

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. The securities offered hereunder have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “U.S. Securities Act”), or any state securities laws. Accordingly, these securities may not be offered or sold in the United States (as defined herein) unless registered under the U.S. Securities Act and applicable state securities laws or an exemption from such registration requirements is available. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities within the United States. See “Plan of Distribution”.

## PROSPECTUS

Initial Public Offering and  
Secondary Offering

October 11, 2017



### ERO COPPER CORP.

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**\$110,590,051**

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**23,282,116 Common Shares**

Ero Copper Corp. (“**Ero**” or the “**Company**”) is hereby qualifying for distribution 23,282,116 common shares (“**Common Shares**”) in the capital of the Company at a price (the “**Offering Price**”) of \$4.75 per Common Share of which (i) 10,000,000 Common Shares are being issued and sold by Ero (the “**Treasury Offering**”), and (ii) 13,282,116 Common Shares are being sold by Brasil Plural Special Situations Fundo de Investimento em Participações Multiestratégia Investimento no Exterior (“**Brasil Plural**”), Spectra II – Fundo de Investimento em Participações (“**Spectra II**”), Spectra III Fundo de Investimento em Participações Multiestratégia IE (“**Spectra III**”), Ross Beaty, Taylor International Fund Ltd., Heritage Investments Trust, Randal Cowell, 1045373 BC Ltd., 1040350 BC Ltd., and Geoff Burns (collectively, the “**Selling Securityholders**”), each being an existing securityholder of Ero (the “**Secondary Offering**” and, together with the Treasury Offering, the “**Offering**”). See “*Principal and Selling Securityholders*”. Ero will not receive any proceeds from the Secondary Offering. The Offering is being underwritten by BMO Nesbitt Burns Inc. and Scotia Capital Inc. (together, the “**Co-Lead Underwriters**”), and Canaccord Genuity Corp., GMP Securities L.P., Numis Securities Limited, PI Financial Corp. and Raymond James Ltd. (collectively with the Co-Lead Underwriters, the “**Underwriters**” and each, an “**Underwriter**”), pursuant to an underwriting agreement among the Company, each of the Selling Securityholders and the Underwriters dated October 11, 2017 (the “**Underwriting Agreement**”). Numis Securities Limited is not registered as a dealer in any Canadian jurisdiction and accordingly, will not, directly or indirectly, solicit offers to purchase or sell any Common Shares in Canada pursuant to the Offering. This prospectus does not qualify the distribution of any Common Shares sold by Numis Securities Limited outside Canada, and sales to residents of such foreign jurisdictions will be made in reliance on private placement or applicable exemptions in such foreign jurisdictions.

**There is currently no market through which the Common Shares may be sold and purchasers may not be able to resell Common Shares purchased under this prospectus. This may affect the pricing of the Common Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Common Shares, and the extent of issuer regulation. See “Risk Factors”.**

The Toronto Stock Exchange (the “**TSX**”) has conditionally approved the listing of the Common Shares under the symbol “**ERO**”, subject to the Company fulfilling all of the listing requirements of the TSX on or before January 4, 2018, including the distribution of the Offered Shares (as defined herein) to a minimum number of public securityholders.

In connection with the Offering, subject to applicable laws, the Underwriters may over-allot or effect transactions intended to stabilize or maintain the market price of the Common Shares at levels other than those which otherwise might prevail on the open market. Such transactions, if commenced, may be discontinued at any time. See “*Plan of Distribution*”.

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**\$4.75 per Common Share**

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	Price to the Public <sup>(1)</sup>	Underwriters’ Fee <sup>(2)</sup>	Net Proceeds to the Company <sup>(3)</sup>	Net Proceeds to the Selling Securityholders <sup>(3)</sup>
Per Common Share	\$4.75	\$0.285	\$4.465	\$4.465
<b>Total<sup>(4)</sup></b>	\$110,590,051	\$6,635,403.06	\$44,650,000	\$59,304,647.94

**Notes:**

- (1) The Offering Price was determined by arm’s length negotiation between the Company and the Underwriters.
- (2) Pursuant to the terms and conditions of the Underwriting Agreement, the Underwriters will receive a cash fee (the “**Underwriters’ Fee**”) equal to 6% of the gross proceeds of the Offering. See below and “*Plan of Distribution*”.
- (3) Before deducting expenses of the Offering, estimated to be \$1,300,000. The Company will pay all the expenses associated with the Offering other than the Underwriters’ Fee, which will be paid proportionately by the Company and the Selling Securityholders based on the respective number of Offered Shares (as defined herein) sold by each pursuant to the Offering. See “*Principal and Selling Securityholders*” and “*Plan of Distribution*”.
- (4) The Company has granted to the Underwriters an option (the “**Over-Allotment Option**”), exercisable in whole or in part, at the sole discretion of the Underwriters, at any time and from time to time, for a period of 30 days from and including the Closing Date (as defined herein), to purchase up to an additional number of Common Shares that is equal to 15% of the aggregate number of Common Shares purchased under the Offering (the “**Over-Allotment Shares**” and, together with the Common Shares qualified for distribution under this prospectus, the “**Offered Shares**”) at the Offering Price to cover over-allotments, if any, and for market stabilization purposes. If the Underwriters exercise the Over-Allotment Option in full, the gross proceeds raised under the Offering will be \$127,178,556.75, the Underwriters’ Fee will be \$7,630,713.41, the net proceeds to the Company will be \$60,243,195.40 (before deducting expenses of the Offering) and the net proceeds to the Selling Securityholders will be \$59,304,647.94. This prospectus also qualifies the distribution of the Over-Allotment Option and the Over-Allotment Shares. A purchaser who acquires securities forming part of the Underwriters’ over-allocation position acquires those securities under this prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or through secondary market purchases. See “*Plan of Distribution*”.

**An investment in the Offered Shares is speculative and involves a high degree of risk and should only be made by persons who can afford the total loss of their investment. Prospective investors should consider certain risk factors in connection with an investment in the Company. See “*Statement Regarding Forward-Looking Information*” and “*Risk Factors*”.**

The following table sets out the number of Offered Shares that may be sold by the Company to the Underwriters in connection with the Over-Allotment Option.

Underwriters’ Position	Maximum Size or Number of Securities Available	Exercise Period	Exercise Price
Over-Allotment Option	3,492,317 Over-Allotment Shares	For a period of 30 days from and including the Closing Date	\$4.75 per Over-Allotment Share

The Underwriters, as principals, hereby conditionally offer the Offered Shares, subject to prior sale, if, as and when issued and sold by the Company and sold by the Selling Securityholders and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under “*Plan of Distribution*” and subject to the approval of certain legal and tax matters on behalf of the Company by Blake, Cassels & Graydon LLP and on behalf of the Underwriters by Cassels Brock & Blackwell LLP.

**After a reasonable effort has been made to sell all of the Offered Shares at the price stated above, the Underwriters may offer the Offered Shares at a price lower than that stated above. Any such reduction will not affect the net proceeds to be received by the Company and the Selling Securityholders under the Offering. See “*Plan of Distribution*”.**

Subscriptions for the Offered Shares will be received subject to rejection or allotment, in whole or in part, and the Underwriters reserve the right to close the subscription books at any time without notice. It is expected that closing of the Offering (the “**Closing**”) will take place on or about October 19, 2017, or such other date as the Company and the Underwriters may agree, but in any event, on or before a date that is not later than 42 days after the date of the receipt for this prospectus (the date on which Closing occurs being the “**Closing Date**”).

It is anticipated that the Company and the Selling Securityholders will arrange for one or more instant deposits of the Offered Shares issued and sold hereunder to or for the account of the Underwriters with CDS Clearing and Depository Services Inc. (“**CDS**”) or its nominee through the non-certificated inventory system administered by CDS on the Closing Date, or will otherwise duly and validly deliver the Offered Shares to the Underwriters registered as directed by the Underwriters on the

Closing Date. Except in limited circumstances, no certificates will be issued to purchasers of the Offered Shares and a purchaser will receive only a customer confirmation from a registered dealer that is a CDS participant and from or through which the Offered Shares are purchased. Numis Securities Limited is not registered to sell securities in any Canadian jurisdiction and, accordingly, will only sell Offered Shares outside of Canada on a private placement basis or other exemption. See “*Plan of Distribution*”.

The Company’s head office is located at Suite 1050, 625 Howe Street, Vancouver, British Columbia, Canada, V6C 2T6 and registered office is located at Suite 2600, 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1L3.

Christopher Noel Dunn, Executive Chairman and a director of the Company, resides outside of Canada and has appointed Blakes Vancouver Services Inc. as agent for service of process at Suite 2600, 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1L3. Brasil Plural, Spectra II, Spectra III and Taylor International Fund Ltd., each a Selling Securityholder, is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada and has appointed Blakes Vancouver Services Inc. as agent for service of process at Suite 2600, 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1L3.

Each of SRK Consultores do Brasil Ltda., GE21 Consultoria Mineral and KPMG Auditores Independentes is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction.

Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada, even if the party has appointed an agent for service of process.



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## GLOSSARY

In this prospectus, the following capitalized terms have the following meanings, in addition to other terms defined elsewhere in this prospectus.

“**AAS**” means an atomic absorption spectrometer.

“**Acquisitions**” means together, the MCSA Acquisition and the NX Gold Acquisition.

“**ADA**” has the meaning ascribed to such term under “*Boa Esperança Property – Infrastructure, Permitting and Compliance Activities – Mining Rights Status, Permitting and Environmental Management*”.

“**AID**” has the meaning ascribed to such term under “*Boa Esperança Property – Infrastructure, Permitting and Compliance Activities – Mining Rights Status, Permitting and Environmental Management*”.

“**AI**” has the meaning ascribed to such term under “*Boa Esperança Property – Infrastructure, Permitting and Compliance Activities – Mining Rights Status, Permitting and Environmental Management*”.

“**ANM**” means the Brazilian National Agency of Mining (*Agencia Nacional de Mineração*).

“**Annual MD&A**” means management’s discussion and analysis of the Company for the period from the Company’s incorporation on May 16, 2016 to the Company’s financial year end on December 31, 2016, contained in this prospectus.

“**Anti-Corruption Policy**” means the Anti-Corruption Policy of the Company adopted by the Board on May 15, 2017.

“**API**” means the Company’s cash-based Annual Performance Incentive.

“**APPs**” has the meaning ascribed to such term under “*General Development and Business of the Company – Business of the Company – Regulations – Environmental Protection*”.

“**Articles**” means the Articles of Incorporation of the Company dated May 16, 2016.

“**Audit Committee**” means the Audit Committee of the Board.

“**BACEN**” has the meaning ascribed to such term under “*General Development and Business of the Company – Business of the Company – Regulations – Business Permits and Other Requirements*”.

“**BCBCA**” means the *Business Corporations Act* (British Columbia), as amended.

“**Beaty Debenture**” has the meaning ascribed to such term under “*Prior Sales*”.

“**Boa Esperança Property**” means the property owned by MCSA and located within southeastern Pará State, Brazil, approximately 40km southwest of the town of Tucumã, consisting of a single mineral concession covering an area of 4,033.81 ha.

“**Boa Esperança Technical Report**” means the 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 Carlos Barbosa, MAIG, Rubens Mendonça, MAusIMM, and Girogio di Tomi, MAusIMM, all of SRK Brazil, and prepared in accordance with NI 43-101.

“**Board**” means the board of directors of the Company.

“**Board Mandate**” means the Board of Directors Mandate of the Company adopted by the Board on May 15, 2017 and attached to this prospectus as Appendix “B”.

“**Branford**” means Branford RJ Participações S/A, a company formed under the laws of Brazil.

“**Brasil Plural**” has the meaning ascribed to such term on the cover page of this prospectus.

“**Brasil Plural and Spectra Offering**” means the private placement offering of 500,000 Common Shares and 8,949,089 units of the Company, with each unit comprised of one Common Share and one-third of a General Warrant, to Brasil Plural, Spectra II and Spectra III on December 28, 2016.

“**Brasil Plural Subscription Agreement**” means the subscription agreement dated December 12, 2016, between the Company and Brasil Plural in connection with the Brasil Plural and Spectra Offering.

“**Brazilian Constitution**” has the meaning ascribed to such term under “*General Development and Business of the Company – Business of the Company – Regulations – Use and Development of Mineral Properties*”.

“**Brazilian Mining Code**” has the meaning ascribed to such term under “*General Development and Business of the Company – Business of the Company – Regulations – Use and Development of Mineral Properties*”.

“**Cash Consideration**” has the meaning ascribed to such term under “*Options to Purchase Securities – Share Unit Plan*”.

“**CDS**” has the meaning ascribed to such term on the cover page of this prospectus.

“**CELPA**” means Centrais Elétricas do Pará S.A., the electrical company of Pará State, Brazil.

“**CETEM**” has the meaning ascribed to such term under “*Vale do Curaçá Property – Mineral Processing and Metallurgical Testing – Introduction*”.

“**CFEM**” means the Financial Compensation for the Exploitation of Mineral Resources tax on the exploitation of minerals.

“**CFPOA**” means the *Corruption of Foreign Public Officials Act* (Canada), as amended from time to time.

“**CHESF**” means the Companhia Hidroelétrica do São Francisco.

“**CIM Council**” means the council of the Canadian Institute of Mining, Metallurgy and Petroleum.

“**CIM Definition Standards**” means the Canadian Institute of Mining, Metallurgy and Petroleum Definition Standards for Mineral Resources and Mineral Reserves adopted by the CIM Council on May 10, 2014, which are incorporated by reference in NI 43-101.

“**Closing**” has the meaning ascribed to such term on the cover page of this prospectus.

“**Closing Date**” has the meaning ascribed to such term on the cover page of this prospectus.

“**Club Deal Banks**” means collectively, Banco Itaú, Santander Bank, Banco ABC Brasil and Banco Votorantim.

“**Co-Lead Underwriters**” has the meaning ascribed to such term on the cover page of this prospectus.

“**Code**” means the Code of Business Conduct and Ethics of the Company adopted by the Board on May 15, 2017.

“**Codelco**” means Corporación Nacional del Cobre.

“**Codelco Brazil**” means Codelco Brazil Mineração LTDA.

“**Codelco JV**” means the joint venture between MCSA and Codelco to explore several areas in the Curaçá Valley formed in 2004 and terminated in 2008.

“**Common Shares**” means the common shares in the capital of Ero as currently constituted.

“**Compensation Committee**” means the Compensation Committee of the Board.

“**CONAMA**” means the Brazil National Council for the Environment.

“**CRF**” has the meaning ascribed to such term under “*Vale do Curaçá Property – Mineral Reserve Estimate – Mineral Reserve Estimation Methodology*”.

“**CRM**” means Certified Reference Material.

“**CVRD**” means the Companhia Vale do Rio Doce.

“**Deepening**” has the meaning ascribed to such term under “*Vale do Curaçá Property – Exploration, Exploration Targets – Subsequent Events – Pilar Mine and District Exploration*”.

“**Deferred Payment Date**” has the meaning ascribed to such term under “*Options to Purchase Securities – Share Unit Plan*”.

“**Disclosure Committee**” means the Disclosure Committee of the Board.

“**Disclosure Policy**” means the Disclosure Policy of the Company adopted by the Board on May 15, 2017.

“**DNPM**” means the Brazilian National Department of Mineral Production (*Departamento Nacional de Produção Mineral*).

“**Dunn Co-Sale Agreement**” has the meaning ascribed to such term under “*Escrowed Securities and Securities Subject to Contractual Restrictions on Transfer*”.

“**EIA**” has the meaning ascribed to such term under “*Boa Esperança Property – Infrastructure, Permitting and Compliance Activities – Mining Rights Status, Permitting and Environmental Management*”.

“**Eluma**” means Eluma S.A. Industria e Comercio.

“**EM**” means electromagnetic methods.

“**Employment Agreements**” has the meaning ascribed to such term under “*Director and Executive Compensation – Executive Compensation Discussion and Analysis – Elements of Executive Compensation*”.

“**Environmental, Health, Safety and Sustainability Committee**” means the Environmental, Health, Safety and Sustainability Committee of the Board.

“**Ero**” or the “**Company**” means Ero Copper Corp., a company formed under the laws of British Columbia.

“**Escrow Agent**” has the meaning ascribed to such term under “*Escrowed Securities and Securities Subject to Contractual Restrictions on Transfer*”.

“**Escrow Agreements**” has the meaning ascribed to such term under “*Escrowed Securities and Securities Subject to Contractual Restrictions on Transfer*”.

“**EV**” means electric vehicle.

“**EW**” has the meaning ascribed to such term under “*Vale do Curaçá Property – Recovery Methods – SX/EW Plant*”.

“**Exploration License**” has the meaning ascribed to such term under “*General Development and Business of the Company – Business of the Company – Regulations – Use and Development of Mineral Properties*”.

“**FCPA**” means the United States *Foreign Corrupt Practices Act of 1977*, as amended from time to time.

“**Final Exploration Report**” has the meaning ascribed to such term under “*General Development and Business of the Company – Business of the Company – Regulations – Use and Development of Mineral Properties*”.

**“Founder Units”** means the units of the Company issued pursuant to a private placement offering by the Company at US\$0.01 per Founder Unit on September 2, 2016, with each one Founder Unit being comprised of one Common Share and one-third of a Founder Warrant.

**“Founder Warrants”** means the Common Share purchase warrants, each one Founder Warrant entitling the holder thereof to acquire, in accordance with the terms thereof and the Warrant Indenture, one Common Share at a price of US\$1.20 until December 12, 2021.

**“GE21”** means GE21 Consultoria Mineral.

**“General Debenture Subscription Agreements”** means collectively, the subscription agreements dated January 18, 2017, between the Company and each subscriber of the General Debentures in connection with the private placement offering thereof by the Company.

**“General Debenture Units”** means units of the Company issuable upon the conversion or repayment of the General Debentures at US\$0.75 per General Debenture Unit in accordance with their terms, with each General Debenture Unit being comprised of one Common Share and one-quarter of a General Warrant.

**“General Debentures”** means the aggregate principal amount of US\$2,750,000 unsecured convertible debentures of the Company which bear simple interest at an annual rate of 10% payable on the maturity date of January 18, 2019.

**“General Warrants”** means Common Share purchase warrants of the Company, with each one General Warrant entitling the holder thereof to acquire, in accordance with the terms thereof and the Warrant Indenture, one Common Share at a price of US\$1.20 until December 12, 2021. In the event that the closing price of the Common Shares on a recognized exchange is US\$1.70 or higher for 20 consecutive days, the Company may accelerate the expiry date of the General Warrants by giving notice to the holders thereof and in such case the General Warrants will expire on the 30th day after the date on which such notice is given by the Company. For the purposes of determining the closing price of the Common Shares denominated in US dollars, any exchange rate calculation shall be based on the daily exchange rate as published by the Bank of Canada.

**“HARD”** has the meaning ascribed to such term under *“Boa Esperança Property – Sampling, Analysis and Data Verification – Data Verification – Verification of Analytical Quality Control Data”*.

**“HG”** has the meaning ascribed to such term under *“Boa Esperança Property – Sampling, Analysis and Data Verification – Data Verification – Verification of Analytical Quality Control Data”*.

