales S.A. ("Molymet" or the "roaster") for molybdenum sales, which provide that the sale price for copper is the market price at the end of the third month after delivery and the sale price for molybdenum is at the option of the roaster the market price at the end of the first, second or third month after delivery. In 2005 the molybdenum settlement period was three months from the month of delivery; accordingly, all deliveries by the Company in one quarter were sold at market prices prevailing in the following quarter. Sales for copper are provisionally recorded using forward prices and adjustments to revenue are made at the end of each month to reflect changes in market prices until the sale price is settled. Sales for molybdenum are provisionally recorded at the current molybdenum market price and adjustments to revenue are made at the end of month based on monthly prices until the sale price is settled. This practice increases the sensitivity of the Company's reported revenue to increases and decreases in copper and molybdenum prices. In a period of rising prices, not only will the Company record higher revenue for deliveries in the period, but it will also record favourable adjustments to revenue for copper and molybdenum delivered in the prior period. Similarly, in a period of declining prices, the Company will be required to record lower revenues for current deliveries and negative adjustments to revenue for the prior period's deliveries.

Revenue from custom processing of concentrates for others is recognized as other revenue when the processing is completed, the amounts to be received are known and collection is reasonably assured.

# Amerigo Resources Ltd.

## Notes to Consolidated Financial Statements

### December 31, 2005 and 2004

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(expressed in U.S. dollars)

#### **Contractual right**

At the time of the acquisition of MVC, the Company assigned the excess of the purchase price over the fair value of the tangible assets acquired to the MVC and Codelco contract for the processing of tailings from the El Teniente mine. This contractual right is amortized using the unit of production method.

#### **Income taxes**

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The Company has determined that future income tax assets from MVC are not to be considered under Canadian GAAP and has booked an adjustment to retained earnings of \$891,584 that eliminates this asset on a consolidated basis.

#### **Stock option plan**

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 and directors is followed. The adoption of this standard allowed retroactive application with restatement to prior periods. The effect of the retroactive restatement to 2003 earnings was a reduction in earnings of \$984,643.

#### **Earnings per share**

Earnings per common share are calculated using the weighted average number of common shares outstanding during each period. Diluted earnings per common share are calculated using the treasury stock method, which assumes that stock options are only exercised when the exercise price is below the average market price during the period, and that the Company will use the proceeds to purchase its common shares at their average market price during the period.

#### **Variable Interest Entities**

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

### **3 Note Payable**

As part consideration for the acquisition of MVC, the Company signed a Note Payable of \$3,400,000. The note, together with accrued interest, is payable on or before July 1, 2006 either in cash or by delivery of the number of shares of Amerigo that is calculated by dividing the total amount of principal and interest outstanding at July 1, 2006 by the average trading price of the Company's shares on the Toronto Stock Exchange during the 30

# Amerigo Resources Ltd.

## Notes to Consolidated Financial Statements December 31, 2005 and 2004

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(expressed in U.S. dollars)

days prior to July 1, 2006. Payment in cash or shares is at the option of the Company; however, if the Company chooses to pay in shares, the vendors may elect to receive the payment in cash, together with interest at an annual rate of 5%, on or before July 1, 2008.

### 4 Plant supplies and inventory

	<b>December 31, 2005</b>	<b>December 31, 2004</b>
	\$	\$
Plant supplies	1,023,225	1,028,955
Concentrate inventory	1,368,792	124,150
	<hr/>	<hr/>
	2,392,017	1,153,105
	<hr/>	<hr/>

### 5 Mineral property, plant and equipment

	<b>December 31, 2005</b>	<b>December 31, 2004</b>
	\$	\$
Plant and infrastructure	24,224,921	18,352,844
Machinery and equipment and other assets	30,861,640	10,051,408
	<hr/>	<hr/>
	55,086,561	28,404,252
Accumulated depreciation and amortization	(2,360,961)	(1,438,434)
	<hr/>	<hr/>
	52,725,600	26,965,818
	<hr/>	<hr/>

### 6 Contractual rights

At the time of the acquisition of MVC, the Company assigned the excess of the purchase price over the fair value of the tangible assets acquired to the MVC and Codelco contract for the processing of tailings from the El Teniente mine. The value of this contractual right was determined to be \$8,029,185. A future income tax liability of \$1,364,961 was recorded in connection with the contractual rights at which time the value of the rights was increased to \$9,394,146. The contract right and the associated future income tax liability are amortized using the unit of production method.

