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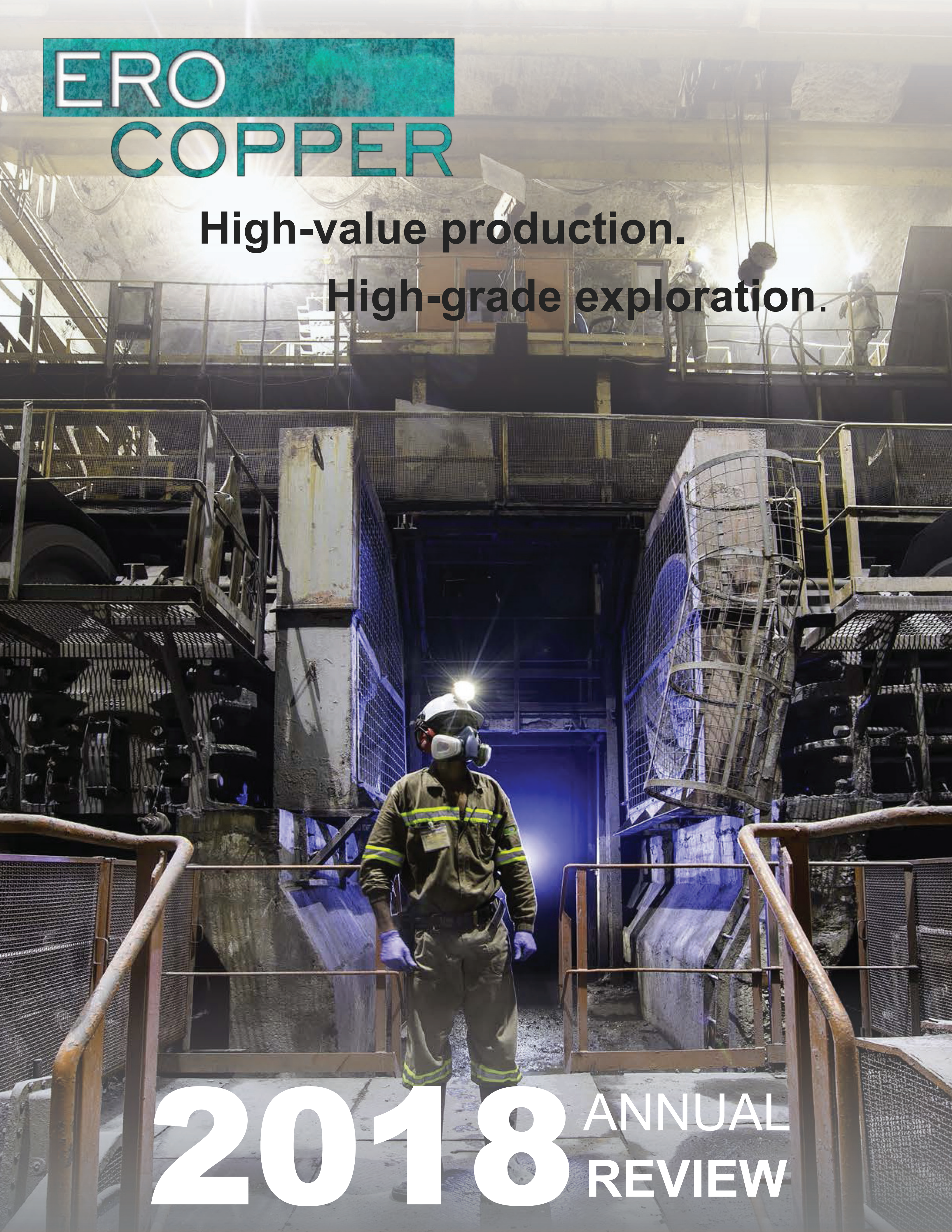


High-value production.

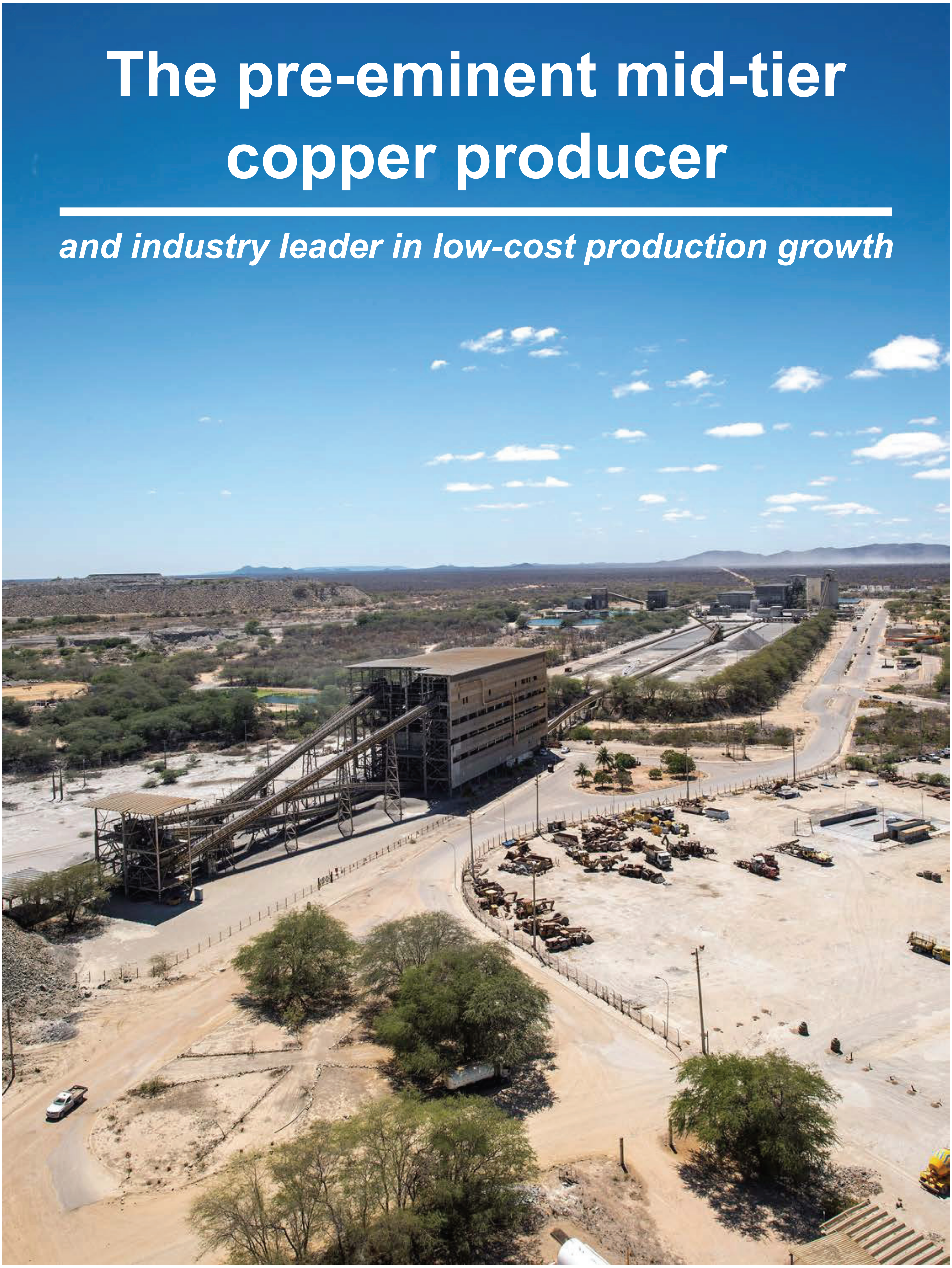
High-grade exploration.

2018 ANNUAL REVIEW

Contents

The pre-eminent mid-tier copper producer

and industry leader in low-cost production growth



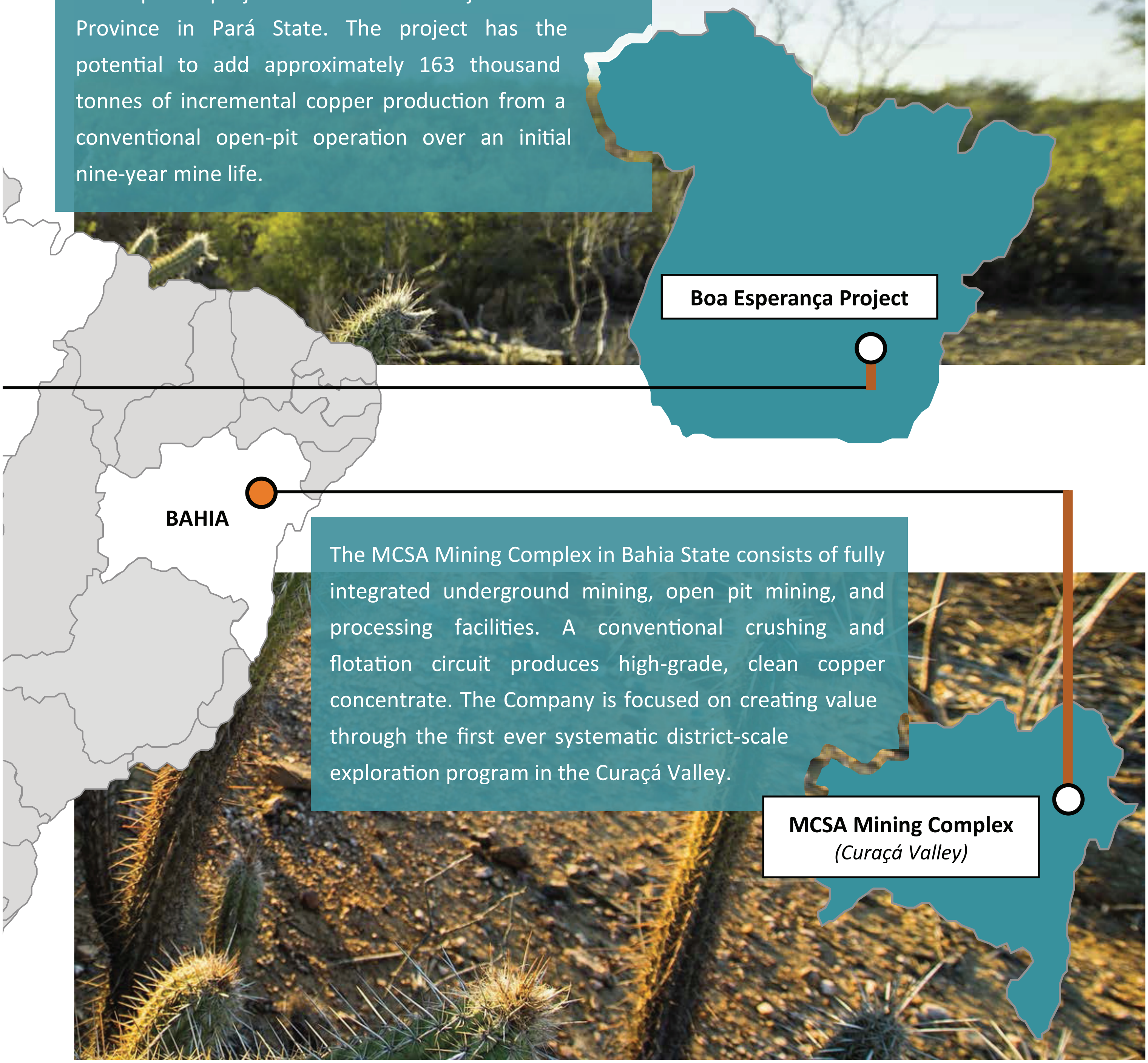
A World-Class Asset Portfolio

Curaçá Valley, Bahia, Brazil

The high-grade NX Gold Mine, located in Mato Grosso State, produces gold and silver. Underground mining occurs at the Brás and Buracão Veins, with ore processed via a conventional gravity concentration and intensive leach followed by carbon in leach treatment at the Nova Xavantina Mill. Aggressive exploration is underway.

With a portfolio of high-value, under-explored, and low-cost producing assets in Brazil, Ero Copper is delivering organic growth across its portfolio.

The Boa Esperança Project is a 'turn-key' copper development project located in the Carajás Mineral Province in Pará State. The project has the potential to add approximately 163 thousand tonnes of incremental copper production from a conventional open-pit operation over an initial nine-year mine life.



The MCSA Mining Complex in Bahia State consists of fully integrated underground mining, open pit mining, and processing facilities. A conventional crushing and flotation circuit produces high-grade, clean copper concentrate. The Company is focused on creating value through the first ever systematic district-scale exploration program in the Curaçá Valley.

History at a Glance

FINANCIAL MILESTONES

OPERATIONAL EXECUTION

EXPLORATION SUCCESS

ACQUISITION
Ero Copper Corp. successfully acquires Mineração Caraíba S.A.

Feb 2017

EQUITY FINANCING
Closed US$27.6 million private placement, commence construction of Vermelhos

Mar 2017

OPERATIONS RESTART
Mining and processing operations resumed at Pilar; ramp-up and optimization efforts begin

Oct 2017

IPO
Raised US$50.9 million in the second best performing IPO on the TSX in 2017

$4.75
October 19, 2017

DEEPE
New disco
resources
mineraliza

From the acquisition of Mineração Caraíba S.A. in late 2016 through to the end of 2018, Ero Copper has continued to deliver value to its shareholders.

DEBT REFINANCING

Refinanced significant portion of debt at a discount, resulting in a US$25.6 million reduction in total debt

DEBT REFINANCING

Refinanced outstanding senior secured debt with new US$130 million credit facilities resulting in significant deferral of principal payments

RESOURCE UPDATE

More than 100% increase in mineral resources and reserves at the Vale do Curaçá property

VERMELHOS

Commissioned on budget and approximately four months ahead of schedule

ENING EXTENSION

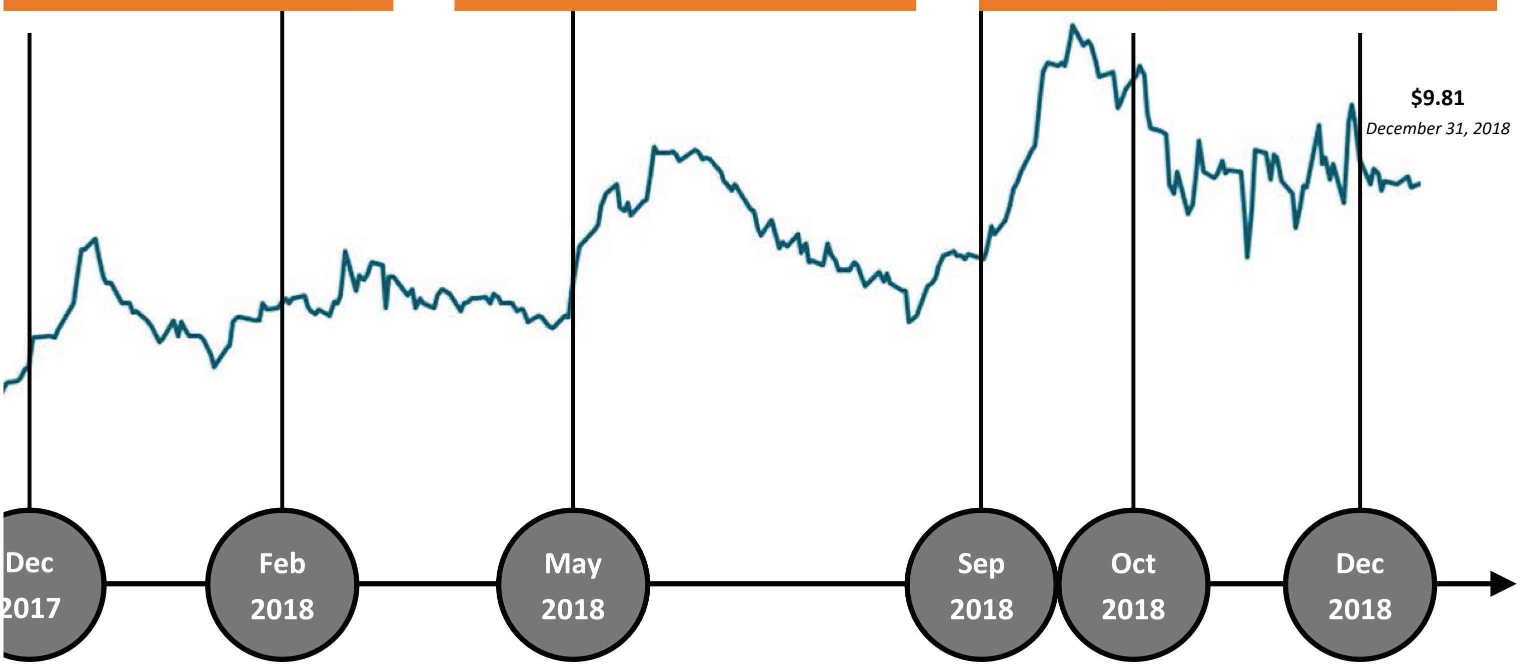
very of high-grade mineral below extent of known tion at Pilar

WEST LIMB

New discovery of parallel zone of copper mineralization to the West of known mineralization at Pilar

VERMELHOS EAST

New discovery of a mineralized zone to the east and below the extent of known mineralization at Vermelhos



Chairman Letter

DEAR SHAREHOLDERS,

As we complete our second full year of operations at Ero Copper Corp., we continue to be pleased with the performance and track-record of execution the Company has established to date. While 2017 was a year of rebuilding, 2018 has proven to be a year of stabilization and growth both financially and operationally. With the comissioning of the Vermelhos Mine ahead of schedule, we believe the business now has a stable foundation on which to accelerate into a new period of growth and optimization. I would like to thank you for your continued support of the Company as we work towards achieving new milestones in the years ahead.

Looking back on 2018, it is worth emphasizing that our operational teams in Brazil continue to be the cornerstone of the Company. Without the extraordinary depth of knowledge and experience of our broader management teams, and the strong support of our local partners and communities, we surely would not be where we are today. It is a privilege to work together with such driven and talented individuals on a daily basis.

While we achieved many significant milestones in 2018, our greatest achievement was the comissioning of our new high-grade Vermelhos Mine, on-budget and four months ahead of schedule. We commenced full-scale mining and processing of ore from Vermelhos during the third-quarter, and achieved commerical production by the end of the year, a major de-risking event for the Company. Along with the comissioning of Vermelhos, a major debt restructuring at year-end, advancement of our district-scale exploraton programs, and an improved life-of-mine production plan announced mid-year rounded out a significant year for our company.

For 2019, we have turned our focus from stabilization to execution of our exploration programs, contined optimization, and growth. With over US$20 million allocated for exploration this year, we fully expect this investment to continue to create shareholder value by further increasing our mineral resources and reserves and extending the mine life at Pilar and at Vermelhos.

Regarding our ongoing exploration efforts in the Curaçá Valley, we remain incredibly excited about the emerging district-potential of our asset portfolio. At the same time, we continue to deliver exploration succcesses within and around our existing operations.

Although the primary focus of our drilling campaign remains on high-value, near-mine targets, the momentum of our regional exploration program will increase throughout the year. Targeting and prioritization of regional anomalies is ongoing, and a noteworthy portion of our 2019 exploration program will focus on regional targets throughout the Curaçá Valley.

We remain focused on driving value as the industry's leading mid-tier copper producer. Our entire management team is fully committed to unlocking the incredible potential of this new copper district, continuing to grow the Company in an organic and sustainable way, and better serving the communities in which we operate.

Christopher Noel Dunn

Executive Chairman

March 14, 2019

CEO Review

DEAR SHAREHOLDERS

2018 was another transformational year for the Company. By maintaining a strong focus on financial stability, execution of core objectives, operational achievement, and aggressive exploration, the Company was able to successfully achieve all of the major objectives we set for 2018. The ongoing success of the Company continues to center upon the quality of our assets, a world class operating team and the continued support of our shareholders. In 2019, we continue to build on the foundation that we have created, maintaining our focus on operational excellence, continuous improvement, and delivering organic growth through exploration.

FINANCIAL STRENGTH AND DEBT REFINANCING

Following the US$25.6 million reduction in debt at the end of 2017, the focus for 2018 financially was two-fold. First, extending mine-life provided the catalyst for the successful restructuring of our debt that was completed in December of 2018, and second, ensuring that the Vermelhos Mine was constructed on time and on budget. At the same time, we maintained our goals for significant expansion of our exploration programs. In spite of weakening copper prices during the second half of the year, we were able to achieve each of these milestones while ending the year in a strong financial position.

As noted previously, we successfully refinanced all of our outstanding US dollar denominated senior secured debt with a new US$130 million debt financing provided by The Bank of Nova Scotia and Bank of Montreal in December. This was comprised of a US$80 million senior secured amortizing non-revolving credit facility, and a US$50 million senior secured revolving term credit facility.

These facilities were used to refinance approximately US$119 million in outstanding debt held by the Company, resulting in a significant reduction in principal payment obligations in 2019 and 2020. In addition to deferred principal payments, the new debt structure facilitated a material reduction in the Company's cost of borrowing when compared to its previous debt agreements, while the revolving facility allows for enhanced operational and financial flexibility.

BEST SAFETY RECORD IN HISTORY OF COMPANY

Safety is a core value of the Company. Following the acquisition of MCSA in 2016, we implemented new programs, and significantly expanded existing programs, aimed at risk assessment, risk mitigation and improving our safety culture. A strong commitment to our internal audit programs, has resulted in a material decrease in the number of high-energy incidents and near-misses at our operations. We are committed to improving the safety of all of our operations and ensuring that each of our employees has the tools and training to perform their jobs effectively and safely.

In 2018 we had a total of two lost time injuries at our operations, a significant decrease as compared to 2017, and the best safety record MCSA has achieved in its 39 year operating history. While we are extremely pleased with this result, we remain committed to our goal of zero lost time injuries.

As it relates to the environment, we are committed to maintaining our outstanding environmental track record. This includes using clean hydroelectric power, as well as new initiatives aimed at reducing fresh water use by recovering and recycling more water on site. These programs are hard at work towards minimizing our impact on the environment and our local communities.

OPERATIONAL ACHIEVEMENT & ORGANIC GROWTH STRATEGY

Following the restart of mining operations in Q1 2017, and ramp-up of our operations during the remainder of the year, 2018 marked our first full-year of mining and processing operations at MCSA. As a credit to our operating teams, despite undertaking deferred maintenance on both the shaft and the underground crushing facilities, our team managed to maintain and increase production volumes from the Pilar underground mine throughout the year.

The most significant operational milestone of the year was achieved on October 11, 2018, when we received the final operating license for our newly constructed Vermelhos Mine. The construction and commissioning of our newest mine on-budget, and four months ahead of schedule, is a testament to the depth of our operational teams in Brazil and reinforces our view that the Curaçá Valley is as well-poised as ever to realize the organic growth potential we see before us.

The successful commissioning of the Vermelhos Mine ahead of schedule, allowed us to augment our production and exceed our updated production guidance for the year. In 2018, the plant processed 2.3 million tonnes of ore at an average grade of 1.56%, producing 30,426 tonnes of copper in concentrate after metallurgical recoveries of 86.3%. Production exceeded the top end of our initial guidance by almost 3,000 tonnes of copper, representing a 51% increase in copper production year-on-year. An important milestone was reached at our mill in the fourth quarter, when a total of 777,500 tonnes of ore were processed. This quarterly throughput represents an annualized mill throughput of 3.12 million tonnes, demonstrating that the mill is capable of processing at its current nameplate capacity.

During 2019, we anticipate that our operations will produce between 36,000 and 38,000 tonnes of copper in concentrate at C1 Cash Costs[1] of US$1.00 to US$1.10 per pound of copper. Several optimization projects are ongoing, focused on streamlining our mining operations and significantly improving plant recoveries. These projects will continue throughout 2019 as we continuously seek ways to improve our business.

1. C1 Cash Costs defined in the MD&A following this annual review.

Delivering Exploration Success

BUILT UPON EXPLORATION SUCCESS

Over the last year, ongoing exploration programs and continued successes have reinforced our view that the Curaçá Valley has the potential to be one of the world's great copper mineral districts. With the completion of our airborne geophysical survey and drill program in 2018, we are now focused on identifying and prioritizing new prospective targets both in and around our existing operations and regionally. With over 130,000 meters of drilling planned for 2019, we are focused on unlocking the potential of the Curaçá Valley for our shareholders.

AGRESSIVE EXPLORATION

Our exploration programs are focused on delivering the highest return on invested capital to our shareholders. Exploration programs targeting near and in-mine zones of mineralization make up the majority of the planned drill program for 2019, as they provide expansions to our existing asset base and add high-value tonnage to our mineral inventory. The balance of our exploration programs are focused on the highest-priority targets throughout the Curaçá Valley.

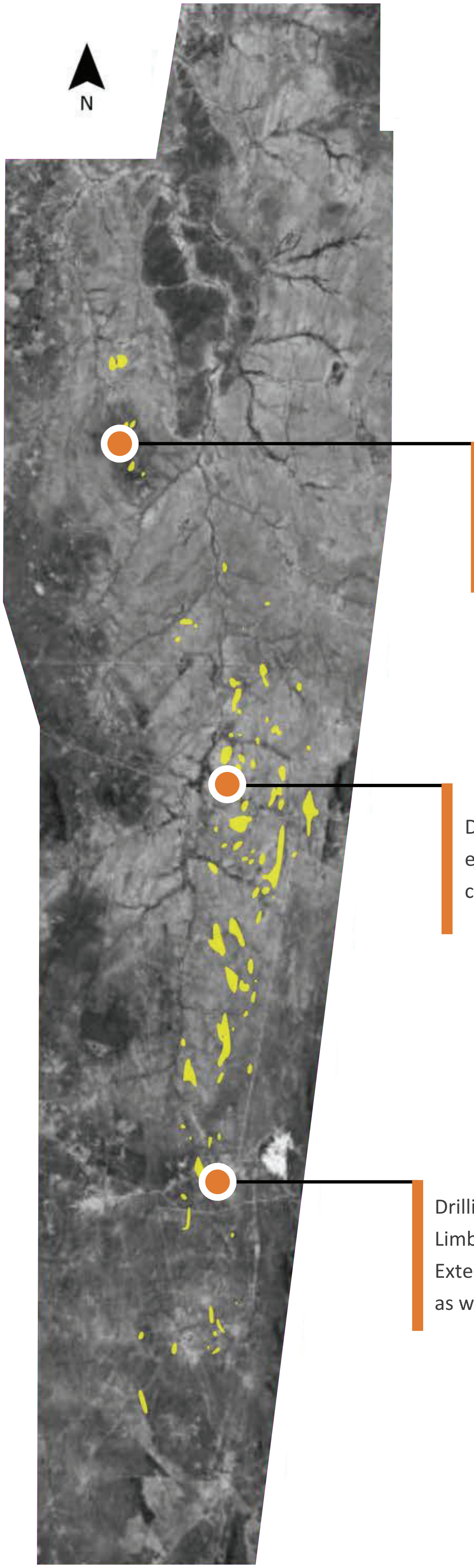
At the end of 2018, we had a total of 17 drill rigs on site. By the end of the first quarter of 2019, we expect this number to increase to 22 drill rigs. This increased rig count will help us to complete our planned drill programs focused on near-mine targets and resource conversion without diverting resources from our regional drill programs. Near-mine exploration for 2019 is focused on the three primary mining areas in the Curaçá Valley: the Pilar District, the Surubim District, and the Vermelhos District.

We anticipate that the bulk of this drilling will be completed in the first three quarters of the year, with the majority of the drilling reflected in an updated Technical Report and mine plan, which we expect to finalize during the third quarter of 2019.

DISTRICT-SCALE EXPLORATION

In 2018, district scale exploration was focused primarily on the completion of our airborne electromagnetic and gravity geophysical survey of the entire Curaçá Valley. Following the completion of the geophysical survey in the fall, these new high-quality data-sets were systematically layered for a combined total of 40 datasets, that include, among others, soil geochemistry, geological mapping, induced polarization data, and satellite imagery. These combined datasets are being applied in a probabilistic way, using our known mines as analogues, in order to prioritize the significant number of targets we see within the Valley. These programs remain ongoing with the first-pass target selection completed in early 2019.

The significant number of exploration targets that were identified with the airborne geophysical survey and probabilistic approach exceeded our expectations. We are currently focusing our exploration efforts on the highest priority targets as identified using these methods. We have allocated 17,500 meters of district-scale exploration drilling to test these targets during the first three quarters of 2019, giving us flexibility to perform follow-up drilling during the fourth quarter.