**“IFRS”** means the International Financial Reporting Standards as issued by the International Accounting Standards Board and the interpretations thereof by the International Financial Reporting Interpretations Committee and the former Standing Interpretations Committee.

**“INCRA”** has the meaning ascribed to such term under *“General Development and Business of the Company – Business of the Company – Regulations – Environmental Protection”*.

**“Individual Limit”** has the meaning ascribed to such term under *“Options to Purchase Securities – Stock Option Plan”*.

**“INEMA”** means the Brazil Instituto de Meio Ambiente e Recursos Hídricos do Estado da Bahia.

**“Installation License”** has the meaning ascribed to such term under *“General Development and Business of the Company – Business of the Company – Regulations – Environmental Protection”*.

**“Interim MD&A”** means management’s discussion and analysis of the Company for the three- and six-month periods ended on June 30, 2017, contained in this prospectus.

**“IOCG”** has the meaning ascribed to such term under *“Boa Esperança Property – Geological Setting, Mineralization and Deposit Types – Deposit Type”*.

**“IP”** means Induced Polarizaion surveys.

**“IRR”** means internal rate of return.

“**IS**” means intact rock strength.

“**IT**” has the meaning ascribed to such term under “*Risk Factors – Risks Related to the Company – Failures of information systems or information security threats can be costly*”.

“**ITAK**” means the Instituto de Tecnologia August Kekulé.

“**Judicial Reorganization**” means the judicial reorganization proceedings with regards to MCSA and NX Gold before the Lower Consumer and Corporate Court in Jaguarari, Bahia State, Brazil, initiated on February 3, 2016.

“**KPMG**” means KPMG LLP, Chartered Professional Accountants.

“**KPMG Brazil**” means KPMG Auditores Independentes.

“**Lane Caputo**” means Lane Caputo Compensation Inc.

“**Legal Reserve**” has the meaning ascribed to such term under “*Boa Esperança Property – Infrastructure, Permitting and Compliance Activities – Mining Rights Status, Permitting and Environmental Management*”.

“**LG**” has the meaning ascribed to such term under “*Boa Esperança Property – Sampling, Analysis and Data Verification – Data Verification – Verification of Analytical Quality Control Data*”.

“**LOM**” means the life of mine.

“**Majority Voting Policy**” has the meaning ascribed to such term under “*Statement of Corporate Governance – The Board – Majority Voting Policy*”.

“**MCSA**” means Mineração Caraíba S.A., a company formed under the laws of Brazil.

“**MCSA Acquisition**” means the acquisition by the Company on December 12, 2016 of 60,678,219 common shares of MCSA, representing approximately 85% of the then total issued share capital of MCSA, for an aggregate purchase price of US\$3.00, pursuant to a share purchase agreement dated December 12, 2016 among Tugalla, Branford and the Company, and a share purchase agreement dated December 12, 2016 between Zinia and the Company.

“**MCSA Mining Complex**” means collectively, the active and past-producing mines of the Vale do Curaçá Property, namely the Caraíba Mine (comprised of the underground Pilar Mine, the integrated Caraíba Mill, a conventional three-stage crushing, milling and copper sulphide flotation plant, and the inactive solvent extraction electrowinning SX/EW Plant), the open pit Surubim Mine, the underground Vermelhos Mine currently under construction, the Suçuarana Mine that is nearing the end of its mine life, and the past-producing Angicos Mine and R22W Mine, and the supporting infrastructure.

“**MD&A**” means collectively, the Annual MD&A and the Interim MD&A of the Company contained in this prospectus.

“**MG**” has the meaning ascribed to such term under “*Boa Esperança Property – Sampling, Analysis and Data Verification – Data Verification – Verification of Analytical Quality Control Data*”.

“**Mining Concession**” has the meaning ascribed to such term under “*General Development and Business of the Company – Business of the Company – Regulations – Use and Development of Mineral Properties*”.

“**MMS**” means a Micro-seismic Monitoring System.

“**MSO**” has the meaning ascribed to such term under “*Vale do Curaçá Property – Mineral Resource Estimates – Mineral Resources Statement and Classification of Mineral Resources – Mineral Resources Classification*”.

“**Ndovu**” means Ndovu Capital IX B.V., a company formed under the laws of The Netherlands.

“**NEO**” means “named executive officer”, as such term is defined in NI 51-102.

“**NGOs**” has the meaning ascribed to such term under “*Risk Factors – Risks Related to the Company – Social and environmental activism can negatively impact exploration, development and mining activities*”.

“**NI 43-101**” means National Instrument 43-101 – *Standards of Disclosure for Mineral Projects*.

“**NI 51-102**” means National Instrument 51-102 – *Continuous Disclosure Obligations*.

“**NI 52-110**” means National Instrument 52-110 – *Audit Committees*.

“**NN**” means the Nearest Neighbour method.

“**Nominating and Corporate Governance Committee**” means the Nominating and Corporate Governance Committee of the Board.

“**NPV**” means net present value.

“**NX Gold**” means NX Gold S.A., a company formed under the laws of Brazil.

“**NX Gold Acquisition**” means the acquisition by the Company on December 12, 2016 of 18,759,720 common shares of NX Gold, representing approximately 28% of the then total issued share capital of NX Gold, for an aggregate purchase price of US\$1.00, pursuant to a share purchase agreement dated December 12, 2016 between Zinia and the Company.

“**NX Gold Financial Statement Relief**” has the meaning ascribed to such term under “*Exemptions*”.

“**NX Gold Investment Agreement**” means the investment agreement dated December 12, 2016, among the Company, Tugalla, Branford and, as intervening parties, Finges Investment B.V. and Aiolia Investments.

“**NX Gold Property**” means the approximately 31,705.44 ha property owned by NX Gold and located approximately 18 km 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, six Exploration Licenses covering an area of 17,796.14 ha and two Exploration Licenses under application covering an area of 13,909.3 ha.

“**October Term Sheet**” has the meaning ascribed to such term under “*Marketing Materials*”.

“**Offered Shares**” has the meaning ascribed to such term on the cover page of this prospectus.

“**Offering**” has the meaning ascribed to such term on the cover page of this prospectus.

“**Offering Price**” has the meaning ascribed to such term on the cover page of this prospectus.

“**OK**” means the Ordinary Kriging method.

“**Operation License**” has the meaning ascribed to such term under “*General Development and Business of the Company – Business of the Company – Regulations – Environmental Protection*”.

“**Option**” means an option of the Company to purchase a Common Share issued pursuant to the Stock Option Plan.

“**Optionee**” has the meaning ascribed to such term under “*Options to Purchase Securities – Stock Option Plan*”.

“**Order**” has the meaning ascribed to such term under “*Directors and Executive Officers – Cease Trade Orders, Bankruptcies, Penalties or Sanctions*”.

“**Other Institutional Lenders**” has the meaning ascribed to such term under “*General Development and Business of the Company – General Development of the Company – The Acquisitions*”.

“**Over-Allotment Option**” has the meaning ascribed to such term on the cover page of this prospectus.

“**Over-Allotment Shares**” has the meaning ascribed to such term on the cover page of this prospectus.

“**PAE**” means an Economic Exploitation Plan (*Plano de Aproveitamento Econômico*).

“**PLS**” has the meaning ascribed to such term under “*Vale do Curaçá Property – Recovery Methods – SX/EW Plan*”.

“**Post Mortem QA/QC Analysis**” has the meaning ascribed to such term under “*Vale do Curaçá Property – Sample Preparation, Analyses and Security – Quality Assurance and Quality Control (QA/QC) – QA/QC Post Mortem Analysis*”.

“**PRADS**” has the meaning ascribed to such term under “*Vale do Curaçá Property – Environmental, Permitting, and Social or Community Impact – Reclamation of Degraded Areas*”.

“**Preliminary License**” has the meaning ascribed to such term under “*General Development and Business of the Company – Business of the Company – Regulations – Environmental Protection*”.

“**Provisional Measures**” has the meaning ascribed to such term under “*General Development and Business of the Company – Business of the Company – Regulations*”.

“**PSU**” has the meaning ascribed to such term under “*Options to Purchase Securities – Share Unit Plan*”.

“**QA/QC**” means quality assurance and quality control.

“**Qualifying Jurisdictions**” means all of the provinces and territories of Canada, other than Québec.

“**RC**” means reverse circulation.

“**RDSP**” means a registered disability savings plan.

“**Redemption Date**” has the meaning ascribed to such term under “*Options to Purchase Securities – Share Unit Plan*”.

“**Registered Plan**” means a TFSA, RRSP or RRIF.

“**Regulations**” means the regulations under the Tax Act.

“**RESP**” means a registered education savings plan.

“**RMR**” means the Rock Mass Rating classification system.

“**ROM**” means Run of Mine.

“**RPEE**” means Reasonable Prospects for Economic Extraction.

“**RQD**” means Rock Quality Designation.

“**RRIF**” means a registered retirement income fund.

“**RRSP**” means a registered retirement savings plan.

“**RSU**” has the meaning ascribed to such term under “*Options to Purchase Securities – Share Unit Plan*”.

“**Secondary Offering**” has the meaning ascribed to such term on the cover page of this prospectus.

“**SEDAR**” means the System for Electronic Document Analysis and Retrieval.

“**Selling Securityholders**” has the meaning ascribed to such term on the cover page of this prospectus.

“**SEMA**” has the meaning ascribed to such term under “*Boa Esperança Property – Infrastructure, Permitting and Compliance Activities – Mining Rights Status, Permitting and Environmental Management*”.

“**September Term Sheet**” has the meaning ascribed to such term under “*Marketing Materials*”.

“**Share Unit**” means a PSU or an RSU issued pursuant to the Share Unit Plan, and “**Share Units**” means collectively, the PSUs and RSUs issued pursuant to the Share Unit Plan.

“**Share Unit Participant**” has the meaning ascribed to such term under “*Options to Purchase Securities – Share Unit Plan*”.

“**Share Unit Plan**” means the share unit plan of the Company adopted by the Board on September 7, 2017, as amended from time to time.

“**SOS**” means the Sublevel Open Stopping method.

“**Spectra Subscription Agreements**” means collectively, the Spectra II Subscription Agreement and Spectra III Subscription Agreement.

“**Spectra II**” has the meaning ascribed to such term on the cover page of this prospectus.

“**Spectra II Subscription Agreement**” means the subscription agreement dated December 12, 2016, between the Company and Spectra II in connection with the Brasil Plural and Spectra Offering.

“**Spectra III**” has the meaning ascribed to such term on the cover page of this prospectus.

“**Spectra III Subscription Agreement**” means the subscription agreement dated December 12, 2016, between the Company and Spectra III in connection with the Brasil Plural and Spectra Offering.

“**SRK Brazil**” means SRK Consultores do Brasil Ltda.

“**Stock Option Plan**” means the stock option plan of the Company adopted by the Board on May 15, 2017, as amended from time to time.

“**Strang Co-Sale Agreement**” has the meaning ascribed to such term under “*Escrowed Securities and Securities Subject to Contractual Restrictions on Transfer*”.

“**Subscription Receipt Agreement**” means the subscription receipt agreement dated September 8, 2016, between the Company and Computershare Trust Company of Canada.

“**Subscription Receipts**” means the subscription receipts of the Company issued pursuant to a private placement offering by the Company at US\$1.00 per Subscription Receipt on September 8, 2016, whereby each one Subscription Receipt entitled the holder thereof to receive, upon conversion in accordance with its terms and the terms of the Subscription Receipt Agreement, one unit comprised of one Common Share and one-third of a General Warrant.

“**SX**” has the meaning ascribed to such term under “*Vale do Curaçá Property – Recovery Methods – SX/EW Plant*”.

“**Tax Act**” means the *Income Tax Act* (Canada), as amended from time to time.

“**Tax Proposals**” means all specific proposals to amend the Tax Act and Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date of this prospectus.

“**Tembo**” means Tembo Capital Mining Fund II LP, acting by its general partner, Tembo Capital Mining GP LP, acting by its general partner, Tembo Capital Mining GP Ltd.

“**Tembo Debenture**” means the convertible debenture established on March 22, 2017 between the Company and Tembo pursuant to which, and subject to certain conditions, the Company may draw down US\$5,000,000 at any time until the earlier of March 21, 2018 and the date of the consummation of an initial public offering of the Company or a combination transaction involving the Company following which shares of the resulting entity are listed for trading on a recognized stock exchange.

“**Tembo Investor Rights Agreement**” means the investor rights agreement dated March 22, 2017, between the Company and Ndovu.

“**TFSA**” means a tax free savings account.

“**Treasury Offering**” has the meaning ascribed to such term on the cover page of this prospectus.

“**TSX**” has the meaning ascribed to such term on the cover page of this prospectus.

“**Tugalla**” means Tugalla B.V., a company formed under the laws of The Netherlands.

“**UCs**” has the meaning ascribed to such term under “*General Development and Business of the Company – Business of the Company – Regulations – Environmental Protection*”.

“**UG1 Target**” has the meaning ascribed to such term under “*Vale do Curaçá Property – Exploration – Exploration Targets – Subsequent Events – Vermelhos Mine and District Exploration*”.

“**UG2 Target**” has the meaning ascribed to such term under “*Vale do Curaçá Property – Exploration – Exploration Targets – Subsequent Events – Vermelhos Mine and District Exploration*”.

“**UL**” means upper limit.

“**Underwriters**” or “**Underwriter**” has the meaning ascribed to such term on the cover page of this prospectus.

“**Underwriters’ Fee**” has the meaning ascribed to such term on the cover page of this prospectus.

“**Underwriting Agreement**” has the meaning ascribed to such term on the cover page of this prospectus.

“**United States**” means the United States of America, its territories and possessions, any State of the United States and the District of Columbia.

“**US dollars**” or “**US\$**” means the currency of the United States.

“**U.S. Securities Act**” has the meaning ascribed to such term on the cover page of this prospectus.

“**Vale**” means Vale S.A.

“**Vale do Curaçá Property**” means the property owned by MCSA and located within the Curaçá Valley, northeastern Bahia State, Brazil, approximately 385 km north-northwest of the capital city of Salvador, consisting of 65 Exploration Licenses currently held or under application to renew, five Mining Concessions and three Mining Concessions currently under application covering a total area of 110,143 ha.

“**Vale do Curaçá Technical Report**” means 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, of SRK Brazil, and Porfirio Cabaleiro Rodrigues, MAIG, Mário Conrado Reinhardt, MAIG, Fábio Valério Xavier, MAIG, and Bernardo H.C. Viana, MAIG, all of GE21, and prepared in accordance with NI 43-101.

“**Voting Agreement**” means the voting agreement dated December 9, 2016 among the Company, Brasil Plural, Christopher Noel Dunn, David Strang, Matthew Wubs, John Wright, Lyle Braaten, Steven Busby, Spectra II and Spectra III.

“**VRM**” means the Vertical Retreat Mining method.

“**VTEM**” means airborne Versatile Time Domain Electromagnetic geophysical survey.

“**Warrant Indenture**” means the Amended and Restated Warrant Indenture between the Company and Computershare Trust Company of Canada, as warrant agent, originally entered into on September 2, 2016 and amended and restated on December 12, 2016 and on September 12, 2017.

“**Whistleblowing Policy**” means the Whistleblowing Policy of the Company adopted by the Board on May 15, 2017.

“**Zinia**” means Zinia Participações S/A, a company formed under the laws of Brazil.

## ABOUT THIS PROSPECTUS

An investor should rely only on the information contained in this prospectus and is not entitled to rely on parts of the information contained in this prospectus to the exclusion of others. The Company has not, and the Selling Securityholders and the Underwriters have not, authorized anyone to provide investors with additional, different or inconsistent information. If anyone provides investors with additional, different or inconsistent information, including information or statements in media articles about the Company, investors should not rely on it.

The information contained in this prospectus is accurate only as of the date of this prospectus or the date indicated, regardless of the time of delivery of this prospectus or any sale of the Offered Shares. The Company's business, financial condition, operating results and prospects may have changed since the date of this prospectus.

The Company, the Selling Securityholders and the Underwriters are not offering to sell the Offered Shares in any jurisdiction where the offer or sale of such securities is not permitted. For investors outside the Qualifying Jurisdictions, none of the Company, any of the Selling Securityholders or any of the Underwriters has done anything that would permit the Offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the Qualifying Jurisdictions. Investors are required to inform themselves about, and to observe any restrictions relating to, the Offering and the possession or distribution of this prospectus.

The information contained on the Company's corporate website is not intended to be included in or incorporated by reference into this prospectus and investors should not rely on such information when deciding whether or not to invest in the Offered Shares.

Any graphs, tables or other information demonstrating the historical performance or current or historical attributes of the Company or any other entity contained in this prospectus are intended only to illustrate historical performance or current or historical attributes of the Company or such entities and are not necessarily indicative of future performance of the Company or such entities.

This prospectus includes summary descriptions of certain material agreements of the Company (see "*Material Contracts*"). The summary descriptions disclose provisions that the Company considers to be material, but are not complete and are qualified by reference to the terms of the material agreements, which will be filed with the Canadian securities regulatory authorities and will be available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). Investors are encouraged to read the full text of such material agreements.

Unless otherwise indicated, all information in this prospectus assumes that the Over-Allotment Option has not been exercised.

## MEANING OF CERTAIN REFERENCES

Unless otherwise noted or the context otherwise indicates, "Ero" or the "Company" refers to Ero Copper Corp. and its subsidiaries as constituted on the date of this prospectus. Where the context requires, all references in this prospectus to the "Treasury Offering" and the "Offering" include the Over-Allotment Option and all references in this prospectus to "Offered Shares" include the additional Common Shares that may be issued pursuant to the exercise of the Over-Allotment Option.

## STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This prospectus 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 Mineral Reserve and Mineral Resource estimates; targeting additional Mineral Resources and expansion of deposits; the capital and operating cost estimates and the economic analyses (including cash flow projections) from the Vale do Curaçá Technical Report and the Boa Esperança Technical Report; the Company's expectations, strategies and plans for the Vale do Curaçá Property and the Boa Esperança Property, including the Company's planned exploration, development and production activities and the expected performance of the Pilar Mine; the results of future exploration and drilling, estimated completion dates for certain milestones and the Company's plans with respect to the Vermelhos Mine; successfully adding or upgrading Mineral Resources and successfully developing new deposits; the costs and timing of future exploration and development; the timing and amount of future production at the Vale do Curaçá Property, the Boa Esperança Property and the NX Gold Property; the timing, receipt

and maintenance of necessary approvals, licenses and permits from applicable governments, regulators or third parties, including, a new Environmental License and the issuance of an Operation License with respect to the Vermelhos Mine; the Company's plans regarding the sale of NX Gold; expectations regarding consumption, demand and future price of copper; future financial or operating performance and condition of the Company and its business, operations and properties, including expectations regarding liquidity, capital structure, competitive position and payment of dividends; the Offering, including the anticipated timing thereof; the Over-Allotment Option; the intended use of the net proceeds of the Offering; the adequacy of funds from the Offering to support the Company's business objectives, including with respect to its exploration, development and production activities; the potential reorganization of the Company's debt; the possibility of entering judgments outside of Canada; expectations regarding future currency exchange rates; the Common Shares being "qualified investments" under the Tax Act and the Regulations; entering into lock-up agreements with existing securityholders of the Company in respect of the Offering and the estimated number of securities that will be subject to such lock-up agreements; plans regarding the Company's compensation policy and practices; plans regarding the future composition of the Board; and any other statement that may predict, forecast, indicate or imply future plans, intentions, levels of activity, results, performance or achievements.