# Amerigo Resources Ltd.

Notes to Consolidated Financial Statements  
December 31, 2005 and 2004

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(expressed in U.S. dollars)

	<b>December 31, 2005</b>	<b>December 31, 2004</b>
	\$	\$
Contractual rights	9,394,146	9,394,146
Accumulated amortization	(1,089,063)	(602,696)
	<u>8,305,083</u>	<u>8,791,450</u>

## 7 El Teniente Royalty payable

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

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

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

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

## 8 Related party transactions

### a) Minority Interest

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

# Amerigo Resources Ltd.

## Notes to Consolidated Financial Statements December 31, 2005 and 2004

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(expressed in U.S. dollars)

The holders of the Class A shares are not entitled to any dividend or to other participation in the profits of Amerigo International, except for a total royalty dividend calculated as follows:

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

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

b) **Management fees**

During the year ended December 31, 2005 the Company paid or accrued \$259,068 in management fees to certain directors and officers of the Company.

c) **Directors fees and remuneration to officers**

During the year ended December 31, 2005 the Company paid or accrued \$96,864 in directors' fees to independent directors and \$86,631 in consulting fees to certain officers of the Company. Directors' fees and consulting fees to officers are categorized as Salaries, Consulting and Professional Fees in the Company's consolidated financial statements.

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

## 9 **Capital stock**

Authorized - Unlimited common shares without par value

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

In the year ended December 31, 2005 the Company received \$11,404,599 from the exercise of 20,317,773 share purchase warrants at exercise prices ranging from Cdn\$0.25 to Cdn\$0.70 per share purchase warrant. The Company also received \$736,696 from the exercise of 713,000 stock options at exercise prices ranging from Cdn\$0.36 to Cdn\$1.60 per stock option.

# Amerigo Resources Ltd.

Notes to Consolidated Financial Statements  
December 31, 2005 and 2004

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(expressed in U.S. dollars)

## b) Stock options

### Stock option plan

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

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

	Twelve months ended December 31, 2005		Twelve months ended December 31, 2004	
	Outstanding options	Weighted average exercise price Cdn\$	Outstanding options	Weighted average exercise price Cdn\$
Balance – start of period	1,675,000	1.14	1,680,000	0.96
Granted	1,335,000	1.62	225,000	1.85
Exercised	(713,000)	1.24	(230,000)	0.54
Expired	-	-	-	-
Balance – end of period	<u>2,297,000</u>	1.39	<u>1,675,000</u>	1.14

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

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

# Amerigo Resources Ltd.

## Notes to Consolidated Financial Statements December 31, 2005 and 2004

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(expressed in U.S. dollars)

On May 11, 2004 the Company granted stock options to purchase an aggregate of 75,000 common shares to Aurora Davidson, the Company's Chief Financial Officer, with an exercise price of Cdn\$1.55 per share, expiring on May 11, 2009. The Company recorded a stock-based compensation of \$41,153 associated with this option grant.

On October 5, 2004 the Company granted stock options to purchase an aggregate of 150,000 common shares to Robert Gayton and Ruston Goepel, directors of the Company, with an exercise price of Cdn\$2.00 per share, expiring on October 5, 2009. The Company recorded a stock-based compensation of \$113,593 associated with this option grant.