NEAR-MINE EXPLORATION

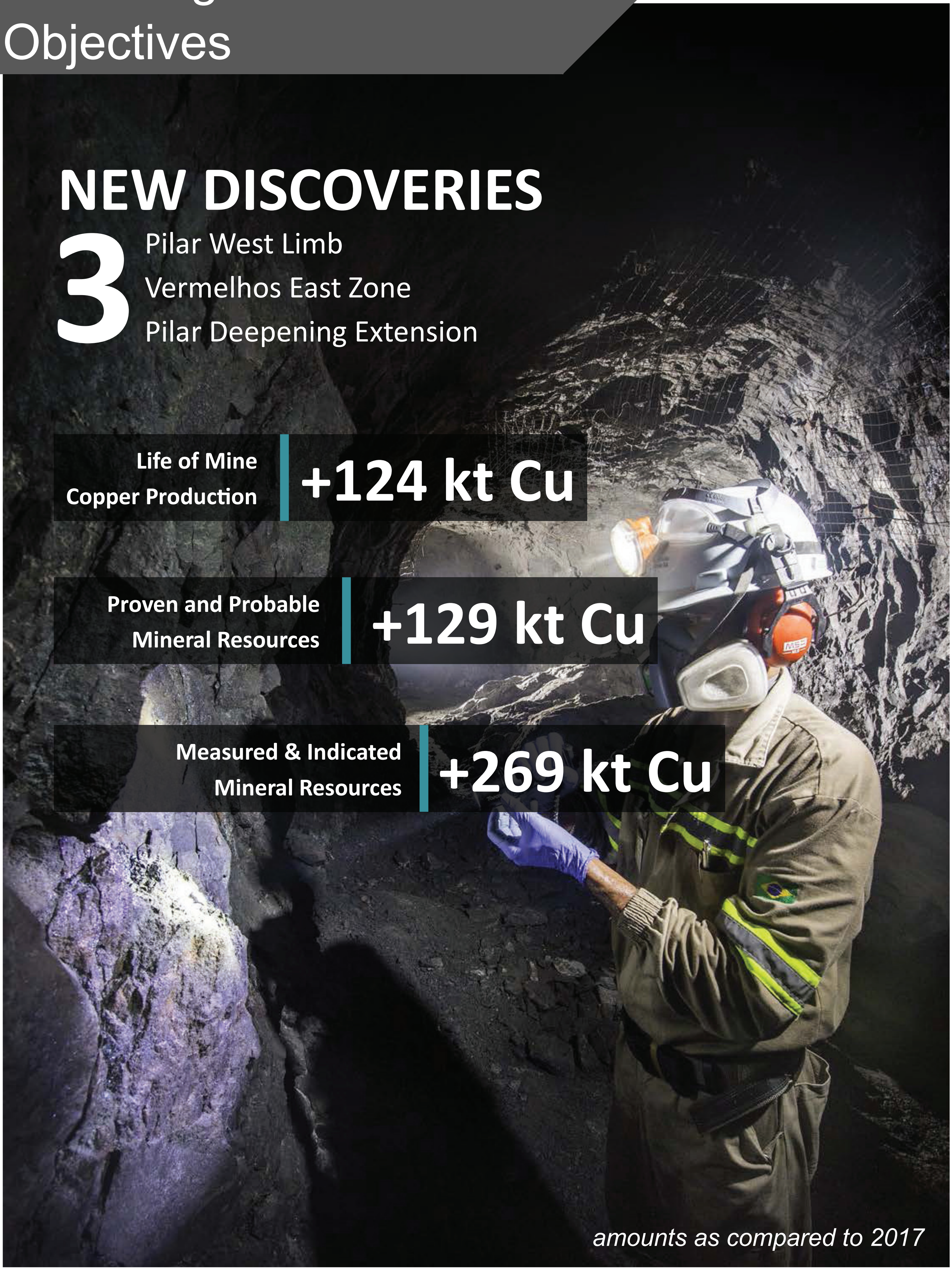
Over the course of 2018, near-mine exploration was focused primarily on drilling targets within our existing mines, given the proximity of underground infrastructure adjacent to these zones. In 2018, we announced three new major discoveries, including the West Limb at Pilar, the Deepening Extension at Pilar, and the East Zone at Vermelhos. These discoveries have served not only as a proof-of-concept for our exploration programs, but will continue to contribute to our organic growth strategy going forward.

Drilling at Vermelhos continues to focus on definition of the East Zone, and testing continuity between UG1 and Vermelhos West, a trend of approximately 1.1 kilometers. Additionally, we will continue to test the known extent of the main high-grade orebodies of the mine.

Drilling at Surubim is focused on exploration targets adjacent to the existing open-pit. In addition, follow-up drilling is planned to test the continuity of mineralization below the open-pit mine to depth.

Drilling at Pilar is focused primarily on testing extensions of the West Limb to the North, South, and to depth. Drilling of the Deepening Extension continues to test the known high-grade plunge to the North, as well as high-grade mineralization identified to the South.

Executing Core Objectives



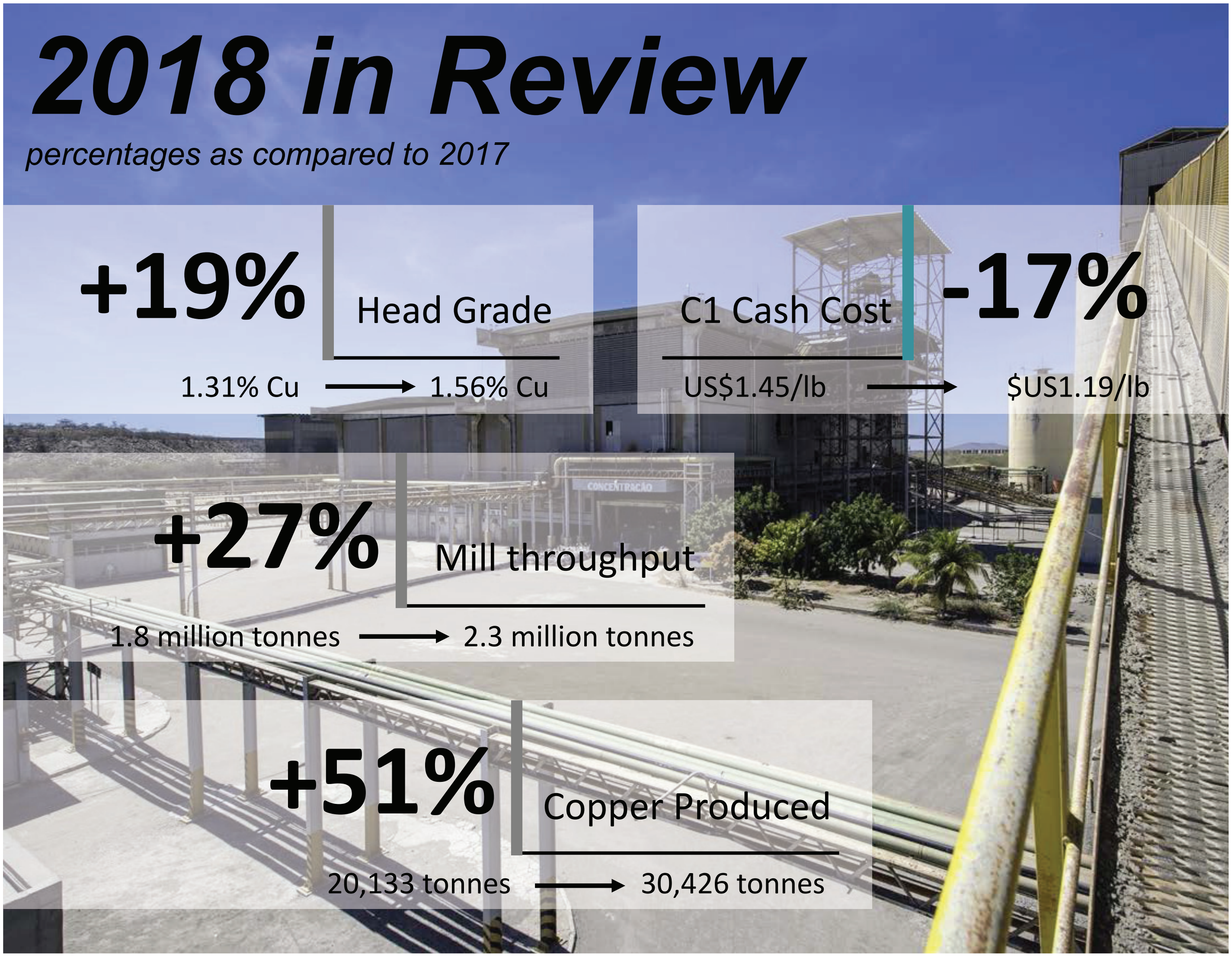
NEW DISCOVERIES

3

- Pilar West Limb
- Vermelhos East Zone
- Pilar Deepening Extension

Life of Mine Copper Production	**+124 kt Cu**
Proven and Probable Mineral Resources	**+129 kt Cu**
Measured & Indicated Mineral Resources	**+269 kt Cu**

amounts as compared to 2017



2018 in Review

percentages as compared to 2017

+19% Head Grade

1.31% Cu → 1.56% Cu

C1 Cash Cost **-17%**

US$1.45/lb → $US1.19/lb

+27% Mill throughput

1.8 million tonnes → 2.3 million tonnes

+51% Copper Produced

20,133 tonnes → 30,426 tonnes

OUTLOOK

2019 promises to be yet another exciting and transformative year for the Company. With the construction of the Vermelhos Mine and the airborne geophysical survey completed, we look forward to ramping up production, increasing throughput through the mill, improving the efficiency and operating life of our existing operations, and unlocking the exploration potential of the Curaçá Valley for the first time in its long history.

As always, our core value remains the safety and well being of our employees and stakeholders. We will continue to advance the programs we commenced in 2017 and work towards our goal of zero lost time injuries.

David Strang

President, CEO, and Director

March 14, 2019

Board of Directors

CHRISTOPHER NOEL DUNN

Executive Chairman and Director

Mr. Dunn and Mr. Strang formed the Company in May 2016. Mr. Dunn has over 25 years' experience in the investment banking industry, primarily with Goldman Sachs managing a capital underwriting business in London. In later years he worked with Bear Stearns and JP Morgan as a leader of their respective investment banking practices in mining and metals. Mr. Dunn is a former director of Pan American Silver Corp. and Pretivm Resources Inc. Prior to forming Ero Resource Partners LLC in February 2014 with Mr. Strang, he was a Managing Director of Liberty Mining & Metals LLC, a subsidiary of Liberty Mutual Investments. Mr. Dunn holds a Master of Arts degree from the University of Edinburgh and a Master of Science degree from the University of Durham.

DAVID STRANG

President, CEO, and Director

Mr. Strang and Mr. Dunn formed the Company in May 2016. Mr. Strang serves as the President and Chief Executive Officer and as a director of the Company. Mr. Strang previously served as a director, President and Chief Executive Officer of Lumina Copper Corp. which was sold to First Quantum Minerals Limited in August 2014. Mr. Strang also served as a director, President and Chief Executive Officer of Lumina Royalty Corp. (sold to Franco Nevada Corporation in 2011), Global Copper Corp. (sold to Teck Resources in 2008), and Lumina Resources Corp. (sold to Western Copper Corp. in 2006). Prior to this, Mr. Strang served as President of Regalito Copper Corp. (sold to Pan Pacific in 2006), and Vice President, Corporate Development of Northern Peru Copper Corp. (sold to China Minmetals and Jiangxi Copper in 2008) and (the original) Lumina Copper Corp. Mr. Strang has approximately 23 years of corporate finance experience, particularly in the areas of corporate and asset valuation, and has approximately ten years of experience as an officer and director. Mr. Strang holds a Bachelor of Science in Applied Earth Sciences from Stanford University.

LYLE BRAATEN

Director

Mr. Braaten is the President and Chief Executive Officer of Miedzi Copper Corp., a private Canadian corporation involved in mineral exploration in Poland. Mr. Braaten is currently Vice President, Legal and a director of Lumina Gold Corp. Mr. Braaten joined the Lumina Group in 2008 and assisted in the creation of Magma Energy Corp., a renewable energy company focused on international geothermal energy development. In 2011, Magma and Plutonic Power merged to create Alterra Power Corp. In 2018, Alterra was acquired by Innergex Renewable Energy for $1.1B. Mr. Braaten is a former director of Anfield Gold Corp and Lumina Royalty Corp. Mr. Braaten received a law degree from the University of British Columbia in 1989 and a Bachelor of Science from the University of Calgary in 1986. Mr. Braaten is a member of the Law Societies of British Columbia and the Yukon.

STEVEN BUSBY

Director

Mr. Busby is the Chief Operating Officer of Pan American Silver Corp. with over 30 years of experience in the mining business where he has participated in successful mine development, construction and operations in both North and South America, Africa and Asia. As Chief Operating Officer, he is responsible for Pan American's operations, projects, safety, and corporate social responsibility within a large multi mine organization. Mr. Busby has previously held positions in a privately owned consulting firm, Coeur d'Alene Mines Corp., Amax Gold Inc., Meridian/FMC Gold Company, and Nerco Minerals Company. Mr. Busby is a former director of Anfield Gold Corp. Mr. Busby holds a Bachelor of Science degree in Mineral Processing Engineering and is a member of the Montana Tech Metallurgical Engineering Department Advisory Board.

ROBERT GETZ

Director

Robert Getz brings over 30 years of experience in public and private investments and international mergers and acquisitions. Mr. Getz currently serves as Managing Partner of Pecksland Capital Partners (since December 2015), a private investment and advisory firm. Mr. Getz previously served as a Founder and Managing Director of Cornerstone Equity Investors (from September 1996 until December 2016), a private equity investment company. Mr. Getz has served as a director of numerous public and private companies, including many metals and mining companies. He currently serves as the Chairman of the board of directors of Haynes International, Inc., a developer and producer of specialty nickel alloys. Mr. Getz previously served as Chairman of the board of directors of Crocodile Gold Corp., a gold mining company with operations in Australia, prior to the company's merger with Newmarket Gold in July 2015. Mr. Getz subsequently served as a director of Newmarket Gold Inc. until May 2016. Newmarket Gold Inc. was subsequently acquired by Kirkland Lake Gold Ltd. in December 2016. Mr. Getz holds a Bachelor of Arts, cum laude, from Boston University, and a Master of Business Administration in Finance from the Stern School at New York University.

JOHN WRIGHT

Director

Mr. Wright is a Metallurgical Engineer and Honours graduate of Queen's University in Ontario. He has been providing business development services to Capstone Mining Corp. since December 2006. He has over 35 years' experience in many facets of the exploration and mining industry. Mr. Wright was a co-founder, and former Director, President and Chief Operating Officer of Pan American Silver Corp. Mr. Wright was also the co-founder of Equinox Resources. Previously, he spent 10 years with Teck Cominco where he worked at the Trail Smelter operations and later participated in the management of the feasibility studies, marketing and mine construction at the Afton, Highmont, Bull Moose and David Bell Mines. Mr. Wright is a former director of Lumina Copper Corp., Northern Peru Copper and Global Copper Corp. He is a Member of the Canadian Institute of Mining and Metallurgy and has a P.Eng. designation from the Association of Professional Engineers and Geoscientists of British Columbia.

MATTHEW WUBS

Director

Mr. Wubs is the Co-Chief Executive Officer of Westland Insurance Group Ltd., one of the largest private insurance brokerage operations in Canada. Westland directly manages over $700 million in premium volume through its brokerage, insurance company and wholesale operations. Mr. Wubs is responsible for oversight of insurance, reinsurance, risk management, finance and mergers and acquisitions. He joined Westland in the role of Controller in 1997 and thereafter held the position of Chief Financial Officer from January 2002 until December 2015. Previous to Westland, he held a consulting role in Management Information Systems at International Forest Products Ltd. and also obtained his Chartered Professional Accountant designation while working at Deloitte LLP.

Executive Management

CHRISTOPHER NOEL DUNN

Executive Chairman and Director

Please refer to the preceding page for Mr. Dunn's complete bio.

DAVID STRANG

President, CEO, and Director

Please refer to the preceding page for Mr. Strang's complete bio.

WAYNE DRIER

Chief Financial Officer

Mr. Drier is a seasoned finance executive with 20 years of corporate finance and capital markets experience within the global mining sector, spanning a wide range of commodities and jurisdictions. He was most recently the executive responsible for Corporate Development at Asanko Gold Inc., a TSX/NYSE listed gold producer. Previous roles include senior executive positions at Mantra Resources, BHP Billiton and Norilsk Nickel International. Mr. Drier holds an Honours Bachelor of Business Science degree from the University of Cape Town, South Africa.

MIKE RICHARD

Chief Geological Officer

Mr. Richard has 25 years' experience in the mining industry specializing in the discovery, evaluation, and development of copper, zinc, polymetallic and gold deposits. He was most recently Director of Exploration and New Business, Latin America with Lundin Mining Corporation . Prior to joining the Lundin Group, Mr. Richard served as General Manager for Teck Exploracion Minera Chile.

MAKKO DEFILIPPO

Vice-President, Corporate Development

Mr. DeFilippo is a diversified mining finance and technical professional specializing in strategic planning, M&A advisory and mineral processing. He was most recently a Director, Corporate Finance within FTI Consulting's Global Mining Advisory Practice where he advised both mining companies and mining-focused private equity firms on mergers, acquisitions, divestitures, and restructuring initiatives. Prior to joining FTI, Mr. DeFilippo was a Partner of Ero Resource Partners and an Investment Analyst for Liberty Metals & Mining LLC, the mining private equity group of Liberty Mutual Group. Previous roles have included research and consulting positions in geotechnical mine design and mineral processing. He holds an M.Sc. in Metallurgical Engineering from the Colorado School of Mines and a B.Sc. in Geological Engineering from the University of Arizona.

MICHAL ROMANOWSKI

Vice-President, Evaluations and Planning

Mr. Romanowski is specialized in the evaluation and analysis of base metal, precious metal, and industrial mineral projects ranging in stage from exploration to production. Prior to joining the Company, he was a partner with Ero Resource Partners and an investment analyst at Liberty Metals & Mining LLC where he was involved in the technical due diligence and financial analysis of mining projects and investments. Prior to Liberty, he held various roles in the mining industry primarily focused on business development and financial analysis. Mr. Romanowski holds a Master of Engineering in Mineral Resources and a Bachelor of Science in Geological Engineering, both from the University of Arizona.

MANOEL VALÉRIO DE BRITO

Co-CEO and COO of MCSA

Mr. Brito has served as COO of MCSA since 2014. He previously worked at the MCSA operations from 1984 to 1996 in various capacities including Mine Planning Manager and CSO (Chief of Strategic Office) and held the role of COO previously from 2006 to 2012. Mr. Brito's experience also includes operational and management roles within Votorantim Group from 1997 to 2005.

EDUARDO DE COME

Co-CEO and CFO of MCSA

Mr. De Come has 30 years of experience in finance management. He has spent the last 15 years working for companies in the commodities sector (biofuels, agribusiness and mining) and has been the CFO of MCSA since 2013.

DEEPK HUNDAL

Vice-President, General Counsel and Corporate Secretary

Mr. Hundal joined the Company in July 2017. He was most recently General Counsel of Retirement Concepts Seniors Services Ltd. one of the largest seniors' care providers in western Canada. Previous roles have included Vice-President, Legal of Elgin Mining Ltd. and Vice-President, Legal and Corporate Secretary of Aura Minerals Inc., which he joined in 2012 and 2007, respectively. Prior thereto, he worked with Fraser Milner Casgrain LLP (now Dentons LLP), a large national Canadian firm, in the areas of corporate, commercial, securities and mining law and for Borden Ladner Gervais LLP, a large national Canadian firm, in the area of corporate and commercial law.

JONATHAN SINGH

Vice-President, Finance

Mr. Singh has over 14 years of experience in the resource industry. He has worked with both development and producing resource companies (Magma Energy Corp, Silver Standard Resources, First Quantum Minerals) as well as junior exploration companies (Kaminak Gold, Canplats Resources). Prior thereto, Mr. Singh worked for 10 years in public practice with a focus on the audit of resource based companies as well as tax advisory services. Mr. Singh holds a Bachelor of Accounting Science degree from the University of Calgary and is a member of the Chartered Professional Accountants of Canada.

PABLO MEJIA-HERRERA

Vice-President, Exploration

Mr. Mejia is a Geological Engineer with more than 14 years' experience in exploration, 3D modeling and mining of ore deposits. Prior to joining the Company, he worked as a senior consultant with Mira Geoscience Ltd. on diverse deposit types in Canada and throughout Latin America, including the copper deposits of the Curaçá Valley, Brazil. He has cross-disciplinary skills in economic geology, resource potential modeling, and mine engineering. He has conducted research in 3D structural modeling applied to mineral resources, specifically the copper deposits in Poland and Germany (Kupferschiefer). He holds Ph.D. and M.Sc. (Honours) degrees in Geosciences from the University of Lorraine (France).

ANTHEA BATH

Vice President, Technical Services

Mrs. Bath serves as Vice President, Technical Services of the Company. She has over 15 years experience in the mining industry in roles spanning the value chain. Prior to joining the Company, she worked for Sibanye Gold as VP, Commercial Services. Prior to this, she held several senior positions with Anglo American Platinum including in supply chain, business optimization and market development. Mrs. Bath founded and was formerly the CEO of an energy development company headquartered in South Africa. She holds a Masters degree in Environmental Engineering and a Bachelors degree in Chemical Engineering from the University of Pretoria, South Africa.

Mineral Reserves and Resources

MCSA Mining Complex

Vale do Curaçá, Bahia State Brazil

Vale do Curaçá	Tonnage (kt)	Grade (% Cu)	Copper (kt)	Tonnage (kt)	Grade (% Cu)	Copper (kt)	Tonnage (kt)	Grade (% Cu)	Copper (kt)
	Proven			Probable			Total Proven + Probable		
Reserves	13,591	1.90%	258.8	4,846	1.73%	84.0	18,437	1.86%	342.8
	Measured			Indicated			Total Measured + Indicated		
Resources	28,506	1.76%	501.8	13,921	1.60%	222.6	42,428	1.71%	724.4

Boa Esperança Project

Pará State Brazil

Boa Esperança	Tonnage (kt)	Grade (% Cu)	Copper (kt)	Tonnage (kt)	Grade (% Cu)	Copper (kt)	Tonnage (kt)	Grade (% Cu)	Copper (kt)
	Proven			Probable			Total Proven + Probable		
Reserves	18,528	0.96%	178.1	975	0.72%	7.0	19,503	0.95%	185.1
	Measured			Indicated			Total Measured + Indicated		
Resources	41,000	0.81%	332.1	26,170	0.62%	162.3	67,170	0.73%	494.4

NX Gold Mine

Mato Grosso State Brazil

NX Gold	Tonnage (kt)	Grade (g/t Au)	Gold (oz)	Tonnage (kt)	Grade (g/t Au)	Gold (oz)	Tonnage (kt)	Grade (g/t Au)	Gold (oz)
	Proven			Probable			Total Proven + Probable		
Reserves				66	11.40	25.2	66	11.40	25.2
	Measured			Indicated			Total Measured + Indicated		
Resources				86	16.01	44.1	86	16.01	44.1

MCSA Mining Complex Mineral Reserves Notes:

1. Effective Date of August 1, 2018.
2. Mineral Reserves included within stated Mineral Resources. All figures have been rounded to reflect the relative accuracy of the estimates. Summed amounts may not add due to rounding.
3. The Mineral Reserve estimates are prepared in accordance with the CIM Definition Standards on Mineral Resources and Mineral Reserves, and the CIM Estimation of Mineral Resources and Mineral Reserves Best Practice Guidelines, using geostatistical and/or classical methods, plus economic and mining parameters appropriate for the deposit. Mineral Reserves are based on a long-term copper price of US$2.75 per pound ("lb"), and a USD:BRL foreign exchange rate of 3.20. Mineral Reserves are the economic portion of the Measured and Indicated Mineral Resources. Mineral Reserve estimates include mining dilution at zero grade. Mining dilution and recovery factors vary for specific reserve sources and are influenced by factors such as deposit type, deposit shape, stope orientation and selected mining method.
4. The Mineral Reserve estimate was calculated by Rubens Mendonça, MAusIMM, an independent qualified person, in accordance with the standards set out in CSA, NI 43-101 and generally accepted CIM "Estimation of Mineral Resource and Mineral Reserves Best Practices" guidelines.

MCSA Mining Complex Mineral Resources Notes:

1. Effective Date of July 1, 2018 for the Pilar and Surubim Mines, May 31, 2018 for the Vermelhos Mine, Vermelhos West and R22W.
2. Presented Mineral Resources inclusive of Mineral Reserves. All figures have been rounded to reflect the relative accuracy of the estimates. Summed amounts may not add due to rounding.
3. Cut-off value of 0.68% copper for underground resources and 0.18% copper for open pit resources based on 2015 operating costs (last full year of operation).
4. Mineral Resources estimated by ordinary kriging inside 5m by 5m by 5m blocks. Please refer to Ero's Vale do Curaçá Technical Report for additional details.
5. The Mineral Resource estimate was calculated by Porfírio Cabaleiro Rodriquez, MAIG, Fábio Valério Câmara Xavier, MAIG and Bernardo Horta de Cerqueira Viana, MAIG, all independent qualified persons, in accordance with the standards set out in CSA, NI 43-101 and generally accepted CIM "Estimation of Mineral Resource and Mineral Reserves Best Practices" guidelines.

Please refer to the Technical Report titled: *2018 Updated Mineral Resources and Mineral Reserves Statements of Mineração Caraíba's Vale do Curaçá Mineral Assets, Curaçá Valley,* dated October 17, 2017, with an effective date of August 1, 2018 for additional technical information related to the Mineral Reserve and Mineral Resource estimates. A copy of the report can be found on our website and on SEDAR.

Boa Esperança Mineral Reserves Notes:

1. Effective Date of December 31, 2017
2. Mineral Reserves included within stated Mineral Resources.
3. Open pit reserves assume full mine recovery.
4. Open pit reserves are diluted along lithological boundaries and assume selective mining unit of 2.5 m x 2.5 m x 5 m.
5. The strip ratio was calculated to be 1.93 (waste to ore).
6. Reserves are based on a price of US$7,000/t LME Cu throughout the life of the mine.
7. Reserves are based on a cut-off grade of 0.28% Cu.
8. Mineral Reserve tonnage and contained metal have been rounded to reflect the accuracy of the estimate. Summed amounts may not add due to rounding.
9. Contained copper is reported as in-situ and does not include process recovery.
10. The Mineral Reserves estimate was calculated by Rubens Mendonça, BSc, MBA, Chartered Professional Member of the AusIMM, Mining Manager of SRK Consultores do Brasil as at the date of the report (currently Director of Planminas), in accordance with the standards set out in CSA, NI 43-101 and generally accepted CIM "Estimation of Mineral Resource and Mineral Reserves Best Practices" guidelines.

Boa Esperança Mineral Resources Notes:

1. Effective Date of December 31, 2017.
2. Presented Mineral Resources inclusive of Mineral Reserves.
3. Mineral Resource tonnage and contained metal have been rounded to reflect the accuracy of the estimate. Summed amounts may not add due to rounding.
4. Resources are stated at a cut-off grade of 0.2% Cu and are fully contained within an optimized pit shell.
5. Resources are based on a copper price of US$4.00/lb.
6. The Mineral Resources estimate was calculated by Rafael Russo Sposito, Senior Geologist of SRK Consultores do Brasil, supervised by SRK Principal Resource Geologist Carlos César Barbosa, in accordance with the standards set out in CSA, NI 43-101 and generally accepted CIM "Estimation of Mineral Resource and Mineral Reserves Best Practices" guidelines.

Please refer to the Technical Report titled: *Feasibility Study Technical Report for the Boa Esperança Copper Project, Pará State, Brazil*, dated September 7, 2017, with an effective date of June 1, 2017 for additional technical information related to the Mineral Reserve and Mineral Resource estimates. A copy of the report can be found on our website and on SEDAR.

NX Gold Mineral Reserve and Resource Notes:

1. Effective date of August 31, 2018.
2. Presented mineral resources inclusive of mineral reserves. All figures have been rounded to the relative accuracy of the estimates. Summed amounts may not add due to rounding.
3. Mineral resource gold cut-off grade of 1.40 gpt gold. Mineral resources have been estimated using ordinary kriging inside 10m by 10m by 2m block sizes (with sub-blocks of 2.5m by 2.5m by 0.5m). The mineral resource estimates were prepared in accordance with the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") Definition Standards for Mineral Resources and Mineral Reserves, adopted by the CIM Council on May 10, 2014 (the "CIM Standards"), and the CIM Estimation of Mineral Resources and Mineral Reserves Best Practice Guidelines, adopted by CIM Council on November 23, 2003 (the "CIM Guidelines"), using geostatistical and/or classical methods, plus economic and mining parameters appropriate to the deposit.
4. Mineral reserve estimates were prepared in accordance with the CIM Standards and the CIM Guidelines, using geostatistical and/or classical methods, plus economic and mining parameters appropriate for the deposit. Mineral reserves are based on a long-term gold price of US$1,250 per ounce ("oz"), and a USD:BRL foreign exchange rate of 3.20. Mineral Reserves are the economic portion of the Indicated Mineral Resources. Mineral Reserve estimates include mining dilution at 5% grading 0.5g/t Au and 7% grading 0.5g/t Au for the Brás and Buracão Veins, respectively. Practical mining shapes (wireframes) were designed using geological wireframes / mineral resource block models as a guide.

Please refer to the Technical Report titled: *Mineral Resource and Mineral Reserve Estimate of the NX Gold Mine, Nova Xavantina*, dated September 7, 2017, with an effective date of June 1, 2017 for additional technical information related to the Mineral Reserve and Mineral Resource estimates. A copy of the report can be found on our website and on SEDAR.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2018

MANAGEMENT’S DISCUSSION AND ANALYSIS

This Management’s Discussion and Analysis (“MD&A”) has been prepared as at March 14, 2019 and should be read in conjunction with the audited consolidated financial statements of Ero Copper Corp. (“Ero” or “the Company”) as at, and for the year ended December 31, 2018, and related notes thereto, which are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (the “IASB”). All dollar amounts are expressed in US dollars (“US”) and tabular amounts are expressed in thousands of US dollars, unless otherwise indicated. References to “$” or “dollars” are to US dollars, references to “C$” are to Canadian dollars and references to “R$” are to Brazilian Reais.

This MD&A contains “forward-looking information” that is subject to risk factors set out in a cautionary note contained at the end of this MD&A. The Company cannot assure investors that such information will prove to be accurate, and actual results and future events may differ materially from those anticipated in such information. The results for the periods presented are not necessarily indicative of the results that may be expected for any future period. Investors are cautioned not to place undue reliance on this forward-looking information. All information contained in this MD&A is current and has been approved by the Board of Directors of the Company as of March 14, 2019, unless otherwise stated.

BUSINESS OVERVIEW

Ero, headquartered in Vancouver, B.C., is a mining company focused on developing its portfolio of assets in Brazil. On October 19, 2017, the Company completed an initial public offering (“IPO”) and its common shares began publicly trading on the Toronto Stock Exchange under the symbol “ERO”.