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 prospectus including, without limitation, assumptions about: favourable 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 Vale do Curaçá Technical Report and the Boa Esperança Technical Report, respectively; 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 favourable 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 favourable terms; obtaining required renewals for existing approvals, licenses and permits on favourable terms; requirements under applicable laws; sustained labour 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:

- copper prices are volatile and may be lower than expected;
- mining operations are risky;
- mining operations require geologic, metallurgic, engineering, title, environmental, economic and financial assessments that may be materially incorrect and thus the Company may not produce as expected;
- geological, hydrological and climatic events could suspend mining operations or increase costs;
- actual production, capital and operating costs may be different than those anticipated;
- the construction and start-up of new mines is subject to a number of factors and the Company may not be able to successfully complete new construction projects;
- currency fluctuations can result in unanticipated losses;
- the successful operation of the Vale do Curaçá Property and the successful development and operation of the Boa Esperança Property depend on the skills of the Company's management and teams;
- operations during mining cycle peaks are more expensive;
- title to the Vale do Curaçá Property and/or the Boa Esperança Property may be disputed;
- the Company may fail to comply with the law or may fail to obtain or renew necessary permits and licenses;
- compliance with environmental regulations can be costly;
- social and environmental activism can negatively impact exploration, development and mining activities;

- the mining industry is intensely competitive;
- inadequate infrastructure may constrain mining operations;
- the Company may incur losses and experience negative operating cash flow for the foreseeable future;
- although regularly maintained, MCSA's aging infrastructure could lead to increased costs or reduced production;
- fluctuations in the market prices and availability of commodities and equipment affect the Company's business;
- a failure to maintain satisfactory labour relations can adversely impact the Company;
- the Company's insurance coverage may be inadequate to cover potential losses;
- it may be difficult to enforce judgments and effect service of process on directors and officers;
- the directors and officers may have conflicts of interest with the Company;
- the Acquisitions and future acquisitions may require significant expenditures and may result in inadequate returns;
- failures of information systems or information security threats can be costly;
- the Company may be subject to costly legal proceedings;
- the Company will incur increased costs as a result of complying with the reporting requirements, rules and regulations affecting public issuers;
- the Boa Esperança Property is located in an underdeveloped rural area;
- product alternatives may reduce demand for the Company's products;
- changes in climate conditions may affect the Company's operations;
- the Company may not use the proceeds from the Treasury Offering as described in this prospectus;
- the Company is subject to restrictive covenants that limit its ability to operate its business;
- the Company may not be able to continue on a going concern basis;
- the Company's Brazilian operations are subject to political and other risks associated with operating in a foreign jurisdiction;
- the Company may be negatively impacted by changes to mining laws and regulations;
- corruption and fraud in Brazil relating to ownership of real property may adversely affect the Company's business;
- the Company is exposed to the possibility that applicable taxing authorities could take actions that result in increased tax or other costs that might reduce the Company's cash flow;
- inflation in Brazil, along with Brazilian governmental measures to combat inflation, may have a significant negative effect on the Brazilian economy and also on the Company's financial condition and results of operations;
- exchange rate instability may have a material adverse effect on the Brazilian economy;
- the Company's operations may be impaired as a result of restrictions to the acquisition or use of rural properties by foreigner investors or Brazilian companies under foreign control;
- the Company has not obtained INCRA's approval for the Acquisitions;
- the Company relies on international advisors and consultants;
- recent disruptions in international and domestic capital markets may lead to reduced liquidity and credit availability for the Company;
- the Company may expand into other geographic areas, which could increase the Company's operational, regulatory and other risks;
- the Company may be responsible for corruption and anti-bribery law violations;
- investors may lose their entire investment;
- there is no existing public market for the Common Shares;
- dilution from equity financing could negatively impact holders of Common Shares;
- a purchaser of the Offered Shares under the Offering will purchase such shares at a substantial premium to the current book value per Common Share;
- the stock exchange on which the Company proposes to be listed may delist the Company's securities from its exchange, which could limit investors' ability to make transactions in the Company's securities and subject the Company to additional trading restrictions;
- equity securities are subject to trading and volatility risks;
- sales by existing shareholders can reduce share prices;
- the Company does not intend to pay dividends;
- public companies are subject to securities class action litigation risk;
- if securities or industry analysts do not publish research or publish inaccurate or unfavourable research about the Company's business, the price and trading volume of the Common Shares could decline; and
- global financial conditions can reduce the price of the Common Shares.

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. See “*Risk Factors*” for a discussion of certain factors investors should carefully consider before deciding to invest in the Offered Shares.

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 prospectus 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.

### EXCHANGE RATE AND CURRENCY INFORMATION

The following table sets forth, for each period indicated, the exchange rate of the Canadian dollar to the US dollar at the end of such period and the average, high and low exchange rates for such period (such rates, which are expressed in Canadian dollars, are based on the daily exchange rate for US dollars reported by the Bank of Canada).

	Six months ended June 30,		Year ended December 31,		
	2017 (\$)	2016 (\$)	2016 (\$)	2015 (\$)	2014 (\$)
Low for the period .....	1.2977	1.2544	1.2544	1.1728	1.0614
High for the period .....	1.3743	1.4589	1.4589	1.3990	1.1643
Rate at the end of the period .....	1.2977	1.3009	1.3427	1.3840	1.1601
Average rate for the period .....	1.3343	1.3302	1.3248	1.2787	1.1045

On October 10, 2017, the last business day before the date of this prospectus, the Bank of Canada daily exchange rate for the purchase of one US dollar using Canadian dollars was \$1.2501 (\$1.00 = US\$0.7999).

The following table sets forth, for each period indicated, the exchange rate of the Canadian dollar to the Brazilian Real at the end of such period and the average, high and low exchange rates for such period (such rates, which are expressed in Canadian dollars, are based on the daily exchange rate for Brazilian Real reported by the Bank of Canada).

	Six months ended June 30,		Year ended December 31,		
	2017 (\$)	2016 (\$)	2016 (\$)	2015 (\$)	2014 (\$)
Low for the period .....	0.3924	0.3376	0.3376	0.3205	0.4256
High for the period .....	0.4395	0.4065	0.4282	0.4840	0.4979
Rate at the end of the period .....	0.3924	0.4065	0.4125	0.3494	0.4365
Average rate for the period .....	0.4199	0.3601	0.3817	0.3883	0.4704

On October 10, 2017, the last business day before the date of this prospectus, the Bank of Canada daily exchange rate for the purchase of one Brazilian Real using Canadian dollars was \$0.3940 (\$1.00 = R\$2.5381).

All dollar amounts in this prospectus are expressed in Canadian dollars, except as otherwise indicated. References to “\$” or “dollars” are to Canadian dollars, references to “US\$” are to US dollars and references to “R\$” are to Brazilian Reals. The Company presents its financial statements in US dollars. MCSA presents its financial statements in Brazilian Reals.

### SCIENTIFIC AND TECHNICAL INFORMATION

Scientific and technical information relating to the Vale do Curaçá Property contained in this prospectus is derived from, and in some instances is a direct extract from, and based on the assumptions, qualifications and procedures set out in, the Vale do Curaçá Technical Report. Each of Rubens Mendonça, MAusIMM, Porfirio Cabaleiro Rodrigues, MAIG, Mário Conrado Reinhardt, MAIG, Fábio Valério Xavier, MAIG, and Bernardo H.C. Viana, MAIG, reviewed and approved the scientific and technical information relating to the Vale do Curaçá Property contained in this prospectus and is a “qualified person” and

“independent” of the Company within the meanings of NI 43-101. In addition, information of a scientific or technical nature in respect of the work plans set out under the headings “*Prospectus Summary – The Offering – Use of Proceeds*” and “*Use of Proceeds*”, other than work plans included in the Vale do Curaçá Technical Report, was reviewed and approved by Rubens Mendonça, MAusIMM, who is an independent “qualified person” under NI 43-101. Scientific and technical information relating to the Boa Esperança Property contained in this prospectus is derived from, and in some instances is a direct extract from, and based on the assumptions, qualifications and procedures set out in, the Boa Esperança Technical Report. Each of Carlos Barbosa, MAIG, Rubens Mendonça, MAusIMM, and Girogio di Tomi, MAusIMM, reviewed and approved the scientific and technical information relating to the Boa Esperança Property contained in this prospectus and is a “qualified person” and “independent” of the Company within the meanings of NI 43-101. Reference should be made to the full text of the Vale do Curaçá Technical Report and the Boa Esperança Technical Report, each of which is available for review under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## **CIM Definition Standards**

The Mineral Reserves and Mineral Resources for the Vale do Curaçá Property (including as used in the Vale do Curaçá Technical Report) and the Boa Esperança Property (including as used in the Boa Esperança Technical Report) have been estimated in accordance with the CIM Definition Standards, which are incorporated by reference in NI 43-101. The following definitions are reproduced from the CIM Definition Standards:

**“Feasibility Study”** means a comprehensive technical and economic study of the selected development option for a mineral project that includes appropriately detailed assessments of applicable Modifying Factors together with any other relevant operational factors and detailed financial analysis that are necessary to demonstrate, at the time of reporting, that extraction is reasonably justified (economically mineable). The results of the study may reasonably serve as the basis for a final decision by a proponent or financial institution to proceed with, or finance, the development of the project. The confidence level of the study will be higher than that of a Pre-Feasibility Study.

**“Indicated Mineral Resource”** means that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics are estimated with sufficient confidence to allow the application of Modifying Factors as described below in sufficient detail to support mine planning and evaluation of the economic viability of the deposit. Geological evidence is derived from adequately detailed and reliable exploration, sampling and testing and is sufficient to assume geological and grade or quality continuity between points of observation. An Indicated Mineral Resource has a lower level of confidence than that applying to a Measured Mineral Resource and may only be converted to a Probable Mineral Reserve.

**“Inferred Mineral Resource”** means that part of a Mineral Resource for which quantity and grade or quality are estimated on the basis of limited geological evidence and sampling. Geological evidence is sufficient to imply but not verify geological and grade or quality continuity. An Inferred Mineral Resource has a lower level of confidence than that applying to an Indicated Mineral Resource and must not be converted to a Mineral Reserve. It is reasonably expected that the majority of Inferred Mineral Resources could be upgraded to Indicated Mineral Resources with continued exploration.

**“Measured Mineral Resource”** means that part of a Mineral Resource for which quantity, grade or quality, densities, shape, and physical characteristics are estimated with confidence sufficient to allow the application of Modifying Factors to support detailed mine planning and final evaluation of the economic viability of the deposit. Geological evidence is derived from detailed and reliable exploration, sampling and testing and is sufficient to confirm geological and grade or quality continuity between points of observation. A Measured Mineral Resource has a higher level of confidence than that applying to either an Indicated Mineral Resource or an Inferred Mineral Resource. It may be converted to a Proven Mineral Reserve or to a Probable Mineral Reserve.

**“Mineral Reserve”** means the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at pre-feasibility or feasibility level as appropriate that include application of Modifying Factors. Such studies demonstrate that, at the time of reporting, extraction could reasonably be justified. The reference point at which Mineral Reserves are defined, usually the point where the ore is delivered to the processing plant, must be stated. It is important that, in all situations where the reference point is different, such as for a saleable product, a clarifying statement is included to ensure that the reader is fully informed as to what is being reported. The public disclosure of a Mineral Reserve must be demonstrated by a Pre-Feasibility Study or Feasibility Study.

“**Mineral Resource**” means a concentration or occurrence of solid material of economic interest in or on the Earth’s crust in such form, grade or quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade or quality, continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling.

“**Pre-Feasibility Study**” means a comprehensive study of a range of options for the technical and economic viability of a mineral project that has advanced to a stage where a preferred mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, is established and an effective method of mineral processing is determined. It includes a financial analysis based on reasonable assumptions on the Modifying Factors and the evaluation of any other relevant factors which are sufficient for a qualified person, acting reasonably, to determine if all or part of the Mineral Resource may be converted to a Mineral Reserve at the time of reporting. A Pre-Feasibility Study is at a lower confidence level than a Feasibility Study.

“**Probable Mineral Reserve**” means the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. The confidence in the Modifying Factors applying to a Probable Mineral Reserve is lower than that applying to a Proven Mineral Reserve.

“**Proven Mineral Reserve**” means the economically mineable part of a Measured Mineral Resource. A Proven Mineral Reserve implies a high degree of confidence in the Modifying Factors.

For the purposes of the CIM Definition Standards, “**Modifying Factors**” are considerations used to convert Mineral Resources to Mineral Reserves. These include, but are not restricted to, mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental factors.

## LIST OF ABBREVIATIONS

In this prospectus, the following abbreviations have the meanings set forth below:

Cu	copper	Mt	megatonne
Ni	nickel	kt	kilotonne
Co	cobalt	t	metric tonne
Ag	silver	kg	kilogram
Au	gold	g	gram
Fe	iron	lb	pound
Mn	manganese	ml	millilitre
Zn	zinc	MW	megawatt
Cr	chromium	kW	kilowatt
Al	aluminium	MVA	megavolt amperes
Ca	calcium	kV	kilovolt
Mo	molybdenum	kWh	kilowatt hour
W	tungsten	Hz	hertz
Bi	bismuth	d	day
S	sulfur	h	hour
F	fluorine	s	second
Cl	chlorine	Ga	billion years
U	uranium	Ma	million years
As	arsenic	masl	metres above mean sea level
P	phosphorus	m <sup>3</sup>	cubic metre
Pb	lead	Mm <sup>3</sup>	cubic megametre
km	kilometre	mmWC	millimeter of water column
m	metre	Pa	pascal
cm	centimetre	mbar	atmospheric air pressure (bar)
mm	millimetre	°	degree
ft	foot	C	Celcius
ha	hectare	µm	micrometre
m <sup>3</sup>	cubic metre		

### THIRD PARTY INFORMATION

This prospectus includes market, industry and economic data which was obtained from various publicly available sources and other sources believed by the Company to be true. Although the Company believes it to be reliable, none of the Company nor any of the Selling Securityholders or Underwriters has independently verified any of the data from third party sources referred to in this prospectus, or analyzed or verified the underlying reports relied upon or referred to by such sources, or ascertained the underlying economic and other assumptions relied upon by such sources. The Company believes that its market, industry and economic data is accurate and that its estimates and assumptions are reasonable, but there can be no assurance as to the accuracy or completeness thereof. The accuracy and completeness of the market, industry and economic data used throughout this prospectus are not guaranteed and the Company, the Selling Securityholders and the Underwriters do not make any representation as to the accuracy or completeness of such information.

### ENFORCEMENT OF JUDGMENTS AGAINST FOREIGN PERSONS

Certain of the directors and officers of the Company reside outside of Canada, including Christopher Noel Dunn, Executive Chairman and a director of the Company. Mr. Dunn has appointed Blakes Vancouver Services Inc. as agent for service of process at Suite 2600, 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1L3. In addition, Brasil Plural, Spectra II, Spectra III and Taylor International Fund Ltd., each a Selling Securityholder, is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada and has appointed Blakes Vancouver Services Inc. as agent for service of process at Suite 2600, 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1L3.

Each of SRK Consultores do Brasil Ltda., GE21 Consultoria Mineral and KPMG Auditores Independentes is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction.

All or substantially all of the assets of these persons and companies may be located outside Canada. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada, even if the party has appointed an agent for service of process.

### MARKETING MATERIALS

A “template version” of the following “marketing materials” (as such terms are defined in National Instrument 41-101 – *General Prospectus Requirements*) have been filed with the securities commission or similar regulatory authority in each of the provinces and territories of Canada, other than Québec, and are specifically incorporated by reference into this prospectus:

1. the investor presentation filed on SEDAR on September 22, 2017;
2. the term sheet filed on SEDAR on September 22, 2017 (the “**September Term Sheet**”); and
3. the revised term sheet filed on SEDAR on October 11, 2017 (the “**October Term Sheet**”).

The investor presentation and term sheets referred to above are available under Ero’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

The October Term Sheet revised the September Term Sheet to, among other things, reflect the final Offering Price of \$4.75, reflect the aggregate size of the Offering of \$110,590,051, identify additional Selling Securityholders, reflect certain updates with respect to the lock-up arrangements, reflect the anticipated Closing Date, and update the current status of the Company’s listing application with the TSX. These revisions are all reflected in this prospectus. Pursuant to subsection 13.7(7) of National Instrument 41-101, the October Term Sheet, as well as a blackline to the September Term Sheet, are available under Ero’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

In addition, any “template version” of “marketing materials” are not part of this prospectus to the extent that the contents of the “template version” of “marketing materials” have been modified or superseded by a statement contained in this prospectus. Any “template version” of “marketing materials” filed under the Company’s profile on SEDAR after the date of this prospectus and before the termination of the distribution under the Offering (including any amendments to, or an amended version of, any “template version” of any “marketing materials”) will be deemed to be incorporated into this prospectus.

## NON-IFRS MEASURES

Financial results of the Company and MCSA are prepared in accordance with IFRS. The Company and MCSA utilize certain non-IFRS measures, including C1 cash cost of copper produced per pound and working capital. 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 and MCSA. 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.

### C1 Cash Cost of Copper Produced per Pound

C1 cash cost of copper produced per pound is the sum of production costs, net of capital expenditure development costs and by-product credits, divided by the copper pounds produced. 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.

	Three Months Ended June 30, 2017 (US\$000s)	Three Months Ended March 31, 2017 (US\$000s)	Six Months Ended June 30, 2017 (US\$000s)
Costs			
Mining	US\$13,106	US\$10,061	US\$23,167
Processing	3,657	3,054	6,711
Indirect	1,672	1,314	2,986
Production costs	18,435	14,430	32,864
Capex development	(1,782)	(646)	(2,428)
By-product credits	(1,137)	(567)	(1,704)
<b>C1 cash cost of copper produced</b>	<b>US\$15,517</b>	<b>US\$13,216</b>	<b>US\$28,733</b>
Costs per pound			
<b>Payable copper produced (000's lb)</b>	<b>12,459</b>	<b>7,395</b>	<b>19,854</b>
Mining	US\$1.05	US\$1.36	US\$1.17
Processing	0.29	0.41	0.34
Indirect	0.13	0.18	0.15
Capex development	(0.14)	(0.09)	(0.12)
By-product credits	(0.09)	(0.08)	(0.09)
<b>C1 cash cost of copper produced per pound (US\$/lb)</b>	<b>US\$1.25</b>	<b>US\$1.79</b>	<b>US\$1.45</b>

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.