### Value assigned to stock options

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Balance – beginning of period	1,092,711	986,390
Options granted	545,089	154,746
Transfer to capital stock on exercise of stock options	(418,606)	(48,425)
Balance – end of period	<u>1,219,194</u>	<u>1,092,711</u>

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

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

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

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

The Company estimated that the fair value of 75,000 options granted in May 2004 was \$0.55 per option by using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Expected dividend yield	0%
Expected stock price volatility	51.6%
Risk-free interest rate	4.00%
Expected life of options	5 years

# Amerigo Resources Ltd.

Notes to Consolidated Financial Statements  
December 31, 2005 and 2004

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(expressed in U.S. dollars)

The Company estimated that the fair value of 150,000 options granted in October 2004 was \$0.76 per option by using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Expected dividend yield	0%
Expected stock price volatility	50%
Risk-free interest rate	4.10%
Expected life of options	5 years

The following stock options were outstanding and exercisable as at December 31, 2005:

<b>Range of exercise prices Cdn\$</b>	<b>Number exercisable</b>	<b>Weighted average remaining contractual life</b>	<b>Weighted average exercise price Cdn\$</b>
0.36 to 2.00	<u>2,297,000</u>	3.46 years	1.39

## c) Warrants

During the year ended December 31, 2005, 20,317,773 warrants with exercise prices ranging from Cdn\$0.25 to Cdn\$0.70 were exercised for net proceeds of \$11,404,599.

On June 20, 2005, 6,243 warrants with an exercise price of Cdn\$0.70 expired unexercised. There are no warrants outstanding at December 31, 2005.

## d) Dividends

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

## 10 Disposition of mineral properties

On January 2004 the Company entered into an agreement to sell a 100% interest in three Canadian exploration properties to Nikos for consideration on closing of 5,000,000 shares of Nikos, and contingent consideration of a further 5,000,000 Nikos common shares in the event Nikos retained the mineral properties on June 30, 2005.

The Nikos shares received on closing were valued at \$477,230 (the equivalent at closing of Cdn\$650,000, a value of Cdn\$0.13 per Nikos share). The Company recorded the original investment in Nikos as a long-term

# Amerigo Resources Ltd.

## Notes to Consolidated Financial Statements December 31, 2005 and 2004

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(expressed in U.S. dollars)

investment in its Consolidated Balance Sheet and recorded a gain on disposition of \$146,259 on disposition of these properties.

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

On receipt of the second instalment of Nikos shares on June 30, 2005, the Company became a holder of 27% of Nikos's then outstanding shares, a situation where significant influence exists. Accordingly, on June 30, 2005 the Company started using the equity method to account for its investment in Nikos.

Under the equity method, the Company recorded Investment Income of \$32,062 during the year ended December 31, 2005 for the proportional share (27%) of Net Income recorded by Nikos during this period.

### 11 Write-off of mineral properties

During the year ended December 31, 2004 and following the disposition of three of its mineral properties (Note 9), the Company recorded a write-off of \$49,529, being the full book value of its two remaining Canadian mineral properties.

### 12 Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate to the effective tax rate is as follows:

	<b>Twelve months ended December 31, 2005</b>	<b>Twelve months ended December 31, 2004</b>
Combined federal and provincial statutory tax rate	34.86%	35.62%
Income tax at statutory rates	8,018,702	4,863,396
Difference in foreign tax rates	(4,406,657)	(3,104,422)
Benefit of Canadian deductible temporary differences not recognized	-	659,293
Other non deductible items, Canada	182,076	57,844
Other non deductible items, Chile	250,645	71,053
Provision for Chilean deductible temporary difference	-	927,728
Change in valuation allowance	142,476	-
Other	203,611	(337,785)
Income tax expense (recovery)	<u>4,390,854</u>	<u>3,137,107</u>

# Amerigo Resources Ltd.

## Notes to Consolidated Financial Statements December 31, 2005 and 2004

(expressed in U.S. dollars)

Future income taxes are provided for to account for temporary differences. The significant components of future income tax assets and liabilities at December 31, 2005 and December 31, 2004 are as follows:

	<b>December 31, 2005 (\$)</b>	<b>December 31, 2004 (\$)</b>
<b>Future income tax assets</b>		
Unused tax losses, Canada	847,632	891,008
Unused tax losses, Chile	-	618,542
Resource assets, Canada	463,777	475,975
Plant and equipment, Canada	11,882	7,566
Other intangible assets, Canada	198,246	289,465
Other deductible temporary differences, Chile	372,886	304,044
	<u>1,894,424</u>	<u>2,586,600</u>
<b>Future income tax liabilities</b>		
Plant and equipment, Chile	(3,335,237)	(2,810,734)
Contractual right	(1,206,762)	(1,277,467)
	<u>(4,541,999)</u>	<u>(4,088,201)</u>
Net future tax asset before valuation allowance	(2,647,575)	(1,501,601)
Less valuation allowance, Canada	(1,521,537)	(1,664,014)
Less valuation allowance, Chile	-	(14,495)
Net future tax asset (liability)	<u>(4,169,112)</u>	<u>(3,180,110)</u>

As at December 31, 2005, the Company had non-capital losses and cumulative exploration, development and depletion expenses in Canada of approximately \$2,484,000 and \$1,360,000 respectively carried forward for tax purposes and which are available to reduce taxable income in future years.

The non-capital losses expire in the years presented below:

	\$
2006	147,000
2007	108,000
2010	627,000
2014	1,161,000
2015	441,000
	<u>2,484,000</u>

# Amerigo Resources Ltd.

Notes to Consolidated Financial Statements  
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(expressed in U.S. dollars)

The Canadian resource pools consist of the following amounts. The cumulative exploration, development and depletion expenses can be carried forward indefinitely.

	\$
Cumulative Canadian Exploration Expenses	966,000
Foreign Exploration and Development Expenses	394,000
	<hr/>
	1,360,000
	<hr/>

As at December 31, 2005 the Company had no material unused tax losses in Chile.

The Company has non-resident subsidiaries that have undistributed earnings. Provisions have not been recorded for taxes that may arise on repatriation of these earnings, as these undistributed earnings are not planned to be repatriated in the foreseeable future.

## 13 Supplemental Disclosure with Respect to Cash Flows

	<b>Twelve months ended December 31, 2005 (\$)</b>	<b>Twelve months ended December 31, 2004 (\$)</b>
Proceeds from sale of mineral properties	-	477,230
Cash paid during the year for interest	34,050	102,512
Cash paid during the year for income taxes	266,511	85,787
	<hr/>	<hr/>
	<b>December 31, 2005(\$)</b>	<b>December 31, 2004(\$)</b>
Cash	11,690,227	4,377,285
Cash equivalents	1,263,289	3,861,804
	<hr/>	<hr/>
	12,953,516	8,239,089
	<hr/>	<hr/>

## 14 Financial Instruments

### Fair value of financial instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, El Teniente royalty payable and notes payable. The fair value of these financial instruments approximates their carrying value.

# Amerigo Resources Ltd.

Notes to Consolidated Financial Statements  
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(expressed in U.S. dollars)

The Company is not exposed to significant interest and credit risks arising from these financial instruments but is exposed to currency risk derived from exchange rate fluctuations of the Chilean peso to the U.S. dollar that could have a material effect on the Company's business, financial condition and results of operations. The Company has not entered into foreign currency contracts or other instruments to mitigate this risk.

## **Concentration of credit risk**

Concentration of credit risk in trade accounts receivable resides with three customers. Two of the customers are Chilean state companies for which the Company does not require collateral. The Company has estimated that no allowances are required to allow for potential credit losses, as the risk of non-performance is remote.

## **15 Segmented information**

As at December 31, 2005, the Company's assets are located mainly in Chile and its revenues arise from its Chilean operations. The Company's sales to one customer represent 73% of reported revenue.

## **16 Commitments**

MVC has certain commitments to sell copper concentrate to Enami on a yearly basis for each year from 2006 to 2008. It also has certain commitments to sell molybdenum concentrate to Molibdenos y Metales S.A. ("Molymet") on a yearly basis to 2007.

## **17 Guarantees**

As required by contract, MVC has provided Codelco with a guarantee in the form of letter of credit with Banco de Chile in the amount of UF 4,500 or approximately \$157,828 at December 31, 2005, renewable on February 5, 2008. UF refers to "Unidades de Fomento" an indexed monetary unit utilized in Chile.

## **18 Subsequent events**

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

# **Amerigo Resources Ltd.**

Notes to Consolidated Financial Statements

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(expressed in U.S. dollars)

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

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