The Company’s primary asset is a 99.6% interest in the Brazilian copper mining company, Mineração Caraíba S.A. (“MCSA”), 100% owner of the Vale do Curaçá Property with over 39 years of operating history in the region. The Company currently mines copper ore from the Pilar underground mine, its newly constructed Vermelhos underground mine and the R22W open pit mine. In addition to the Vale do Curaçá Property, MCSA owns 100% of the Boa Esperança development project, an IOCG-type copper project located in Pará, Brazil. The Company also owns, directly and indirectly through MCSA, 97.6% of NX Gold S.A. (“NX Gold”), a producing gold mine in Mato Grosso State, Brazil.

Additional information on the Company and its operations, including technical reports on the Vale do Curaçá Property, the NX Gold Mine and the Boa Esperança Project, can be found on the Company’s website (www.erocopper.com) and on SEDAR (www.sedar.com).

HIGHLIGHTS

	2018 - Q4	2018 - Q3	2018	2017 - Q4	2017 [1]
Operating Information					
Copper (MCSA Operations)					
Ore Processed (tonnes)	777,480	663,359	2,257,917	452,371	1,771,209
Grade (% Cu)	1.77	1.38	1.56	1.36	1.31
Cu Production (tonnes)[2]	12,104	7,792	30,426	5,334	20,133
Cu Production (lbs)[2]	26,685,324	17,177,837	67,076,849	11,759,857	44,384,986
Cu Sold in Concentrate (tonnes)	12,900	6,542	30,107	5,488	19,719
Cu Sold in Concentrate (lbs)	28,439,667	14,422,624	66,374,564	12,010,770	43,472,902
C1 Cash cost of copper produced (per lb)[3][4]	$ 0.99	$ 0.99	$ 1.19	$ 1.54	$ 1.45
Gold (NX Gold Operations)					
Au Production (ounces)	10,008	10,223	39,808	8,531	25,287
Cash cost of gold produced (per ounce)[3]	$ 540	$ 471	$ 520	$ 586	$ 790
Financial information ($millions, except per share amounts)					
Revenues	$ 85.1	$ 47.3	$ 233.1	$ 49.4	$ 148.2
Gross profit	$ 39.0	$ 18.8	$ 82.2	$ 10.3	$ 18.0
EBITDA[3]	$ 40.2	$ 22.8	$ 70.5	$ 34.7	$ 60.8
Adjusted EBITDA[3]	$ 39.0	$ 26.2	$ 99.9	$ 15.6	$ 37.3
Cash flow from operations	$ 24.0	$ 34.3	$ 82.9	$ 21.8	$ 34.7
Net income (loss) attributable to owners of the Company	$ 11.2	$ 4.1	$ (3.2)	$ 19.5	$ 22.5
Net income (loss) per share attributable to owners					
of the Company - Basic	$ 0.13	$ 0.05	$ (0.04)	$ 0.28	$ 0.40
- Diluted	$ 0.13	$ 0.05	$ (0.04)	$ 0.24	$ 0.34
Adjusted income (loss) attributable to owners of the Company[3]	$ 7.9	$ 2.6	$ 10.9	$ (0.2)	$ (2.2)
Adjusted earnings (loss) per share attributable to owners					
of the Company[3] - Basic	$ 0.09	$ 0.03	$ 0.13	$ (0.00)	$ (0.04)
- Diluted	$ 0.09	$ 0.03	$ 0.12	$ (0.00)	$ (0.03)
Cash and Cash Equivalents	$ 18.9	$ 20.5	$ 18.9	$ 51.1	$ 51.1
Working Capital (Deficit)[3]	$ (9.3)	$ (15.8)	$ (9.3)	$ 42.6	$ 42.6
Net Debt[3]	$ (130.3)	$ (118.9)	$ (130.3)	$ (85.9)	$ (85.9)

Footnotes

[1] - Ero was incorporated on May 16, 2016. MCSA and NX Gold was acquired December 12, 2016. Operations did not commence until 1st quarter of 2017 at MCSA.
[2] - Includes 1,250 tonnes (2,755,212 lbs) from the gallery development and trial mining from the newly constructed Vermelhos underground mine during Q3.
[3] - C1 Cash cost of copper produced (per lb), C1 - Cash cost of gold ounce produced (per ounce), EBITDA, Adjusted EBITDA, Adjusted earnings (loss), Adjusted net income (loss) per share, Working capital, and Net Debt, and are non-IFRS measures - see page 27 of this MD&A for a discussion of non-IFRS measures.
[4] - Starting 2018 in its computation of C1 Cash costs of copper produced, Ero is including the costs of treatment, refinement and other costs and credits associated with selling concentrate to customers.
All tables in this MD&A that include 2017 income statement and cash flow figures have been recast to present NX Gold as a continuing operation. See 2018 annual financial statements note 4 for details.

2018 Annual Highlights

Strong annual operating performance across business units

- Total annual copper production of 30,426 tonnes compared to 20,133 tonnes produced in 2017, a 51% year-on-year increase in production.
- Total of approximately 2.3 million tonnes of ore grading 1.56% copper mined and processed during the year producing 30,426 tonnes of copper in concentrate after average metallurgical recoveries of 86.3%.
- Full-year copper production result exceeded Company's original 2018 guidance by 15%.
- Achieved full-year C1 Cash cost of $1.19 per pound of copper produced, within guidance range.
- Total annual gold and silver production at the Company's 97.6% owned high-grade NX Gold Mine of 39,808 ounces gold and 24,700 ounces silver at C1 Cash Costs of $520 per ounce of gold produced.

Aggressive exploration programs underway

- Well positioned to capitalize on the results of the Company's recently completed district-wide airborne electromagnetic and gravity survey at the Vale do Curaca Property.
- 21 drill rigs currently operating on the Company's Vale do Curaca Property, one of the world's largest active exploration drilling campaigns.
- 5 exploration drill rigs operating at the NX Gold Mine.

Vermelhos Mine completed on budget and ~4 months ahead of schedule, new near-mine discovery announced

- Early commissioning of the Vermelhos Mine resulted in a total of 206,873 tonnes of ore grading 2.72% copper mined contributing to the annual production result.
- A new discovery, located east and approximately 140 meters below all previously identified mineral resources and planned infrastructure of the mine, was highlighted by drill hole FVS VS-261 that intersected 76.7 meters grading 2.20% copper, including 15.0 meters grading 3.06% copper and 10.0 meters grading 5.74% copper. This new discovery has been interpreted to represent a new sub-vertical zone of mineralization extending from surface to approximately 400 meters below surface and to date has been intersected over a horizontal distance of approximately 350 meters. Subsequent to this, holes drilled to test the near-surface extension of the Vermelhos East Zone intersected high-grade mineralization within 100 meters of surface. The near-surface results were highlighted by hole FVS-311 that intersected 27.4 meters grading 8.39% copper including 17.7 meters grading 10.76% copper. (*See the Company's press releases dated September 25, 2018 and December 11, 2018 for additional information on the new Vermelhos discovery*).

Global mineral reserves and resources increased by more than 100% at the Vale do Curaçá Property
(*see Company's press release dated September 5, 2018 for additional detail*)

- 108% increase in Proven and Probable mineral reserves to over 18 million tonnes (with a 55% increase in contained copper) compared to the Proven and Probable mineral reserves set out in the 2017 Vale do Curaçá Technical Report[1] using the same copper price and foreign exchange assumptions of $2.75/lb and USD: BRL of 3.20, respectively.
- 107% increase in Measured and Indicated mineral resources to over 42 million tonnes (with a 57% increase in contained copper), inclusive of mineral reserves, as compared to the Measured and Indicated mineral resources set out in the 2017 Vale do Curaçá Technical Report[2] at the same geological cut-off grades.
- An updated production plan increased life of mine production with an additional 124,000 tonnes of copper production as compared to the life of mine production plan set out in the 2017 Vale do Curaçá Technical Report.
- The updated plan as set out in the 2018 Vale do Curaçá Technical Report will produce, on average, approximately 41,000 tonnes of copper in concentrate over the first five years at an average C1 cash cost of $0.94/lb.

Re-financed outstanding senior secured debt with US$130 Million in new credit facilities

- The Company refinanced approximately US$119M of the Company's existing US dollar denominated senior secured debt held in Brazil with a new US$130 million debt financing with The Bank of Nova Scotia and Bank of Montreal. The new debt is comprised of a US$80 million senior secured amortizing non-revolving credit facility and a US$50 million senior secured revolving term credit facility.
- The new debt significantly reduced principal payment obligations in years 2019 and 2020 along with a material reduction in the Company's cost of borrowing compared to the old debt.
- The revolving credit facility also provides enhanced operational and financial flexibility going forward.

Fourth Quarter Highlights

Continued strength in operational performance

- Strongest production quarter to date with 12,104 tonnes of copper produced, a 55% quarter-on-quarter increase in copper production.
- Significant quarter-on-quarter improvement in grades processed at the Company's Vale do Curaca Property.
- Fourth quarter mill throughput of 777,480 tonnes grading 1.77% copper producing 12,104 tonnes of copper in concentrate after metallurgical recoveries that averaged 87.8% during the period.
- Copper production reflects quarter-on-quarter increases in contained copper across the Company's underground operating mines, including ore from the newly constructed Vermelhos underground mine (143.7kt mined grading 2.77% copper) and the Pilar underground mine (345.1kt mined grading 2.21% copper).
- Fourth quarter C1 Cash Costs of $0.99 per pound of copper produced at the Company's Vale do Curaca Property.
- Fourth quarter production and Cash Costs of 10,008 ounces and $540 per ounce of gold respectively at the Company's NX Gold Mine.

1. Technical report entitled "2018 Updated Mineral Resources and Mineral Reserves Statements of Mineração Caraíba's Vale do Curaçá Mineral Assets, Curaçá Valley", dated October 17, 2018 with an effective date of August 1, 2018, prepared by Rubens Jose De Mendonça, MAusIMM, of Planminas and Porfirio Cabaleiro Rodrigues, MAIG, Fábio Valério Cãmara Xavier, MAIG, and Bernardo Horta de Cerqueira Viana, MAIG, all of GE21 (the "2018 Vale do Curaçá Technical Report")
2. Technical report entitled "2017 Updated Mineral Resources and Mineral Reserves Statements of Mineração Caraíba's Vale do Curaçá Mineral Assets, Curaçá Valley", dated September 7, 2017 with an effective date of June 1, 2017, prepared by Rubens Mendonça, MAusIMM, of SRK Consultores do Brasil Ltda. as at the date of the report (now of Planminas – Projectos e Consultoria em Mineração Ltd. ("Planminas")), and Porfirio Cabaleiro Rodrigues, MAIG, Mário Conrado Reinhardt, MAIG, Fábio Valério Xavier, MAIG, and Bernardo H.C. Viana, MAIG, all of GE21 Consultoria Mineral ("GE21"), who are independent qualified persons under NI 43-101 (the "2017 Vale do Curaçá Technical Report")

Sales and Liquidity

- Revenue from copper and gold sales for the fourth quarter totaled $85.1 million.
- Tonnes of copper sold in concentrate was almost double that of the previous third quarter with higher grade ore being processed with the newly constructed Vermelhos underground mine coming into commercial production in the fourth quarter.
- The Company ended the quarter with $21.9 million in total cash (including $3.0 million of restricted cash).
- The Company's subsidiary, MCSA, currently has unsecured working capital lines of credit with two Brazilian banks totalling R$60 million (approximately $15.5 million). These lines are undrawn as of March 14, 2019.
- The Company also has $5.0 million undrawn on its secured, revolving credit facility in Canada.

REVIEW OF OPERATIONS

Mineração Caraíba S.A. (Vale do Curaçá):

	2018 - Q4	2018 - Q3	2018	**2017 - Q4**	**2017 (1)**
Operating Information					
Copper (MCSA Operations)					
Ore Processed (tonnes)	777,480	663,359	2,257,917	452,371	1,771,209
Grade (% Cu)	1.77	1.38	1.56	1.36	1.31
Cu Production (tonnes)(2)	12,104	7,792	30,426	5,334	20,133
Cu Production (lbs)(2)	26,685,324	17,177,837	67,076,849	11,759,857	44,384,986
Concentrate Grade (% Cu)	34.5%	34.2%	34.5%	35.2	35.2
Recovery (%)	87.8	84.9	86.3	86.9	86.8
Concentrate Sales (tonnes)	37,801	18,692	87,307	15,577	56,341
Cu Sold in Concentrate (tonnes)	12,900	6,542	30,107	5,488	19,719
Cu Sold in Concentrate (lbs)	28,439,667	14,422,624	66,374,564	12,010,770	43,472,902
C1 Cash cost of copper produced (per lb)(3)(4)	$ 0.99	$ 0.99	$ 1.19	$ 1.54	$ 1.45

Footnotes

[1] - Ero was incorporated on May 16, 2016. MCSA was acquired December 12, 2016. Operations did not commence until 1st quarter of 2017.

[2] - Includes 1,250 tonnes (2,755,212 lbs) from the gallery development and trial mining from the newly constructed Vermelhos underground mine during Q3.

[3] - C1 Cash cost of copper produced (per lb) is a non-IFRS measure - see page 27 of this MD&A for a discussion of non-IFRS measures.

[4] - Starting 2018 in its computation of C1 Cash costs, Ero is including the costs of treatment, refinement and other costs and credits associated with selling concentrate to customers.

Both of MCSA's operating mines performed well during the period. The Pilar underground mine continued to meet production expectations and saw a significant quarter-on-quarter improvement in grades mined relative to the third quarter of 2018. During the forth quarter, 345,123 tonnes of ore was mined grading 2.21% copper. The increase in grade mined during the period was driven, in part, by continued development of the high-grade Deepening zone within the mine as well as stope sequencing anticipated during the second half of the year.

At the Company's newly completed Vermelhos Mine, ramp-up to full production was achieved during the period with 143,661 tonnes of ore mined grading 2.77% copper.

The Company completed its envisioned operations at the Surubim open pit mine during the period, where 307,710 tonnes of ore was mined grading 0.76% copper. Subsequent to the end of the period, the Company repositioned its open pit mining fleet and operations to the R22W open pit mine, located just north of the Caraiba Mill.

In total, approximately 2.3 million tonnes of ore grading 1.56% copper was mined and processed during the year ended December 31, 2018. Metallurgical recoveries averaged 87.8% during the fourth quarter and 86.3% for the year ended December 31, 2018. C1 Cash costs averaged $0.99 per pound of copper produced during the fourth quarter and $1.19 per pound of copper produced during year ended December 31, 2018.

The Company has an extensive exploration program underway at the Company's Vale do Curaca Property, where 21 exploration drill rigs are currently active. Exploration drilling throughout the first half of the year was primarily focused on known and previously announced extensions of mineralization within the three primary mineral districts of the Curaçá Valley: Vermelhos, Pilar and Surubim.

Exploration activities within the Vermelhos District, located approximately 80 kilometers to the north of the Caraíba Mill complex, which includes the recently completed high-grade Vermelhos underground mine, are focused on evaluating and further delineating a new discovery located east of the main Vermelhos Mine as well as down plunge extensions to depth and lateral expansions along strike of the main Vermelhos ore bodies. The new eastern discovery, to date, has been interpreted as a new zone extending from surface to approximately 400 meters below surface, on average approximately 100 meters east of the main Vermelhos orebodies. To date, the zone has been delineated over a horizontal distance of approximately 350 meters and the zone remains open to depth and along strike. Recent drilling to test the near-surface extension of the East Zone discovery was highlighted by a series of 8 drill holes, including FVS-311 that intersected 27.4 meters grading 8.39% copper including 17.7 meters grading 10.76% copper from 81.2 meters downhole. Drilling continues to evaluate the geological relationships between the new discovery, the main Vermelhos orebodies and the recently announced Vermelhos West deposit, located approximately 1.1 kilometers north-northeast of the new eastern discovery. (*See the Company's press releases dated September 25, 2018 and December 11, 2018 for additional discussion on the Vermelhos East Zone discovery*).

Within the Vermelhos underground mine's main orebodies, drilling continues to focus on recently announced expansions of mineralization not previously captured in the 2018 Vale do Curaçá Technical Report. Expansion drill results during the period were highlighted by hole FVS-257 that intersected 38.2 meters grading 7.29% copper including 23.1 meters grading 11.16% copper and 10.1 meters grading 4.59% copper, hole FVS-328 that intersected 38.2 meters grading 6.79% copper including 19.4 meters grading 8.38% copper and hole FVS-311 that intersected 31.5 meters grading 8.72% copper and 8.5 meters grading 5.28% copper. These holes represent expansions in modeled thicknesses used in the 2018 Vale do Curaçá Technical Report.

At the Pilar District, drilling continues to focus on infill and step-out drilling of the Deepening Extension, as well as extensions and infill of the previously announced West Limb discovery between the R22 Underground target and the known mining area of P1P2W (*see the Company's press release dated May 17, 2018 announcing the West Limb discovery*).

Drilling within the Surubim District, located approximately 40 kilometers to the north of the Caraíba Mill complex which includes the Surubim open pit mine, has shifted focus to exploration drilling on properties neighboring the open pit mine as well as extensions to depth below the existing open pit limits following continuity of the open pit resource models to depth, which comprise the previously announced Surubim underground deposit.

NX Gold S.A.

	2018 - Q4	2018 - Q3	2018	**2017 - Q4**	**2017 [1]**
Operating Information					
Gold (NX Gold Operations)					
Ore mined (tonnes)	37,950	30,718	119,469	21,382	134,163
Ore milled (tonnes)	38,464	31,912	117,857	24,121	135,013
Head grade (grams per tonne Au)	8.85	11.04	11.55	12.16	6.59
Recovery (%)	91.5%	90.2%	91.0%	90.5%	88.4%
Gold ounces produced (oz)	10,008	10,223	39,808	8,531	25,287
Silver ounces produced (oz)	6,186	6,431	24,700	5,174	17,710
Gold sold (oz)	10,603	9,807	39,808	8,750	26,441
Silver sold (oz)	6,752	6,201	24,700	5,314	18,657
Cash cost of gold produced (per ounce) [2]	$ 540	$ 471	$ 520	$ 586	$ 790

Footnotes

[1] - Ero was incorporated on May 16, 2016. NX Gold was acquired December 12, 2016.

[2] - C1 Cash cost of gold produced (per ounce) is a non-IFRS measure - see page 27 of this MD&A for a discussion of non-IFRS measures.

At the NX Gold Mine, mining and processing operations continued to reach record production metrics largely driven by the high gold grades mined and processed from the Brás and Buracão Veins during the three and twelve month periods ended December 31, 2018. The operational performance gains realized during the period are a continuation of improvement initiatives that commenced during the first half of 2017 in an effort to focus production and development activities on the highest grade zones within the Brás Vein and the application of a new more selective manual mining method currently being employed in the Buracão Vein. During the three-month period ended December 31, 2018, 37,950 tonnes of ore was mined. Mining and processing operations during the fourth quarter resulted in the production of 10,008 ounces of gold and 6,186 ounces of silver (as by-product) produced from total mill feed of 38,464 tonnes grading 8.88 g/t gold at average metallurgical recoveries of 91.5%. C1 Cash Costs averaged $540 per ounce of gold produced during the fourth quarter.

In total, 39,808 ounces of gold and 24,700 ounces of silver were produced from the mine during 2018. This production is based on 117,857 tonnes of ore processed grading 11.55 grams per tonne and metallurgical recoveries of 91.0% during the year ended December 31, 2018. C1 Cash Costs averaged $520 per ounce of gold produced during the year ended December 31, 2018.

Exploration activities picked up significantly during the year. As at the end of the fourth quarter, 5 drill rigs were actively undertaking exploration programs focused on increasing the known extent of the Brás and Buracão Veins as well as new drilling in the central Santo Antônio zone, located between Brás and Buracão. 7 drill rigs are expected to be operating on these targets by the end of the first quarter, 2019 or shortly thereafter.

Please refer to the Company's press releases dated September 5, 2018, September 25, 2018 and December 11, 2018 for additional detail on the Company's 2018 updated mineral reserve and resource estimates and ongoing exploration activities, including new discoveries.

Financial Update

Consolidated revenue for the fourth quarter of 2018 totalled $85.1 million. Gross profit for the fourth quarter was $39.0 million.

At MCSA, revenue from copper sales for the fourth quarter totaled $72.3 million. A total of 12,900 tonnes of copper in concentrate was sold during the quarter representing the highest sales in a quarter to date since the acquisition in 2016. This was largely driven by the declaration of commercial production at the newly constructed Vermelhos Mine early in the fourth quarter. Gross profit from mining operations for the quarter from MCSA was $33.9 million.

At NX Gold, revenue from gold and silver sales for the fourth quarter totaled $12.8 million based on sales of 10,603 ounces of gold and 6,752 ounces of silver. Gross profit from mining operations for the quarter from NX Gold was $5.1 million.

The Company generated overall net income for the quarter of $11.3 million.

The Company ended the quarter with $21.9 million in total cash (including $3.0 million of restricted cash). The working capital deficit improved by $6.0 million from the previous quarter of September 30, 2018. The working capital position is expected to continue to improve with Vermelhos now in commercial production.

During the fourth quarter, the Company's subsidiary, MCSA, increased its unsecured line of credit with a Brazilian bank from R$30 million to R$35 million (approximately $9.0 million), which is intended for working capital purposes. Subsequent to year end, the Company increased this line of credit to R$40 million (approximately $10.3 million) and entered into credit agreements for a total of R$20 million (approximately $5.2 million) lines of credit with another Brazilian bank. As of March 14, 2019, these lines of credit are undrawn. In addition, the Company also has $5.0 million undrawn on its secured, revolving credit facility in Canada.

2019 Guidance/Outlook

Mineração Caraíba S.A.

Copper production in 2019 is expected to have a slight bias towards the first half of the year due to higher-grade stope sequencing at both the Pilar and Vermelhos underground mines as well as incremental production from the R22W open pit mine. R22W is expected to augment underground production during the first half of the year (contributing approximately 250,000 tonnes of ore grading 0.50% copper). Underground production from the Pilar Mine is expected to contribute a total of approximately 1.3 million tonnes grading 1.80% copper while underground production from the Vermelhos Mine is expected to contribute a total of approximately 500,000 tonnes grading 3.20% copper resulting in a blended head grade of approximately 2.00% copper for 2019.

	2018 Original Guidance	**2018 Revised Guidance**	**2018 Result**	**2019 Guidance**[1]
Tonnes Processed Sulphides	2,000,000	2,200,000	2,257,917	2,050,000
Copper Grade (% Cu)	1.50%	1.50%	1.56%	2.00%
Copper Recovery (%)	86.0%	86.0%	86.3%	88.0%
Cu Production (000 tonnes)	**25.5 – 27.5**	**28.0 – 29.0**	**30.4**	**36.0 – 38.0**

[1] - Guidance is based on certain estimates and assumptions, including but not limited to, mineral reserve estimates, grade and continuity of interpreted geological formations and metallurgical performance. Please refer to the Company's SEDAR filings for complete risk factors.

The Company's C1 Cash cost guidance[1] for 2019 assumes a USD:BRL foreign exchange rate of 3.70, gold price of $1,200 per ounce and silver price of $14.50 per ounce.

	2018 Revised Guidance	**2019 Guidance**
C1 Cash Cost Guidance (US$/lb)[1]	**$1.10 - $1.20**	**$1.00 – $1.10**

[1] - C1 Cash Costs of copper produced (per lb.) is a non-IFRS measures – see page 27 of this MD&A for a discussion of non-IFRS measures.

NX Gold S.A.

From the date of acquisition on December 12, 2016, the Company intended to sell its interest in NX Gold. Accordingly, the assets and liabilities of NX Gold were classified as assets and liabilities held for sale and its results from operations were presented as net income from discontinued operations. During the fourth quarter of 2018, the Company decided not to sell its interest in NX Gold and, instead, continue to own and operate the assets due to encouraging preliminary exploration work and weak capital markets for junior listed gold producers. As such, the assets and liabilities of NX Gold are no longer presented as assets and liabilities held for sale and its results from operations are no longer reflected as income from discontinued operations. The prior year statements of operations and comprehensive income (loss) and cash flow have been adjusted to reflect NX Gold as a continuing operation.

For 2019, the Company expects NX Gold to perform in line with its 2018 production and cost metrics. The strong 2018 financial results have allowed the Company to re-invest cash into expanded exploration activities to gain an increased knowledge of its reserves and resources. Going forward, drilling activities (5 exploration drill rigs currently operating on site) will continue to focus on upgrading known mineral resources into reserves, extending the known mineralization to depth and along strike, as well as advancing priority targets in the immediate mine area – most notably within the central Santo Antônio zone. These exploration activities are centered upon both maintaining the high-grade nature of the operations as well as extending the known life of the mine. The Company expects to provide an updated NI 43-101 technical report and mine plan during the third-quarter of 2019.

Boa Esperança

A full review of the Boa Esperança Feasibility Study[1] is currently being performed with the goal of extending the potential mine life and increasing copper production among other desktop optimization initiatives. The Company expects to provide an update on these initiatives later this year.

1. Please refer to the Technical report entitled "Mineral Resource and Reserve Estimate of the NX Gold Mine, Nova Xavantina", dated January 21, 201 with an effective date of August 31, 2018 prepared by of GE21 Consultoria Mineral Ltda., who are independent qualified persons under NI 43-101 (the "NX Gold Mine Technical Report")
2. Technical report entitled "Feasibility Study, Technical Report for the Boa Esperança Copper Project, Pará State Brazil", dated September 7, 2017 with an effective date of June 1, 2017, prepared by Rubens Mendonça, MAusIMM of SRK Brazil as at the date of the report (now of Planminas) and Carlos Barbosa, MAIG and Girogio di Tomi, MAusIMM, both of SRK Consultores do Brasil Ltda. ("SRK Brazil") (the "Boa Esperança Feasibility Study")

REVIEW OF FINANCIAL RESULTS

The following table provides a summary of the financial results of the Company for the years ended December 31, 2018, 2017 and 2016. Tabular amounts are in thousands of US dollars, except share and per share amounts.

	Notes	**Year ended December 31, 2018**	Year ended December 31, 2017	Period ended December 31, 2016[1]
Revenue	1	$ 233,105	$ 148,241	$ 2,147
Cost of product sold	2	(147,611)	(128,009)	(2,317)
Sales expenses		(3,268)	(2,225)	-
Gross profit		82,226	18,007	(170)
Expenses				
General and administrative	3	(29,000)	(22,940)	(2,183)
Share-based compensation		(3,225)	(879)	(3,687)
Income (loss) before the understated		50,001	(5,812)	(6,040)
Other income (expenses)				
Finance income		1,303	2,276	37
Finance expense	4	(22,562)	(20,709)	(879)
Foreign exchange gain (loss)	5	(20,713)	(4,296)	3,026
Gain (loss) on debt settlement	6	(5,476)	28,727	-
Other income		108	1,788	141
Income (loss) before income taxes		2,661	1,974	(3,715)
Income tax recovery (expense)				
Current income tax recovery (expense)	7	(2,899)	(1,104)	142
Deferred income tax recovery (expense)	8	(2,753)	16,614	121
Income (loss) for the period		(2,991)	17,484	(3,452)
Other comprehensive income (loss)				
Foreign currency translation income (loss)		(27,801)	(973)	8
Comprehensive income (loss)		$ (30,792)	$ 16,511	$ (3,444)
Net income (loss) attributable to:				
Owners of the Company		$ (3,155)	$ 22,466	$ (3,046)
Non-controlling interests		164	(4,982)	(406)
		$ (2,991)	$ 17,484	$ (3,452)
Comprehensive income (loss) attributable to:				
Owners of the Company		$ (30,845)	$ 21,497	$ (3,039)
Non-controlling interests		53	(4,986)	(405)
		$ (30,792)	$ 16,511	$ (3,444)
Income (loss) per share attributable to owners of the Company				
Net income (loss) per share				
Basic		$ (0.04)	$ 0.40	$ (0.44)
Diluted		$ (0.04)	$ 0.34	$ (0.44)
Weighted average number of common shares outstanding				
Basic		83,927,977	56,252,358	6,932,086
Diluted		83,927,977	66,003,387	6,932,086
Cash and cash equivalents		$ 18,941	$ 51,098	$ 18,318
Total assets		$ 360,439	$ 381,343	$ 319,035
Non-current liabilities		$ 196,352	$ 196,265	$ 110,905

(1) Period ended December 31, 2016 covers May 16, 2016, the Company' date of inception, to December 31, 2016

Notes:

1. Revenues for the year ended December 31, 2018 from copper sales was $184.7 million (2017 - $115.4 million) which included the sale of 30,107 copper tonnes (2017 – 19,719 copper tonnes) in concentrate. As noted in previous disclosure, MCSA resumed operations in January 2017 with sales of copper concentrate only commencing in late February 2017. Commencing in the fourth quarter of 2018, high grade copper from the newly constructed underground Vermelhos ore was being produced and sold. In addition, revenues for the current year include $48.4 million (2017 - $32.8 million) from the sale of 39,808 gold ounces (2017 – 26,441 gold ounces) from NX Gold operations.
2. Cost of products sold for the year ended December 31, 2018 totaled $147.6 million (2017 - $128.0 million) which consisted of $115.3 million (2017 - $100.3 million) related to the sale of copper at MCSA, and $32.3 million (2017 - $27.7 million) related to the sale of gold ounces at NX Gold. Costs for MCSA included $34.1 million (2017- $32.7 million) in depreciation and depletion, $29.7 million (2017 - $28.7 million) in salaries and benefits, $17.6 million (2017 - $11.7 million) in contractor services, $14.9 million (2017 - $11.7 million) in materials and consumables, $10.8 million (2017 - $8.3 million) in maintenance costs, $7.5 million (2017 - $6.5 million) in utilities, and $0.7 million (2017 - $0.7 million) in other costs. Prior year operations at MCSA did not commence until January 2017 and sales of copper concentrate did not commence until the latter portion of February 2017. Cost of product sold for the year ended December 31, 2018 increased relative to the same period in 2017 due to an increase in sales volume resulting from increased production and the commencement of commercial production at Vermelhos underground mine in the fourth quarter of 2018. Costs for NX Gold included $11.1 million (2017- $5.4 million) in depreciation and depletion, $6.4 million (2017 - $7.5 million) in salaries and benefits, $3.2 million (2017 - $3.4 million) in contractor services, $4.5 million (2017 - $4.8 million) in materials and consumables, $5.0 million (2017 - $3.9 million) in maintenance costs, $1.8 million (2017 - $2.2 million) in utilities, and $0.3 million (2017 - $0.5 million) in other costs.
3. General and administrative expenses and share-based compensation for the year ended December 31, 2018 include $16.3 million (2017 - $14.1 million) with respect to MCSA for salaries and incentive payments, professional fees, office and sundry and provisions for tax, legal and labour claims, $3.4 million (2017 - $3.3 million) with respect to NX Gold for salaries and incentive payments, professional fees, office and sundry, provisions for tax, legal and labour claims, and $9.3 million (2017 - $5.5 million) with respect to the corporate head office in Vancouver. Corporate head office costs are primarily comprised of $6.4 million (2017 - $4.3 million) in salaries, incentive payments, and consulting fees, $0.9 million (2017 - $0.7 million) in professional fees, $1.0 million (2017 - $0.5 million) in office and sundry costs, and $0.9 million (2017 - $0.8 million) in travel-related costs. Overall costs compared to the prior year reflects the growth of operations at both MCSA and corporate head office, which included the hiring of more individuals. The current year also reflects amounts for Brazilian incentive payments in relation to 2017 ($2.5 million) and 2018 performance, rate increases for individuals as per union contracts in MCSA, as well as corporate incentive payments as a result of exceeding Company targets as set out by the board of directors in 2018.
4. Finance expense for the year ended December 31, 2018 was $22.6 million (2017 - $20.7 million). $16.2 million (2017 - $18.1 million) was with respect to MCSA, $1.0 million (2017 - $1.7 million) with respect to NX Gold and $5.4 million (2017 - $0.9 million) with respect to the corporate head office in Vancouver. MCSA costs are comprised of interest on loans and borrowings of $8.5 million (2017 - $14.4 million), accretion of purchase price adjustments and accretion of mine closure and rehabilitation provision of $4.0 million (2017 - $2.7 million) and $ 2.7 million (2017 - $1.0 million) of other finance related costs. Corporate head office costs consisted of $5.4 million (2017 - $0.2 million) of interest on loans and borrowings and $nil (2017 - $0.7 million) on financing fees. Interest paid was in relation to the $50 million non-revolving credit facility with Scotia bank (the "Scotia loan") taken out at the end of 2017, which was used to purchase certain debts down at MCSA at a discount. This reduced the overall debt of the Company. A lower interest rate and quicker payback periods resulted in the reduction of interest paid down at MCSA on loans and borrowings for the year, and the Scotia loan and interest taken on by corporate office in the current year.