	Three Months Ended June 30, 2017 (US\$000s)	Three Months Ended March 31, 2017 (US\$000s)	Six Months Ended June 30, 2017 (US\$000s)
<b>Reconciliation:</b>			
Cost of Goods Sold	27,167	14,660	41,827
Add (less):			
Depreciation/amortization/depletion	(8,298)	(4,642)	(12,940)
Net Change in Inventory	(2,630)	3,609	979
Transportation costs & other	415	156	571
By-product credits	(1,137)	(567)	(1,704)
<b>C1 cash cost of copper produced</b>	<b>15,517</b>	<b>13,216</b>	<b>28,733</b>

## 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 June 30, 2017 and December 31, 2016.

	<b>June 30, 2017 (US\$000s)</b>	<b>December 31, 2016 (US\$000s)</b>
Current Assets	65,659	54,408
Less: Current Liabilities	(88,754)	(185,125)
<b>Working Capital (Deficit)</b>	<b>(23,095)</b>	<b>(130,717)</b>

## ELIGIBILITY FOR INVESTMENT

In the opinion of Blake, Cassels & Graydon LLP, legal counsel to the Company, and Cassels Brock & Blackwell LLP, legal counsel to the Underwriters, based on the current provisions of the Tax Act and the Regulations, provided that the Common Shares are listed on a "designated stock exchange" for the purposes of the Tax Act (which currently includes the TSX) upon the Closing, the Common Shares will be "qualified investments" under the Tax Act and the Regulations for a trust governed by an RRSP, RRIF, TFSA, RESP, "deferred profit sharing plan" or RDSP (as those terms are defined in the Tax Act).

Notwithstanding the foregoing, if the Common Shares are a "prohibited investment" within the meaning of the Tax Act for the Registered Plan, the annuitant or holder of the Registered Plan, as the case may be, will be subject to penalty taxes as set out in the Tax Act. The Common Shares will generally not be a prohibited investment for a Registered Plan if the annuitant or holder, as the case may be (a) deals at arm's length with the Company for the purposes of the Tax Act, and (b) does not have a "significant interest" (as defined in the Tax Act for purposes of the prohibited investment rules) in the Company. In addition, the Common Shares will not be a prohibited investment if the Common Shares are "excluded property" (as defined in the Tax Act for purposes of the prohibited investment rules) for a Registered Plan.

Pursuant to the Tax Proposals released on September 8, 2017, the rules with respect to "prohibited investments" are also proposed to apply to (i) RESPs and subscribers thereof, and (ii) RDSPs and holders thereof.

**Prospective purchasers who intend to invest through a Registered Plan should consult their own tax advisers with respect to whether Common Shares would be a prohibited investment having regard to their particular circumstances.**

## PRESENTATION OF FINANCIAL INFORMATION AND ACCOUNTING PRINCIPLES

The Company and MCSA respectively present their financial statements in US dollars and Brazilian Reals. The financial statements of the Company as at December 31, 2016 and for the period then ended, and the financial statements of MCSA as at December 31, 2016, 2015 and 2014 and for the years then ended, have been prepared in accordance with IFRS, and the financial statements of the Company as at June 30, 2017 and for the three and six month periods then ended have been prepared in accordance with IAS No. 34, Interim Financial Reporting of IFRS. Certain financial information set out in this prospectus is derived from such financial statements.

## PROSPECTUS SUMMARY

*The following is a summary of the principal features of the Offering and is qualified in its entirety by, and should be read together with, the more detailed information, financial data and statements and MD&A contained elsewhere in this prospectus. This summary does not contain all of the information a potential investor should consider before investing in Offered Shares. Please refer to the “Glossary” for a list of defined terms used herein.*

### ERO COPPER CORP.

Ero Copper Corp. was incorporated under the BCBCA on May 16, 2016. Ero is a base metals mining company focused on the production and sale of copper from the Vale do Curaçá Property in Brazil, with gold and silver produced and sold as by-products from the Vale do Curaçá Property. The Company’s principal business activities since incorporation have been the acquisition of an approximately 99.5% direct interest in MCSA and, indirectly through the acquisition of MCSA, the acquisition of the Vale do Curaçá Property and the Boa Esperança Property, as well as the advancement of the operations of the Vale do Curaçá Property. These assets and activities of MCSA constitute a majority of the assets and activities disclosed by the Company’s consolidated financial statements contained in this prospectus. The Vale do Curaçá Property is located in northeastern Bahia State, Brazil, and includes the MCSA Mining Complex. The Boa Esperança Property is located in southeastern Pará State, Brazil, and consists of a single mineral concession.

The Vale do Curaçá Property and the Boa Esperança Property are the mineral projects material to Ero for the purposes of NI 43-101.

The Company also holds a direct and indirect approximately 97.6% interest in NX Gold and the associated NX Gold Property, located in the Mato Grosso State, Brazil. Gold and, as a by-product, silver are produced and sold from the NX Gold Property. The Company does not consider NX Gold to be a material part of its ongoing business and currently intends to dispose of its interest in NX Gold.

See “Corporate Structure” and “General Development and Business of the Company”.

### INVESTMENT HIGHLIGHTS

#### **Established, High Quality Copper Operation with Strong Cash Flow Generation**

Ero holds approximately 99.5% interest in MCSA which owns 100% of the Vale do Curaçá Property located in northeastern Bahia State, Brazil, and includes the MCSA Mining Complex. The MCSA Mining Complex refers to the active and past-producing mines of the Vale do Curaçá Property, namely the Caraíba Mine (comprised of the underground Pilar Mine, the integrated Caraíba Mill), the open pit Surubim Mine, the underground Vermelhos Mine currently under construction, the Suçuarana Mine that is nearing the end of its mine life, and the past-producing Angicos Mine and R22W Mine, and the supporting infrastructure. The MCSA Mining Complex has had a 37+ year operating history of copper production, with approximately 3.0 million tonnes of copper concentrate containing approximately 1.0 million tonnes of copper produced from 1979 to 2016.

On September 8, 2017, the Company published the Vale do Curaçá Technical Report including an updated mine plan and economics effective June 1, 2017.

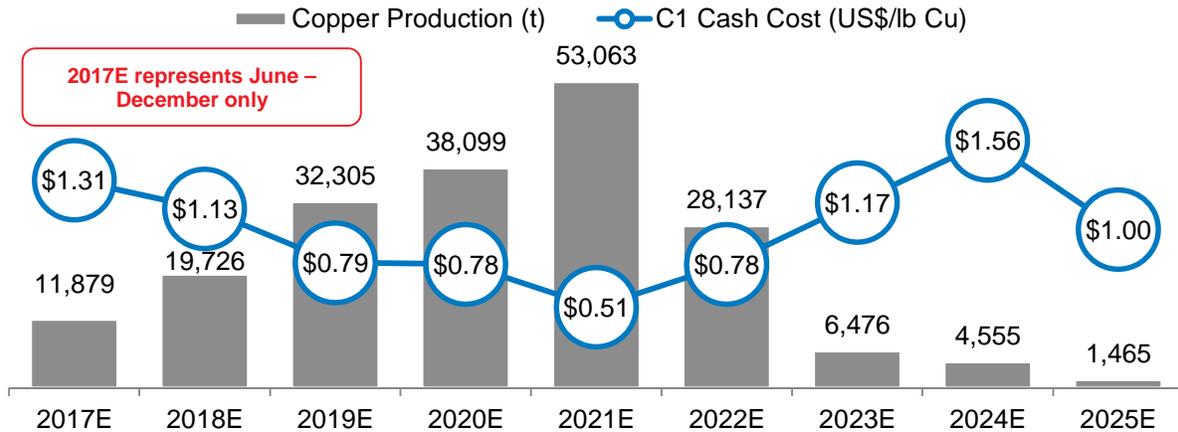
### Vale do Curaçá Property Mineral Reserves and Mineral Resources

Mine	Category	Tonnes (kt)	Cu (%)	Contained Cu (kt)
Pilar Mine	Proven	2,841	1.47	41.8
	Probable	3,350	2.28	76.3
	<b>Proven + Probable</b>	<b>6,191</b>	<b>1.91</b>	<b>118.1</b>
Vermelhos Mine	Proven	1,743	4.84	84.4
	Probable	676	2.37	16.0
	<b>Proven + Probable</b>	<b>2,418</b>	<b>4.15</b>	<b>100.4</b>
Surubim Mine	Proven	11	0.51	0.1
	Probable	248	0.80	2.0
	<b>Proven + Probable</b>	<b>259</b>	<b>0.79</b>	<b>2.1</b>
<b>TOTAL</b>	<b>Proven</b>	<b>4,595</b>	<b>2.75</b>	<b>126.3</b>
	<b>Probable</b>	<b>4,274</b>	<b>2.21</b>	<b>94.3</b>
	<b>Proven + Probable</b>	<b>8,868</b>	<b>2.49</b>	<b>220.5</b>
Pilar Mine	Measured	10,778	1.52	163.4
	Indicated	6,452	2.67	172.5
	<b>Measured + Indicated</b>	<b>17,230</b>	<b>1.95</b>	<b>335.9</b>
	Inferred	1,514	2.45	37.2
Vermelhos Mine	Measured	1,341	6.91	92.7
	Indicated	1,201	2.40	28.8
	<b>Measured + Indicated</b>	<b>2,541</b>	<b>4.78</b>	<b>121.5</b>
	Inferred	2,189	1.52	33.3
Surubim Mine	Measured	18	0.53	0.1
	Indicated	400	0.89	3.5
	<b>Measured + Indicated</b>	<b>417</b>	<b>0.87</b>	<b>3.6</b>
	Inferred	79	1.01	0.8
R22W Mine	Measured	306	0.54	1.7
	Indicated	2	0.79	0.0
	<b>Measured + Indicated</b>	<b>308</b>	<b>0.54</b>	<b>1.7</b>
	Inferred	0	0.00	0.0
<b>TOTAL</b>	<b>Measured</b>	<b>12,443</b>	<b>2.08</b>	<b>257.9</b>
	<b>Indicated</b>	<b>8,054</b>	<b>2.54</b>	<b>204.8</b>
	<b>Measured + Indicated</b>	<b>20,497</b>	<b>2.26</b>	<b>462.7</b>
	<b>Inferred</b>	<b>3,782</b>	<b>1.88</b>	<b>71.3</b>

Note: 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. See “Vale do Curaçá Property – Mineral Resource Estimates” and “Vale do Curaçá Property – Mineral Reserve Estimate” for further details as to Mineral Resources and Mineral Reserves presented in the table above including the related qualifications and assumptions.

The Vale do Curaçá operations are estimated to produce 195,705t copper over an initial mine life of approximately eight years at an estimated LOM C1 cash cost of copper produced per pound of US\$0.81/lb.

### 2017 MCSA Mine Plan: Copper Production and C1 Cash Costs of Copper Produced per Pound



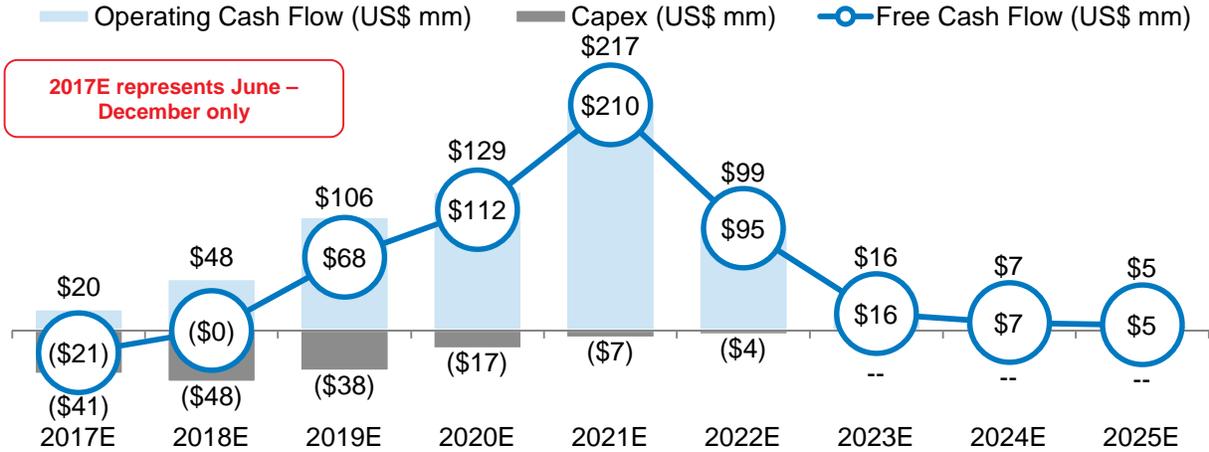
Based on an 8% discount rate, the mine plan indicates a post-tax net present value of the Vale do Curaçá operations (at a discount date of June 1, 2017) of US\$360 million, with a post-tax internal rate of return of 185.6%, which results in a 2.0-year payback period. These economics are calculated based on a copper price of US\$2.75/lb in 2017 and US\$3.00/lb from 2018 to 2025 and an exchange rate of 3.30 R\$/US\$ in 2017, 3.60 R\$/US\$ in 2018 and 3.80 R\$/US\$ from 2019 to 2025.

#### 2017 MCSA Mine Plan Summary

<b>Current Mine Life</b>	<b>~8 Years</b>
<b>Tonnes Ore Mined</b>	<b>8.8 million tonnes</b>
<b>Average Grade (LOM)</b>	<b>2.46%</b>
<b>Total Recovered Copper</b>	<b>196 kt</b>
<b>C1 Cash Costs of Copper Produced per Pound (LOM)</b>	<b>US\$0.81/lb</b>
<b>Post-Tax Payback Period</b>	<b>2.0 Years</b>
<b>Post-Tax NPV<sub>8%</sub></b>	<b>US\$360 million</b>
<b>Post-Tax IRR</b>	<b>185.6%</b>

The MCSA Mining Complex is estimated to generate operating cash flow of US\$48 million in 2018E and US\$106 million in 2019E. With limited near term capital expenditures, the MCSA Mining Complex is estimated to generate unlevered free cash flow of (US\$0 million) in 2018E and US\$68 million in 2019E.

### 2017 MCSA Mine Plan: Operating Cash Flow / Capex / Free Cash Flow



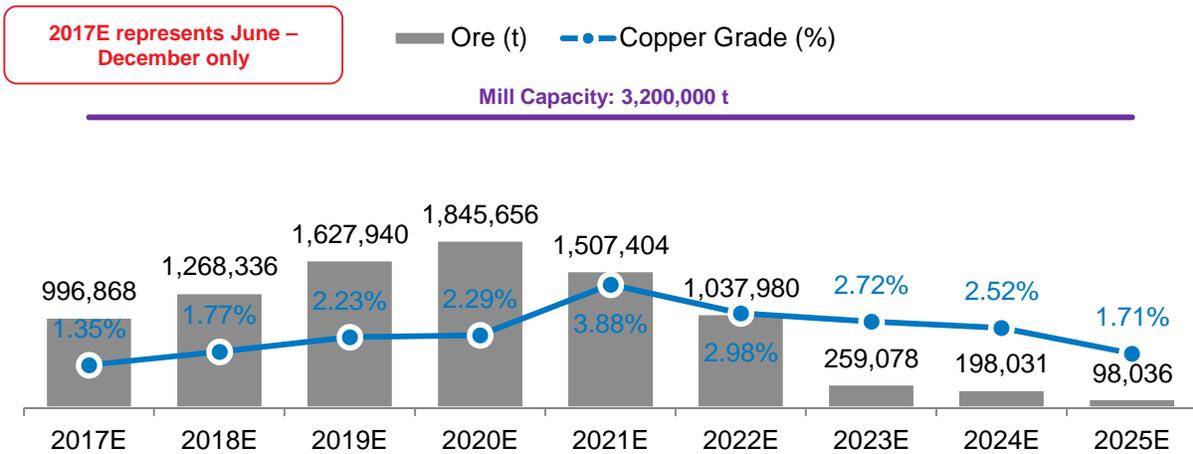
In addition to the Company's strong cash flow generation, Ero has added financial flexibility with respect to its current outstanding debt package. The majority of the Company's debt features an 18 month interest payment holiday and up to a 29 month principal payment holiday, depending upon when the Vermelhos Mine achieves commercial production, but no earlier than June 2018, beginning in December 2016.

### Peer-Leading Organic Production Growth Profile

The MCSA Mining Complex copper production is estimated to increase substantially from 19,000t (2017E) to over 53,000t (2021E). This organic growth is largely attributable to the mining of high grade copper at Vermelhos (4.15% copper Mineral Reserves).

Beyond the existing mine plan, the Caraíba Mill at the MCSA Mining Complex has significant excess capacity providing an additional opportunity for growth should there be an opportunity to add tonnage to the mine plan or fast-track the current mine plan. The mill has capacity of 3.2 million tonnes per annum while the current forecast maximum throughput in the mine plan is ~1.8 million tonnes per annum.

### 2017 MCSA Mine Plan: Throughput and Copper Grade



During Q2 2017, Ero's first full quarter of production following the Acquisitions, the MCSA Mining Complex produced approximately 5,651t of copper. On an annualized basis this translates into approximately 22,604t or approximately 49 million pounds of copper.

MCSA also owns 100% of the Boa Esperança copper project, located in southeastern Pará State, Brazil. The Company completed the Boa Esperança Technical Report effective June 1, 2017. Based on the Boa Esperança Technical Report, it has the potential to add an additional 157kt of payable copper over 9 years (including a 1.5 year period of processing stockpiled material) to Ero's production profile at a C1 cash cost of copper produced per pound of R\$3.31/lb Cu. The Boa Esperança Technical Report estimates initial capital costs of approximately R\$600 million, a post-tax NPV 8% of US\$195 million and a post-tax IRR of 32.7%.

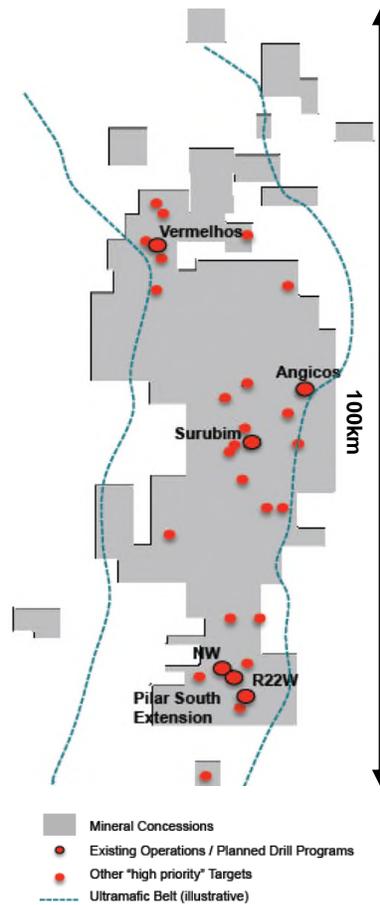
#### **Boa Esperança Property Economic Results**

<b>Current Mine Life</b>	<b>~9 Years</b>
<b>Initial Capex</b>	<b>R\$600 million</b>
<b>Tonnes Ore Mined</b>	<b>19.5 million tonnes</b>
<b>Average Grade (LOM)</b>	<b>0.95%</b>
<b>Total Recovered Copper</b>	<b>163 kt</b>
<b>C1 Cash Costs (LOM)</b>	<b>R\$3.31/lb</b>
<b>Post-Tax Payback Period</b>	<b>3.6 Years</b>
<b>Post-Tax NPV<sub>8%</sub></b>	<b>US\$195 million</b>
<b>Post-Tax IRR</b>	<b>32.7%</b>

#### **Significant Mineral Resource Conversion Potential Beyond Existing Mine Plan**

The MCSA Mining Complex consists of a total of 73 mineral rights covering in excess of 110,000 hectares in the Curaçá Valley. Copper deposits occur along a geologic belt longer than 100 km consisting of ultramafic-mafic intrusive bodies.