5. Foreign exchange loss for the year ended December 31, 2018 was $20.7 million (2017 - $4.3 million). This amount is primarily comprised of a loss on foreign exchange forward contracts of $9.0 million (2017 - $0.6 million loss) as well as a foreign exchange loss of $9.8 million (2017 – $3.5 million loss) primarily associated with US dollar-denominated loans and borrowings in MCSA, where the functional currency is the Brazilian Real. The foreign exchange losses are a result of the weakening of the Brazilian Real relative to the USD on the US denominated debt.
6. The loss on settlement of debt for the year ended December 31, 2018 was $5.5 million (2017 - $28.7 million gain). The current year loss included $1.8 million from loan settlement fees when the Company replaced its $50 million senior secured non-revolving credit facility with a new $130 million facility from a syndicate of Canadian financial institutions. Also, with some of the funds of the new facility as noted above, the Company acquired and/or settled certain of MCSA's bank loans. The acquisition and/or settlement of these MCSA loans resulted in a loss of $3.7 million, which included early repayment fees for certain debts. The prior year gain on settlement of debt resulted when a Canadian financial institution purchased certain of MCSA's secured bank loans with a total carrying value of $76.3 million. The Company then entered into an arrangement with the Canadian financial institution whereby the Company acquired the rights to any and all payments of interest and principal that MCSA makes to the Canadian financial institution over the term of the loans acquired by the Canadian financial institution. These rights that the Company acquired constitute settlement of certain of MCSA's secured bank loans. The Company acquired these rights for $47.6 million, resulting in a gain on debt settlement of $28.7 million.
7. Current income tax expense in the year ended December 31, 2018 was $2.9 million (2017 - $1.1 million). The entire amount related to amounts owing by NX Gold (2017 - $0.8 million).
8. Deferred tax expense in the current year of $2.8 million (2017 – 16.6 million recovery) represent deferred tax expenses at MCSA of $1.9 million (2017 - $16.6 million), at NX Gold of $1.2 million (2017 - nil) and a deferred tax recovery of $0.3 million (2017 – nil) at the corporate head office. The net deferred tax expense increased principally as a result of changes in the estimated taxable temporary differences associated with the fair value adjustments recorded in relation to the initial acquisition of MCSA and NX Gold by the Company. In 2017 the Company was permitted to settle certain non-income tax-based taxes with existing non-capital loss carry forwards which resulted in the deferred tax recovery in the year of $16.6 million.

The following table provides a summary of the financial results of the Company for the three-month periods ended December 31, 2018 and 2017. Tabular amounts are in thousands of US dollars, except share and per share amounts.

	Notes	Three month period ended December 31, 2018	Three month period ended December 31, 2017
Revenue	1	$ 85,084	$ 49,418
Cost of product sold	2	(44,661)	(38,501)
Sales expenses		(1,441)	(584)
Gross profit		38,982	10,333
Expenses			
General and administrative	3	(10,456)	(9,622)
Share-based compensation		(723)	(597)
Income before the understated		27,803	114
Other income (expenses)			
Finance income		773	56
Finance expense	4	(6,776)	98
Foreign exchange gain (loss)	5	7,433	(9,118)
Gain (loss) on debt settlement	6	(5,476)	28,727
Other expenses	7	(5,625)	(742)
Income before income taxes		18,132	19,135
Income tax recovery (expense)			
Current income tax recovery (expense)	8	(1,853)	(515)
Deferred income tax recovery (expense)	9	(4,999)	862
		(6,852)	347
Net income for the period		11,280	19,482
Other comprehensive income (loss)			
Foreign currency translation income (loss)		3,830	(1,321)
Comprehensive income		$ 15,110	$ 18,161
Net income (loss) attributable to:			
Owners of the Company		$ 11,210	19,540
Non-controlling interests		70	(58)
		$ 11,280	$ 19,482
Comprehensive income (loss) attributable to:			
Owners of the Company		$ 15,026	18,224
Non-controlling interests		84	(63)
		$ 15,110	$ 18,161
Income per share attributable to owners of the Company			
Net income per share			
Basic		$ 0.13	$ 0.28
Diluted		$ 0.13	$ 0.24
Weighted average number of common shares outstanding			
Basic		84,736,476	70,929,120
Diluted		89,191,707	81,448,095

Notes:

1. Revenues for the quarter ended December 31, 2018 from copper sales was $72.3 million (2017 - $37.8 million) which included the sale of 12,900 copper tonnes in concentrate as compared to 5,488 copper tonnes for the quarter ended December 31, 2017. The increase in revenue in the current quarter was due to the Vermelhos mine coming into commercial production as well as export sales of amounts previously sitting in stockpile inventory. In addition, revenues for the quarter ended December 31, 2018 included $12.8 million (2017 - $11.6 million) from the sale of 10,603 ounces of gold (2017 - 8,750 ounces of gold from NX Gold operations.
2. Cost of products sold for the quarter ended December 31, 2018 from copper sales was $36.9 million (2017 - $31.9 million) which consisted of $9.2 million (2017- $10.8 million) in depreciation and depletion, $8.5 million (2017 - $8.7 million) in salaries and benefits, $7.3 million (2017 - $3.7 million) in contractor services, $5.6 million (2017 - $3.7 million) in materials and consumables, $3.4 million (2017 - $2.8 million) in maintenance costs, $2.5 million (2017 - $2.1 million) in utilities, and $0.2 million (2017 - $0.2 million) in other costs. Cost of product sold for the three-month period ended December 31, 2018 increased relative to the same period in 2017 due to more copper produced and sold then the comparative quarter in 2017 and as a result of the commencement of commercial production at the Vermelhos underground mine. Cost of product sold for the quarter ended December 31, 2018 from gold sales was $7.8 million (2017 - $6.5 million) which comprised of $1.8 million (2017- $0.3 million) in depreciation and depletion, $1.8 million (2017 - $2.0 million) in salaries and benefits, $0.8 million (2017 - $0.9 million) in contractor services, $1.3 million (2017 - $1.1 million) in materials and consumables, $1.4 million (2017 - $1.2 million) in maintenance costs, $0.6 million (2017 - $0.5 million) in utilities, and $0.1 million (2017 - $0.5 million) in other costs.
3. General and administrative expenses for the quarter ended December 31, 2018 include $3.8 million (2017 - $5.8 million) with respect to MCSA for salaries and incentive payments, professional fees, office and sundry and provisions for tax, legal and labour claims, $1.8 million (2017 - $1.2 million) with respect to NX Gold for salaries and incentive payments, professional fees, office and sundry and provisions for tax, legal and labour claims and $4.8 million (2017 - $2.7 million) with respect to the corporate head office in Vancouver. Corporate head office costs are primarily comprised of $4.0 million (2017 - $2.0 million) in salaries, incentive payments, and consulting fees, $0.4 million (2017 - $0.2 million) in professional fees, $0.2 million (2017 - $0.2 million) in office and sundry costs and $0.2 million (2017 - $0.2 million) in travel-related costs. Current quarter amounts over the previous quarter in the past year reflect the growth of operations at both MCSA and corporate head office, which included the hiring of more individuals. The current year also reflects amounts for Brazilian incentive payments in relation to 2017 ($2.5 million) and 2018 performance, rate increases for individuals as per union contracts in MCSA, as well as corporate incentive payments as a result of exceeding Company targets as set out by the board of directors in 2018.
4. Finance expense for the quarter ended December 31, 2018 was $6.8 million (2017 - $0.1 million income) and is primarily comprised of interest on loans and borrowings of $3.1 million and the accretion of the asset retirement obligations at MCSA and other of $2.1 million and interest on loans at the corporate head office of $1.5 million (2017 – nil).
5. Foreign exchange gain for the quarter ended December 31, 2018 was $7.4 million (2017 - $9.1 million loss). This amount is comprised of a gain on foreign exchange forward contracts of $3.0 million (2017 - $1.1 million loss) as well as a foreign exchange gain of $4.8 million (2017 – $7.7 million loss) primarily associated with the translation of US dollar-denominated loans and borrowings in MCSA, where the functional currency is the Brazilian Real. These combined foreign exchange gains were a result of an increase in the valuation of the Brazilian Real relative to the USD during the quarter. There is an additional loss of $0.4 million (2017 – $0.4 million loss) for other foreign exchange transactions.
6. The loss on settlement of debt for the year ended December 31, 2018 was $5.5 million (2017 - $28.7 million gain). The current year loss included $1.8 million from loan settlement fees when the Company replaced it's $50 million senior secured non-revolving credit facility with a new $130 million facility from a syndicate of Canadian financial institutions. Also, with some of the funds of the new facility as noted above, the Company acquired and/or settled certain MCSA's bank loans. The acquisition and/or settlement of these MCSA loans

resulted in a loss of $3.7 million, which included early repayment fees for certain debts. The prior year gain on settlement of debt resulted when a Canadian financial institution purchased certain of MCSA's secured bank loans with a total carrying value of $76.3 million. The Company then entered into an arrangement with the Canadian financial institution whereby the Company acquired the rights to any and all payments of interest and principal that MCSA makes to the Canadian financial institution over the term of the loans acquired by the Canadian financial institution. These rights that the Company acquired constitute settlement of certain of MCSA's secured bank loans. The Company acquired these rights for $47.6 million, resulting in a gain on debt settlement of $28.7 million.

7. Other expenses for the quarter ended December 31, 2018 of $5.6 million (2017 - $0.7 million) primarily consisted of $2.6 million at MCSA associated with state tax credits claimed that were deemed not recoverable and $1.6 million (2017 - $Nil) at NX Gold associated with state credits claimed that were deemed not recoverable.
8. Current income taxes expense in the quarter ended December 31, 2018 was $1.9 million (2017 - $0.5 million) related to amounts owing by NX Gold.
9. Deferred tax expense for the quarter ended December 31, 2018 of $5.0 million (2017 - $0.9 million recovery) included $3.8 million (2017 - $0.9 million) at MCSA and $1.2 million (2017 - $Nil) at NX Gold. The net deferred tax expense increased principally as a result of changes in the estimated taxable temporary differences associated with the fair value adjustments recorded in relation to the initial acquisition of MCSA and NX Gold by the Company.

SUMMARY OF QUARTERLY RESULTS

The following table presents selected financial information for each of the most recent eight quarters. Tabular amounts are in millions of US Dollars, except share and per share amounts.

	2018				2017			
Selected Financial Information	Dec 31[(1)]	Sept 30[(2)]	June 30[(3)]	March 31[(4)]	Dec 31 [(5)]	Sept 30 [(6)]	June 30[(7)]	March 31[(8)]
Revenue	$ 85.1	$ 47.3	$ 61.0	$ 39.7	$ 49.4	$ 40.9	$ 38.9	$ 19.0
Cost of product sold	$ (44.7)	$ (27.9)	$ (44.2)	$ (30.8)	$ (38.5)	$ (34.1)	$ (33.3)	$ (22.1)
Gross profit (loss)	$ 39.0	$ 18.8	$ 15.9	$ 8.5	$ 10.3	$ 6.0	$ 5.1	$ (3.4)
Net income (loss) for period	$ 11.3	$ 5.2	$ (18.2)	$ (1.3)	$ 19.5	$ 17.9	$ (12.8)	$ (7.1)
Income (loss) per share attributable to owners of the Company								
- Basic	$ 0.13	$ 0.05	$ (0.22)	$ (0.02)	$ 0.28	$ 0.32	$ (0.19)	$ (0.12)
- Diluted	$ 0.13	$ 0.05	$ (0.22)	$ (0.02)	$ 0.24	$ 0.29	$ (0.19)	$ (0.12)
Weighted average number of common shares								
outstanding - Basic	84,736,476	84,504,954	84,458,914	81,974,876	70,929,120	56,772,684	56,772,684	40,191,450
- Diluted	89,191,707	88,638,656	88,458,396	81,974,876	81,448,095	63,112,617	56,772,684	40,191,450

Footnotes

Prior quarters have been re-cast to reflect NX Gold as no longer being a discontinued operation.

1. During the three-month period ended December 31, 2018, the Company earned gross profit of approximately $39.0 million from mining operations of which $33.9 million came from MCSA and its copper operations and $5.1 million from NX Gold and its gold operations. During the quarter MCSA began commercial production of the Vermelhos mine as well as inventory sitting from the previous quarter in stockpile inventory was sold via export sales. The increased sales generated higher net income for the period.
2. During the three-month period ended September 30, 2018, the Company earned gross profit of approximately $18.8 million from mining operations of which $15.6 million came from MCSA and its copper operations and $3.2 million from NX Gold and its gold operations. Overall, net income from for the period was $5.2 million, which included the gross profit of $18.8 million and other income of $2.0 million. These income items were partially offset principally by $5.9 million in general and administrative expenses, $0.9 million in share-based compensation expense, $6.4 million in finance expense, and $2.5 million in foreign exchange losses. The foreign exchange losses were comprised of a $2.5 million loss associated with US dollar denominated debt held by MCSA whose functional currency is the Brazilian Real, $1.5 million loss on foreign exchange forward contracts, partially offset by a $1.5 million gain related to other exchange losses.

3. During the three-month period ended June 30, 2018, the Company earned gross profit of approximately $15.9 million from mining operations of which $11.6 million came from MCSA and its copper operations and $4.3 million from NX Gold and its gold operations. Overall, net loss for the period was $18.2 million, which included the gross profit of $15.9 million and other income of $2.9 million. These income items were principally offset by $6.1 million in general and administrative expenses, $0.8 million in share-based compensation expense, $4.8 million in finance expense, and $26.4 million in foreign exchange losses. The foreign exchange losses were comprised of $12.2 million loss associated with US dollar denominated debt held by MCSA whose functional currency is the Brazilian Real, $11.4 million loss on foreign exchange forward contracts and $2.8 million related to other operational exchange losses.
4. During the three-month period ended March 31, 2018, the Company earned gross profit of approximately $8.5 million from mining operations of which $5.0 million came from MCSA and its copper operations and $3.5 million from NX Gold and its gold operations. Overall, net loss for the period was $1.3 million, which included the gross profit of $8.5 million, $0.9 million of other income from sales of water and insurance proceeds, $0.6 million of net deferred income tax recoveries and $0.8 million in foreign exchange gains. These income items were principally offset by $6.5 in general and administrative expenses, $0.8 million in share-based compensation expense, and $4.5 million in finance expense.
5. During the three-month period ended December 31, 2017, the Company earned gross profit of approximately $10.3 million from mining operations of which $5.3 million came from MCSA and its copper operations and $5.0 million from NX Gold and its gold operations. Overall net income from operations for the period was $19.5 million, which included the gross profit of $10.3 million, a $28.7 million gain on the successful settlement of certain MCSA debt balances, and $0.3 million on net income tax recovery. These income items where partially offset principally by $9.1 million in foreign exchange loss on US dollar denominated debt as the US dollar strengthened compared to the Brazilian Real, $9.6 million in general and administrative expenses, $0.6 million in share-based compensation expense, and $0.7 million in other expenses.
6. During the three-month period ended September 30, 2017, the Company earned gross profit of approximately $6.0 million from mining operations of which $5.5 million came from MCSA and its copper operations and $0.5 million from NX Gold and its gold operations. MCSA had a second full quarter of concentrate sales as operations continued to ramp up. Overall net income from operations for the period was $17.9 million, which included the gross profit of $6.0 million, $7.1 million in foreign exchange gains on US dollar denominated debt as the US dollar weakened compared to the Brazilian Real, $1.3 million of finance income and a $14.4 million deferred income tax recovery primarily resulting from receipt of approval of MCSA's inclusion in a tax amnesty program previously discussed in this MD&A. These income items were partially offset by $6.2 million of finance expense, $4.5 million in general and administrative expenses and $0.2 million in share-based compensation expense.
7. During the three-month period ended June 30, 2017, the Company earned gross profit of approximately $5.1 million from mining operations of which $4.9 million came from MCSA and its copper operations and $0.2 million from NX Gold and its gold operations. MCSA had a full quarter of concentrate sales as operations continued to ramp up. Overall net loss from operations for the period was $12.8 million, which included $7.5 million of finance expense, $3.8 million in general and administrative expenses, $0.1 in share based compensation expense and $8.2 million in foreign exchange loss on US dollar denominated debt as the US dollar strengthened compared to the Brazilian Real, partially offset by $5.1 million from mining operations, $0.8 million deferred income tax recovery and $0.9 million in finance and other income.
8. During the three-month period ended March 31, 2017, the Company experienced a gross loss of approximately $3.4 million from mining operations of which $2.8 million loss came from MCSA and its copper operations and $0.6 million loss from NX Gold and its gold operations. MCSA's operations at its Vale do Curaçá Property resumed in January of 2017 but sales of copper concentrate did not commence until the latter portion of February 2017. Overall net loss from operations for the period was $7.1 million, which included the $3.4 million loss from mining operations, $7.2 million of finance expense, and $5.1 million in general and administrative expenses, partially offset by $5.9 million of foreign exchange gains, primarily on US dollar denominated debt as the US dollar weakened compared to the Brazilian Real and $2.6 million in finance and other income.

LIQUIDITY, CAPITAL RESOURCES AND CONTRACTUAL OBLIGATIONS

Liquidity

As at December 31, 2018, the Company held cash and cash equivalents of $18.9 million. Cash and cash equivalents are primarily comprised of cash held with reputable financial institutions and are invested in highly liquid short-term investments with maturities of three months or less. The funds are not exposed to liquidity risk and there are no restrictions on the ability of the Company to use these funds to meet its obligations.

Cash and cash equivalents decreased by $32.2 million during the year ended December 31, 2018. The Company's cash flows from operating, investing and financing activities during the year ended December 31, 2018 are summarized as follows:

- Cash used in investing activities of $101.0 million, including:
    - $97.6 million on additions to mineral property, plant and equipment;
    - $3.6 million on additions to exploration and evaluation assets;

  net of:
    - $0.2 million of interest received;

- Cash flows used in financing activities of approximately $9.4 million, including:
    - $127.4 million on repayment on loans and borrowings;
    - $11.5 million on payment of interest on loans and borrowings;
    - $10.7 million of other finance expenses
    - $0.8 million move to restricted cash

  net of:
    - $139.4 million proceeds from new loans and borrowings;
    - $1.6 million proceeds from issuance of share capital;

Partially offset by:

- Cash from operating activities of $82.9 million.

As at December 31, 2018, the Company had a working capital deficit of $9.3 million.

The Company does not expect to have any issues with respect to its ability to meet its working capital requirements and to service its debt obligations. The Company expects, based on estimated cash flows including the now operational Vermelhos underground mine, as well as its undrawn lines of credit discussed previously in this MD&A, the Company will be able to meet its working capital requirements and service its debt obligations. The risk to the Company of being unable to service its debt obligations is largely limited to a significant drop in the underlying commodity price.

Capital Resources

The Company's primary sources of capital are comprised of cash from operations, cash and cash equivalents on hand and debt facilities. The Company will continuously monitor its capital structure and, based on changes in operations and economic conditions, may adjust such structure by issuing new common shares or new debt as necessary. While the Company has been successful in securing financing to date, there are no guarantees that it will be able to secure such financing in the future on terms acceptable to the Company, if at all. Taking into consideration cash flow from existing operations, the commissioning of the Vermelhos underground mine in

October 2018, and the existing undrawn line of credit, management believes that the Company has sufficient working capital and financial resources to maintain its planned operations and activities for the foreseeable future.

Certain loan agreements contain operating and financial covenants that could restrict the ability of the Company and its subsidiary, MCSA, to, among other things, incur additional indebtedness needed to fund its respective operations, pay dividends or make other distributions, make investments, create liens, sell or transfer assets or enter into transactions with affiliates. There are no other restrictions or externally imposed capital requirements of the Company.

Contractual Obligations and Commitments

As at December 31, 2018, the Company's contractual obligations and commitments are summarized as follows:

The Company has entered into agreements for the rental of office space that require minimum payments as follows: (amounts in thousands)

2019		64
2020		65
2021		65
2022		27
Total Commitments	**$**	**221**

MANAGEMENT OF RISKS AND UNCERTAINTIES

The Company thoroughly examines the various financial instruments and risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk, commodity price risk and interest rate risk. Where material, these risks are reviewed and monitored by the Board.

(a) Management of financial risks

The Company is exposed to the following risks arising from financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers. The carrying amount of the financial assets below represents the maximum credit risk exposure as at December 31, 2018 and December 31, 2017:

		December 31, 2018		December 31, 2017
Cash and cash equivalents	**$**	**18,941**	$	51,098
Restricted cash		**3,000**		2,193
Accounts receivable		**7,219**		2,217
Deposits		**1,334**		1,955
Other non-current assets - term deposits		**686**		753
	$	**31,180**	$	58,216

The Company invests cash and cash equivalents as well as restricted cash with financial institutions that are financially sound based on their credit rating. The Company's exposure to credit risk associated with accounts receivable is influenced mainly by the individual characteristics of each customer. The Company currently has only three significant customers, all of which have no history of credit default with the Company. The Company has not incurred significant credit losses in either of the years ended December 31, 2018 and 2017.

Expected credit losses

The Company has reviewed expected credit losses on trade receivables on transition to IFRS 9 and has implemented a process for managing and estimating provisions relating to trade receivables going forward under IFRS 9. For trade receivables, the Company has applied the simplified approach for determining expected credit losses which requires the determination of lifetime expected losses for all trade receivables. The expected lifetime credit loss provision for trade receivables is based on historical counterparty default rates and adjusted for relevant forward-looking information, when required. As the Company's primary significant customers are considered to have a low default rate and historical default rates are low, the lifetime expected credit loss allowance for trade receivables is nominal as at January 1, 2018 and December 31, 2018. Accordingly, the Company did not record a provision for expected credit losses for trade receivables.

Liquidity risk

Liquidity risk is the risk associated with the difficulties that the Company may have meeting the obligations associated with financial liabilities that are settled with cash payments or with another financial asset. The Company's approach to liquidity management is to ensure as much as possible that sufficient liquidity exists to meet their maturity obligations on the expiration dates, under normal and stressful conditions, without causing unacceptable losses or with risk of undermining the normal operation of the Company.

The table below shows the Company's maturity of financial liabilities as at December 31, 2018:

Non-derivative Financial Liabilities	**Carrying value**	**Contractual cash flows**	**Up to 12 months**	**1-2 years**	**3-5 years**	**More than 5 years**
Loans and borrowings	$ 152,320	$ 156,541	$ 10,602	$ 12,816	$ 127,986	$ 5,137
Interest on loans and borrowings	-	54,801	11,126	8,092	34,678	905
Accounts payable and accrued liabilities	36,390	36,390	36,390	-	-	-
Value added, payroll and other taxes	17,950	17,950	12,674	2,617	2,659	-
	$ 206,660	**$ 265,682**	**$ 70,792**	**$ 23,525**	**$ 165,323**	**$ 6,042**

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity prices. The purpose of market risk management is to manage and control exposures to market risks, within acceptable parameters, while optimizing return.

The Company may use derivatives, including forward contracts and swap contracts, to manage market risks.

(a) Foreign exchange currency risk

The Company's subsidiaries in Brazil are exposed to exchange risks related to the US dollars and Euros. In order to minimize currency mismatches, the Company monitors its cash flow projections considering future sales expectations indexed to US dollar variation in relation to the cash requirement to settle the existing financings.

The Company's exposure to foreign exchange currency risk at December 31, 2018 relates primarily to $10.2 million (December 31, 2017 – $73.2 million) in loans and borrowings of MCSA denominated in US dollars and Euros. Strengthening (weakening) in the Brazilian Real against the US dollar by 10% and 20%, would have increased (decreased) net income by $0.7 million and $1.3 million, respectively (2017 –$7.3 million and $14.6 million). Strengthening (weakening) in the Brazilian Real against the Euro by 10% and 20%, would have increased (decreased) net income by $0.4 million and $0.7 million, respectively (2017 – nil). This analysis is based on the foreign currency exchange variation rate that the Company considered to be reasonably possible at the end of the year. The analysis assumes that all other variables, especially interest rates, are held constant.

At December 31, 2018, the Company has entered into foreign exchange forward contracts to sell an aggregate amount of $21.5 million U.S. dollars (2017 - $57.0 million) into Brazilian Real at rates ranging from 3.8900 to 3.9535 (2017 – 3.2673 to 3.3307). The maturity dates of these contracts range from January 2, 2019 to March 29, 2019 and are financially settled on a net basis. The fair value of these contracts at December 31, 2018 was an asset of $0.3 million, (December 31, 2017 – a liability of $0.9 million) which has been included in Derivatives in the statement of financial position. The change in fair value of foreign currency contracts was a gain of $1.1 million for the year ended December 31, 2018 (2017 – a loss of $0.8 million) has been recognized in foreign exchange loss. In addition, in the year ended December 31, 2018, the Company recognized a realized loss of $10.1 million (2017 – a gain of $0.2 million) related to the settlement of foreign currency forward contracts.

(b) Interest rate risk

The Company is principally exposed to the variation in interest rates on loans and borrowings with variable rates of interest. Management reduces interest rate risk exposure by entering into loans and borrowings with fixed rates of interest or by entering into derivative instruments that fix the ultimate interest rate paid.

The Company is principally exposed to interest rate risk through its Term Facilities of $123.5 million and Brazilian Real denominated bank loans of $8.6 million. As at December 31, 2018, the Company did not engage in any hedging or derivative transactions to manage interest rate risk. Subsequent to December 31, 2018, the Company entered into an interest rate swap transaction to manage interest rate risk (see note 10 to the Company's audited consolidated financial statements). Based on the Company's net exposure at December 31, 2018, a reasonably possible change in the variable rates would not have a material impact on profit or equity.

(c) Price risk

The Company is exposed to price risk with respect to commodity prices related to copper concentrate sales. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors copper and gold prices to determine the appropriate course of action to be taken by the Company. The Company's primary exposure related to commodity price risk relates to its sales of copper concentrate, which may be subject to provisional pricing. Accordingly, the related receivables are marked to market on each balance sheet date based on forward price curves until such time as the sales price is fixed. Changes in the forward prices affect the amount of revenue recognized. As at December 31, 2018, the Company had no sales or receivables subject to provisional pricing.

For a discussion of additional risks applicable to the Company and its business and operations, including risks related to the Company's foreign operations, the environment and legal proceedings, see "*Risk Factors*" in the Company's Annual Information Form for the year ended December 31, 2018 and dated March 14, 2019 (the "AIF").

OTHER FINANCIAL INFORMATION

Off-Balance Sheet Arrangements

As at December 31, 2018, the Company had no material off-balance sheet arrangements.

Contingencies

With the acquisition of MCSA, the Company inherited certain liabilities and MCSA has been subject to a number of claims (including claims related to tax, labour and social security matters and civil action) in the course of its business which individually are not material and have not been accrued for in the Company's financial statements as it is not probable that a cash outflow will occur. While the Company believes that a significant number of these claims are unlikely to be successful, if all such existing claims were decided against it, the Company could be exposed to liability of up to approximately $21.9 million, which could have an adverse impact on the Company's business, financial condition, results of operations, cash flows or prospects.

Outstanding Share Data

At March 14, 2019, the Company had 84,938,648 common shares, 5,016,187 stock options, 3,166,662 warrants, and 215,288 performance share units issued and outstanding.

Related Party Disclosures

For the year ended December 31, 2018, amounts paid to related parties were incurred in the normal course of business and measured at the exchange amount, which is the amount agreed upon by the transacting parties and on terms and conditions similar to non-related parties.

Key management personnel consist of the Company's directors and officers and their compensation includes director retainer fees and management salaries paid to these individuals, or companies controlled by these individuals, and share based compensation. The aggregate value of compensation paid to key management personnel for the year ended December 31, 2018 was $5.4 million ($3.3 million for the year ended December 31, 2017). In addition, 1,100,155 options were issued to key management personnel with $2.3 million recognized in share-based compensation expense for the year ended December 31, 2018 (2,453,000 options and $0.9 million share-based compensation expense for the year ended December 31, 2017).

Key management personnel held certain convertible debentures (note 13) which were converted in the year ended December 31, 2018 into 1,476,164 common shares and 369,040 common share purchase warrants. The warrants were subsequently exercised into 369,040 common shares. Key management personnel exercised a total of 133,000 options during the year ended December 31, 2018 (919,996 warrants were exercised for the year ended December 31, 2017). During the year ended December 31, 2017, key management personnel participated in certain financing activities by purchasing 233,333 common shares of the Company for total proceeds of $0.4 million and by subscribing to $1.0 million of the convertible debentures.

ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Critical Accounting Judgments and Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about future events that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results may differ from these estimates.

The Company's significant accounting policies and accounting estimates are contained in the Company's December 31, 2018 consolidated financial statements. Certain of these policies, such as, capitalization and depreciation of property, plant and equipment and mining interests, derivative instruments, and decommissioning liabilities provisions involve critical accounting estimates because they require management of the Company to make subjective or complex judgments about matters that are inherently uncertain, and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

In preparing its financial statements, management has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of the assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Critical Judgments

Going concern

The preparation of these consolidated financial statements requires management to make judgments regarding its ability to continue as a going concern as discussed in Note 1 of the audited consolidated financial statements as at December 31, 2018.

Functional currency

The functional currency of the Company and each of its subsidiaries is the currency of the primary economic environment in which the entities operate. The Company has determined that the functional currency for the Company is the US dollar while the functional currency for MCSA and NX Gold is the Brazilian Real. Assessment of functional currency involves certain judgements to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

Key Sources of Estimation Uncertainty

Impairment of property, plant and equipment

The Company evaluates each asset or cash generating unit every reporting period to determine whether there are any indications of impairment. If any such indication exists, which is often judgmental, a formal estimate of recoverable amount is performed, and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating group of assets is measured at the higher of fair value less costs to sell and value in use. The evaluation of asset carrying values for indications of impairment includes consideration of both external and internal sources of information, including such factors as market and economic conditions, production budgets and forecasts, and life-of-mine estimates.

When required, the determination of fair value and value in use requires management to make estimates and assumptions about expected production, sales volumes, commodity prices, mineral reserves, operating costs, closure and rehabilitation costs and future capital expenditures. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be further impaired or the impairment charge reduced with the impact recorded in profit or loss.

Mineral reserve and resource estimates including life of mine plan

The Company estimates its mineral reserves and mineral resources based on information compiled by competent individuals. Mineral reserves are used in the calculation of depreciation, impairment assessments and for forecasting the timing of payment of mine closure and rehabilitation costs.

There are numerous uncertainties inherent in estimating mineral reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the estimation methodology, forecasted prices of commodities, exchange rates, production costs or recovery rates may change the economic status of mineral reserves and may, ultimately, result in changes in the mineral reserves.

The carrying amounts of the Company's mineral properties, plant and equipment are depleted in part based on recoverable mineral reserve tonnes processed, depending on the use of the asset. Changes to estimates of recoverable quantities of metals, mineral reserve tonnes and depletable costs, including changes resulting from revisions to the Company's mine plans and changes in metals prices forecasts, can result in a change to future depreciation and depletion rates and may result in impairment charges.

Mine closure and rehabilitation costs

Significant estimates and assumptions are made in determining the provision for mine closure and rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimation of the extent and cost of rehabilitation activities, timing of future cash flows, discount rates, inflation rate, and regulatory requirements.

Changes in the above factors can result in a change to the provision recognized by the Company. Changes to mine closure and rehabilitation costs are recorded with a corresponding change to the carrying amounts of related mineral properties, plant and equipment. Adjustments to the carrying amounts of related mineral properties, plant and equipment can result in a change to future depreciation and depletion expense.

Significant assumptions used to determine mine closure and rehabilitation costs are included in Note 12(a) of the audited consolidated financial statements as at December 31, 2018.

Inventory

The net recoverable value of stockpile inventory and production in work in progress inventory is based on the quantity of recoverable metal inventory which is an estimate based on the tons of ore added and removed from the process, expected grade and recovery rates. The quantity of recoverable metal in finished concentrate inventory is an estimate based on initial weights and assay results. The net recoverable value of these inventories also requires estimates of expected selling prices and, where applicable, costs to complete.

Fair value of embedded derivatives

The value of trade receivables from the sale of copper concentrate is measured using quoted forward market prices as at the balance sheet date that correspond to the settlement date of the provisional pricing period for the estimated metals contained within the concentrate. Fluctuations in the underlying market prices of copper, silver and gold, metal content and concentrate weight can cause significant changes to the ultimate final settlement value of the receivables and the final revenue recorded can vary significantly as a result.

Income taxes

The determination of the Company's tax expense for the period and deferred tax assets and liabilities involves significant estimation and judgement by management. In determining these amounts, management interprets tax legislation in a variety of jurisdictions and makes estimates of the expected timing of the reversal of deferred tax assets and liabilities. Management also makes estimates of future earnings, which affect the extent to which potential future tax benefits may be used. The Company is subject to assessments by various taxation authorities, which may interpret legislation differently. These differences may affect the final amount or the timing of the payment of taxes. The Company provides for such differences where known based on management's best estimate of the probable outcome of these matters.

Measurement of fair value

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Company uses observable market data, as much as possible. Fair values are classified into different levels in a hierarchy based on the inputs used in the valuation techniques, as follows:

- **Level 1**: quoted prices (without adjustments) in active markets for identical assets or liabilities.
- **Level 2**: inputs other than Level 1 quoted prices, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3**: inputs, for assets or liabilities, that are not based on observable market information (non-observable inputs).

The Company recognizes transfers between levels of the hierarchy of fair value at the end of the reporting period during which the change occurred.

When applicable, additional information on the assumptions used in the fair value calculations are disclosed in the specific notes of the corresponding asset or liability.

New Accounting Standards Adopted in the Current Period

The following new and amended IFRS pronouncements were adopted effective January 1, 2018:

i) IFRS 15 Revenue from Contracts with Customers

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programs*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

Adoption of IFRS 15 by the Company on January 1, 2018 did not have a material impact on our consolidated financial statements. The Company's accounting policy for revenue recognition, which is disclosed in the Note 3(a) to our consolidated annual financial statements for the year ended December 31, 2018, has been updated to reflect the requirements of IFRS 15.

ii) IFRS 9 Financial Instruments

IFRS 9*, Financial Instruments* ("IFRS 9") replaces IAS 39, *Financial Instruments: Recognition & Measurement* ("IAS 39") and introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard also introduces additional changes relating to financial liabilities, amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment and introduces a new general hedge accounting standard which aligns hedge accounting more closely with risk management. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change relating to the Company's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

The Company and its subsidiaries adopted IFRS 9 on January 1, 2018 retrospectively without restatement of comparative periods in accordance with the transitional provisions of the standard.

The Company has assessed the classification and measurement of its financial assets and financial liabilities under IFRS 9 and have summarized the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 in the following table:

	Measurement Category	
	Original (IAS 39)	**New (IFRS 9)**
Financial Assets:		
Cash, cash equivalents and restricted cash	Amortized cost	Amortized cost
Trade receivables	Amortized cost	Amortized cost
Deposits	Amortized cost	Amortized cost
Other non-current assets - term deposits	Amortized cost	Amortized cost
Financial Liabilities:		
Trade payables	Amortized cost	Amortized cost
Loans and borrowings	Amortized cost	Amortized cost
Derivatives	Fair value through profit or loss	Fair value through profit or loss

There has been no change in the carrying value of the Company's financial instruments or to previously reported figures as a result of changes to the measurement categories in the table noted above.

Further information regarding the adoption of IFRS 9, and the new Company's new accounting policies for financial instruments, is disclosed in the Note 2(e) and Note 3(i) to our consolidated annual financial statements for the year ended December 31, 2018.

Future Changes in Accounting Policies Not Yet Effective as at December 31, 2018

New standards and amendments to standards are effective for annual periods beginning after January 1, 2018. The standards that may have a significant impact on the consolidated financial statements are as follows:

i) *IFRS 16 Leases*

On January 13, 2016, the IASB issued IFRS 16 *Leases* ("IFRS 16"). The new standard is effective for the Company on January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *Leases*.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

During 2018, we compiled all of our existing operating leases and service contracts and reviewed the relevant agreements to identify which of the operating leases and service contracts are in scope for IFRS 16. In addition, we completed our review of existing service contracts for embedded leases and had identified all operating leases. In the fourth quarter of 2018, we began developing a valuation approach to discount our population of leases and reviewed the increased accounting and disclosure requirements arising from the new leasing standard.

Upon adoption of IFRS 16, the Company will record new right of use assets and associated lease liabilities related to leases with a term of 12 months or more on the consolidated statement of financial position at January 1, 2019. Due to the recognition of additional right of use assets and lease liabilities, a higher amount of depreciation expense and interest expense on lease liabilities will be recognized under IFRS 16 as compared to the current standard. This impact will be partially offset by a reduction in operation lease expense payments currently included in cost of product sold and/or general and administrative expenses.

While the Company has not yet completed the quantification of the impact that adoption of IFRS 16 will have, our expectation is that most of the impact upon transition to IFRS 16 will be derived from our operating leases and certain contractual arrangements associated with the use of machinery and equipment, which will be recognized on our balance sheet effective January 1, 2019. We will use the modified retrospective approach of adoption resulting in no restatement of prior year comparatives. The quantitative impact of adopting IFRS 16 will be provided in our first interim financial statements in 2019.

ii) *IFRIC 23 – Uncertainty over Income Tax Treatments*

On June 7, 2017, the IASB issued IFRIC Interpretation 23 ("Interpretation 23") – *Uncertainty over Income Tax Treatments*. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. Interpretation 23 is applicable for annual periods beginning on or after January 1, 2019. The Company intends to adopt Interpretation 23 in its financial statements for the annual period beginning on January 1, 2019 and does not expect it to have a material impact on the financial statements.

Local Currency Operating Metrics – Presented in Brazilian Real

		2018 - Q4(2)		2017 - Q4(1)		2018 (2)		2017 (1)
Costs (MCSA Operations)								
Mining - UG (Pilar)	R$	63,863	$	39,109	$	201,948	$	120,701
- UG (Vermelhos)		19,288		n/a		19,288		n/a
- OP		16,894		10,504		62,867		44,496
Processing(3)		23,058		15,483		70,583		54,860
Indirect(3)		10,783		5,001		30,058		19,680
Production costs		133,886		70,097		384,744		239,737
Capex development		(27,815)		(7,598)		(68,705)		(21,032)
By-product credits		(11,090)		(3,802)		(28,310)		(13,265)
Treatment, refining and other		(2,676)		n/a		(1,772)		n/a
C1 Cash Costs	R$	**92,305**	$	58,697	$	**285,957**	$	205,440
Breakdown Mined and Processed (tonnes)								
UG Mined		687,872		292,558		1,836,455		965,626
OP Mined		700,732		1,130,505		4,096,723		3,508,430
Total Mined (t):		**1,388,604**		**1,423,063**		**5,933,178**		**4,474,056**
Total Processed (t)		**777,480**		**452,371**		**2,257,917**		**1,771,209**
Cu Production (t)		**12,104**		5,334		**30,426**		20,133
UG Mining - R$/tonne mined		120.88		133.68		120.47		125.00
OP Mining - R$/tonne mined		24.11		9.29		15.35		12.68
Processing -R$/S tonne processed(3)		29.66		34.23		31.26		30.97
Indirect -R$/S tonne processed(3)		13.87		11.06		13.31		11.11

Footnotes

[1] - Ero was incorporated on May 16, 2016. MCSA was acquired December 12, 2016. Operations did not commence until 1st quarter of 2017.

[2] - Starting 2018 in its computation of C1 Cash costs, Ero is including the costs of treatment, refinement and other costs and credits associated with selling concentrate to customers.

[3] - Processing and indirect unit costs includes the contribution of gallery development and trial mining of the newly constructed Vermelhos underground mine during Q3.

NON-IFRS MEASURES

Financial results of the Company are prepared in accordance with IFRS. The Company utilizes certain non-IFRS measures, including C1 cash cost of copper produced (per lb), C1 cash cost of gold produced (per ounce), EBITDA, Adjusted EBITDA, Adjusted net income (loss) attributable to owners of the Company, Adjusted earnings (loss) per share, net debt and working capital, which are not measures recognized under IFRS. The Company believes that these measures, together with measures determined in accordance with IFRS, provide investors with an improved ability to evaluate the underlying performance of the Company. Non-IFRS measures do not have any standardized meaning prescribed under IFRS, and therefore they may not be comparable to similar measures employed by other companies. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The tables below provide a reconciliation of these non-IFRS measures to the most directly comparable IFRS measures as contained in the Company's financial statements.

Unless otherwise noted, the non-IFRS measures presented below have been calculated on a consistent basis for the periods presented.

C1 Cash Cost of Copper Produced (per lb)

C1 Cash cost of copper produced (per lb) is the sum of production costs (excluding the capitalized pre-production mining costs at Vermelhos), net of capital expenditure development costs and by-product credits, divided by the copper pounds produced. C1 cash costs reported by the Company include treatment, refining charges, offsite costs, and certain tax credits relating to sales invoiced to the Company's Brazilian customer on sales. By-product credits are calculated based on actual precious metal sales (net of treatment costs) during the period divided by the total pounds of copper produced during the period. C1 cash cost of copper produced per pound is a non-IFRS measure used by the Company to manage and evaluate operating performance of the Company's operating mining unit and is widely reported in the mining industry as benchmarks for performance but does not have a standardized meaning and is disclosed in addition to IFRS measures.

The following table provides a reconciliation of C1 cash cost of copper produced per pound to cost of goods sold, its most directly comparable IFRS measure.

	2018 - Q4[2]	2017 - Q4[1]	2018 [2]	2017 [1]
Costs				
Mining	$ 28,045	$ 15,165	$ 79,046	$ 51,756
Processing[3]	6,052	5,540	19,167	17,188
Indirect[3]	2,830	927	8,134	6,166
Production costs	36,927	21,632	106,347	75,110
Capex development	(7,301)	(2,374)	(18,530)	(6,589)
By-product credits	(2,911)	(1,173)	(7,607)	(4,156)
Treatment, refining and other	(263)	n/a	(705)	n/a
C1 Cash Costs	**$ 26,452**	**$ 18,085**	**$ 79,505**	**$ 64,365**
Costs per pound				
Payable copper produced (lb)[4]	**26,685**	**11,760**	**67,077**	**44,385**
Mining	$ 1.05	$ 1.29	$ 1.18	$ 1.17
Processing[3]	0.23	0.47	0.29	0.39
Indirect[3]	0.11	0.08	0.12	0.14
Capex development	(0.27)	(0.20)	(0.28)	(0.15)
By-product credits	(0.11)	(0.10)	(0.11)	(0.09)
Treatment, refining and other	(0.04)	n/a	(0.01)	n/a
C1 Cash Cost of Copper produced (per lb)	**$ 0.99**	**$ 1.54**	**$ 1.19**	**$ 1.45**

Footnotes

[1] - Ero was incorporated on May 16, 2016. MCSA was acquired December 12, 2016. Operations did not commence until 1st quarter of 2017.

[2] - Starting 2018 in its computation of C1 Cash costs, Ero is including the costs of treatment, refinement and other costs and credits associated with selling concentrate to customers.

[3] - Processing and indirect unit costs includes the contribution of gallery development and trial mining of the newly constructed Vermelhos underground mine.

[4] - Total includes amount produced from the newly constructed Vermelhos underground mine as of 2018 Q4 and pre-production ore.

The following table provides a reconciliation of C1 cash cost of copper produced per pound to cost of goods sold, its most directly comparable IFRS measure.

	2018 - Q4[2]	2017 - Q4	2018 [2]	2017 [1]
Reconciliation:				
Cost of Product Sold	$ 36,894	$ 31,453	$ 115,346	$ 100,282
Add (less):				
Depreciation/amortization/depletion	(9,244)	(10,818)	(34,104)	(32,672)
Net Change in Inventory	(1,204)	(424)	1,491	1,009
Transportation costs & other	1,019	356	3,083	1,738
By-product credits	(2,911)	(1,173)	(7,607)	(4,156)
Treatment, refining, and other	(263)	n/a	(705)	n/a
Foreign exchange translation adjustments	2,161	(1,309)	2,001	(1,836)
C1 Cash costs	**$ 26,452**	**$ 18,085**	**$ 79,505**	**$ 64,365**

Footnotes

[1] - Ero was incorporated on May 16, 2016. MCSA was acquired December 12, 2016. Operations did not commence until 1st quarter of 2017.

[2] - Starting 2018 in its computation of C1 Cash costs, Ero is including the costs of treatment, refinement and other costs and credits associated with selling concentrate to customers.

C1 Cash Cost of Gold produced (per ounce)

C1 Cash cost of gold produced (per ounce) is the sum of production costs, net of capital expenditure development costs and silver by-product credits, divided by the gold ounces produced. By-product credits are calculated based on actual precious metal sales during the period divided by the total ounces of gold produced during the period. C1 cash cost of gold produced per pound is a non-IFRS measure used by the Company to manage and evaluate operating performance of the Company's operating mining unit and is widely reported in the mining industry as benchmarks for performance but does not have a standardized meaning and is disclosed in addition to IFRS measures.

	2018 - Q4	2017 - Q4[1]	2018	2017 [1]
Costs				
Mining	$ 3,033	$ 2,770	$ 11,958	$ 10,791
Processing	1,944	1,913	7,290	7,729
Indirect	668	624	2,541	2,543
Production costs	5,645	5,308	21,789	21,064
Capex development	(145)	(223)	(695)	(804)
By-product credits	(90)	(81)	(354)	(293)
C1 Cash Costs	**$ 5,410**	**$ 5,003**	**$ 20,740**	**$ 19,967**
Costs per ounce				
Payable gold produced (ounces)[4]	**10,008**	**8,531**	**39,808**	**25,287**
Mining	300	325	300	427
Processing	190	224	183	306
Indirect	70	73	64	101
Capex development	(10)	(26)	(17)	(32)
By-product credits	(10)	(10)	(10)	(12)
C1 Cash Cost of Gold produced (per ounce)	**$ 540**	**$ 586**	**$ 520**	**$ 790**

Footnotes

[1] - Ero was incorporated on May 16, 2016. NX Gold was acquired December 12, 2016.

The following table provides a reconciliation of C1 cash cost of gold produced per ounce to cost of goods sold, its most directly comparable IFRS measure.

	2018 - Q4[2]	2017 - Q4	2018 [2]	2017 [1]
Reconciliation:				
Cost of Product Sold	$ 7,768	$ 7,048	$ 32,265	$ 27,727
Add (less):				
Depreciation/amortization/depletion	(1,810)	(288)	(11,084)	(5,414)
Net Change in Inventory	(308)	(152)	-	(1,040)
Transportation costs & other	-	21	-	21
By-product credits	(90)	(81)	(354)	(293)
Foreign exchange translation adjustments	(150)	(1,545)	(87)	(1,034)
C1 Cash costs	$ **5,410**	$ **5,003**	$ **20,740**	$ **19,967**

Footnotes

[1] - Ero was incorporated on May 16, 2016. MCSA was acquired December 12, 2016. Operations did not commence until 1st quarter of 2017.

[2] - Starting 2018 in its computation of C1 Cash costs, Ero is including the costs of treatment, refinement and other costs and credits associated with selling concentrate to customers.

Earnings before interest, taxes, depreciation, and amortization ('EBITDA') and Adjusted EBITDA

EBITDA represents earnings before interest expense, income taxes, depreciation, and amortization. Adjusted EBITDA includes further adjustments for non-recurring items and items not indicative to the future operating performance of the Company. The Company believes EBITDA and adjusted EBITDA are appropriate supplemental measures of debt service capacity and performance of its operations.

Adjusted EBITDA is calculated by removing the following income statement items:

- Gains or losses on debt settlement
- Foreign exchange gain (loss)

	2018 - Q4	2017 - Q4	2018	2017[1]
Reconciliation:				
Net income (loss)	$ 11,280	$ 19,482	$ (2,991)	$ 17,484
Adjustments:				
Finance expenses	6,776	(98)	22,562	20,709
Taxes	6,852	(347)	5,652	(15,510)
Depreciation/amortization/depletion	15,301	15,620	45,297	38,141
EBITDA	**40,209**	**34,657**	**70,520**	**60,824**
Foreign exchange loss (gain) on USD denominated debt	(4,835)	7,655	9,808	3,475
Foreign exchange loss (gain) on realized derivative contracts	965	(296)	10,119	(191)
Foreign exchange loss (gain) on unrealized derivative contracts	(3,993)	1,410	(1,137)	782
Other foreign exchange loss (gain)	430	350	1,923	230
Loss (gain) on debt settlement	5,476	(28,727)	5,476	(28,727)
Share based compensation	723	597	3,225	879
Adjusted EBITDA	$ **38,975**	$ **15,646**	$ **99,934**	$ **37,272**

Footnotes

[1] - Ero was incorporated on May 16, 2016. MCSA and NX Gold was acquired December 12, 2016. Operations at MCSA did not commence until 1st quarter of 2017.

Adjusted net income (loss) attributable to owners of the Company and Adjusted earnings (loss) per share

The Company uses the financial measure "Adjusted net income (loss) attributable to owners of the Company" and "Adjusted earnings (loss) per share" to supplement information in its consolidated financial statements. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, the Company and certain investor and analysts use this information to evaluate the Company's performance. The Company excludes certain unrealized foreign exchange gains or losses from net earnings to provide a measure which allows the Company and investors to evaluate the operating results of the underlying core operations. The presentation of Adjusted EPS is not meant to substitute the EPS presented in accordance with IFRS, but rather it should be evaluated in conjunction with such IFRS measures.

The following table provides a detailed reconciliation of net income (loss) attributable to owners of the Company as reported in the Company's consolidated financial statements to adjusted net income (loss) attributable to owners of the Company and adjusted EPS.

	2018 - Q4	2017 - Q4	2018	2017[1]
Reconciliation:				
Net income (loss) as reported attributable to the owners of the Company	$ 11,210	$ 18,400	$ (3,155)	$ 22,466
Adjustments for:				
Unrealized foreign exchange loss (gain) on USD denominated debt in MCSA	(4,816)	7,624	9,769	3,305
Unrealized foreign exchange loss (gain) on unrealized derivative contracts	(3,977)	1,404	(1,132)	779
Loss (gain) on debt settlement	5,461	(28,727)	5,461	(28,727)
Adjusted net income (loss) attributed to owners of the Company	**7,878**	(1,299)	**10,943**	(2,177)
Weighted average number of common shares - basic	84,736,476	70,929,120	83,927,977	56,252,358
Weighted average number of common shares - diluted	89,191,707	81,448,095	88,072,324	66,003,387
Adjusted earnings (loss) per share - basic	$ **0.09**	$ (0.02)	$ **0.13**	$ (0.04)
Adjusted earnings (loss) per share - diluted	$ **0.09**	$ (0.02)	$ **0.12**	$ (0.03)

Footnotes

[1] - Ero was incorporated on May 16, 2016. MCSA and NX Gold was acquired December 12, 2016. Operations at MCSA did not commence until 1st quarter of 2017.

Net Debt

Net debt is determined based on cash and cash equivalents, restricted cash and loans and borrowings as reported in the Company's consolidated financial statements. The Company uses net debt as a measure of the Company's ability to pay down its debt. The following table provides a calculation of net debt based on amounts presented in the Company's consolidated financial statements as at December 31, 2018 and December 31, 2017.

	December 31 2018	December 31, 2017
Cash and cash equivalents	$ 18,941	$ 51,098
Restricted cash	3,000	2,193
Less: Current portion of loans and borrowings	(10,602)	(5,601)
Long-term portion of loans and borrowings	(141,632)	(133,565)
Net Debt	$ **(130,293)**	$ **(85,875)**

Working Capital

Working capital is determined based on current assets and current liabilities as reported in the Company's consolidated financial statements. The Company uses working capital as a measure of the Company's short-term financial health and operating efficiency. The following table provides a calculation of working capital based on amounts presented in the Company's consolidated financial statements as at December 31, 2018 and December 31, 2017.

		December 31 2018		December 31, 2017
Current Assets	$	50,954	$	97,892
Less: Current Liabilities		(60,265)		(55,332)
Working Capital (Deficit)	$	(9,311)	**$**	**42,560**

Internal Control over Financial Reporting

The Company's management, under the supervision of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), has evaluated the design and effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2018.

The Company's management, under the supervision of the CEO and CFO, has evaluated the design and effectiveness of the Company's internal controls over financial reporting ("ICFR") based on the criteria established within the 2013 COSO framework. Based on this evaluation, the CEO and CFO have concluded that the Company's ICFR were effective as of December 31, 2018.

The CEO and CFO acknowledge responsibility for the design of ICFR and confirm that there were no changes in these controls that occurred during the year ended December 31, 2018, which materially affected, or are reasonably likely to materially affect, the Company's ICFR.

NOTE REGARDING SCIENTIFIC AND TECHNICAL INFORMATION

Unless otherwise indicated, Ero has prepared the technical information in this MD&A (" Technical Information") based on information contained in the report entitled "2017 Updated Mineral Resources and Mineral Reserves Statements of Mineração Caraíba's Vale do Curaçá Mineral Assets, Curaçá Valley", dated September 7, 2017 with an effective date of June 1, 2017, prepared by Rubens Mendonça, MAusIMM, formerly of SRK Consultores do Brasil Ltda. (now with Planminas – Projectos e Consultoria em Mineração Ltda.), and Porfirio Cabaleiro Rodrigues, MAIG, Mário Conrado Reinhardt, MAIG, Fábio Valério Xavier, MAIG, and Bernardo H.C. Viana, MAIG, all of GE21 Consultoria Mineral (the "Vale do Curaçá Technical Report"). The Vale do Curaçá Technical Report was prepared by or under the supervision of a qualified person (a "Qualified Person") as defined in National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("NI 43-101").

The disclosure of Technical Information in this MD&A, including sampling procedures and monthly mass balance data underlying the information contained therein, was reviewed and approved by Rubens Mendonça, a Qualified Person under NI 43-101.

Cautionary Note Regarding Forward-Looking Statements

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities laws. Forward-looking information includes statements that use forward-looking terminology such as "may", "could", "would", "will", "should", "intend", "target", "plan", "expect", "budget", "estimate", "forecast", "schedule", "anticipate", "believe", "continue", "potential", "view" or the negative or grammatical variation thereof or other variations thereof or comparable terminology. Such forward-looking information includes, without limitation, statements with respect to the Company's intention to dispose of NX Gold, expected operations at the Pilar Mine, timing of commercial production at the Vermelhos Mine, drilling plans, plans for the Company's electromagnetic survey, the Company's ability to service its ongoing obligations, the Company's future capital resources and the impact of new accounting standards and amendments on the Company's financial statements.

Forward-looking information is not a guarantee of future performance and is based upon a number of estimates and assumptions of management in light of management's experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances, as of the date of this MD&A including, without limitation, assumptions about: favorable equity and debt capital markets; the ability to raise any necessary additional capital on reasonable terms to advance the production, development and exploration of the Company's properties and assets; future prices of copper and other metal prices; the timing and results of exploration and drilling programs; the accuracy of any mineral reserve and mineral resource estimates; the geology of the Vale do Curaçá Property and the Boa Esperança Property being as described in the technical reports for these properties; production costs; the accuracy of budgeted exploration and development costs and expenditures; the price of other commodities such as fuel; future currency exchange rates and interest rates; operating conditions being favorable such that the Company is able to operate in a safe, efficient and effective manner; political and regulatory stability; the receipt of governmental, regulatory and third party approvals, licenses and permits on favorable terms; obtaining required renewals for existing approvals, licenses and permits on favorable terms; requirements under applicable laws; sustained labor stability; stability in financial and capital goods markets; availability of equipment; positive relations with local groups and the Company's ability to meet its obligations under its agreements with such groups; and satisfying the terms and conditions of the Company's current loan arrangements. While the Company considers these assumptions to be reasonable, the assumptions are inherently subject to significant business, social, economic, political, regulatory, competitive and other risks and uncertainties, contingencies and other factors that could cause actual actions, events, conditions, results, performance or achievements to be materially different from those projected in the forward-looking information. Many assumptions are based on factors and events that are not within the control of the Company and there is no assurance they will prove to be correct.

Furthermore, such forward-looking information involves a variety of known and unknown risks, uncertainties and other factors which may cause the actual plans, intentions, activities, results, performance or achievements of the Company to be materially different from any future plans, intentions, activities, results, performance or achievements expressed or implied by such forward-looking information. Such risks include, without limitation the risk factors listed under the heading "Risk Factors" in the AIF.

Although the Company has attempted to identify important factors that could cause actual actions, events, conditions, results, performance or achievements to differ materially from those described in forward-looking information, there may be other factors that cause actions, events, conditions, results, performance or achievements to differ from those anticipated, estimated or intended.

The Company cautions that the foregoing lists of important assumptions and factors are not exhaustive. Other events or circumstances could cause actual results to differ materially from those estimated or projected and expressed in, or implied by, the forward-looking information contained herein. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information.