## Mineral Rights and Drill Target Areas



Numerous near mine exploration opportunities exist at Pilar, Surubim and Vermelhos, with similar metallurgy to the existing Mineral Reserves. Ero's geological team has identified exploration targets and is conducting three drill programs to test these opportunities:

- Pilar (17,500m program underway)
  - South Extension, The Deepening Extension, North Extension
- Surubim (5,250m program underway)
  - Phase 2 and Phase 3 open pit extension drilling
- Vermelhos (10,000m program underway)
  - Ore body extension associated with Vermelhos North
  - Oxide material

Regional exploration opportunities also exist and the Company is actively exploring for "Super Pods", massive sulphide ore bodies of +5% copper within disseminated Mineral Resources of 1-3% copper. Current regional exploration opportunities include:

- Pilar
  - NW Corridor
- Surubim
  - C-12 to C-14 trend
- Vermelhos
  - Lateral extension to known Mineral Resources and Mineral Reserves
  - Northern Extension including Vermelhos "New Target"

Since the MCSA Acquisition, the Company has focused its exploration efforts within three Districts: Pilar, Vermelhos and Surubim. Subsequent drilling activity within each District have not been included in the current Mineral Reserve or Mineral Resource estimates. Recent examples of such drilling results as shown in the tables below highlight the potential for Mineral Resource conversion and additional mine life with additional drilling and further evaluation.

#### Subsequent Exploration Activity – Pilar District

Hole	From (m)	To (m)	Length (m)	Cu (%)
FC45126	48.67	81.11	32.44	7.98
FC45127	81.0	99.7	18.7	4.75
FC46108	70.75	80.52	9.77	6.79
FC46109	51.26	62.73	11.47	7.37
FC47104	47.6	83.25	35.65	3.44
FC47105	47.58	68.37	20.79	5.84
FC47106	66.6	77.31	10.71	6.71

**Note:**

- (1) Drill holes in the table above were drilled from level -707 in the Pilar Mine. The length of intercept may not represent the true width of mineralization.

#### Subsequent Exploration Activity – Vermelhos District, UG1 Target

Hole	Target	From (m)	To (m)	Length (m)	Cu (%)
FVS-131	UG1	63.44	69.08	5.64	1.62
<i>and</i>		73.08	89.07	15.99	4.90
<i>and</i>		97.07	101.41	4.34	1.37
<i>and</i>		115.74	120.60	4.86	1.01
FVS-137	UG1	83.72	107.80	24.08	2.38
<i>including</i>		94.23	103.34	9.11	3.89

**Note:**

- (1) Drill holes in the above table were drilled from surface. The length of intercept may not represent the true width of mineralization. Values may not add due to rounding.

#### Subsequent Exploration Activity – Vermelhos District, UG2 District

Hole	Target	From (m)	To (m)	Length (m)	Cu (%)
FVS-144	UG2	1.00	21.07	20.07	4.06 <sup>(2)</sup>
<i>including</i>		11.80	21.07	9.08	7.18
FVS-144	UG2	80.80	99.44	18.64	6.20
<i>including</i>		80.80	88.88	8.08	13.15
FVS-149	UG2	68.52	81.80	13.28	8.41

**Notes:**

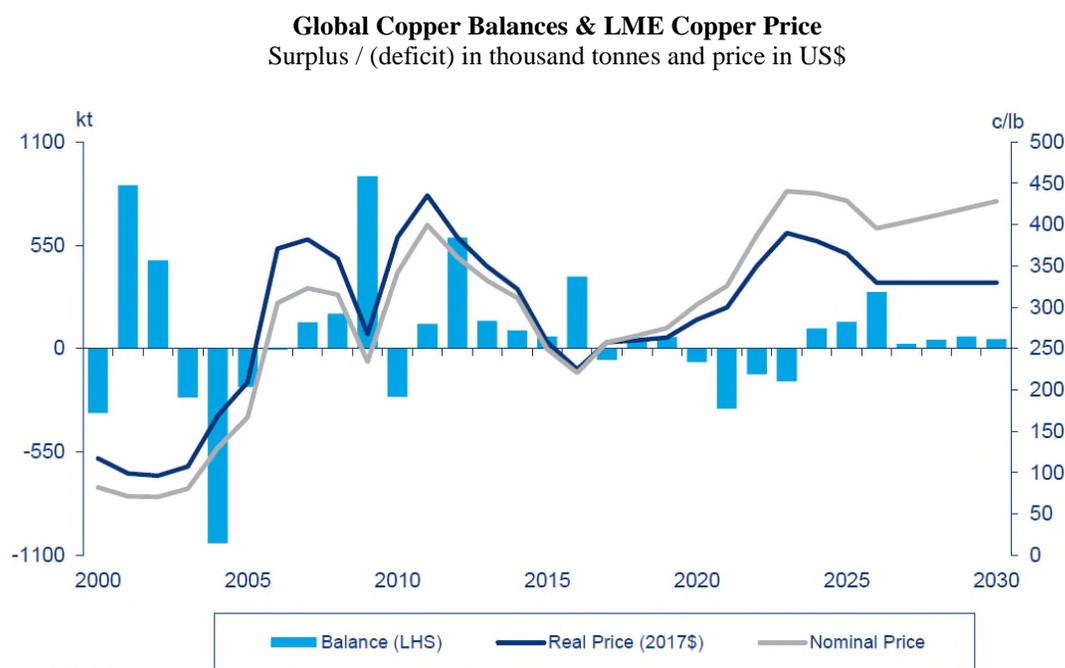
- (1) Drill holes in the above table were drilled from surface. The length of intercept may not represent the true width of mineralization. Values may not add due to rounding.  
(2) The 20.07 m intercept in FVS-144 is from surface and includes oxidized copper mineralization.

See “Vale Do Curaçá Property – Exploration – Exploration Targets” for further details as to the drill results discussed above.

## Exposure to Attractive Improving Copper Fundamentals

Ero provides investors with exposure to attractive and improving copper fundamentals. The price of copper has recovered recently from a 5 year low of US\$1.96/lb experienced at the beginning of 2016 to over US\$3.00/lb in the last month. Wood Mackenzie estimates copper prices to average approximately US\$3.45/lb (in 2017 dollars) from 2020 to 2025 and average approximately US\$3.30/lb (in 2017 dollars) from 2026 to 2035.

Wood Mackenzie is forecasting global refined copper demand to grow by 1.8% per annum from 2016 to 2021. In the longer term, from 2016 to 2035, it is anticipated that global refined copper consumption will grow by 1.2% per annum. Base case copper supply, before disruptions, is expected to grow until 2020 and decline beyond 2020 unless new supply enters the market. Due to the long lead time required to bring new mines into production it is estimated that the supply gap will reach ~4.4 million tonnes by 2027.



Source: Wood Mackenzie (Global Copper long-term outlook Q1 2017)

## Proven Management and Board Expertise

Ero is led by an executive management team and Board that has a long-standing track record of creating significant shareholder value through exploration success, project development, and the profitable operation of developed mines in South America and globally. The Brazilian operations team located on site is extremely experienced and familiar with operating the MCSA Mining Complex.

David Strang, President and Chief Executive Officer of Ero, previously served as Director, Chief Executive Officer and President of Lumina Copper Corp which was sold to First Quantum Minerals Limited in August 2014. Mr. Strang also served as Director, Chief Executive Officer and President 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.

Noel Dunn, Executive Chairman of Ero, was formerly the Managing Director of Liberty Metals & Mining, the mining private equity group of Liberty Mutual Group. Additionally, he is a Director of Pan American Silver Corporation and Pretium Resources Inc.

Wayne Drier, Chief Financial Officer of Ero, has more than 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 have included senior executive positions at Mantra Resources, BHP Billiton and Norilsk Nickel International.

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

Ero's directors, officers and senior management are very much aligned with potential Offering investors as they own approximately 26% of pre-Offering fully-diluted Common Shares outstanding.

## THE OFFERING

<b>Issuer:</b>	Ero Copper Corp.
<b>Selling Securityholders:</b>	Brasil Plural, Spectra II, Spectra III, Ross Beaty, Taylor International Fund Ltd., Heritage Investments Trust, Randal Cowell, 1045373 BC Ltd., 1040350 BC Ltd., and Geoff Burns.
<b>Offering:</b>	23,282,116 Common Shares (not including the exercise of the Over-Allotment Option, and 26,774,433 if the Over-Allotment Option is exercised in full).
<b>Offering Price:</b>	\$4.75 per Common Share.
<b>Treasury Offering:</b>	\$47,500,000 (not including the exercise of the Over-Allotment Option, and \$64,088,505.75 if the Over-Allotment Option is exercised in full).
<b>Secondary Offering:</b>	\$63,090,051.
<b>Underwriters' Fee:</b>	Pursuant to the terms and conditions of the Underwriting Agreement, the Company and the Selling Securityholders have agreed to pay the Underwriters' Fee equal to 6% of the gross proceeds of the Offering.
<b>Over-Allotment Option:</b>	The Company has granted to the Underwriters the Over-Allotment Option, exercisable in whole or in part, at the sole discretion of the Underwriters, at any time and from time to time, for a period of 30 days from and including the Closing Date, to purchase from the Company at the Offering Price up to an additional number of Common Shares that is equal to 15% of the aggregate number of Common Shares purchased under the Offering, to cover over-allotments, if any, and for market stabilization purposes. See " <i>Plan of Distribution</i> ".
<b>Use of Proceeds:</b>	<p>Assuming the Over-Allotment Option is not exercised, the net proceeds to the Company from the Treasury Offering will be \$43.35 million, after deducting the Company's share of the Underwriters' Fee of \$2.85 million and estimated expenses of the Offering of \$1.3 million. If the Underwriters exercise the Over-Allotment Option in full, the net proceeds to the Company from the Treasury Offering will be approximately \$58.943 million, after deducting the Company's share of the Underwriters' Fee of approximately \$3.845 million and estimated expenses of the Offering of \$1.3 million.</p> <p>The Company intends to use the net proceeds from the Treasury Offering (i) to fund a portion of the capital expenditures required to complete the construction of the Vermelhos Mine, (ii) to fund exploration and development activities of the Vale do Curaçá Property, (iii) to conduct the work program recommended pursuant to the Vale do Curaçá Technical Report (see "<i>Vale do Curaçá Technical Report – Recommendations</i>"), (iv) for corporate purposes, consisting of business development, head office overhead and other administrative expenses, and (v) for working capital</p>

requirements, as indicated in the following table:

<u>Principal Purpose</u>	<b>Estimated Amount to be Expended (\$ millions)</b>
Funding a portion of the capital expenditures required to complete the construction of the Vermelhos Mine	20.833
Funding exploration and development activities of the Vale do Curaçá Property	9.298
Conducting the work program recommended pursuant to the Vale do Curaçá Technical Report	0.719 <sup>(1)</sup>
Business development	1.25
Head office overhead	3.75
Other administrative expenses	1.25
Working capital requirements	6.25
<b><u>Total</u></b>	<b>43.35</b>

**Note:**

(1) Equivalent of US\$575,000 based on the exchange rate of US dollars to Canadian dollars of US\$1.00 = \$1.2501.

While the Company intends to spend the net proceeds from the Treasury Offering as stated above, there may be circumstances where, for sound business reasons, funds may be re-allocated at the discretion of the Board or management. See “*Use of Proceeds*”.

The net proceeds to be received by the Selling Securityholders from the Secondary Offering will be approximately \$59.305 million, after deducting the Selling Securityholders’ share of the Underwriters’ Fee of approximately \$3.785 million. Ero will not receive any of the proceeds payable to the Selling Securityholders under the Secondary Offering. The Selling Securityholders will not pay any expenses of the Offering (other than the Underwriters’ Fee in respect of the Secondary Offering), which expenses will be paid by Ero. The Selling Securityholders are responsible for any and all legal fees and expenses incurred by legal advisors retained by the Selling Securityholders. See “*Principal and Selling Securityholders*” and “*Use of Proceeds*”.

Information of a scientific or technical nature in respect of the work plans set out above, other than work plans included in the Vale do Curaçá Technical Report was reviewed and approved by Rubens Mendonça, MAusIMM, who is an independent “qualified person” under NI 43-101.

**Risk Factors:**

Ero is a mining company and as such is subject to a number of significant risks due to the nature of its business. See “*Risk Factors*” for a discussion of certain factors investors should carefully consider before deciding to invest in the Common Shares.

Risks related to the Company include, without limitation:

- copper prices are volatile and may be lower than expected;
- mining operations are risky;
- mining operations require geologic, metallurgic, engineering, title, environmental, economic and financial assessments that may be materially incorrect and thus the Company may not produce as expected;
- geological, hydrological and climatic events could suspend mining operations or increase costs;
- actual production, capital and operating costs may be different than those anticipated;
- the construction and start-up of new mines is subject to a number of factors and the Company

- may not be able to successfully complete new construction projects;
- currency fluctuations can result in unanticipated losses;
- the successful operation of the Vale do Curaçá Property and the successful development and operation of the Boa Esperança Property depend on the skills of the Company's management and teams;
- operations during mining cycle peaks are more expensive;
- title to the Vale do Curaçá Property and/or the Boa Esperança Property may be disputed;
- the Company may fail to comply with the law or may fail to obtain or renew necessary permits and licenses;
- compliance with environmental regulations can be costly;
- social and environmental activism can negatively impact exploration, development and mining activities;
- the mining industry is intensely competitive;
- inadequate infrastructure may constrain mining operations;
- the Company may incur losses and experience negative operating cash flow for the foreseeable future;
- although regularly maintained, MCSA's aging infrastructure could lead to increased costs or reduced production;
- fluctuations in the market prices and availability of commodities and equipment affect the Company's business;
- a failure to maintain satisfactory labour relations can adversely impact the Company;
- the Company's insurance coverage may be inadequate to cover potential losses;
- it may be difficult to enforce judgments and effect service of process on directors and officers;
- the directors and officers may have conflicts of interest with the Company;
- the Acquisitions and future acquisitions may require significant expenditures and may result in inadequate returns;
- failures of information systems or information security threats can be costly;
- the Company may be subject to costly legal proceedings;
- the Company will incur increased costs as a result of complying with the reporting requirements, rules and regulations affecting public issuers;
- the Boa Esperança Property is located in an underdeveloped rural area;
- product alternatives may reduce demand for the Company's products;
- changes in climate conditions may affect the Company's operations;
- the Company is subject to restrictive covenants that limit its ability to operate its business;
- the Company may not be able to continue on a going concern basis;
- the Company may not use the proceeds from the Treasury Offering as described in this prospectus;
- the Company's Brazilian operations are subject to political and other risks associated with operating in a foreign jurisdiction;
- the Company may be negatively impacted by changes to mining laws and regulations;
- corruption and fraud in Brazil relating to ownership of real property may adversely affect the Company's business;
- the Company is exposed to the possibility that applicable taxing authorities could take actions that result in increased tax or other costs that might reduce the Company's cash flow;
- inflation in Brazil, along with Brazilian governmental measures to combat inflation, may have a significant negative effect on the Brazilian economy and also on the Company's financial condition and results of operations;
- exchange rate instability may have a material adverse effect on the Brazilian economy;
- the Company's operations may be impaired as a result of restrictions to the acquisition or use of rural properties by foreigner investors or Brazilian companies under foreign control;
- the Company has not obtained INCRA's approval for the Acquisitions;
- the Company relies on international advisors and consultants;
- recent disruptions in international and domestic capital markets may lead to reduced liquidity and credit availability for the Company;

- the Company may expand into other geographic areas, which could increase the Company's operational, regulatory and other risks;
- the Company may be responsible for corruption and anti-bribery law violations;
- investors may lose their entire investment;
- there is no existing public market for the Common Shares;
- dilution from equity financing could negatively impact holders of Common Shares;
- a purchaser of the Offered Shares under the Offering will purchase such shares at a substantial premium to the current book value per Common Share;
- the stock exchange on which the Company proposes to be listed may delist the Company's securities from its exchange, which could limit investors' ability to make transactions in the Company's securities and subject the Company to additional trading restrictions;
- equity securities are subject to trading and volatility risks;
- sales by existing shareholders can reduce share prices;
- the Company does not intend to pay dividends;
- public companies are subject to securities class action litigation risk;
- if securities or industry analysts do not publish research or publish inaccurate or unfavourable research about the Company's business, the price and trading volume of the Common Shares could decline; and
- global financial conditions can reduce the price of the Common Shares.

### SUMMARY OF SELECTED HISTORICAL FINANCIAL INFORMATION AND PRO FORMA FINANCIAL INFORMATION

The following table sets out certain selected historical consolidated financial information of the Company for the periods and as at the dates indicated. This information has been derived from the audited and unaudited financial statements and related notes thereto included in this prospectus. The Company prepares its financial statements in accordance with IFRS. Investors should read the following information in conjunction with those financial statements and related notes thereto, along with the MD&A.

	As at and for the six month period ended June 30, 2017 (US\$000's) <sup>(2)</sup>	As at and for the period ended December 31, 2016 <sup>(1)</sup> (US\$000's) <sup>(2)</sup>
Current assets	65,659	54,408
Non-current assets	264,205	263,547
Working capital <sup>(3)</sup>	(23,095)	(130,717)
Mineral property, plant and equipment	217,497	216,296
Current liabilities	88,754	185,125
Shareholder's equity attributable to owners of the Company	36,427	24,778
Gross profit	2,840	-
Net income (loss)	(19,810)	(3,452)
Basic net income (loss) per share attributable to owners of the Company	(0.32)	(0.44)
Diluted net income (loss) per share attributable to owners of the Company	(0.32)	(0.44)

**Note:**

- (1) Period ended December 31, 2016 covers May 16, 2016, the Company's date of inception, to December 31, 2016.
- (2) Except for basic net income (loss) per share attributable to the owners of the Company and diluted net income (loss) per share attributable to the owners of the Company, which are reported as US dollar per share amounts.
- (3) Working capital has been identified by the Company as a non-IFRS measure. Please see "Non-IFRS Measures" for a definition of working capital and a reconciliation against its most directly comparable measure specified, defined or determined under IFRS.

The following table sets out certain selected unaudited pro forma consolidated financial information of the Company for the periods indicated. This information has been derived from the Company's unaudited pro forma consolidated statement of income (loss) and related notes thereto included in this prospectus, and is based on the assumptions described in such notes. **The unaudited pro forma consolidated statement of income (loss) is not necessarily indicative of the Company's results that would have occurred if the events reflected had taken place on the dates indicated, nor does it purport to project the Company's consolidated financial position or results for any future period.** The selected unaudited pro forma

consolidated financial information set out below should be read in conjunction with the description of the Acquisitions in this prospectus, the unaudited pro forma consolidated statement of income (loss) and related notes thereto, and the audited financial statements of the Company and MCSA and related notes thereto, included in this prospectus.

	<b>Year ended December 31, 2016 (US\$000's)<sup>(1)</sup></b>
Revenue	27,134
Cost of goods sold	(39,030)
Gross profit (loss)	(11,896)
Expenses	
General and administrative expenses	(8,248)
Care and maintenance expenses	(24,072)
Other income	10,425
Loss before income taxes	(33,791)
Deferred income tax recovery	382
Net loss from continuing operations	(33,409)
Net income from discontinued operations	3,922
Net loss for the period	(29,487)
Net loss attributable to owners of the Company	(27,449)
Net loss per share attributable to owners of the Company – basic and diluted	(3.96)

**Note:**

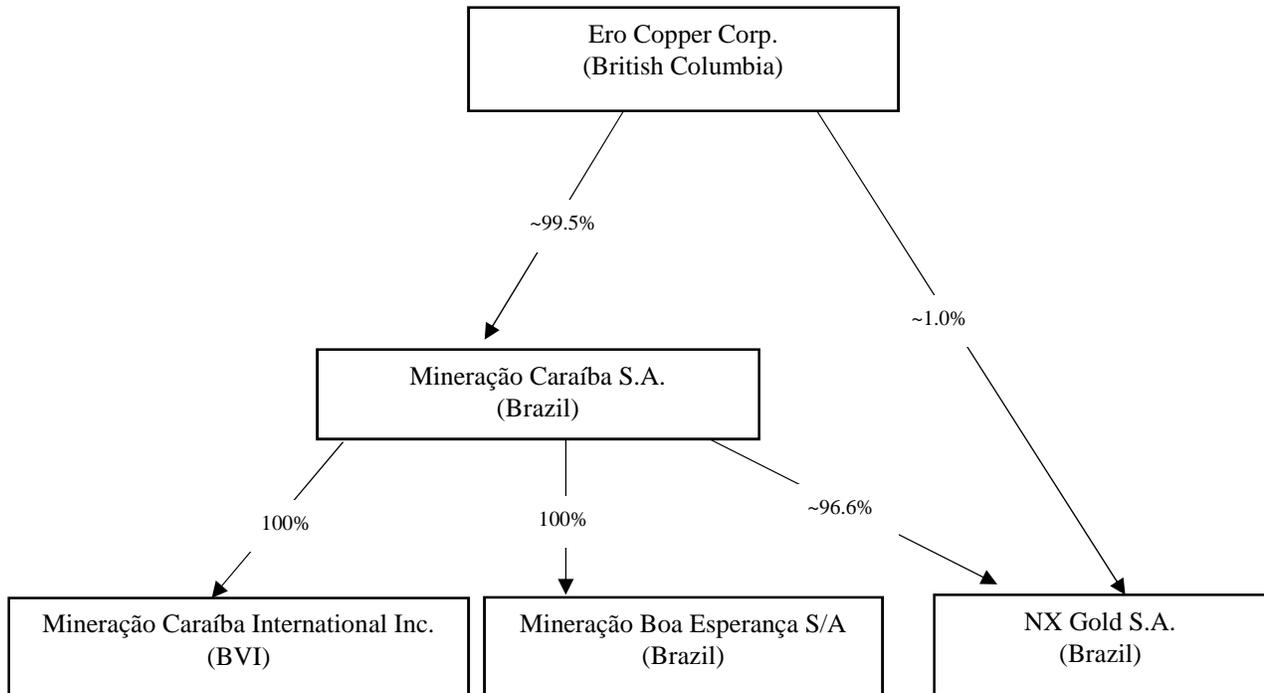
(1) Except for net loss per share attributable to owners of the Company – basic and diluted, which is reported as a US dollar per share amount.

See “*Selected Historical Financial Information and Pro Forma Financial Information*”.

## CORPORATE STRUCTURE

Ero Copper Corp. was incorporated under the BCBCA on May 16, 2016. The Company's head office is located at Suite 1050, 625 Howe Street, Vancouver, British Columbia, Canada, V6C 2T6 and its registered office is located at Suite 2600, 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1L3.

The Company directly holds approximately 99.5% of the voting shares of MCSA and directly and indirectly holds approximately 97.6% of the voting shares of NX Gold, each such company being formed under the laws of Brazil. The remaining voting shares of MCSA are held by a minority group of shareholders, including former employees of MCSA. The remaining voting shares of NX Gold are held by Tugalla, Branford and others, including former employees of NX Gold. The Company's current organization chart is as follows:



## GENERAL DEVELOPMENT AND BUSINESS OF THE COMPANY

### General Development of the Company

#### *General*

Ero is a base metals mining company focused on the production and sale of copper from the Vale do Curaçá Property in Brazil, with gold and silver produced and sold as by-products from the Vale do Curaçá Property. The Company's principal business activities since incorporation have been the acquisition of an approximately 99.5% direct interest in MCSA and, indirectly through the acquisition of MCSA, the acquisition of the Vale do Curaçá Property and the Boa Esperança Property, as well as the advancement of the operations of the Vale do Curaçá Property. These assets and activities of MCSA constitute a majority of the assets and activities disclosed by the Company's consolidated financial statements contained in this prospectus. The Vale do Curaçá Property has been in production since 1979.

The Vale do Curaçá Property and the Boa Esperança Property are the mineral projects material to Ero for the purposes of NI 43-101.

The Vale do Curaçá Property is located in northeastern Bahia State, Brazil, and includes the MCSA Mining Complex. For further details concerning the Vale do Curaçá Property, see "*Vale do Curaçá Property*". The Boa Esperança Property is

located in southeastern Pará State, Brazil, and consists of a single mineral concession. For further details concerning the Boa Esperança Property, see “*Boa Esperança Property*”.

The Company also holds a direct and indirect approximately 97.6% interest in NX Gold and the associated NX Gold Property, located in the Mato Grosso State, Brazil. NX Gold is a Brazilian company operating a quartz vein hosted, higher grade underground gold mine on the NX Gold Property. Gold and, as a by-product, silver are produced and sold from the NX Gold Property. The Company does not consider NX Gold to be a material part of its ongoing business and currently intends to dispose of its interest in NX Gold.

### ***The Acquisitions***

Immediately prior to their acquisition by Ero, MCSA and NX Gold were engaged in Judicial Reorganization proceedings before the Lower Consumer and Corporate Court in Jaguarari, Bahia State, Brazil initiated on February 3, 2016. Aside from the Company, MCSA and NX Gold, the principal groups of parties to the Judicial Reorganization proceedings were tax creditors of MCSA, labour creditors of MCSA, suppliers of MCSA and certain other secured and unsecured creditors, including the Club Deal Banks and other institutional lenders (the “**Other Institutional Lenders**”), namely Banco Fibra S.A., Banco Pine S.A., Banco Safra S.A., Banco do Nordeste do Brasil S.A. and Banco do Brasil. A series of events and circumstances led up to the Judicial Reorganization, beginning with the drop in London Metal Exchange benchmark copper prices in 2015 at a time when MCSA owed a considerable amount of debt to the above-mentioned groups of creditors. In addition, the Club Deal Banks expressed no intention to renegotiate MCSA’s debt without capital injection by the then controlling shareholders of MCSA. With the term of payment of relevant installments on the debt owing to the Club Deal Banks approaching, MCSA filed for judicial reorganization protection in 2015. NX Gold was involved in such judicial reorganization proceedings on the basis of it being a guarantor of the debt owed by MCSA to the Club Deal Banks. The initiation of judicial reorganization proceedings prompted the Club Deal Banks to engage in negotiations with MCSA and, as a result, the parties entered into a mutually acceptable resolution in October 2015 and terminated the judicial reorganization proceedings. However, the flooding of MCSA’s Pilar Mine on January 22, 2016 led MCSA as well as NX Gold (as the guarantor of MCSA’s outstanding debt to the Club Deal Banks) to commence the new Judicial Reorganization process on February 3, 2016.

The flooding event was an anomalous occurrence caused by a series of unique and unusual events and circumstances, stemming from MCSA’s ongoing construction of a ventilation raise to surface at the Pilar Mine in late 2015. During this period, and as part of the above-mentioned resolution negotiated by MCSA and the Club Deal Banks, MCSA was required to obtain the Club Deal Banks’ consent before removing cash from its bank accounts to fund capital expenditures at the Vale do Curaçá Property. While MCSA awaited approval for the release of such cash to fund the completion of civil works to cap the unfinished ventilation raise at surface, an unseasonably high amount of rainfall was experienced in the region over a 24-hour period resulting in a flash flood which broke through the protective berm surrounding the uncapped ventilation raise and resulting in water flowing into the ventilation raise and flooding certain parts of the underground Pilar Mine, including the main work areas, underground crushers and equipment. Had the civic works been completed at surface and a cap been placed on the opening of the ventilation raise, flood waters would not have entered the underground of the Pilar Mine during the flash flood. As at the date of this prospectus, the civic works at surface have been completed and a cap has been installed on the ventilation raise.

On December 12, 2016, the Company acquired a total of 60,678,219 common shares of MCSA, representing approximately 85% of the then total issued share capital of MCSA, for an aggregate purchase price of US\$3.00, pursuant to a share purchase agreement, among Tugalla, Branford and the Company, and a share purchase agreement, between Zinia and the Company. In addition, on December 12, 2016, the Company acquired a total of 18,759,720 common shares of NX Gold, representing approximately 28% of the then total issued share capital of NX Gold, for an aggregate purchase price of US\$1.00, pursuant to a share purchase agreement, between Zinia and the Company. In connection with the Acquisitions, the Company also entered into the NX Gold Investment Agreement, pursuant to which the Company, through MCSA, later acquired an additional 69.56% interest in NX Gold by way of a capital increase transaction completed on August 18, 2017, further described below. In addition, so as to enable the Company to assume the control of the management of NX Gold prior to its acquisition of an additional interest in NX Gold pursuant to the NX Gold Investment Agreement, Tugalla, Branford and the Company entered into a shareholders’ agreement dated December 12, 2016, with respect to NX Gold.

As part of the transactions related to the Acquisitions, the above-mentioned groups of creditors of MCSA, including the Club Deal Banks and Other Institutional Lenders provided no objection to the withdrawal of MCSA and NX Gold (as the guarantor of MCSA’s outstanding debt to the Club Deal Banks) from the Judicial Reorganization proceedings (which approval was ratified by the judge of the Lower Consumer and Corporate Court in Jaguarari, Bahia State, Brazil, on December 6, 2016). In

exchange for the foregoing, Ero (through MCSA and NX Gold) agreed to pay, over a payment schedule, the full amounts due and outstanding to suppliers and labour creditors of MCSA, and to pay the amounts under the restructured loan agreements with the Club Deal Banks, as negotiated by the respective parties. Neither Ero nor MCSA entered into agreements with tax creditors of MCSA at the time of withdrawal of MCSA and NX Gold from the Judicial Reorganization proceedings. Subsequent to such withdrawal from Judicial Reorganization proceedings, the Company and MCSA renegotiated a payment schedule for the outstanding taxes owed by MCSA to its tax creditors, pursuant to various amnesty programs available to all Brazilian companies.

Pursuant to the restructuring agreements, the Club Deal Banks agreed to split their loans into Class A and Class B notes. The principal amount of the Class A notes totaled US\$127.9 million and such notes are repayable over an eight-year period commencing at the later of June 2018 or the date of commercial production of copper concentrate from the Vermelhos Mine (defined as the payment of government royalties associated with the sale of copper concentrate), but in all cases no later than 29 months following the date of signing of the restructured loan agreements (May 29, 2019). Interest payments associated with the Club Deal Banks restructured loans are not payable before June 2018.

The principal amount of the Class B notes totals US\$83.9 million or 40% of the original outstanding debt. The Class B notes accrue no interest and are repayable only if, among other things, the Class A notes are not repaid in accordance with the restructured loan agreements. Following the repayment of the Class A notes, the Class B notes expire with no rights or obligations.

On the date of the Acquisitions, the Company expected that, based on estimated cash flows, it would be able to comply with all of the terms and conditions associated with the Class A notes and no repayment of the Class B notes would occur. Accordingly, as determined by an independent third party, the Class B notes were determined to have a nil fair value as at the date of the Acquisitions. The fair value of the Class A notes was determined to be US\$120.9 million as at the date of the Acquisitions.

In addition to the restructuring of the loan agreements with the Club Deal Banks, the Other Institutional Lenders also agreed to restructure certain loan terms, including grace periods with respect to principal repayments and interest, changes in the life of the loans and changes in the actual interest rates.

The following table summarizes the negotiated terms of the restructured loan agreements of MCSA with the Club Deal Banks and Other Institutional Lenders.

Creditor	Pre- Restructuring Debt (in 000's)	Reduction in Debt (in 000's)	Post- Restructuring Debt (in 000's)	Grace Period (Months) (1)	Annual Interest Rate	Maturity Date	Number of Monthly Installment Payments after Grace Period	Total Time to Pay (Including Grace Period) (Months)	Security/ Guarantees Held
<i>Club Deal Banks</i>		40%							
Banco Itaú	US\$66,718	US\$25,924 <sup>(3)</sup>	US\$40,794 <sup>(4)</sup>	18 to 29 months <sup>(5)(6)(7)</sup>	8.83%	November 15, 2026	91-102 <sup>(7)</sup>	120	Mineral rights of Pilar Mine, Vermelhos Mine and Boa Esperança Property; credit rights arising from copper sales and bank account deposits; pledge of shares of MCSA held by Ero; NX Gold endorsement for the total
Santander Bank	US\$59,082	US\$23,633 <sup>(3)</sup>	US\$35,449 <sup>(4)</sup>		8.83%				
Banco ABC Brasil S.A.	US\$29,912	US\$11,965 <sup>(3)</sup>	US\$17,947 <sup>(4)</sup>		8.83%				
Banco Votorantim	US\$56,128	US\$22,451 <sup>(3)</sup>	US\$33,677 <sup>(4)</sup>		7.50%				

									debt
Banco Safra S.A.	US\$4,377	-	US\$4,377	5 months	7.50%	March 19, 2019	23	28	Unsecured
Banco Fibra S.A.	US\$5,978	-	US\$5,978	12 months	7.50%	January 1, 2020	24	36	Unsecured NX Gold endorsement for the total debt
Banco Pine S.A.	US\$12,130	20%	US\$9,704	18 months	7.50%	November 11, 2026	102	120	Equipment NX Gold endorsement for the total debt
Banco do Brasil	R\$31,403 (US\$9,319) <sup>(2)</sup>	-	R\$31,403 (US\$9,319) <sup>(2)</sup>	24 months	CDI <sup>(8)</sup> + 0.5%	November 15, 2026	96	120	NX Gold endorsement for the total debt
Banco do Nordeste do Brasil S.A.	R\$40,733 (US\$12,088) <sup>(2)</sup>	-	R\$40,733 (US\$12,088) <sup>(2)</sup>	29 months	10% <sup>(9)</sup>	December 29, 2026	91	120	Pilar Mine properties and equipment
<b>Equipment Finance Loans</b>									
Banco ABC Brasil S.A.	R\$1,232 (US\$366) <sup>(2)</sup>	-	R\$1,232 (US\$366) <sup>(2)</sup>			Dates ranging from August 15, 2016 to May 15, 2019	36	36	Financed equipment (as guarantee only)
Banco Safra S.A.	R\$2,207 (US\$655) <sup>(2)</sup>	-	R\$2,207 (US\$655) <sup>(2)</sup>	--	6.00%				Financed equipment (as guarantee only)
<b>TOTAL</b>	<b>US\$256,753</b>		<b>US\$170,354</b>						

**Notes:**

- (1) Grace period commenced on December 2, 2016.
- (2) Based on the exchange rate of Brazilian Real into US dollars of R\$1.00 = US\$0.296 as at December 12, 2016, the date of the Acquisitions and thereby the debts set out in the table.
- (3) Classified as Class B notes.
- (4) Classified as Class A notes.
- (5) Class A notes are repayable over an eight-year period commencing at the later of June 2018 or the date of commercial production of copper concentrate from the Vermelhos Mine (defined as the payment of government royalties associated with the sale of copper concentrate), but in all cases no later than 29 months following the date of signing of the restructured loan agreements (May 29, 2019).
- (6) No interest accrual during grace period for up to 18 months, except for Banco Votorantim, for which interest accrues monthly at a rate of 3% per year.
- (7) Depending on the commencement of production at the Vermelhos Mine.
- (8) CDI: Certificado de Deposito Interbancário, which is the central bank prime interest rate used in the Brazilian Financial Markets.
- (9) The annual interest rate is 10%; however such interest rate is subject to a 25% discount if the interest payments are made on their due dates.

Pursuant to the loan agreements entered into with the Club Deal Banks and the Other Institutional Lenders, each of MCSA and NX Gold is subject to standard industry restrictions and covenants, as well as numerous other requirements, including but not limited to: (i) to the extent that the Company enters into any transactions with related entities, ensure that such transactions are on an arm's length basis; (ii) report all actions and proceedings that may affect MCSA or NX Gold whenever the individual value of such action exceeds R\$3 million or the aggregate amount of such actions and proceedings exceeds R\$10 million; (iii) refrain from granting or paying loans to related entities; (iv) refrain from transferring or assigning the rights and obligations arising from the loan documents; (v) refrain from disposing of or transferring any assets in the individual or aggregate amount of R\$2 million, except for the mineral rights associated with the Boa Esperança Property or other mineral rights acquired by MCSA or NX Gold; (vi) refrain from constituting any new encumbrances in relation to assets and rights owned by MCSA or NX Gold, except in relation to guarantees related to judicial or administrative proceedings or guarantees provided under new credit facilities intended for the acquisition of equipment; (vii) refrain from making payment of any financial debt in conditions other than those originally agreed upon with any third parties, except if more favourable to MCSA

or NX Gold; (viii) refrain from distributing dividends and interest on net equity or any other resource to the shareholders of MCSA, until 2/3 of Class A notes of each of the Club Deal Bank loans has been repaid; and (ix) ensure that the ratio between the net debt of MCSA and its earnings before interest, tax, depreciation and amortization shall be lower than or equal to (a) 9x in relation to year 2019; (b) 5x in relation to year 2020; (c) 3x in relation to year 2021; and (d) 2x in relation to year 2022. As at the date of this prospectus, MCSA and NX Gold are in compliance with all applicable restrictions and covenants under the loan agreements entered into with the Club Deal Banks and the Other Institutional Lenders.

MCSA's loan agreements with the Club Deal Banks allow for early payment of debt upon prior written consent from each Club Deal Bank. In addition, in the event that MCSA sells the mineral rights associated with the Boa Esperança Property, 50% of the sales proceeds shall be used to liquidate the loans in advance (in whole or in part). MCSA's loan agreements with Banco Safra S.A. and Banco de Nordeste do Brasil S.A. also allow for early payment of debt.