Forward-looking information contained herein is made as of the date of this MD&A and the Company disclaims any obligation to update or revise any forward-looking information, whether as a result of new information, future events or results or otherwise, except as and to the extent required by applicable securities laws.

Cautionary Notes Regarding Mineral Resource and Reserve Estimates

In accordance with applicable Canadian securities regulatory requirements, all mineral reserve and mineral resource estimates of the Company disclosed or incorporated by reference in this press release have been prepared in accordance with National Instrument 43-101, *Standards of Disclosure for Mineral Projects* ("NI 43-101") and are classified in accordance with the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") Definition Standards for Mineral Resources and Mineral Reserves, adopted by the CIM Council on May 10, 2014 (the "CIM Standards").

Mineral resources which are not mineral reserves do not have demonstrated economic viability. Pursuant to the CIM Standards, mineral resources have a higher degree of uncertainty than mineral reserves as to their existence as well as their economic and legal feasibility. Inferred mineral resources, when compared with Measured or Indicated mineral resources, have the least certainty as to their existence, and it cannot be assumed that all or any part of an Inferred mineral resource will be upgraded to an Indicated or Measured mineral resource as a result of continued exploration. Pursuant to NI 43-101, Inferred mineral resources may not form the basis of any economic analysis. Accordingly, readers are cautioned not to assume that all or any part of a mineral resource exists, will ever be converted into a mineral reserve, or is or will ever be economically or legally mineable or recovered.

ADDITIONAL INFORMATION

Additional information about Ero and its business activities, including the AIF, is available under the Company's profile at www.sedar.com.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Ero Copper Corp.

Opinion

We have audited the consolidated financial statements of Ero Copper Corp. ("the Company"), which comprise:

– the consolidated statements of financial position as at December 31, 2018 and December 31, 2017;

– the consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended; and

– notes to the consolidated statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

– the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

– information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

KPMG

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

– Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Robert Ryan Owsnett, CPA, CA.

Vancouver, Canada
March 14, 2019

Ero Copper Corp.

Consolidated Statements of Financial Position

(Amounts in thousands of US Dollars, except share and per share amounts)

ASSETS	Notes	As at December 31, 2018	As at December 31, 2017
Current			
Cash and cash equivalents		$ 18,941	$ 51,098
Restricted cash	10(b)	3,000	2,193
Accounts receivable		7,219	2,217
Inventories	5	14,645	8,478
Derivatives	22	254	-
Other current assets	6	6,895	6,243
Assets held for sale	4	-	27,663
		50,954	97,892
Non-Current			
Mineral property, plant and equipment	7	280,804	254,383
Exploration and evaluation assets	8	25,563	26,278
Deposits		1,334	1,955
Other non-current assets		1,784	835
		309,485	283,451
Total Assets		$ 360,439	$ 381,343
LIABILITIES			
Current			
Accounts payable and accrued liabilities	9, 21(b)	$ 36,390	$ 20,968
Deferred revenue		1,916	-
Current portion of loans and borrowings	10	10,602	5,601
Current portion of value added, payroll and other taxes payable	11	11,357	6,857
Derivatives	22	-	949
Liabilities related to assets held for sale	4	-	20,957
		60,265	55,332
Non-Current			
Loans and borrowings	10	141,632	133,565
Provisions	12	31,509	30,314
Value added, payroll and other taxes	11	6,593	15,078
Other non-current liabilities		807	653
Deferred income tax liabilities	20	15,811	16,655
		196,352	196,265
Total Liabilities		256,617	251,597
SHAREHOLDERS' EQUITY			
Share capital	14	117,944	113,050
Equity reserves		(24,755)	(83)
Convertible debentures	13	-	3,011
Retained earnings		10,337	14,011
Equity attributable to owners of the Company		103,526	129,989
Non-controlling interests		296	(243)
		103,822	129,746
Total Liabilities and Equity		$ 360,439	$ 381,343

Nature of operations (Note 1); Commitments (Note 24); Contingencies (Note 12(c)); Subsequent events (Notes 10(a), 10(d), 14(c) and 14(d))

APPROVED ON BEHALF OF THE BOARD:

"David Strang", CEO & Director *"Matthew Wubs"*, Director

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statements of Operations and Comprehensive Income (Loss)

(Amounts in thousands of US Dollars, except share and per share amounts)

	Notes	Year ended December 31, 2018	Year ended December 31, 2017 (Recast - Note 4)
Revenue	15	$ 233,105	$ 148,241
Cost of product sold	16	(147,611)	(128,009)
Sales expenses		(3,268)	(2,225)
Gross profit		82,226	18,007
Expenses			
General and administrative	17	(29,000)	(22,940)
Share-based compensation	14(c)	(3,225)	(879)
Income (loss) before the understated		50,001	(5,812)
Other income (expenses)			
Finance income		1,303	2,276
Finance expense	18	(22,562)	(20,709)
Foreign exchange loss	19	(20,713)	(4,296)
Gain (loss) on debt settlement	10(a)(b)	(5,476)	28,727
Other income		108	1,788
Income before income taxes		2,661	1,974
Income tax recovery (expense)			
Current		(2,899)	(1,104)
Deferred		(2,753)	16,614
		(5,652)	15,510
Net income (loss) for the year		(2,991)	17,484
Other comprehensive income (loss)			
Foreign currency translation loss		(27,801)	(973)
Comprehensive income (loss)		$ (30,792)	$ 16,511
Net income (loss) attributable to:			
Owners of the Company		(3,155)	22,466
Non-controlling interests		164	(4,982)
		$ (2,991)	$ 17,484
Comprehensive income (loss) attributable to:			
Owners of the Company		(30,845)	21,497
Non-controlling interests		53	(4,986)
		$ (30,792)	$ 16,511
Income per share attributable to owners of the Company	14(f)		
Net income per share			
Basic		$ (0.04)	$ 0.40
Diluted		$ (0.04)	$ 0.34
Weighted average number of common shares outstanding			
Basic		83,927,977	56,252,358
Diluted		83,927,977	66,003,387

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statement of Changes in Shareholders' Equity

(Amounts in thousands of US Dollars, except share and per share amounts)

	Share Capital		Equity Reserves						
	Number of shares	Amount	Contributed surplus	Foreign exchange	Convertible debentures	Retained earnings (deficit)	Total	Non-controlling interest	Total equity
Balance, December 31, 2016	38,349,091	$ 27,817	$ -	$ 7	$ -	$ (3,046)	$ 24,778	$ (405)	$ 24,373
Income (loss) for the year	-	-	-	-	-	22,466	22,466	(4,982)	17,484
Other comprehensive loss for the year	-	-	-	(969)	-	-	(969)	(4)	(973)
Total comprehensive income (loss) for the year	-	-	-	(969)	-	22,466	21,497	(4,986)	16,511
Shares issued for:									
Private placements (note 14(a))	18,423,593	27,635	-	-	-	-	27,635	-	27,635
Initial Public Offering (note 14(b))	13,492,317	50,941	-	-	-	-	50,941	-	50,941
Exercise of warrants (note 14(d))	9,116,338	10,949	-	-	-	-	10,949	-	10,949
Share issuance costs	-	(5,825)	-	-	-	-	(5,825)	-	(5,825)
Deferred taxes on share issuance costs	-	1,533	-	-	-	-	1,533	-	1,533
Convertible debentures (note 13)	-	-	-	-	2,750	-	2,750	-	2,750
Accrued interest on convertible debentures	-	-	-	-	261	(261)	-	-	-
Stock-based compensation (note 14(c))	-	-	879	-	-	-	879	-	879
Step-up acquisition of MCSA from 85% to 99.5% and NX Gold from 28% to 97.6%	-	-	-	-	-	(5,148)	(5,148)	5,148	-
Balance, December 31, 2017	79,381,339	$ 113,050	$ 879	$ (962)	$ 3,011	$ 14,011	$ 129,989	$ (243)	$ 129,746
Income (loss) for the year	-	-	-	-	-	(3,155)	(3,155)	164	(2,991)
Other comprehensive loss for the year	-	-	-	(27,690)	-	-	(27,690)	(111)	(27,801)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**(27,690)**	**-**	**(3,155)**	**(30,845)**	**53**	**(30,792)**
Shares issued for:									
Exercise of warrants (note 13)	1,014,861	1,218	-	-	-	-	1,218	-	1,218
Exercise of options (note 14(c))	283,000	632	(207)	-	-	-	425	-	425
Share-based compensation (note 14(c))	-	-	3,225	-	-	-	3,225	-	3,225
Accrued interest on convertible debentures	-	-	-	-	33	(33)	-	-	-
Convertible debentures (note 13)	4,059,450	3,044	-	-	(3,044)	-	-	-	-
Reclassification of non-controlling interest allocation	-	-	-	-	-	(486)	(486)	486	-
Balance, December 31, 2018	**84,738,650**	**$ 117,944**	**$ 3,897**	**$ (28,652)**	**$ -**	**$ 10,337**	**$ 103,526**	**$ 296**	**$ 103,822**

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statements of Cash Flows

(Amounts in thousands of US Dollars, except share and per share amounts)

	Notes	Year ended December 31, 2018	Year ended December 31, 2017 (Recast - Note 4)
Cash Flows from Operating Activities			
Net income (loss) for the year		**$ (2,991)**	$ 17,484
Adjustments for:			
Amortization and depreciation		**45,297**	38,142
Income tax expense (recovery)		**5,652**	(15,510)
Gain (loss) on debt settlement		**5,476**	(28,727)
Write-off of inventory		**279**	-
Write-off of property, plant and equipment		**3,503**	1,668
Provisions		**(1,464)**	4,635
Share-based compensation		**3,225**	879
Finance income		**(1,303)**	(2,276)
Finance expenses		**22,562**	20,709
Foreign exchange loss		**20,713**	4,296
Derivative contract settlements		**(10,119)**	191
Changes in:			
Accounts receivable		**(4,616)**	(3,285)
Inventories		**(5,225)**	(1,175)
Other assets		**3,192**	2,208
Accounts payable and accrued liabilities		**6,855**	(3,228)
Deferred revenue		**1,707**	-
Value added, payroll and other taxes		**(5,606)**	(1,939)
Other liabilities		**(1,967)**	929
		85,170	35,001
Income taxes paid		**(2,228)**	(269)
		82,942	34,732
Cash Flows used in Investing Activities			
Additions to mineral property, plant and equipment, net		**(97,556)**	(63,263)
Additions to exploration and evaluation assets		**(3,616)**	(798)
Interest received		**198**	832
		(100,974)	(63,229)
Cash Flows (used in) from Financing Activities			
Convertible debentures		**-**	2,750
Convertible debentures - facility fee		**-**	(250)
Restricted cash		**(807)**	(2,193)
Purchase of participation agreement (Note 10(c))		**-**	(47,328)
New loans and borrowings, net of finance costs		**141,488**	54,489
Loans and borrowings paid		**(127,369)**	(16,438)
Interest paid on loans and borrowings		**(11,522)**	(4,741)
Other finance expenses		**(10,765)**	(10,188)
Issuance of share capital, net of issuance costs		**1,643**	83,700
		(7,332)	59,801
Effect of exchange rate changes on cash and cash equivalents		**(6,842)**	1,523
Net (decrease) increase in cash and cash equivalents		**(32,206)**	32,827
Cash and cash equivalents - beginning of year		**51,147**	18,320
Cash and cash equivalents - end of year		**$ 18,941**	$ 51,147
Cash at year-end consists of:			
Cash and cash equivalents		**18,941**	51,098
Cash included in assets held for sale		**-**	49
Cash and cash equivalents - end of year		**$ 18,941**	$ 51,147

The accompanying notes are an integral part of these consolidated financial statements

1. Nature of Operations and Going Concern

Ero Copper Corp. (“Ero" or the "Company") was incorporated on May 16, 2016 under the Business Corporations Act (British Columbia) and maintains its head office at Suite 1050, 625 Howe Street, Vancouver, BC, V6C 2T6. On October 19, 2017, the Company’s shares became publicly traded on the Toronto Stock Exchange under the symbol “ERO”.

The Company’s principal asset is its 99.6% ownership interest in Mineração Caraíba S.A. (“MCSA”). The Company also currently owns a 97.6% ownership interest in NX Gold S.A. (“NX Gold”).

MCSA is a Brazilian company which holds a 100% interest in the Vale do Curaçá Property and the Boa Esperança Property (Note 8). MCSA’s predominant activity is the production and sale of copper concentrate from the Vale do Curaçá Property, with gold and silver produced and sold as by-products. The Vale do Curaçá Property is located in the Curaçá Valley near the municipality of Jaguarai, in northeastern part of the state of Bahai, Brazil, and includes fully integrated processing operations, three active mines, and three past producing mines. The active operations include the Caraíba Mine, comprised of the underground Pilar Mine (“Pilar UG Mine”) and integrated Caraíba Mill, the open pit Surubim Mine (“Surubim OP Mine”) and the underground Vermelhos Mine (“Vermelhos UG Mine”). The past producing operations include the historic open pit mines of R22W (“R22W Mine”), the Angicos (“Angicos Mine”), and the Suçuarana (“Suçuarana Mine”). The Boa Esperança Property is located within the municipality of Tucumã in the southeastern part of the state of Pará, Brazil, and consists of a single mineral concession covering an area of 4,033.81 hectares (“ha”). On December 12, 2016, Ero acquired an 85% interest in MCSA and in June and December 2017, the Company acquired an additional 14.6% interest in MCSA by subscribing to shares issued from MCSA’s treasury. The Company has consolidated MCSA from the acquisition date and net income (loss) of the Company includes the net income (loss) of MCSA from the acquisition date.

NX Gold is a Brazilian gold mining company focused on the exploration and commercialization of gold as its main product and silver as its sub-product. NX Gold wholly owns an approximately 31,730.3 ha property, located approximately 18 kilometers west of the town of Nova Xavantina, southeastern Mato Grosso State, Brazil, consisting of a single mining concession covering an area of 620 ha, where all gold mining and processing activities occur. On December 12, 2016, Ero acquired a 28% economic interest in NX Gold in conjunction with the acquisition of MCSA. In August 2017, the Company increased its ownership interest in NX Gold to approximately 97.6% by way of a capital increase transaction. The Company has consolidated NX Gold since December 12, 2016 as it has controlled NX Gold since such date. The assets and liabilities of NX Gold were classified as assets and liabilities held for sale at December 31, 2017 and its results of operation were classified as discontinued operations for the year ended December 31, 2017. In the fourth quarter of 2018, the Company decided to continue to hold its interest in NX Gold rather than to actively sell its interest. Accordingly, the comparative statements of operations and comprehensive income and cash flows have been restated to reflect NX Gold as a continuing operation (note 4).

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Taking into consideration the expected cash flow from existing operations, the commissioning of the Vermelhos UG Mine in October 2018 and lines of credit in place at MCSA (see note 10(d)), management believes that the Company has sufficient working capital and financial resources to maintain its planned operations and activities for at least the next twelve months. In the long-term, the Company’s ability to continue as a going concern is dependent upon profitable operations at MCSA and NX Gold to meet its long-term debt obligations. The recoverability of the carrying values of the Company’s assets is dependent upon the ability of the Company to successfully maintain profitable production.

2. Basis of Preparation

a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee.

These consolidated financial statements were authorized for issue by the Board of Directors on March 14, 2019.

b) Basis of Presentation and Principles of Consolidation

These consolidated financial statements have been prepared on a historical cost basis except for fair-value through-profit-or-loss and derivative financial instruments, which are measured at fair value.

These consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. Control over a subsidiary is defined to exist when the Company is exposed to variable returns from involvement with an investee and has the ability to affect the returns through power over the investee. All intercompany balances and transactions are eliminated upon consolidation.

The Company applies the acquisition method to account for business combinations. The consideration transferred by the Company to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities assumed and the equity interests issued by the Company, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Company recognizes identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognized in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill arising from acquisitions, if any, is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognized amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount would be recognized in profit or loss immediately.

Since the Company does not own 100% of its interests in MCSA and NX Gold, the interest attributable to non-controlling shareholders is reflected in non-controlling interests. Adjustments to non-controlling interests that do not involve the loss of control are accounted for as equity transactions and adjustments are based on a proportionate amount of the net assets of the subsidiary.

c) Foreign Currency Translation

The functional currency and presentation currency of the Company is the US dollar. The monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in profit or loss.

The functional currency of MCSA and NX Gold is the Brazilian Real. The assets and liabilities of MCSA and NX Gold are translated into the US dollar presentation currency using the rate of exchange at the statement of financial position date while revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in a separate component of shareholders' equity.

d) **Use of Estimates and Judgments**

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of the assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Critical Judgments

Going concern

The preparation of these consolidated financial statements requires management to make judgments regarding its ability to continue as a going concern as discussed in Note 1.

Functional currency

The functional currency of the Company and each of its subsidiaries is the currency of the primary economic environment in which the entities operate. The Company has determined that the functional currency for the Company is the US dollar while the functional currency for MCSA and NX Gold is the Brazilian Real. Assessment of functional currency involves certain judgements to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

Key Sources of Estimation Uncertainty

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant. Significant estimates made by management affecting the consolidated financial statements include:

Impairment of property, plant and equipment

The Company evaluates each asset or cash generating unit every reporting period to determine whether there are any indications of impairment. If any such indication exists, which is often judgmental, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating group of assets is measured at the higher of fair value less costs to sell and value in use. The evaluation of asset carrying values for indications of impairment includes consideration of both external and internal sources of information, including such factors as market and economic conditions, production budgets and forecasts, and life-of-mine estimates.

When required, the determination of fair value and value in use requires management to make estimates and assumptions about expected production, sales volumes, commodity prices, mineral reserves, operating costs, closure and rehabilitation costs and future capital expenditures. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be further impaired or the impairment charge reduced with the impact recorded in profit or loss.

Mineral reserve and resource estimates including life of mine plan

The Company estimates its mineral reserves and mineral resources based on information compiled by competent individuals. Mineral reserves are used in the calculation of depreciation, impairment assessments and for forecasting the timing of payment of mine closure and rehabilitation costs.

There are numerous uncertainties inherent in estimating mineral reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the estimation methodology, forecasted prices of commodities, exchange rates, production costs or recovery rates may change the economic status of mineral reserves and may, ultimately, result in changes in the mineral reserves.

The carrying amounts of the Company's mineral properties, plant and equipment are depleted in part based on recoverable mineral reserve tonnes processed, depending on the use of the asset. Changes to estimates of recoverable quantities of metals, mineral reserve tonnes and depletable costs, including changes resulting from revisions to the Company's mine plans and changes in metals prices forecasts, can result in a change to future depreciation and depletion rates and may result in impairment charges.

Mine closure and rehabilitation costs

Significant estimates and assumptions are made in determining the provision for mine closure and rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimation of the extent and cost of rehabilitation activities, timing of future cash flows, discount rates, inflation rate, and regulatory requirements.

Changes in the above factors can result in a change to the provision recognized by the Company. Changes to mine closure and rehabilitation costs are recorded with a corresponding change to the carrying amounts of related mineral properties, plant and equipment. Adjustments to the carrying amounts of related mineral properties, plant and equipment can result in a change to future depreciation and depletion expense.

Significant assumptions used to determine mine closure and rehabilitation costs are included in Note 12(a).

Inventory

The net recoverable value of stockpile inventory and production in work in progress inventory is based on the quantity of recoverable metal inventory which is an estimate based on the tons of ore added and removed from the process, expected grade and recovery rates. The quantity of recoverable metal in finished concentrate inventory is an estimate based on initial weights and assay results. The net recoverable value of these inventories also requires estimates of expected selling prices and, where applicable, costs to complete.

Measurement of fair value

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Company uses observable market data, as much as possible. Fair values are classified into different levels in a hierarchy based on the inputs used in the valuation techniques, as follows:

- **Level 1**: quoted prices (without adjustments) in active markets for identical assets or liabilities.
- **Level 2**: inputs other than Level 1 quoted prices, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3**: inputs, for assets or liabilities, that are not based on observable market information (non-observable inputs).

The Company recognizes transfers between levels of the hierarchy of fair value at the end of the reporting period during which the change occurred.

When applicable, additional information on the assumptions used in the fair value calculations are disclosed in the specific notes of the corresponding asset or liability.

Income taxes

The determination of the Company's tax expense for the period and deferred tax assets and liabilities involves significant estimation and judgement by management. In determining these amounts, management interprets tax legislation in a variety of jurisdictions and makes estimates of the expected timing of the reversal of deferred tax assets and liabilities. Management also makes estimates of future earnings, which affect the extent to which potential future tax benefits may be used. The Company is subject to assessments by various taxation authorities, which may interpret legislation differently. These differences may affect the final amount or the timing of the payment of taxes. The Company provides for such differences where known based on management's best estimate of the probable outcome of these matters.

e) **Changes in Accounting Standards Adopted During the Year**

Revenue

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programs*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

Adoption of IFRS 15 by the Company on January 1, 2018 did not have a material impact on the Company's consolidated financial statements.

Financial Instruments

IFRS 9*, Financial Instruments* ("IFRS 9") replaces IAS 39, *Financial Instruments: Recognition & Measurement* ("IAS 39") and introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard also introduces additional changes relating to financial liabilities, amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment and introduces a new general hedge accounting standard which aligns hedge accounting more closely with risk management. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change relating to the Company's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

Overview of Changes in IFRS

The Company and its subsidiaries adopted IFRS 9 on January 1, 2018 retrospectively without restatement of comparative periods in accordance with the transitional provisions of the standard.

Classification and Measurement Changes

The Company has assessed the classification and measurement of its financial assets and financial liabilities under IFRS 9 and have summarized the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 in the following table:

	Measurement Category	
	Original (IAS 39)	**New (IFRS 9)**
Financial Assets:		
Cash, cash equivalents and restricted cash	Amortized cost	Amortized cost
Trade receivables	Amortized cost	Amortized cost
Deposits	Amortized cost	Amortized cost
Other non-current assets - term deposits	Amortized cost	Amortized cost
Financial Liabilities:		
Trade payables	Amortized cost	Amortized cost
Loans and borrowings	Amortized cost	Amortized cost
Derivatives	Fair value through profit or loss	Fair value through profit or loss

There has been no change in the carrying value of the Company's financial instruments or to previously reported figures as a result of changes to the measurement categories in the table noted above.

Cash and cash equivalents, restricted cash and deposits

Cash is comprised of cash on hand and demand deposits. Cash equivalents, restricted cash and deposits are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in fair value.

Trade receivables

Trade receivables relate to amounts receivable from sales with fixed or determinable payments that are not quoted in an active market. These receivables are non-interest bearing and are recognized at face amount, except when fair value is materially different, and are subsequently measured at amortized cost. Trade receivables recorded are net of lifetime expected credit losses.

Other non-current assets – term deposits

Term deposits are directly related to loan agreements with a Brazilian financial institution which requires the establishment of a reserve fund. Redemptions of financial investments are conditional on the Company making the scheduled loan repayments. These term deposits are classified as, and subsequently measured at, amortized cost. These term deposits are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method, less any impairment losses.

Trade payables

Trade payables are non-interest bearing if paid when due and are recognized at their face amount, except when fair value is materially different. Trade payables are subsequently measured at amortized cost.

Loans and borrowings

Loans and borrowings are initially recorded at fair value, less transaction costs. Loans and borrowings are subsequently measured at amortized cost and are calculated using the effective interest rate method.

Expected credit losses

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. The Company is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

The Company has reviewed expected credit losses on trade receivables on transition to IFRS 9 and has implemented a process for managing and estimating provisions relating to trade receivables going forward under IFRS 9. For trade receivables, the Company has applied the simplified approach for determining expected credit losses which requires the determination of lifetime expected losses for all trade receivables. The expected lifetime credit loss provision for trade receivables is based on historical counterparty default rates and adjusted for relevant forward-looking information, when required. As the Company's three primary significant customers are considered to have a low default rate and historical default rates are low, the lifetime expected credit loss allowance for trade receivables is nominal as at January 1, 2018 and December 31, 2018. Accordingly, the Company did not record a provision for expected credit losses for trade receivables.

f) **New Accounting Standards and Interpretations not yet Adopted**

The Company has not applied the following revised or new IFRS that have been issued but were not yet effective as at December 31, 2018:

IFRS 16 Leases

On January 13, 2016, the IASB issued IFRS 16 *Leases* ("IFRS 16"). The new standard is effective for the Company on January 1, 2019.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

During 2018, management has compiled all of the Company's existing lease and service contracts and reviewed the relevant agreements to identify which of these contracts are in scope for IFRS 16. In addition, management completed a review of existing service contracts for embedded leases and have identified all operating leases. In the fourth quarter of 2018, we began developing a valuation approach to measuring the right of use assets and related lease obligations for our population of leases and reviewed the increased accounting and disclosure requirements arising from the new leasing standard.

Upon adoption of IFRS 16, the Company will record new right of use assets and associated lease liabilities related to leases with a term of 12 months or more on the consolidated statement of financial position at January 1, 2019. Due to the recognition of additional right of use assets and lease liabilities, a higher amount of depreciation expense and interest expense on lease liabilities will be recognized under IFRS 16 as compared to the current standard. This impact will be partially offset by a reduction in operation lease expense payments currently included in cost of product sold and/or general and administrative expenses.

While the Company has not yet completed the quantification of the impact that adoption of IFRS 16 will have, our expectation is that most of the impact upon transition to IFRS 16 will be derived from our operating leases and certain contractual arrangements associated with the use of machinery and equipment, which will be recognized on our balance sheet effective January 1, 2019. We will use the modified retrospective approach of adoption resulting in no restatement of prior year comparatives. The quantitative impact of adopting IFRS 16 will be provided in our first interim financial statements in 2019.

IFRIC 23 – Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 ("Interpretation 23") – *Uncertainty over Income Tax Treatments*. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. Interpretation 23 is applicable for annual periods beginning on or after January 1, 2019. The Company intends to adopt Interpretation 23 in its financial statements for the annual period beginning on January 1, 2019 and does not expect it to have a material impact on the financial statements.

3. Significant Accounting Policies

a) Revenue

Revenue is generated from the sale of sale of metals in concentrate and gold doré. The Company's performance obligations relate primarily to the delivery of the concentrate or gold doré to customers, with each shipment representing a separate performance obligation.

Revenue from the sale of metals in concentrate and gold doré is recognized at the point the customer obtains control of the product. Control is transferred when title has passed to the purchaser, the product is physically delivered to the customer, the customer controls the risks and rewards of ownership and the Company has a present right to payment for the product which is generally when the concentrate or ore is delivered to a location designated by the customer.

The sales amount is typically based on quoted market and contractual prices which are fixed at the time the shipment is received at the customers' premises. In certain circumstances the sales price of metals in concentrate may be determined in a period subsequent to the date of sale (provisionally priced sales) based on the terms of specific copper concentrate contracts. Provisionally priced sales are recognized based on an estimate of metal contained using forward market prices corresponding with the expected date that final sales prices will be fixed. The period between provisional pricing and final settlement can be up to one month. The settlement receivable is recorded at fair value each reporting period by reference to forward market prices until the date of final pricing, with the changes in fair value recorded as an adjustment to revenue.

b) **Tax Incentives**

The Company receives certain tax incentives in Brazil. These tax incentives are recognized in profit or loss in the period the incentives are received or receivable and recorded against the expenditure that they are intended to compensate.

c) **Finance Income and Finance Expense**

Finance income includes interest on cash and cash equivalents and restricted cash and financial investments and gains related to changes in the fair value of financial assets measured at fair value through profit. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance expense comprise interest expense on loans and borrowings, unwinding of the discount on provisions and losses related to changes in the fair value of financial assets measured at fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in earnings using the effective interest method.

d) **Employee Benefits**

Short-term employee benefit obligations are recognized as personnel expenses as the corresponding service is provided. Liabilities are recognized at the amount that is expected to be paid if the Company has a present legal or constructive obligation to pay that amount based on past services rendered by the employee, and the obligation can be estimated reliably. There are no long-term employee benefits.

e) **Taxation**

Income tax expense comprises current and deferred tax. Current income tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantively enacted at the reporting date.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted at the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity. Deferred income tax is not recognized for the initial recognition of assets or liabilities in a transaction that is not a business combination and that effects neither accounting nor taxable income or loss, differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future and taxable differences arising from the initial recognition of goodwill.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

f) **Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of consumable inventory is determined on a weighted average acquisition cost basis. Cost of stockpile inventory, products in progress and finished goods is determined based on a weighted average production cost basis and includes the cost of mining and processing ore including direct labour and materials; depreciation and amortization; and an appropriate share of production overheads based on normal operating capacity.

Net realizable value of stockpile inventory, products in progress and finished goods is the estimated selling price in the ordinary course of business, less estimated completion costs and selling expenses.

Provisions for low turnover or obsolete supplies and consumables inventory are established by management as deemed necessary.

g) **Mineral Property, Plant and Equipment**

Mineral property, plant and equipment is measured at acquisition or construction cost, including capitalized borrowing costs, less accumulated depreciation and accumulated impairment losses.

Acquisition and disposal

The cost of mineral property, plant and equipment include expenditures directly attributable to an asset's acquisition. The cost of assets constructed by Company includes the cost of materials and direct labor, any other costs to bring the asset in the place and conditions required to be operated in the manner intended by management, costs of disassembly and restoration of the site and borrowing costs on qualifying assets.

When parts of mineral property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of mineral property, plant and equipment.

Gains and losses on disposal of mineral property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of equipment and are recognized net within other income.

i) Subsequent costs

The cost of replacing plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the item will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced item is derecognized. The costs of the day-to-day servicing of equipment are included in profit or loss

ii) Development and construction in progress

When economically viable mineral reserves have been determined and the decision to proceed with development has been approved, exploration and evaluation assets are first assessed for impairment, then reclassified to construction-in-progress or mineral properties. The expenditures related to development and construction are capitalized as construction-in-progress and are included within mineral property, plant and equipment. Costs associated with the commissioning of new assets incurred before they are operating in the way intended by management, including directly attributable costs of testing, are capitalized. Construction in progress includes the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use including advances on long-lead items. Construction in progress is not depreciated.

Once the asset is operating in the way intended by management, construction-in-progress costs are reclassified to mineral properties or plant and equipment.

Pre-production costs of removing overburden to access ore in the open pit mines and developing access headings in the underground mines are capitalized as pre-production stripping or development costs respectively and are included within mineral properties, plant and equipment. Revenues earned during pre-production periods are also capitalized.

iii) Mineral properties

Mineral properties consist of the cost of acquiring and developing mineral properties. Once in production, mineral properties are amortized on a units-of-production basis over the component of the ore body to which they relate.

iv) *Stripping costs and development in the production phase*

Where open pit production stripping or underground development activities do not result in inventory produced, but does provide improved access to the ore body, the costs are classified as mineral properties when these activities meet all of the following criteria: (1) it is probable that the future economic benefit associated with the activity will flow to the Company; (2) the Company can estimate the mineral reserve of the ore body for which access has been improved; and (3) the costs relating to the activity associated with that mineral reserve can be measured reliably.

For underground mines, costs incurred to access a mineral reserve of the ore body are capitalized to mineral properties or construction-in-progress and are depreciated on a units-of-production basis over the expected useful life of the identified mineral reserve of the ore body to which access has been improved as a result of the development activity. For open pit mines, stripping costs are capitalized to mineral properties or construction-in-progress until an average stripping ratio is achieved (waste/ore) for the mine. After the stripping ratio is achieved, all stripping costs are classified as production costs. The capitalized stripping costs are depreciated over the related mineral reserves accessed by the stripping activity.

v) Environmental recovery and decommissioning costs

The Company's provision for decommissioning liabilities represents management's best estimate of the present value of the future cash outflows required to settle estimated reclamation and closure costs at the end of a mine's life. The provision reflects estimates of future costs, inflation, movements in foreign exchange rates and assumptions of risks associated with the future cash outflows, and the applicable risk-free interest rates for discounting the future cash outflows. Changes in the above factors can result in a change to the provision recognized by the Company.

vi) Depreciation

Items of mineral property, plant and equipment are depreciated on a straight-line method based on the estimated economic useful life of each component as follows:

Buildings	Up to 25 years
Mining equipment	4 years
Mobile equipment & other assets	5 years
Mineral properties	Units of production
Mine Closure and rehabilitation costs	Units of production
Leasehold improvements	Term of lease

The depletion of mineral properties and mine closure and rehabilitation costs is determined based on the ratio of tons of copper contained in the ore mined and total proven and probable mineral reserve tonnes of contained copper.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

h) **Exploration and Evaluation Assets**

Exploration and evaluation costs relate to the initial search for a mineral deposit, the cost of acquisition of a mineral property interest or exploration rights and the subsequent evaluation to determine the economic potential of the mineral deposit. The exploration and evaluation stage commences when the Company obtains the legal right or license to begin exploration and subsequently exploration and evaluation expenses are capitalized as exploration and evaluation assets. Costs incurred prior to the Company obtaining the legal rights are expensed.

When the exploration and evaluation of a mineral property indicates that development of the mineral property is technically and commercially feasible, the future economic benefits are probable, and the Company has the intention and sufficient resources to complete the development and use or sell the asset, the related costs are transferred from exploration and evaluation assets to mineral property, plant and equipment.

Management reviews the carrying value of capitalized exploration costs for indicators that the carrying value is impaired at least annually and when facts and circumstances suggest that the carrying amount may exceed the recoverable amount. The review is based on the Company's intentions for further exploration and development of the undeveloped property, results of drilling, commodity prices and other economic and geological factors. Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a property does not prove viable, all non-recoverable costs associated with the project, net of any previous impairment provisions, are written off.

i) **Financial Instruments**

Non-derivative financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Measurement and classification of financial assets is dependent on the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. See Note 2(e) to these consolidated financial statements for the classifications of our financial instruments under IFRS 9.

Financial assets at FVTPL

Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the income statement. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in profit or loss in the period in which they arise. Derivatives are also categorized as FVTPL unless they are designated as hedges.

Financial assets at FVTOCI

Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive income following the derecognition of the investment.

Financial assets at amortized cost

Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date. Gains and losses on derecognition of financial assets classified amortized cost are recognized in profit or loss.

Financial liabilities

Financial liabilities are recognized initially at fair value, net of transaction costs incurred, and are subsequently measured at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method.

Derivative instruments

Derivative instruments, including embedded derivatives in executory contracts or financial liability contracts, are classified as at FVTPL and, accordingly, are recorded in the statement of financial position at fair value. Unrealized gains and losses on derivatives not designated in a hedging relationship are recorded as part of the revenue or expense item to which the derivative relates, depending on the nature of the derivative. Fair values for derivative instruments are determined using inputs based on market conditions existing at the balance sheet date or settlement date of the derivative. Derivatives embedded in non-derivative contracts are recognized separately unless they are closely related to the host contract.

Trade receivables related to provisionally priced sales are measured at fair value with changes recognized in profit or loss.

Compound instruments

Equity components of compound instruments, such as convertible debt, are separated from the debt host contract using the residual method. The Company determines the fair value of the debt component by discounting the expected principal and interest payments using an appropriate discount rate reflective of debt instruments with similar risks but without the equity component. The difference between the proceeds received and the amount assigned to the debt component is allocated to the equity component.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares and share options are recognized as a deduction from equity, net of any tax effects. The Company includes the value of share purchase warrants included in the issuance of equity units, which consist of a common shares and warrants, in share capital.

j) **Impairment**

i) Financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

ii) Non-Financial assets

At each reporting date the carrying amounts of the Company's mineral properties, plant and equipment and exploration and evaluation assets are reviewed to determine whether there is any indication that those assets are impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Goodwill is tested annually regardless of whether there is an indicator of impairment. The recoverable amount is the higher of fair value less costs to sell and value in use, which is the present value of future cash flows expected to be derived from the asset or its related cash generating unit. For purposes of impairment testing, assets are grouped at the lowest levels that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the associated assets are reduced to their recoverable amount and the impairment loss is recognized in the profit or loss for the period.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment charge is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of any applicable depreciation, if no impairment loss had been recognized. An impairment loss for goodwill is not reversed.

k) **Provisions**

i) Mine closure and rehabilitation provision

The Company records the present value of estimated costs of legal and constructive obligations related to mine closure and rehabilitation in the period in which the obligation occurs. Mine closure and rehabilitation activities include facility decommissioning and dismantling; removal and treatment of waste materials; site and land rehabilitation, including compliance with and monitoring of environmental regulations; and related costs required to perform this work and/or operate equipment designed to reduce or eliminate environmental effects. The provision is adjusted each period for new disturbances, and changes in regulatory requirements, the estimated amount of future cash flows required to discharge the obligation, the timing of such cash flows and the pre-tax discount rate specific to the liability. The unwinding of the discount is recognized in profit or loss as a finance expense.

When the provision is initially recognized, the corresponding cost is capitalized by increasing the carrying amount of the related asset and is amortized to profit or loss on a unit-of-production basis.

ii) Other provisions

Other provisions are recognized, based on a past event, when the Company has a legal or constructive obligation that can be estimated reliably, and it is probable that an economic mineral resource will be required to settle the obligation. Provisions are measured by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and specific risks for the liability. The discount is unwound over the period over which the cash flows are expected to be incurred with the related expense included in finance expense.

l) **Share-Based Compensation**

The grant date fair value of share-based payment awards granted to employees and consultants, including directors and officers, is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be performed or satisfied such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

m) **Leases**

At inception of an arrangement, the Company determines whether the arrangement is or contains a lease. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the lease term. Lease incentives received, if any, are included in the total lease expense to be recognized over the term of the lease. At the reporting date the Company has no arrangements that contain a finance lease.

n) **Income (Loss) per Share**

Basic income (loss) per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income (loss) per common share is calculated by adjusting the weighted average number of common shares outstanding for the effect of conversion of all potentially dilutive share equivalents, such as stock options and warrants, and assumes that the receipt of proceeds upon exercise of the options are used to repurchase common shares at the average market price during the period. The net effect of the shares issued less the shares assumed to be repurchased is added to the basic weighted average shares outstanding. For convertible instruments, the common shares to be included in the diluted per share calculation assumes that that the instrument is converted at the beginning of the period (or the issue date if later). The profit or loss attributable to common shareholders is adjusted to eliminate related interest costs of dilutive securities recognized in profit or loss for the period.

(Tabular amounts in thousands of US Dollars, except share and per share amounts)

4. NX Gold

From the date of acquisition on December 12, 2016, the Company intended to sell its interest in NX Gold. Accordingly, the assets and liabilities of NX Gold were classified as assets and liabilities held for sale and its results from operations were presented as net income from discontinued operations. During the fourth quarter of 2018, the Company decided not to sell its interest in NX Gold and, instead, continue to own and operate the assets due to encouraging preliminary exploration work and weak capital markets for junior listed gold producers. As such, the assets and liabilities of NX Gold are no longer presented as assets and liabilities held for sale and its results from operations are no longer reflected as income from discontinued operations. The prior year statements of operations and comprehensive income (loss) and cash flow have been adjusted to reflect NX Gold as a continuing operation.

	Year ended December 31, 2017 as originally presented	NX Gold Adjustments	Year ended December 31, 2017 as adjusted
Revenue	$ 115,445	$ 32,796	$ 148,241
Cost of product sold	(100,282)	(27,727)	(128,009)
Sales expenses	(2,218)	(7)	(2,225)
Gross profit	**12,945**	**5,062**	**18,007**
Expenses			
General and administrative	(19,626)	(3,314)	(22,940)
Share-based compensation	(879)	-	(879)
Income (loss) before the understated	**(7,560)**	**1,748**	**(5,812)**
Other income (expenses)			
Finance income	2,080	196	2,276
Finance expense	(18,988)	(1,721)	(20,709)
Foreign exchange loss	(4,101)	(195)	(4,296)
Gain on debt settlement	28,727	-	28,727
Other income	1,788	-	1,788
Income before income taxes	**1,946**	**28**	**1,974**
Income tax recovery			
Current income tax	(269)	(835)	(1,104)
Deferred income tax recovery	16,614	-	16,614
	16,345	(835)	15,510
Net income (loss) from continuing operations	**18,291**	**(807)**	**17,484**
Net loss from discontinued operations	(807)	807	-
Net income for the period	**$ 17,484**	**$ -**	**$ 17,484**

(Tabular amounts in thousands of US Dollars, except share and per share amounts)

4. NX Gold (continued)

	Year ended December 31, 2017 as originally presented	NX Gold Adjustments	Year ended December 31, 2017 as adjusted
Cash Flows from (used in) Operating Activities			
Net income (loss) from continuing operations	**$ 18,291**	$ (807)	**$ 17,484**
Adjustments for:			
Amortization and depreciation	**32,727**	5,415	**38,142**
Income tax expense (recovery)	**(16,345)**	835	**(15,510)**
Gain on debt settlement	**(28,727)**	-	**(28,727)**
Write-off of assets/investments	-	1,668	**1,668**
Provisions	**4,803**	(168)	**4,635**
Share-based compensation	**879**	-	**879**
Finance income	**(2,080)**	(196)	**(2,276)**
Finance expenses	**18,988**	1,721	**20,709**
Foreign exchange	**4,101**	195	**4,296**
Derivative contract settlements	**2,643**	(2,452)	**191**
Changes in:			
Accounts receivable	**(2,283)**	(1,002)	**(3,285)**
Inventories	**(2,400)**	1,225	**(1,175)**
Other assets	**(1,512)**	3,720	**2,208**
Accounts payable and accrued liabilities	**(5,103)**	1,875	**(3,228)**
Value added, payroll and other taxes	**(1,937)**	(2)	**(1,939)**
Other liabilities	**(539)**	1,468	**929**
	21,506	13,495	**35,001**
Income taxes paid	**(269)**	-	**(269)**
	21,237	13,495	**34,732**
Cash Flows used in Investing Activities			
Additions to mineral property, plant and equipment, net	**(57,390)**	(5,873)	**(63,263)**
Additions to exploration and evaluation assets	**(798)**	-	**(798)**
Interest received	**832**	(832)	**-**
Advances to NX Gold	**(4,960)**	5,792	**832**
	(62,316)	(913)	**(63,229)**
Cash Flows from Financing Activities			
Convertible debentures	**2,750**	-	**2,750**
Convertible debentures - facility fee	**(250)**	-	**(250)**
Restricted cash	**(2,193)**	-	**(2,193)**
Purchase of participation agreement	**(47,328)**	-	**(47,328)**
New loans and borrowings, net of finance costs	**47,773**	6,716	**54,489**
Loans and borrowings paid	**(5,016)**	(11,422)	**(16,438)**
Interest paid on loans and borrowings	**(3,919)**	(822)	**(4,741)**
Other finance costs paid	**(3,182)**	(7,006)	**(10,188)**
Issuance of share capital, net of issuance costs	**83,700**	-	**83,700**
	72,335	(12,534)	**59,801**
Effect of exchange rate changes on cash and cash equivalents	**1,524**	(1)	**1,523**
Net increase in cash and cash equivalents	**32,780**	47	**32,827**
Cash and cash equivalents - beginning of year	**18,318**	2	**18,320**
Cash and cash equivalents - end of year	**$ 51,098**	$ 49	**$ 51,147**

(Tabular amounts in thousands of US Dollars, except share and per share amounts)

5. Inventories

		December 31, 2018		December 31, 2017
Supplies and consumables	**$**	**11,641**	$	7,117
Stockpile		**1,116**		127
Work in progress		**543**		253
Finished goods		**1,345**		981
	$	**14,645**	$	8,478

6. Other Current Assets

		December 31, 2018		December 31, 2017
Advance to suppliers	**$**	**766**	$	1,447
Prepaid expenses		**2,188**		3,099
Advances to employees (a)		**1,349**		554
Value added federal taxes recoverable		**2,592**		1,143
	$	**6,895**	$	6,243

(a) Advances to employees include short term advances of salary, vacation and other benefits granted to employees of the Company’s subsidiary MCSA.

(Amounts in thousands of US Dollars, except share and per share amounts)

7. Mineral Property, Plant and Equipment

	Buildings	Mining equipment	Mineral Properties	Projects in Progress	Mobile equipment & other assets	Mine Closure Costs	Total
Cost:							
Balance at December 31, 2016	$ 16,258	$ 42,577	$ 146,850	$ 7,182	$ 10,344	$ 12,749	$ 235,960
Additions	169	5,041	-	52,099	784	34	58,127
Disposals	-	(38)	-	-	-	-	(38)
Foreign exchange	(198)	(1,004)	(2,484)	(3,576)	(580)	(213)	(8,055)
Balance at December 31, 2017	16,229	46,576	144,366	55,705	10,548	12,570	285,994
Reclassification of NX Gold amounts from assets held for sale	1,661	2,443	28,216	-	102	647	33,069
Additions	471	33,451	3,694	61,898	1,446	1,109	102,069
Disposals	-	(1,008)	(313)	(1,655)	(1,085)	-	(4,061)
Transfers	-	2,695	63,008	(65,703)	-	-	-
Foreign exchange	(2,622)	(9,310)	(29,072)	(8,098)	(1,175)	(1,985)	(52,262)
Balance at December 31, 2018	**$ 15,739**	**$ 74,847**	**$ 209,899**	**$ 42,147**	**$ 9,836**	**$ 12,341**	**$ 364,809**
Accumulated depreciation:							
Balance at December 31, 2016	$ (13)	$ (745)	$ -	$ -	$ (11)	$ (47)	$ (816)
Depreciation expense	(1,141)	(8,895)	(20,308)	-	(1,851)	(611)	(32,806)
Disposals	-	35	-	-	-	-	35
Foreign exchange	71	548	1,153	-	166	38	1,976
Balance at December 31, 2017	(1,083)	(9,057)	(19,155)	-	(1,696)	(620)	(31,611)
Reclassification of NX Gold amounts from assets held for sale	(1,660)	(1,922)	(8,092)	-	(93)	(581)	(12,348)
Depreciation expense	(985)	(8,657)	(34,242)	-	(1,652)	(1,092)	(46,628)
Disposals	-	556	-	-	2	-	558
Foreign exchange	459	2,100	2,891	-	301	273	6,024
Balance at December 31, 2018	**$ (3,269)**	**$ (16,980)**	**$ (58,598)**	**$ -**	**$ (3,138)**	**$ (2,020)**	**$ (84,005)**
Net book value December 31, 2017	$ 15,146	$ 37,519	$ 125,211	$ 55,705	$ 8,852	$ 11,950	$ 254,383
Net book value December 31, 2018	**$ 12,470**	**$ 57,867**	**$ 151,301**	**$ 42,147**	**$ 6,698**	**$ 10,321**	**$ 280,804**

(Tabular amounts in thousands of US Dollars, except share and per share amounts)

7. Mineral Property, Plant and Equipment (continued)

Additions to the Vermelhos project were partially offset by net profit of $4.5 million from sales of concentrate produced during the testing and commissioning phase of the Vermelhos underground mine during the year ended December 31, 2018. This ore was from gallery development and trial mining of the first production stopes. On October 11, 2018, the Vermelhos Mine received its operating license and commenced commercial production as it was capable of operating under the parameters intended by management as at that date.

Buildings and equipment have been pledged as security for a certain secured bank loan and certain equipment is secured for the equipment finance loans (Note 10).

Included in mineral property, plant and equipment is $8.1 million (December 31, 2017 - $22.4 million) related to the value of mineral resources beyond proven and probable reserves not currently being amortized. During the year ended December 31, 2018, $14.3 million was transferred from mineral resources to amortizable mineral reserves as a result of an update to MCSA's proven and probable reserves during the year.

8. Exploration and Evaluation Assets

Exploration and evaluation assets related to the Boa Esperança Property located in the Municipality of Tucumã, in the state of Pará, Brazil which consists of a single mineral concession. This prospective copper/gold property is in advanced stages of exploration with various geological mineral resource studies and a completed feasibility study.

9. Accounts Payable and Accrued Liabilities

	December 31, 2018	December 31, 2017
Suppliers	**$ 19,007**	$ 13,331
Payroll and related charges	**14,802**	6,870
Other accrued liabilities	**2,581**	767
	$ 36,390	$ 20,968

(Tabular amounts in thousands of US Dollars, except share and per share amounts)

10. Loans and Borrowings

Description	Denomination	Security	Time to Maturity	Coupon rate	Principal to be repaid	Carrying value December 31, 2018	Carrying value December 31, 2017
Bank loan	USD	Secured	-	8.83%	$ -	$ -	$ 54,301
Bank loan	USD	Unsecured	3 months	7.50%	547	558	18,811
Bank loan	BRL R$	Secured	96 months	7.50%	10,512	8,607	9,656
Bank loan	BRL R$	Unsecured	96 months	CDI + 0.5%	8,020	6,969	8,004
Bank loan (NX Gold)	BRL R$	Unsecured	2 months	95% CDI	106	106	-
Bank loan	USD	Unsecured	24 months	4.43%	3,000	3,000	-
Bank loan	BRL R$	Unsecured	14 months	CDI + 3.7%	1,482	1,484	-
Equipment finance loans	BRL R$	Secured	2-29 months	6%-21.36%	1,309	1,346	514
Equipment finance loans	EURO	Secured	20-24 months	7.00%	3,586	3,645	-
Equipment finance loans	USD	Secured	42-48 months	7%-7.95%	2,979	2,994	-
Senior non-revolving credit facility	USD	Secured	-	LIBOR + 7%	-	-	47,790
Senior non-revolving credit facility	USD	Secured	60 months	LIBOR + 2.75%-4.75%	80,000	79,056	-
Senior revolving credit facility	USD	Secured	48 months	LIBOR + 2.75%-4.75%	45,000	44,469	-
Other	USD	Unsecured	-	LIBOR + 3.5%	-	-	90
Total					**$ 156,541**	**$ 152,234**	**$ 139,166**
Current portion:						**$ 10,602**	**$ 5,601**
Non-current portion:						**$ 141,632**	**$ 133,565**

The carrying values of the loans and borrowings in the schedule above includes accrued interest, while the principal to be repaid does not include accrued interest.

	2018	2017
Balance, beginning of year	**$ 139,166**	$ 162,124
Reclassification of NX Gold amounts from assets held for sale	**2,071**	-
New senior non-revolving credit facility	**78,837**	47,773
New senior revolving credit facility	**44,346**	-
New equipment finance loans	**11,652**	261
New bank loans	**4,581**	-
Debt extinguishment	**(119,221)**	(76,282)
Principal and interest payments	**(19,670)**	(8,935)
Interest accretion	**14,965**	14,503
Effect of foreign exchange rate changes	**(4,493)**	(278)
Balance, end of period	**$ 152,234**	$ 139,166

(a) Senior non-revolving credit facility

In December 2018, the Company replaced the $50 million senior secured non-revolving credit facility completed on December 29, 2017 with a new $130 million facility from a syndicate of Canadian financial institutions. The facility is comprised of an $80 million senior secured amortizing non-revolving credit facility ("Term Facility") and a $50 million senior secured revolving term credit facility ("Revolving Credit Facility") (collectively the "Facilities"). The Term Facility has a 5-year term with equal quarterly principal payments of $6.2 million beginning on December 13, 2020, while the Revolving Credit Facility is payable at maturity on December 13, 2022. The Facilities bear interest on a sliding scale at a rate of LIBOR plus 2.75% to 4.75% depending on the Company's consolidated leverage ratio at the time. Commitment fees for the undrawn portion of the Revolving Credit Facility are on a sliding scale between 0.69% to 1.19%. Subsequent to December 31, 2018, the Company entered into an interest rate swap transaction with a Canadian financial institution whereby the floating interest on a notional amount of $65 million of the Term Facility was swapped for a fixed interest rate of 2.69%. This interest rate swap transaction is in effect for the term of the Term Facility, with the notional amount reduced as principal payments are made. Interest payments are being made on a quarterly basis. The Company incurred transaction costs associated with the Facilities of $1.6

million which have been included in the carrying value of the Facilities and are being amortized using an effective interest rate of 7.46%. The settlement of the previous $50 million senior secured non-revolving credit facility resulted in a loss on settlement of $1.8 million. The Facilities are secured by pledges of shares of MCSA and NX Gold. The Company is required to comply with certain financial covenants. As of the date of these consolidated financial statements, the Company is in compliance with these covenants.

(b) Bank loans

The bank loans relate to the Company's subsidiaries and were recognized at the date of acquisition at fair value and have subsequently been recognized at amortized cost, net of settlements. Interest is being recognized using the effective interest rate method at interest rates ranging from 7.8% - 14.5%.

On December 2, 2016, MCSA restructured their bank loans. Pursuant to the restructuring agreements, the lenders agreed to split these loans into Class A and Class B notes. The principal amount of the Class A notes totaled $127.9 million and were repayable over an eight-year period commencing at the earliest of the date of commercial production of copper concentrates from the Vermelhos UG Mine or May 2019. The principal amount of the Class B notes on the acquisition date totaled $83.9 million and were repayable only if, among other things, the Class A notes are not repaid in accordance with the restructured agreements. On the acquisition date, the Company expected that based on estimated cash flows, it would be able to repay the Class A notes and meet the other conditions specified in the restructured agreements and no repayment of the Class B notes would be required. Accordingly, the Class B notes totaling $83.9 million were determined to have a $Nil fair value at the acquisition date. In December 2018, the Company acquired or settled the restructured loans, as discussed below and, therefore, the Class B notes will not be required to be repaid.

During the year ended December 31, 2017, the Company settled certain of MCSA's bank loans with a carrying value of $76.3 million, as disclosed in note 10(c). During the year ended December 31, 2018, the Company acquired and/or settled certain MCSA's bank loans with a carrying value of $68.8 million. The settlement of these loans resulted in a loss of $3.7 million, including early repayment fees for certain of the Class A notes.

As per the terms of one of MCSA's bank loans, the Company is required to maintain a separate bank account with sufficient funds to cover scheduled principal payments. At December 31, 2018, $3.0 million was on deposit in a designated debt service account and is presented as restricted cash in the statement of financial position.

The secured bank loans are secured by buildings and equipment. Pursuant to the restructured agreements and agreements with other lenders, MCSA is required to comply with certain financial covenants. As of the date of these consolidated financial statements, MCSA was in compliance with these covenants.

(c) Participation agreement

In December 2017, a Canadian financial institution purchased certain of MCSA's secured bank loans with a total carrying value of $76.3 million. The Company then entered into an arrangement with the Canadian financial institution whereby the Company acquired the rights to any and all payments of interest and principal that MCSA makes to the Canadian financial institution over the term of the loans acquired by the Canadian financial institution. These rights that the Company acquired constitute settlement of certain of MCSA's secured bank loans. The Company acquired these rights for $47.6 million, resulting in a gain on debt settlement of $28.7 million.

In December 2018, this participation agreement was terminated and the loans receivable from MCSA were transferred directly to the Company from the Canadian financial institution. All payments of interest and principal will continue to be made by MCSA to the Company and will be eliminated on consolidation.

(Tabular amounts in thousands of US Dollars, except share and per share amounts)

(d) Line of Credit

In July 2018, MCSA entered into a credit agreement with Banco BTG Pactual S.A. for a line of credit of up to BRL$30 million at an interest rate of CDI + 7% per annum. In October 2018, this credit agreement was amended to an increased line of credit of BRL$35 million (approximately $9.0 million based on the December 31, 2018 exchange rate of 3.8748). The Company and NX Gold provide unsecured guarantees for this credit agreement and the fee for structuring this agreement was $0.3 million (BRL$1.2 million), which was included in finance expense. As at December 31, 2018, no amounts had been drawn on this facility. Subsequent to December 31, 2018, this credit agreement was amended to increase the line of credit to BRL$40 million. In addition, MCSA has also entered into credit agreements with Banco Fibra S.A. for a total line of credit of up to BRL$20 million. MCSA may drawdown on these lines of credits at any time until December 31, 2019.

(e) Debt repayments

Repayments of the principal portion of loans and borrowings is as follows:

2019	$	10,602
2020		12,816
2021		28,453
2022		72,518
2023		27,015
Beyond 2023		5,137
	$	**156,541**

11. Value Added, Payroll and Other Taxes

		December 31, 2018		December 31, 2017
Value-added taxes payable	**$**	**2,873**	$	11,324
Tax based on net sales of copper and gold		**3,064**		1,228
Federal sales tax		**692**		604
Social security installments (a)		**8,744**		7,271
Income taxes		**944**		-
Other taxes		**1,633**		1,508
Total value added, payroll and other taxes		**17,950**		21,935
Less: current portion of value added, payroll and other taxes		**11,357**		6,857
Non-current value added, payroll and other taxes	**$**	**6,593**	$	15,078

(a) The Company's subsidiary MCSA has an agreement with the National Institute of Social Security in Brazil to pay outstanding social security contributions in installments over a period to 2024.

(Tabular amounts in thousands of US Dollars, except share and per share amounts)

12. Provisions and Contingent Liabilities

	Mine Closure and Rehabilitation	Legal Claims	Total
Balance at December 31, 2016	$ 22,992	$ 5,813	$ 28,805
Additions due to change in estimated cash flows	233	4,803	5,036
Unwinding of the discount	370	-	370
Settled	(520)	(2,767)	(3,287)
Foreign exchange	(387)	(223)	(610)
Balance at December 31, 2017	22,688	7,626	30,314
Reclassification of NX Gold amounts from assets held for sale	6,082	329	6,411
Additions (reductions) due to change in estimated cash flows	1,136	(2,825)	(1,689)
Unwinding of the discount	3,767	-	3,767
Settled	(1,967)	-	(1,967)
Foreign exchange	(4,352)	(975)	(5,327)
Balance at December 31, 2018	**$ 27,354**	**$ 4,155**	**$ 31,509**

(a) Mine closure and rehabilitation

The Company's provision for mine closure and rehabilitation consists of costs accrued based on the current best estimate of mine closure and reclamation activities that will be required upon completion of mining. The Company's provision for future site closure and reclamation costs is based on the level of known disturbance at the reporting date, known legal requirements and cost estimates prepared by a third-party specialist.

Management used a pre-tax discount rate of 6.5% (2017 – 8.0%) and an inflation factor of 4.2% (2017 – 4.0%) in preparing the Company's provision for mine closure and rehabilitation. Although the ultimate amount to be incurred is uncertain, based on development, legal requirements and estimated costs as at December 31, 2018, the undiscounted inflation-adjusted liability for provision for mine closure and rehabilitation is estimated to be approximately $48.7 million, of which $39.1 million relates to MCSA and $9.6 million relates to NX Gold. The cash expenditures are expected to occur over a period of time extending several years after the projected closure, which for both MCSA and NX Gold is currently 2026.

(b) Legal claims

There are various legal actions that are in process against the Company's Brazilian subsidiaries related to labor, civil and tax matters. Based on an analysis of individual judicial and administrative legal claims, the following provision has been made for probable losses associated with these claims:

	December 31, 2018	December 31, 2017
Labour claims (i)	**$ 3,561**	$ 4,424
Tax claims (ii)	**522**	3,121
Other claims	**72**	81
	$ 4,155	$ 7,626

(i) Labor claims

The labor claims related primarily to claims made by existing and former employees for alleged travel time reimbursements, overtime and severance payments. Of the claims made, the Company has assessed, with the assistance of its legal counsel, that the probable loss on such claims is $3.6 million and such amount has been accrued.

(Tabular amounts in thousands of US Dollars, except share and per share amounts)

(ii) Tax claims

The provisions for tax claims relate to tax assessments, interest and penalties resulting from unpaid income and social contribution taxes by MCSA.

In relation to the above-mentioned claims and those discussed in Note 12(c) below, MCSA was required to place a total of $1.3 million in trust as of December 31, 2018 (December 31, 2017 - $2.0 million), which is included in non-current assets on the statement of financial position.