Following withdrawal from Judicial Reorganization, NX Gold continues to guarantee the debt owed by MCSA to the Club Deal Banks.

The Company is engaged in ongoing discussions with the Club Deal Banks and Other Institutional Lenders, which may lead to future restructuring of its existing debt owing to such parties and the reduction thereof.

In anticipation of the Acquisitions (including the related arrangements with the Club Deal Banks and the Other Institutional Lenders), the Company completed a private placement offering of Founder Units on September 2, 2016, for aggregate gross proceeds of US\$100,000, a private placement offering of Subscription Receipts on September 8, 2016, for aggregate gross proceeds of US\$18,400,000, and the Brasil Plural and Spectra Offering on December 28, 2016, for aggregate gross proceeds of approximately US\$8,949,089. See "Prior Sales".

Since the Acquisitions, on June 14, 2017, the Company increased its ownership interest in MCSA to approximately 99.5% by purchasing shares issued from treasury for US\$34.3 million in connection with multiple capital call transactions.

On August 18, 2017, the Company, MCSA and NX Gold effected a capital increase transaction of NX Gold pursuant to the NX Gold Investment Agreement. Such capital increase transaction involved MCSA, through Tugalla's and Branford's subscription rights assigned to it under the NX Gold Investment Agreement, subscribing for R\$19.4 million of common shares of NX Gold in exchange for partial repayment and forgiveness of an intercompany loan provided to NX Gold by MCSA. As a result of such transaction, Ero's direct interest in NX Gold was diluted to approximately 1% and its indirect interest in NX Gold, through MCSA, was increased to approximately 96.6%.

## Business of the Company

### Principal Products and Operations

The Company's principal product is copper produced and sold from the Vale do Curaçá Property, with gold and silver produced and sold as by-products from the Vale do Curaçá Property. Gold and, as a by-product, silver are also produced and sold from the NX Gold Property. From 1979 to 2016, the operations of the Vale do Curaçá Property have produced approximately 2.9 million tonnes of copper concentrate containing approximately 982,000 tonnes of copper. For the six-month period ended June 30, 2017, the operations of the Vale do Curaçá Property processed 777,956 tonnes of material, producing 9,006 tonnes of copper. The following table summarizes MCSA's production for the years ended December 31, 2016 and 2015 from the Vale do Curaçá Property:

	Year Ended December 31, 2016	Year Ended December 31, 2015
Operating Information		
<b>Copper (MCSA Operations)</b>		
Ore Processed (tonnes)	826,759	2,836,528
Grade (% Cu)	0.7%	1.1%
Cu Production (tonnes)	4,895	27,046
Cu Production (lbs)	10,791,615	59,597,492
Concentrate Grade (% Cu)	34.1%	30.2%
Recovery (%)	83.5%	86.0%
Concentrate Sales (tonnes)	14,355	89,419
Cu Sold in Concentrate (tonnes)	4,895	27,033

During the year ended December 31, 2016, MCSA generated net operating revenue of US\$27.1 million (based on the average annual exchange rate for Brazilian Real into US dollars of R\$1.00 = US\$0.2888). Such amount was significantly less than in previous years, as MCSA's operations were halted due to an anomalous flood event and the Judicial Reorganization proceedings. The following table summarizes the gross revenue of the Company for the six months ended June 30, 2017 and of MCSA for the years ended December 31, 2016, 2015 and 2014 based on information set out in the financial statements of the Company and MCSA included in this prospectus. Tabular amounts are in thousands of US dollars:

	<b>Six Months Ended June 30, 2017<sup>(1)</sup></b>	<b>Year Ended December 31, 2016<sup>(2)</sup></b>	<b>Year Ended December 31, 2015<sup>(3)</sup></b>	<b>Year Ended December 31, 2014<sup>(4)</sup></b>
	<b>(US\$000s)</b>	<b>(US\$000s)</b>	<b>(US\$000s)</b>	<b>(US\$000s)</b>
<b>Gross Revenues:</b>				
Copper concentrate	49,380	26,010	133,245	178,663
Copper cathode	-	-	-	6,222
Copper forwards	-	3,210	9,569	4,734
Gold and silver	-	-	-	6,374
	<b>49,380</b>	<b>29,220</b>	<b>142,814</b>	<b>195,993</b>
Less: Tax on Sales	(4,713)	(2,086)	(19,456)	(23,757)
<b>Net Operating Revenue</b>	<b>44,667</b>	<b>27,134</b>	<b>123,358</b>	<b>172,236</b>

**Notes:**

- (1) Based on the average six month exchange rate for Brazilian Real to US dollars for the six month period ended June 30, 2017 of R\$1.00 = US\$0.3147.
- (2) Based on the average annual exchange rate for Brazilian Real to US dollars for 2016 of R\$1.00 = US\$0.2888.
- (3) Based on the average annual exchange rate for Brazilian Real to US dollars for 2015 of R\$1.00 = US\$0.3037.
- (4) Based on the average annual exchange rate for Brazilian Real to US dollars for 2014 of R\$1.00 = US\$0.4259.

MCSA currently sells all of its final copper concentrate to the Paranapanema Company. The Paranapanema Company smelts this copper concentrate for sale at its smelter located in Dias D'Ávila, Bahia State, Brazil. As an alternative, MCSA may ship its final copper concentrate for sale to international markets via Salvador's port located in Salvador, Bahia State, Brazil. All concentrate is transported by road using standard highway trucks, which are weighed and sampled for final assay prior to shipping.

***Competitive Conditions***

The Company's primary business is to produce and sell copper. Prices are determined by world markets over which the Company has no influence or control. Ero's competitive position is primarily determined by its costs compared to other producers throughout the world and its ability to maintain its financial integrity through metal price cycles. Costs are governed to a large extent by the grade, nature and location of the Company's Mineral Reserves as well as by input costs and the level of operating and management skill employed in the production process. In contrast with diversified mining companies, the Company primarily focuses on copper production, development and exploration, and is therefore subject to unique competitive advantages and disadvantages related to the price of copper and, to a lesser extent, the price of its metal by-products. If copper prices increase, the Company will be in a relatively stronger competitive position than diversified mining companies that produce, develop and explore for other minerals in addition to copper. Conversely, if copper prices decrease, the Company will be at a competitive disadvantage to diversified mining companies.

The mining industry is competitive, particularly in the acquisition of additional Mineral Reserves and Mineral Resources in all phases of operation, and the Company competes with many companies possessing similar or greater financial and technical resources. The Company also competes with other mining companies and other third parties over sourcing raw materials, equipment and supplies in connection with its production, development and exploration operations, as well as for skilled and experienced personnel and transportation capacity. See "*Risk Factors – Risks Related to the Company - The mining industry is intensely competitive*".

## ***Metal Prices***

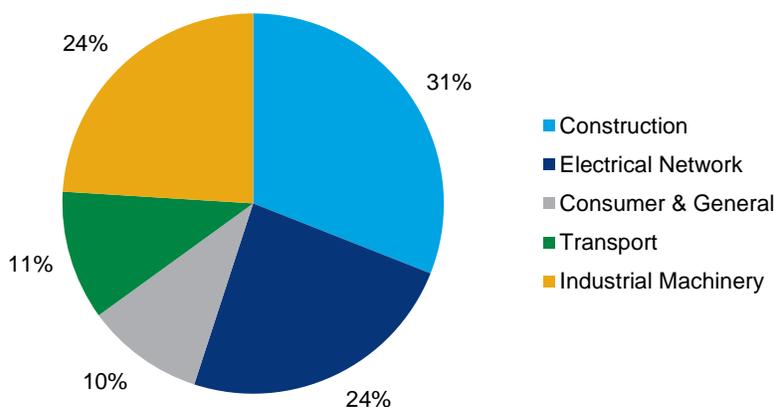
The Company's financial flexibility is highly dependent on the prevailing prices for the commodities it produces. While the Company's overall strategy is to remain unhedged, circumstances may arise where increased certainty of cash flows is considered more important to long term value creation than providing investors with short term exposure to the volatility of metal prices. In these circumstances, the Company may elect to fix prices within a contractual quotational period or to lock in future prices through the variety of financial derivative instruments available.

## ***Copper Mining Industry***

### *Uses of Copper*

Copper has a number of different applications; its most common use is in wiring and cable products, such as power cables, building wiring and transformer windings. Copper is the ideal material for these products because it is the best non-precious metal electric conductor, making it both functional and affordable. Copper is used across many industries, principally construction, electric and electronic products, industrial machinery, transportation and consumer products. Outside of wire and cable products, the next largest use of copper is in copper tubing. Copper tubing has a number of different applications, which include plumbing, heating systems and air conditioners/refrigeration units. Copper is also vital to the transportation industry.

**2016 Global Copper Consumption by Market Sector**

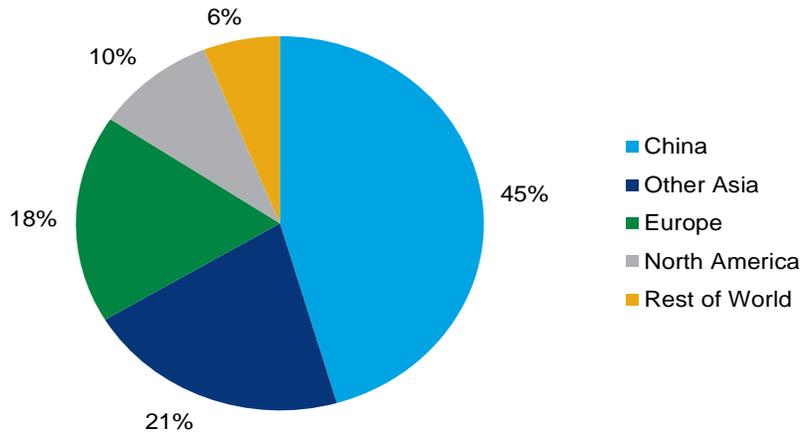


Source: Wood Mackenzie (Global Copper long-term outlook Q1 2017)

### *Demand*

Demand for copper over the past 15 to 20 years has been robust, primarily driven by emerging market growth particularly in Asia and increasingly dominated by a rapid rise in consumption in China, which now makes up nearly 50% of annual global copper demand. China's consumption growth is anticipated to be sustained through a transition to a "new normal" as the country continues to experience urbanization and an expanding middle class, buoyed by massive government economic stimulus packages on infrastructure and transportation (domestic electrical grid, rail, road) including the "One Belt One Road" initiative (development strategy focused on connectivity and cooperation between Eurasian countries).

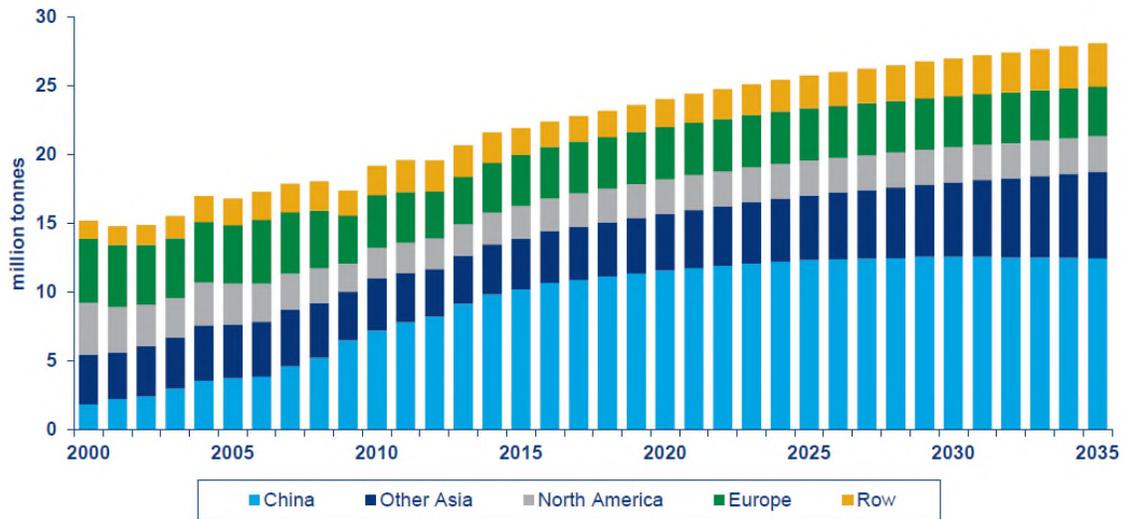
**2016 Copper Consumption by Region**  
Including Direct Use of Scrap



Source: Wood Mackenzie (Global Copper long-term outlook Q1 2017)

Wood Mackenzie anticipates copper demand growth to continue at a rate of 1.2% to 1.8% per annum over the next decade, primarily driven by continued growth from China and other emerging markets in Asia.

**Global Refined Copper Consumption by Region**  
Millions of Tonnes



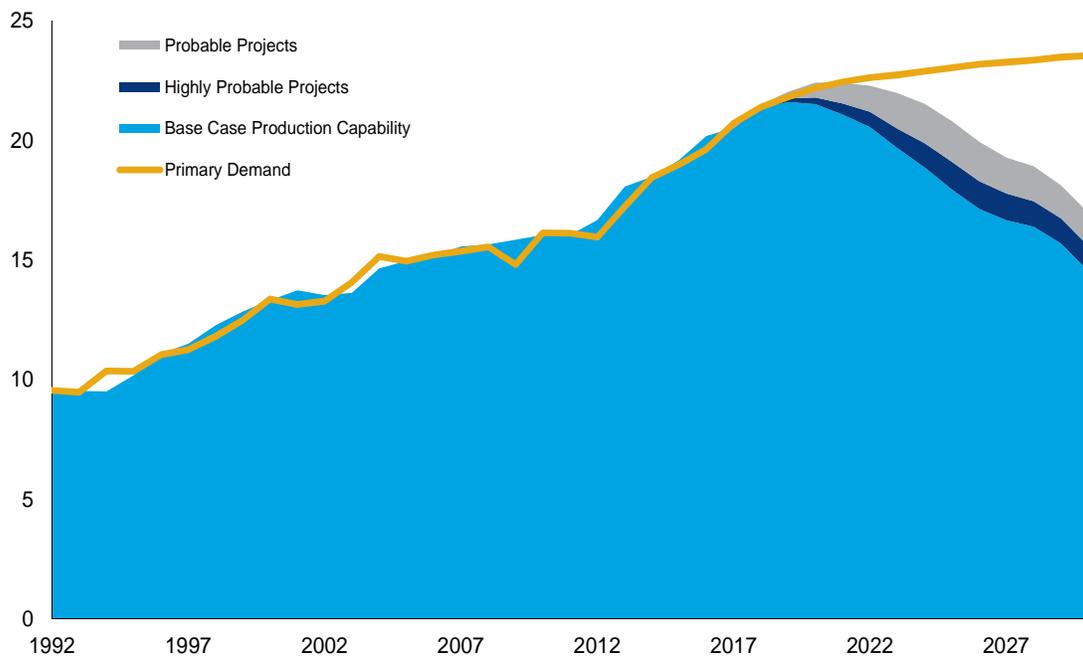
Source: Wood Mackenzie (Global Copper long-term outlook Q1 2017)

Furthermore, the ongoing global EV revolution has very positive implications for future copper demand. An increasing number of automotive manufacturers are now accelerating their investment into EV technologies as governments mandate increasingly ambitious emission targets and restrictive policies, exemplified recently by British and French governments banning sales of new petrol and diesel autos by 2040 and additional nations signing on to the Electric Vehicle Initiative (which sets out a goal for 30% EV market share for passenger cars, light commercial vehicles, buses and trucks by 2030). These targets can only be achieved with a move away from the internal combustion engine and a rapid increase in the production of EVs. EVs use considerably more copper than traditional internal combustion engine vehicles, as copper is used in batteries, motors, inverters and charging points. It is estimated that an EV requires approximately 60 to 85 kg of copper per passenger vehicle plus an additional amount for the charging point, compared to an average total of approximately 25 kg for a traditional passenger vehicle produced today (Source: International Copper Association, June 2017).

## Supply

Slower copper supply growth is anticipated over the medium term. Lower copper prices over the past five years resulted in a stagnant investment environment, forcing producers to focus on financial health and profitability over growth. Supply constraints were further exacerbated by grade declines and supply disruptions at existing operations, technical challenges at projects in development and historically low exploration budgets resulting in limited success in finding sizeable new discoveries. Over the medium to long-term, currently anticipated new copper mine supply will be barely sufficient to replace maturing operations. Furthermore, new mine supply is not guaranteed as most projects remain subject to permitting, engineering or require higher metal prices to justify development economics.

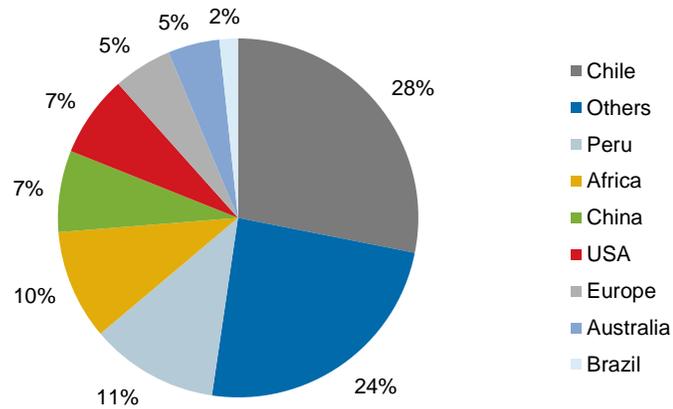
**Global Copper Mine Supply**  
Millions of Tonnes of Copper Produced



Source: Wood Mackenzie (Global Copper long-term outlook Q1 2017)

Chile is by far the largest primary producer of copper. Over the last two decades, Chile has significantly increased copper mine production and has defined itself as the leading copper producing country. Peru and the United States have historically been the second and third largest primary producers of copper, respectively. However, Chinese mine production surpassed that of the United States in 2010. Brazilian copper mine production accounted for approximately 2% of global copper mine production in 2016.