(c) Contingent liabilities

As of December 31, 2018, MCSA, based on the opinion of its legal advisers, has not recognized a provision for the following claims of MCSA as it is not probable that a cash outflow will occur.

		December 31, 2018		December 31, 2017
Social security tax (i)	**$**	**3,715**	$	4,226
Taxes (ii)		**14,800**		13,089
Labour and other (refer to note 12(b)(i))		**3,380**		2,858
	$	**21,895**	$	20,173

(i) Social security tax

Social security claims relate to potential social security tax payments related to past payments to employees, including profit sharing, and payments made to external contractors. The Company strongly believes that part of the claim will be cancelled after administrative and judicial discussions. The estimated portion of the claim expected to be cancelled of $3.7 million is included in the table above. This understanding is based on precedent court case rulings.

(ii) Tax

There are 99 tax claims against MCSA which were evaluated as possible losses by external legal counsel. The main subjects under discussion for the tax claims involve the validity of tax credits used to offset federal taxes.

13. Convertible Debentures

In January 2017, the Company issued $2.75 million of convertible debentures with an interest rate of 10% to be repaid within two years or to be converted to units, at the option of the holder, at a conversion price of $0.75 per unit. Each unit consisted of one common share and one-quarter of one common share purchase warrant. Each whole warrant entitled the holder to purchase one common share at a price of $1.20 per common share until December 12, 2021. The Company had the right to accelerate the expiry of any warrants issued in relation to these convertible debentures if the closing share price on a recognized exchange reached or exceeded $1.70 for 20 consecutive trading days. On maturity of the convertible debentures, the Company had the right to repay the principal amount and the accrued and unpaid interest thereon by way of cash, issuance of units at a price of US$0.75 per unit, or a combination thereof, such determination being at the discretion of the Company. As the Company had the ability to settle the debentures with a fixed number of the Company's own equity instruments, the convertible debentures were classified as equity instruments. In February 2018, all of the convertible debenture holders elected to convert their debentures into units, resulting in the issuance of 4,059,450 common shares and 1,014,861 common share purchase warrants. These warrants were subsequently exercised for an equivalent number of common shares for gross proceeds received by the Company of $1.2 million.

14. Share Capital

As at December 31, 2018, the Company's authorized share capital consists of an unlimited number of common shares without par value. As at December 31, 2018, 84,738,650 common shares were outstanding.

(a) Private placements

In March 2017, the Company issued 18,423,593 common shares at a price of $1.50 per common share for gross proceeds of $27,635,390. In connection with this financing, the Company paid $574,000 in finders' fees and incurred $59,000 in other share issue costs. Key management personnel participated in this financing by purchasing 233,333 common shares of the Company for total proceeds of $0.4 million.

(b) Initial Public Offering and exercise of warrants

On October 19, 2017, the Company issued 13,492,317 common shares at CAD $4.75 per common share (the "Offering Price") in a public share offering for gross proceeds of approximately $50.9 million. A fee equal to 6% of the gross proceeds of the offering was paid to underwriters and the Company incurred other transaction costs of approximately $2.1 million. Concurrent with the public share offering, 4,333,027 general warrants were exercised for an equivalent number of common shares at $1.20 per common share for gross proceeds of approximately $5.2 million.

In December 2017, the closing share price of the Company's stock on the TSX exceeded $1.70 for 20 consecutive trading dates, which allowed the Company to exercise its right to accelerate the expiry of all applicable outstanding warrants. 4,783,311 general warrants were exercised for an equivalent number of common shares at $1.20 per common share for gross proceeds to the Company of approximately $5.7 million.

(c) Options

On December 31, 2018, the Company granted 1,155,519 options to certain officers, directors, consultants and employees of the Company at an exercise price of CAD$9.76 per share with a term to expiry of five years. These stock options vest in 3 equal installments on each annual anniversary date from the date of grant. The total fair value of these options to be expensed over the vesting period was $3.5 million.

In July 2018, the Company granted 200,000 options to an employee of the Company at an exercise price of CAD$9.01 per share with a term to expiry of five years. These stock options vest in 3 equal installments on each annual anniversary date from the date of grant. The total fair value of these options to be expensed over the vesting period was $0.6 million.

In June 2018, the Company granted 174,000 options to an employee and a director of the Company at an exercise price of CAD$10.25 per share with a term to expiry of five years. 150,000 of these stock options vest in 3 equal installments on each annual anniversary date from the date of grant, while 24,000 of these stock options vested immediately. The total fair value of these options to be expensed over the vesting period was $0.6 million.

In January 2018, the Company granted 60,000 options to an employee of the Company at an exercise price of CAD$7.95 per share with a term to expiry of five years. In addition, the Company also granted in January 2018 125,000 options to an employee of the Company at an exercise price of CAD$7.76 per share with a term to expiry of five years. These stock options vest in 3 equal installments on each annual anniversary date from the date of grant. The total fair value of these options to be expensed over the vesting period was $0.5 million.

(Tabular amounts in thousands of US Dollars, except share and per share amounts)

In December 2017, the Company granted 1,460,000 options to certain officers, directors and employees of the Company at an exercise price of CAD$6.74 per share with a term to expiry of five years. 1,340,000 of the options granted vest on a 1/3 basis at the end of each year from the grant date and will be fully vested three years from the grant date. 120,000 of the options granted vested immediately. The total fair value of options issued to be expensed over the vesting period was $3.0 million.

In November 2017, the Company granted 318,000 options to certain officers of the Company at an exercise price of CAD$6.48 per share with a term to expiry of five years. The stock options vest on a 1/3 basis at the end of each year from the grant date and will be fully vested three years from the grant date. The total fair value of options issued to be expensed over the vesting period was $0.7 million.

In July 2017, the Company granted 100,000 options to an officer of the Company at an exercise price of $1.50 per share with a term to expiry of five years. The stock options vest on a 1/3 basis at the end of each year from the grant date and will be fully vested three years from the grant date. The total fair value of options issued to be expensed over the vesting period was $0.1 million.

In May 2017, the Company granted 1,615,000 options to certain officers and employees of the Company at an exercise price of $1.50 per share with a term to expiry of five years. The stock options vest on a 1/3 basis at the end of each year from the grant date and will be fully vested three years from the grant date. The total fair value of options issued to be expensed over the vesting period was $1.2 million.

Subsequent to December 31, 2018, the Company granted 125,000 options to directors of the Company at an exercise price of CAD$9.80 per share with a term to expiry of five years. These options vested immediately.

As at December 31, 2018, the following stock options were outstanding:

Expiry Date	Number of Stock Options	Weighted Average Exercise Price		Vested and Exercisable Number of Stock Options	Weighted Average Remaining Life in Years
May 15, 2022	1,332,000	1.50	USD	255,331	3.37
July 15, 2022	100,000	1.50	USD	33,333	3.54
November 24, 2022	318,000	6.48	CAD	106,000	3.90
December 7, 2022	1,460,000	6.74	CAD	566,662	3.94
January 18, 2023	60,000	7.95	CAD	-	4.05
January 23, 2023	125,000	7.76	CAD	-	4.07
June 19, 2023	174,000	10.25	CAD	24,000	4.47
July 16, 2023	200,000	9.01	CAD	-	4.54
December 31, 2023	1,155,519	9.76	CAD	-	5.00
	4,924,519	4.64	USD	985,326	4.07

In determining the weighted average exercise price of all outstanding options, the CAD prices were converted to USD at the December 31, 2018 exchange rate of 1.3643.

Subsequent to December 31, 2018, 33,332 options were exercised for gross proceeds of $0.1 million.

(Tabular amounts in thousands of US Dollars, except share and per share amounts)

	Number of Stock Options	Weighted Average Exercise Price
Outstanding stock options, December 31, 2016	-	-
Issued	3,493,000	3.28
Outstanding stock options, December 31, 2017	3,493,000	3.28
Issued	1,714,519	6.97
Exercised	(283,000)	1.50
Outstanding stock options, December 31, 2018	4,924,519	4.64

The fair value of options granted in the year ended December 31, 2018 was determined using the Black-Scholes option pricing model. Expected volatility is estimated by considering historic average share price volatility of comparable companies. The weighted average inputs used in the measurement of fair values at grant date of the options are the following for the year ended December 31, 2018:

Expected term (years)		3.0
Forfeiture rate		0%
Volatility		60.7%
Dividend yield		0%
Risk-free interest rate		1.92%
Weighted-average fair value per option	$	2.98

The weighted average inputs used in the measurement of fair values at grant date of the options are the following for the year ended December 31, 2017:

Expected term (years)		3.0
Forfeiture rate		0%
Volatility		67.2%
Dividend yield		0%
Risk-free interest rate		1.27%
Weighted-average fair value per option	$	1.43

For the year ended December 31, 2018, the Company recorded share-based compensation of $3.2 million (2017 - $0.9 million) with respect to its outstanding stock options.

(d) Warrants

As at December 31, 2018, 3,333,328 (December 31, 2017 – 3,333,328) warrants were outstanding with a weighted average exercise price of $1.20 and a weighted average remaining contractual life of 2.95 years.

During the year ended December 31, 2017, 9,116,338 warrants were exercised for gross proceeds of $10.9 million.

Subsequent to December 31, 2018, 166,666 warrants were exercised for gross proceeds of $0.2 million.

(e) Share Unit Plan

In September 2017, the Company adopted a share unit plan (the “Share Unit Plan”). Pursuant to the Share Unit Plan, the Board, at the compensation committee’s recommendation, may grant share units (“Share Units”) to any director, officer, employee, or consultant of the Company or its subsidiaries. At the time of grant of a Share Unit, the Board, at the compensation committee’s recommendations, may establish performance conditions for the vesting of the Share Units. The performance conditions may be graduated such that different percentages (which may be greater or lower than 100%) of the Share Units in a grant become vested depending on the satisfaction of one or more performance conditions. Performance conditions may include terms or conditions relating to: (i) the market price of the Shares; (ii) the return to holders of shares, with or without reference to other comparable companies; (iii) the financial performance or results of the Company or its subsidiaries; (iv) the achievement of performance conditions or other performance criteria relating to the Company or its subsidiaries; (v) any other terms and conditions the Board may in its sole discretion determine with respect to vesting or the acceleration of vesting; and (vi) the vesting date of the Share Units. The Board may, in its discretion, subsequent to the grant of a Share Unit, waive any such performance condition or determine that it has been satisfied subject to applicable law. Each Share Unit entitles the holder thereof to receive one common share, without payment of additional consideration, on the redemption date selected by the Board following the date of vesting of such Share Unit, which will be within 30 days of the date of vesting, or at a later deferred date, subject to certain exception and restrictions. The Share Unit Plan was approved at the October 10, 2017 annual general meeting.

(Tabular amounts in thousands of US Dollars, except share and per share amounts)

On December 31, 2018, 215,288 Share Units were issued to certain officers and employees of the Company pursuant to the Share Unit Plan. These Share Units will vest three years from the date of grant and the actual number of Share Units that will vest may range from 0% to 200% of the number granted, subject to the satisfaction of certain market performance conditions. Each vested Share Unit entitles the holder thereof to receive on or about the applicable date of vesting of such Share Unit (i) one common share; (ii) a cash amount equal to the Fair Market Value of one common share as at the applicable date of vesting; or (iii) a combination of (i) and (ii), as determined by the Board in its sole discretion.

(f) Net Income (Loss) per Share

	Year ended December 31, 2018	Year ended December 31, 2017
Weighted average number of common shares outstanding	**83,927,977**	56,252,358
Dilutive effect of warrants	**-**	5,603,732
Dilutive effect of share options	**-**	262,400
Dilutive effect of convertible debentures	**-**	3,884,897
Weighted average number of diluted common shares outstanding	**83,927,977**	66,003,387
Net income (loss) attributable to owners of the Company	**$ (3,155)**	$ 22,466
Basic net income (loss) per share attributable to owners of the Company	**(0.04)**	0.40
Diluted net income (loss) per share attributable to owners of the Company	**(0.04)**	0.34

For the year ended December 31, 2018, the potentially dilutive effect of warrants and share options are excluded from the dilutive net income (loss) per share calculation as the Company incurred a loss for the year.

(Tabular amounts in thousands of US Dollars, except share and per share amounts)

15. Revenue

	Year ended December 31, 2018	Year ended December 31, 2017
Copper concentrate		
- sales within Brazil	**$ 137,039**	$ 90,698
- export sales	**49,382**	24,747
- price adjustments on provisionally priced sales	**(1,691)**	-
Gold		
- export sales	**48,375**	32,796
	$ 233,105	$ 148,241

Under the current terms of the Company's contract with its primary customer, sales are provisionally priced on the date of sale based on the previous month's average copper price. The final sales price for all shipments in a month is determined at the end of the month in which the sale is recognized. Accordingly, as at December 31, 2018, there are no sales subject to provisional pricing. During the year ended December 31,2018, the Company recognized $1.7 million related to provisional price adjustments related to such provisionally priced sales.

16. Cost of Product Sold

	Year ended December 31, 2018	Year ended December 31, 2017
Materials	**$ 19,356**	$ 16,451
Salaries and benefits	**36,130**	36,176
Depreciation and depletion	**45,188**	38,086
Contracted services	**20,806**	15,160
Maintenance costs	**15,842**	12,199
Utilities	**9,341**	8,623
Other costs	**948**	1,314
	$ 147,611	$ 128,009

17. General and Administrative Expenses

	Year ended December 31, 2018	Year ended December 31, 2017
Accounting and legal	**$ 1,672**	$ 2,878
Amortization and depreciation	**109**	55
Office and sundry	**6,335**	6,349
Provisions	**361**	5,137
Salaries and consulting fees	**11,250**	6,268
Incentive payments	**7,211**	1,401
Transfer agent and filing fees	**176**	43
Travel and conference	**1,886**	809
	29,000	22,940

(Tabular amounts in thousands of US Dollars, except share and per share amounts)

18. Finance Expense

	Year ended December 31, 2018	Year ended December 31, 2017
Interest on loans and borrowings	$ 14,965	$ 15,238
Accretion of purchase price adjustments	662	2,335
Convertible debenture facility fees	-	750
Accretion of mine closure and rehabilitation provision	3,767	370
Other	3,168	2,016
	$ 22,562	$ 20,709

19. Foreign Exchange Loss

The following foreign exchange gains (losses) arise as a result of balances and transactions in the Company's Brazilian subsidiaries that are denominated in currencies other than the Brazilian Reais (BRL$), which is their functional currency.

	Year ended December 31, 2018	Year ended December 31, 2017
Foreign exchange on USD denominated debt	$ (9,808)	$ (3,475)
Foreign exchange on realized derivative contracts	(10,119)	191
Foreign exchange on unrealized derivative contracts	1,137	(782)
Other	(1,923)	(230)
	$ (20,713)	$ (4,296)

20. Income Taxes

(a) Reconciliation of income taxes

A reconciliation of the income tax expense to the amount calculated using the Company's combined federal and provincial statutory income tax rate of 27% (2017 – 26%) is as follows:

	Year Ended December 31, 2018	Year Ended December 31, 2017
Net income in the period before tax	$ 2,661	$ 1,974
Tax rate	27%	26%
Income tax expense at statutory rate	$ 718	$ 513
Tax effect of:		
Difference in rate of foreign jurisdictions	(1,489)	1,193
Non-deductible items	(596)	(971)
Change in temporary differences not recognized	4,071	572
Redution (utilization) of tax losses against other liabilities	952	(16,248)
Other	1,996	(569)
Income tax expense (recovery)	$ 5,652	$ (15,510)

(Tabular amounts in thousands of US Dollars, except share and per share amounts)

The general movement in the deferred income tax liability is as follows:

	Year Ended December 31, 2018	Year Ended December 31, 2017
At the beginning of the year	$ (16,655)	$ (18,726)
Reduction (utilization) of tax losses against other liabilities	952	(16,248)
Deferred income tax recovery (expense)	(2,753)	16,614
Amounts recognized in equity	-	1,533
Foreign exchange	2,645	172
At the end of the year	$ (15,811)	$ (16,655)

During the year ended December 31, 2017, the Company applied for and received approval of an amnesty tax program in Brazil covering certain commodity, payroll and other taxes owing. Among other things, the Company was permitted to settle certain non-income tax based taxes with existing non-capital loss carry forwards. As these loss carry forwards were not previously recognized, the Company recognized a deferred income tax recovery of $16.2 million for the year ended December 31, 2017 related to the losses used.

(b) Deferred income tax liabilities

Recognized deferred tax and assets and liabilities consist of the following:

	December 31, 2018	December 31, 2017
Deferred tax assets:		
Non-capital losses - Brazil	$ 6,311	$ 6,859
Non-capital losses - Canada	-	2,081
Financing fees and other - Canada	1,660	2,046
	7,971	10,986
Deferred tax liabilities		
Mineral property, plant and equipment - Brazil	(7,227)	(8,289)
Loans and borrowings - Brazil	(14,698)	(14,575)
Other - Brazil	(197)	(298)
Loans and borrowings - Canada	(1,660)	(4,479)
	(23,782)	(27,641)
Net deferred income tax liabilities	$ (15,811)	$ (16,655)

Deferred tax assets of $22.5 million (December 31, 2017 - $23.0 million) have not been recognized for the following deductible temporary differences as it is not probable that the benefits of these temporary differences will be realized:

	Year Ended December 31, 2018		Year Ended December 31, 2017	
	Brazil	Canada	Brazil	Canada
Exploration and evaluation assets	$ 49,920	$ -	$ 58,372	$ -
Mineral property, plant and equipment	8,974	42	13,862	-
Non-capital losses	72,672	7,194	71,136	-
Other	-	3,228	47	2,763
	$ 131,566	$ 10,464	$ 143,417	$ 2,763

The Company has loss carry forwards in Brazil totalling $114.1 million (December 31, 2017 - $118.1 million) which may be carried forward indefinitely to offset future taxable income in Brazil. Use of these losses is limited to 30% of taxable income annually. The Company also has loss carry forwards in Canada totalling $7.2 million (December 31, 2017 - $7.7 million) which may be carried forward for 20 years to offset future taxable income.

21. Related Party Transactions

Key management personnel consist of the Company's directors and officers and their compensation includes director retainer fees and management salaries paid to these individuals, or companies controlled by these individuals, and share based compensation. The aggregate value of compensation paid to key management personnel for the year ended December 31, 2018 was $5.4 million ($3.3 million for the year ended December 31, 2017). In addition, 1,100,155 options were issued to key management personnel with $2.3 million recognized in share-based compensation expense for the year ended December 31, 2018 (2,453,000 options and $0.9 million share-based compensation expense for the year ended December 31, 2017).

Key management personnel held certain convertible debentures (note 13) which were converted in the year ended December 31, 2018 into 1,476,164 common shares and 369,040 common share purchase warrants. The warrants were subsequently exercised into 369,040 common shares. Key management personnel exercised a total of 133,000 options during the year ended December 31, 2018 (919,996 warrants were exercised for the year ended December 31, 2017). During the year ended December 31, 2017, key management personnel participated in certain financing activities by purchasing 233,333 common shares of the Company for total proceeds of $0.4 million and by subscribing to $1.0 million of the convertible debentures.

As at December 31, 2018, $2.7 million was payable to key management as incentive compensation and is included in the accounts payable and accrued liabilities in the consolidated financial statements (December 31, 2017 - $nil). Such amounts were unsecured, non-interest bearing and were repaid under normal trade terms.

22. Financial Instruments

Fair value

Fair values of financial assets and liabilities are determined based on available market information and valuation methodologies appropriate to each situation. However, some judgments are required in the interpretation of the market data to produce the most appropriate realization value estimate. As a consequence, the estimates presented herein do not necessarily indicate the amounts that could be realized in the current exchange market. The use of different market information and/or evaluation methodologies may have a material effect on the market value amount.

As at December 31, 2018, derivatives were measured at fair value based on Level 2 inputs.

The carrying values of cash and cash equivalents, restricted cash, accounts receivable, deposits, financial investments and accounts payable and accrued liabilities approximate their carrying values due to their short terms to maturity or market rates of interest used to discount amounts. The carrying value of value added, payroll and other taxes approximate fair value based on the discount rate applied. At December 31, 2018, the carrying value of loans and borrowings is $152 million while the fair value is approximately $154 million. The effective interest rates used to amortize these loans are a close approximation of market rates of interest at December 31, 2018 (level 2 of the fair value hierarchy).

(Tabular amounts in thousands of US Dollars, except share and per share amounts)

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers. The carrying amount of the financial assets below represents the maximum credit risk exposure as at December 31, 2018 and December 31, 2017:

		December 31, 2018		December 31, 2017
Cash and cash equivalents	**$**	**18,941**	$	51,147
Restricted cash		**3,000**		2,193
Accounts receivable		**7,219**		3,383
Deposits		**1,334**		2,210
Other non-current assets - term deposits		**686**		753
	$	**31,180**	$	59,686

The Company invests cash and cash equivalents as well as restricted cash with financial institutions that are financially sound based on their credit rating. The Company's exposure to credit risk associated with accounts receivable is influenced mainly by the individual characteristics of each customer. The Company currently has only three significant customers, all of which have no history of credit default with the Company. The Company has not incurred significant credit losses in either of the years ended December 31, 2018 and 2017.

Liquidity risk

Liquidity risk is the risk associated with the difficulties that the Company may have meeting the obligations associated with financial liabilities that are settled with cash payments or with another financial asset. The Company's approach to liquidity management is to ensure as much as possible that sufficient liquidity exists to meet their maturity obligations on the expiration dates, under normal and stressful conditions, without causing unacceptable losses or with risk of undermining the normal operation of the Company.

The table below shows the Company's maturity of financial liabilities on December 31, 2018:

Non-derivative Financial Liabilities	**Carrying value**	**Contractual cash flows**	**Up to 12 months**	**1-2 years**	**3-5 years**	**More than 5 years**
Loans and borrowings	$ 152,320	$ 156,541	$ 10,602	$ 12,816	$ 127,986	$ 5,137
Interest on loans and borrowings	-	54,801	11,126	8,092	34,678	905
Accounts payable and accrued liabilities	36,390	36,390	36,390	-	-	-
Value added, payroll and other taxes	17,950	17,950	12,674	2,617	2,659	-
	$ 206,660	**$ 265,682**	**$ 70,792**	**$ 23,525**	**$ 165,323**	**$ 6,042**

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity prices. The purpose of market risk management is to manage and control exposures to market risks, within acceptable parameters, while optimizing return.

The Company may use derivatives, including forward contracts and swap contracts, to manage market risks.

(i) Foreign exchange currency risk

The Company's subsidiaries in Brazil are exposed to exchange risks related to the US dollars and Euros. In order to minimize currency mismatches, the Company monitors its cash flow projections considering future sales expectations indexed to US dollar variation in relation to the cash requirement to settle the existing financings.

The Company's exposure to foreign exchange currency risk at December 31, 2018 relates primarily to $10.2 million (December 31, 2017 – $73.2 million) in loans and borrowings of MCSA denominated in US dollars and Euros. Strengthening (weakening) in the Brazilian Real against the US dollar by 10% and 20%, would have increased (decreased) net income by $0.7 million and $1.3 million, respectively (2017 –$7.3 million and $14.6 million). Strengthening (weakening) in the Brazilian Real against the Euro by 10% and 20%, would have increased (decreased) net income by $0.4 million and $0.7 million, respectively (2017 – nil). This analysis is based on the foreign currency exchange variation rate that the Company considered to be reasonably possible at the end of the year. The analysis assumes that all other variables, especially interest rates, are held constant.

At December 31, 2018, the Company has entered into foreign exchange forward contracts to sell an aggregate amount of $21.5 million U.S. dollars (2017 - $57.0 million) into Brazilian Real at rates ranging from 3.8900 to 3.9535 (2017 – 3.2673 to 3.3307). The maturity dates of these contracts range from January 2, 2019 to March 29, 2019 and are financially settled on a net basis. The fair value of these contracts at December 31, 2018 was an asset of $0.3 million, (December 31, 2017 – a liability of $0.9 million) which has been included in Derivatives in the statement of financial position. The change in fair value of foreign currency contracts was a gain of $1.1 million for the year ended December 31, 2018 (2017 – a loss of $0.8 million) has been recognized in foreign exchange loss. In addition, in the year ended December 31, 2018, the Company recognized a realized loss of $10.1 million (2017 – a gain of $0.2 million) related to the settlement of foreign currency forward contracts.

(ii) Interest rate risk

The Company is principally exposed to the variation in interest rates on loans and borrowings with variable rates of interest. Management reduces interest rate risk exposure by entering into loans and borrowings with fixed rates of interest or by entering into derivative instruments that fix the ultimate interest rate paid.

The Company is principally exposed to interest rate risk through its Term Facilities of $123.5 million and Brazilian Real denominated bank loans of $8.6 million. As at December 31, 2018, the Company did not engage in any hedging or derivative transactions to manage interest rate risk. Subsequent to December 31, 2018, the Company entered into an interest rate swap transaction to manage interest rate risk (see note 10). Based on the Company's net exposure at December 31, 2018, a reasonably possible change in the variable rates would not have a material impact on profit or equity.

(iii) Price risk

The Company is exposed to price risk with respect to commodity prices related to copper concentrate sales. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors copper and gold prices to determine the appropriate course of action to be taken by the Company. The Company's primary exposure related to commodity price risk relates to its sales of copper concentrate, which may be subject to provisional pricing. Accordingly, the related receivables are marked to market on each balance sheet date based on forward price curves until such time as the sales price is fixed. Changes in the forward prices affect the amount of revenue recognized. As at December 31, 2018, the Company had no sales or receivables subject to provisional pricing.

(Tabular amounts in thousands of US Dollars, except share and per share amounts)

23. Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development and production of its mine properties and to maintain a flexible capital structure for its projects for the benefit of its stakeholders.

In the management of capital, the Company includes the components of shareholders' equity and debt facilities.

The Company manages the capital structure and makes adjustments to it in light of changes in the economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new loans and borrowings, common shares, or acquire or dispose of assets.
Management reviews the capital structure on a regular basis to ensure that the above-noted objectives are met.

Certain loan agreements contain operating and financial covenants that could restrict the ability of the Company and its subsidiary, MCSA, to, among other things, incur additional indebtedness needed to fund its respective operations, pay dividends or make other distributions, make investments, create liens, sell or transfer assets or enter into transactions with affiliates. There are no other restrictions or externally imposed capital requirements of the Company.

24. Other Commitments

The Company has entered into agreements for the rental of office space that require minimum payments as follows:

2019		64
2020		65
2021		65
2022		27
Total Commitments	**$**	**221**

(Tabular amounts in thousands of US Dollars, except share and per share amounts)

25. Segment Disclosure

The Company's operations are segmented by entity between MCSA, NX Gold and corporate head office, which is consistent with internal reporting purposes. The Company monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. The accounting policies used in the operating segments are the same as those contained in Note 3.

Total revenue from MCSA is from two customers while total revenue from NX Gold is from one customer.

Segmented information is as follows:

Year ended December 31, 2018	**MCSA (Brazil)**	**NX Gold (Brazil)**	**Corporate (Canada)**	**Consolidated**
Revenue	$ 184,730	$ 48,375	$ -	**$ 233,105**
Cost of product sold	(115,346)	(32,265)	-	**(147,611)**
Sales expenses	(3,268)	-	-	**(3,268)**
Gross profit	66,116	16,110	-	**82,226**
Expenses				
General and administrative	(16,340)	(3,401)	(9,259)	**(29,000)**
Share-based compensation	-	-	(3,225)	**(3,225)**
Finance income	844	28	431	**1,303**
Finance expenses	(16,215)	(959)	(5,388)	**(22,562)**
Foreign exchange loss	(20,301)	(131)	(281)	**(20,713)**
Gain (loss) on debt settlement	(3,708)	-	(1,768)	**(5,476)**
Other income	1,653	(1,545)	-	**108**
Income (loss) before taxes	12,049	10,102	(19,490)	**2,661**
Current taxes	-	(2,899)	-	**(2,899)**
Deferred taxes	(1,932)	(1,173)	352	**(2,753)**
Net Income (Loss)	$ 10,117	$ 6,030	$ (19,138)	**$ (2,991)**
Assets				
Current	$ 43,802	$ (630)	$ 7,782	**$ 50,954**
Non-current	281,622	25,128	2,735	**309,485**
Total Assets	$ 325,424	$ 24,498	$ 10,517	**$ 360,439**
Total Liabilities	$ 160,824	$ 14,021	$ 81,772	**$ 256,617**

(Tabular amounts in thousands of US Dollars, except share and per share amounts)

Year ended December 31, 2017	MCSA (Brazil)	NX Gold (Brazil)	Corporate (Canada)	Consolidated
Revenue	$ 115,445	$ 32,796	$ -	**$ 148,241**
Cost of product sold	(100,281)	(27,728)	-	**(128,009)**
Sales expenses	(2,218)	(7)	-	**(2,225)**
Gross profit	12,946	5,061	-	**18,007**
Expenses				
General and administrative	(14,139)	(3,313)	(5,488)	**(22,940)**
Share-based compensation	-	-	(879)	**(879)**
Finance income	1,992	196	88	**2,276**
Finance expenses	(18,071)	(1,721)	(917)	**(20,709)**
Foreign exchange loss	(4,242)	(195)	141	**(4,296)**
Gain (loss) on debt settlement	-	-	28,727	**28,727**
Other income	1,788	-	-	**1,788**
Income (loss) before taxes	$ (19,726)	$ 28	$ 21,672	**$ 1,974**
Current taxes	(269)	(835)	-	**(1,104)**
Deferred taxes	18,499	-	(1,885)	**16,614**
Net Income (Loss)	$ (1,496)	$ (807)	$ 19,787	**$ 17,484**

Assets				
Current	$ 26,043	$ 20,699	$ 51,150	**$ 97,892**
Non-current	283,110	-	341	**283,451**
Total Assets	$ 309,153	$ 20,699	$ 51,491	**$ 381,343**
Total Liabilities	$ 189,312	$ 15,672	$ 46,613	**$ 251,597**

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