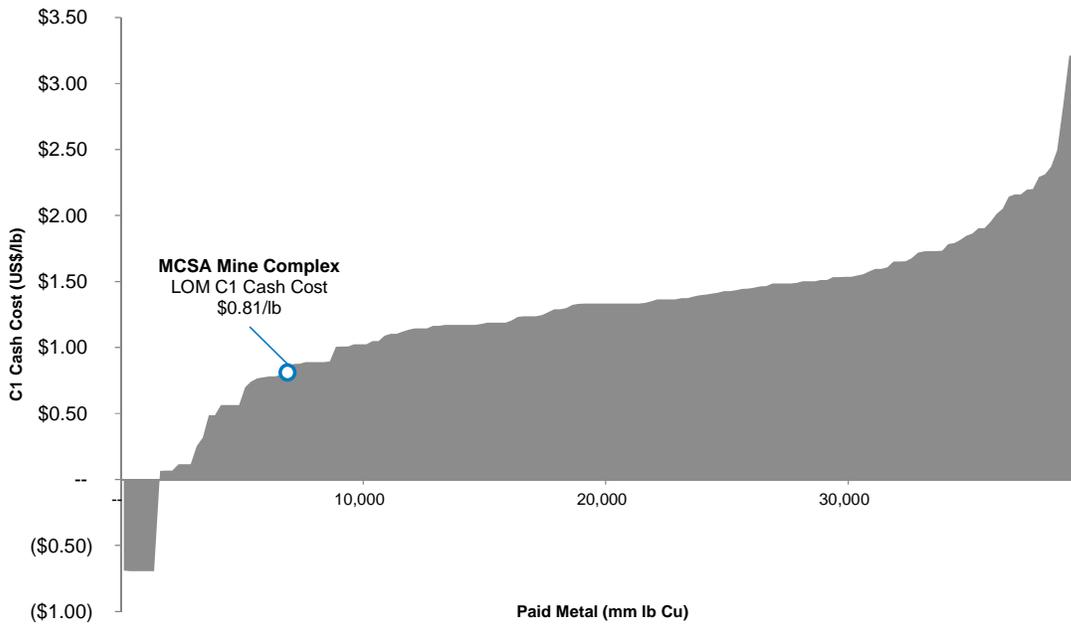
### Global 2016 Mine Production by Geography



Source: Wood Mackenzie (Global Copper long-term outlook Q1 2017)

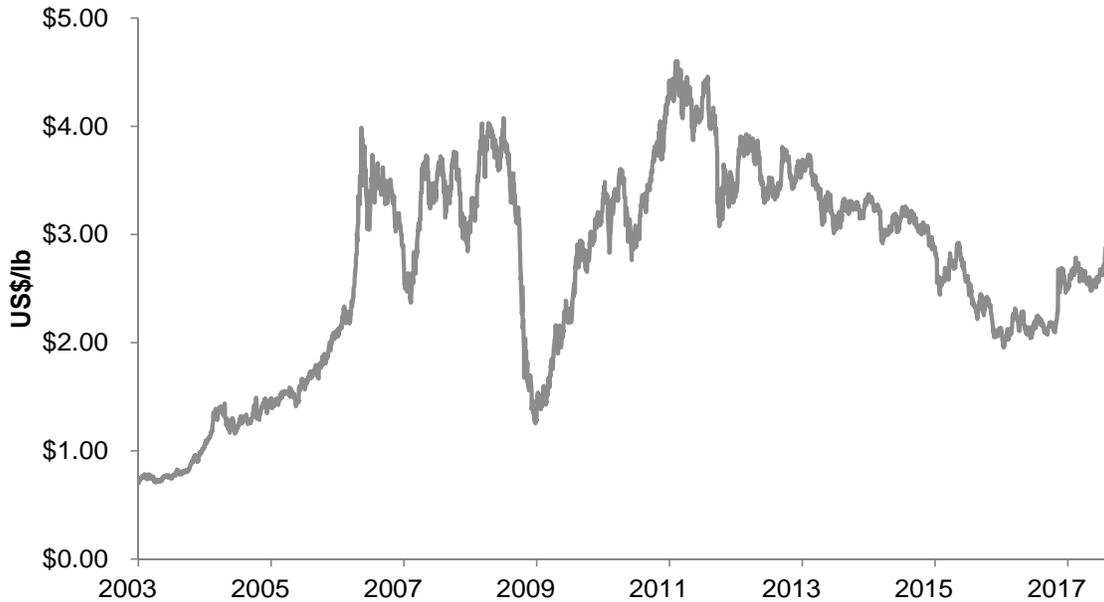
According to Wood Mackenzie, industry cash costs improved in 2015 and 2016 with currency movements as the major contributor to the decline. The diagram below shows the projected 2017 copper industry cash cost curve:

### 2017E Copper Mine C1 Cash Cost Curve



Source: Wood Mackenzie (Dataset from Q2 2017)

**Historical Copper Price Performance (2003 to Present)**  
**US\$ per pound (London Metal Exchange)**



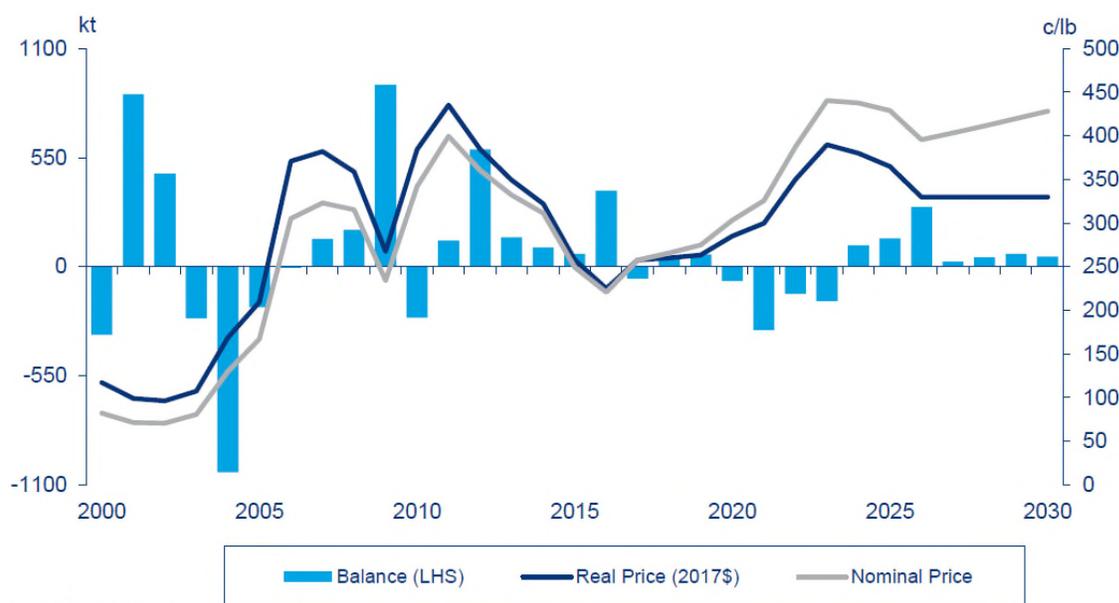
Source: FactSet

*Outlook*

Wood Mackenzie is forecasting global refined copper demand to grow by 1.8% per annum from 2016 to 2021. In the longer term, from 2016 to 2035, it is anticipated that global refined copper consumption will grow by 1.2% per annum. Base case copper supply, before disruptions, is expected to grow until 2020 and decline beyond 2020 unless new supply enters the market. Due to the long lead time required to bring new mines into production it is estimated that the supply gap will reach approximately 4.4 million tonnes by 2027.

The price of copper has recovered recently from a five year low of US\$1.96/lb experienced at the beginning of 2016 to over US\$3.00/lb in the last month. Wood Mackenzie estimates copper prices to average approximately US\$3.45/lb (in 2017 dollars) from 2020 to 2025 and average approximately US\$3.30/lb (in 2017 dollars) from 2026 to 2035.

**Global Copper Balances & LME Copper Price**  
Surplus/ (deficit) in thousand tonnes and price in US\$



Source: Wood Mackenzie

Source: Wood Mackenzie (Global Copper long-term outlook Q1 2017)

***Specialized Skills and Knowledge***

The nature of the Company’s business requires specialized skills, knowledge and technical expertise in the areas of geology, engineering, mine planning, mine operations, metallurgical processing, and environmental compliance. In addition to the specialized skills listed above, the Company also relies on staff members, contractors and consultants with specialized knowledge of logistics and operations in Brazil and local community relations. In order to attract and retain personnel with the specialized skills and knowledge required for the Company’s operations, the Company maintains competitive remuneration and compensation packages. To date, the Company has been able to meet its staffing requirements.

***Employees***

The Company and its subsidiaries employed a total of 1,519 employees (consisting of 1,253 employees of MCSA, 263 employees of NX Gold and 3 employees of Mineração Boa Esperança S/A) and 273 contractors (consisting of 1 contractor of the Company, 132 contractors of MCSA, 137 contractors of NX Gold and 3 contractors of Mineração Boa Esperança S/A) as at December 31, 2016, and 1,467 employees (consisting of 9 employees of the Company, 1,194 employees of MCSA, 259 employees of NX Gold and 5 employees of Mineração Boa Esperança S/A) and 719 contractors (consisting of 586 contractors of MCSA and 133 contractors of NX Gold) as at June 30, 2017. Each of MCSA and NX Gold are parties to collective bargaining agreements which were entered into in the ordinary course of business.

***Foreign Operations***

Ero’s material properties are the Vale do Curaçá Property and the Boa Esperança Property, both located in Brazil. The NX Gold Property is also located in Brazil. Foreign operations accounted for approximately 100% of the Company’s revenue and represented approximately 98.6% of its assets as at June 30, 2017. Accordingly, the Company is entirely dependent on its foreign operations for the exploration and development of copper properties and for production of copper.

Brazil is a mining-friendly jurisdiction with a long history of mining and an experienced labour force. Brazil is a member of the Multilateral Investment Guarantee Agency and was ranked among the top 10 most attractive countries in Latin America for mining investment by the Fraser Institute’s 2016 Annual Survey of Mining Companies. Approximately 95% of the Company’s operating costs are denominated in Brazilian Reais, which positions the Company favourably given the recent strengthening of the US dollar relative to the Brazilian Real. As at the date of this prospectus, the Company has not hedged its exposure to Brazilian Real/US dollar exchange rate fluctuations, or any other exchange rate fluctuations applicable to its

business, and is therefore exposed to currency fluctuation risks. See “*Risk Factors – Risks Related to the Company – Currency fluctuations can result in unanticipated losses*”. The Company’s operations are subject to Brazilian regulations pertaining to environmental protection, the use and development of mineral properties and the acquisition or use of rural properties by foreign investors or Brazilian companies under foreign control and various other Brazilian regulatory frameworks. See “–*Regulations*” below.

#### *Corporate Structure Controls*

The risks of the corporate structure of the Company and its subsidiaries are risks that are typical and inherent for issuers who have material assets and property interests held indirectly through foreign subsidiaries and located in foreign jurisdictions. As a result, the Company’s business and operations are exposed to various levels of political, economic and other risks and uncertainties associated with operating in a foreign jurisdiction such as difference in laws, business cultures and practices, banking systems and internal control over financial reporting. For a description of risks associated with the Company’s operations in Brazil, please see “*Risk Factors – Risks Related to the Company’s Foreign Operations*”.

Such risks are mitigated by the Board exercising control over the entire corporate structure by having two of its members appointed to the boards of directors of the Company’s subsidiaries, by the use of local experts (legal, accounting, tax and directors), by maintaining local bank accounts with “as needed cash balances” with accredited banking institutions and exercising controls over the use of cash, performing regular reviews of the consolidated books and records at the Company’s head office and frequent personal inspection and visits to the offices and project locations of the foreign subsidiaries by the Company’s key management on a regular basis.

Management of the Company has control over MCSA, its subsidiary that holds the Vale do Curaçá Property and the Boa Esperança Property, as well as NX Gold. Therefore, the management of the Company: (i) through Ero’s shareholding of MCSA and NX Gold, can impact the appointment and dismissal of MCSA’s or NX Gold’s directors and officers; (ii) can effectively instruct MCSA’s and NX Gold’s directors and officers to pursue the Company’s business activities; and (iii) has legal rights, through Ero as a direct or indirect shareholder, as applicable, to require the directors and officers of MCSA and NX Gold to comply with their fiduciary obligations and can also enforce such rights by way of shareholder remedies available to it. As a result, senior management of the Company can effectively align the Company’s business objectives and effect the implementation of same at the level of MCSA and NX Gold.

The Company has the ability to remove and appoint directors and officers in MCSA and NX Gold by the signing and filing of Board resolutions related thereto with the respective company registry. The Board, through its corporate governance practices, regularly receives management and technical updates and progress reports in connection with MCSA, the Vale do Curaçá Property and the Boa Esperança Property, and NX Gold, and in so doing, is able to maintain effective oversight of the operations and project development activities of MCSA and NX Gold. The opening and closing of bank accounts of MCSA and NX Gold is controlled and approved by the Company’s Chief Financial Officer. Subject to certain contractual limitations set out in the agreements with the Club Deal Banks, the Board is able to cause MCSA and NX Gold to transfer funds and accomplish the various operating aspects of the business by way of its ability to exert effective control over each such entity as discussed above. No money can transfer without at least one senior officer of the Company approving, be it the Executive Chairman, President and Chief Executive Officer or the Chief Financial Officer. All of the minute books and corporate records and documents of MCSA and NX Gold are filed with Banco Itaú, an independent third party. The Board is not restricted in accessing minute books and corporate records and documents of MCSA and NX Gold as they are also filed in duplicate at the Company’s head office in Vancouver.

#### *Management Experience in Brazil*

The Company has been conducting business in Brazil since the consummation of the Acquisitions. The majority of the Company’s officers have experience conducting business in markets across Central and South America. Moreover, the Company’s officers frequently review relevant materials created by its Brazilian legal counsel and communicate with Brazilian legal counsel, the officers of MCSA and NX Gold, and local consulting staff whereby they are apprised of new developments in the legal regime and new requirements that come into force from time to time such that management is kept aware of relevant material developments in Brazil as they pertain to and affect the Company’s business and operations. Any material developments are to be discussed with the directors at the Board level. Additionally, directors and officers of the Company will attend seminars and presentations from time to time provided by legal and accounting firms on developments in Brazil. The directors and officers also work closely with the Company’s Brazilian counsel, the officers of MCSA and NX Gold and local consulting staff to understand and subsequently adjust firm strategies and practices in connection with changes in Brazilian laws and regulatory regimes.

### *Operations in Brazil*

Certain of the directors and officers visit Brazil on a regular basis in order to ensure effective control and management of the operations of MCSA and NX Gold and as a result come into contact with other employees, personnel, business persons and customers who are locals in Brazil, which enable them to enhance their knowledge on these fronts. The Company relies on the expertise and advice of Brazilian counsel in conducting its business operations in accordance with local business culture and practices. In addition, the Company hires and engages local experts and professionals (i.e. legal, accounting and tax consultants) to advise the Company with respect to current and new regulations in respect of banking, financial and tax matters in Brazil. The Company utilizes and will continue to utilize large, established and well recognized financial institutions in both Canada and Brazil. The fact that the Company, MCSA and NX Gold have some common directors and officers also facilitates knowledge sharing in these areas.

The Company also arranges for meetings with local management, the Company's consultants and vendors, and other local officials and service providers, as deemed appropriate. Since the Acquisitions, each of the Company's six directors has visited the Vale do Curaçá Property, and attended corporate presentations outlining the Company's local activities, operations and applicable laws, among other matters. In addition, as at the date hereof, a majority of the Company's officers have visited the Vale do Curaçá Property in Brazil. The Board will hold at least two meetings in Brazil each year and the Company's officers will visit the Company's operations at least annually, and in some cases multiple times per year, as operations and their respective responsibilities require. Additional visits by directors will also occur on an as needed basis.

### *Business Language in Brazil*

The business language in Brazil is English and Portuguese. Brazilian counsel and the officers of each of MCSA and NX Gold are fluent in Portuguese and English. It is intended that any additional advisors to the Company in Brazil will be fluent in English. The primary language used in meetings of management and the Board is English. Material documents relating to the Company that are provided to the Board are in English. To the extent that any original documentation is in Portuguese, Brazilian counsel or the respective officers of MCSA and NX Gold or other consultants located in Brazil assist with any translation needs. The Company does not currently have a formal communication plan or policy in place and has not to date, experienced any communication-related issues. The Company has not experienced and does not anticipate experiencing communication related issues in connection with its operations in Brazil. Numerous service providers and consultants under the Company's employ are fluent in Portuguese and English and assist the Company as required. The Company will, from time to time, re-evaluate whether a formal communication policy is necessary.

### *Internal Control Over Financial Reporting*

The Company maintains internal control over financial reporting with respect to its Brazilian operations by taking various measures. Differences in banking systems and controls between Canada and Brazil are addressed by having controls over cash in both locations; particularly over access to cash, cash disbursements, appropriate authorization levels, and performing and reviewing bank reconciliations on a monthly and quarterly basis. Cash balances are provided weekly to the Company's management in Vancouver, Canada. The Chief Financial Officer of the Company reviews and approves the financial statements of MCSA on a monthly basis.

MCSA maintains various cash and investment accounts with Brazilian banks and has extensive finance and treasury functions, based in Brazil, under the direction of MCSA's Finance Director. Payments to Brazilian creditors are reviewed and approved by the Finance Director of MCSA, who has the appropriate level of approval authority. All expenditures that are unbudgeted or outside the normal course of business are referred to the Company's management in Vancouver for approval and/or payment.

The difference in cultures and practices between the two countries is addressed by employing competent staff in both countries who are familiar with the local laws, business culture and standard practices, have local language proficiency, are experienced in working in the respective jurisdictions and dealing with the respective government authorities, and have experience and knowledge of the local banking systems and treasury requirements. The flow of funds between Canada and Brazil functions as intended by appointing common directors and officers as between each of MCSA and NX Gold, and the Company, involving the Company's Chief Financial Officer, located in Vancouver, key finance personnel in Brazil, closely monitoring the Brazilian finance department, and by the Chief Financial Officer or others from the senior management team of the Company carrying out personal visits to Brazil on a regular basis. The Company documents and assesses the design of internal controls over financial reporting on an annual basis. Furthermore, key controls for the accounts in scope are tested

across the Company on an annual basis. This process is undertaken by the Company's Chief Financial Officer in conjunction with MCSA's Finance Director.

### **Regulations**

Mining legislation as it relates to the mineral title process in Brazil has been under review for several years with the stated goal of introducing new legislation through the Brazilian Congress. Debate amongst the Brazilian regulatory agencies regarding the new mining legislation has extended what was intended to be an expedited process. As at the effective date of the Vale do Curaçá Technical Report and the Boa Esperança Technical Report, the final version of the new legislation remained unknown and had not been published or enacted. Subsequent to the effective date of the Vale do Curaçá Technical Report and the Boa Esperança Technical Report, on July 26, 2017, the new mining legislation came into effect in the form of three orders issued by the President of the Republic with immediate effect (collectively, the "**Provisional Measures**"). The first Provisional Measure (MP 789) altered, among other aspects (including a broader definition of processing), the method to calculate the base value of CFEM from net income to gross income, and changed applicable rates to different minerals. However, the rate for copper was not changed and remains at 2%. The second Provisional Measure (MP 790) amended around 30 provisions of the Brazilian Mining Code seeking to modernize and address regulatory inconsistencies, including by increasing the exploration term to a minimum of two years and a maximum of four years (renewable for an equal period), and by allowing a holder of an Exploration License to continue exploration activities after submission of the Final Exploration Report. Finally, the third Provisional Measure (MP 791) created the ANM (which is still to be implemented) to replace the DNPM. Provisional measures are executive orders with immediate effect, but that need to be reviewed by the Brazilian Congress within 120 days. The Brazilian Congress can approve, amend or reject each of the Provisional Measures. A variety of stakeholders in the Brazilian mining industry have submitted over 490 amendment proposals to the Provisional Measures.

### *Environmental Protection*

The Company's exploration, development and mining activities are subject to various levels of federal, state and local laws and regulations relating to the protection of the environment, including requirements for closure and reclamation of mining properties. Specific statutory and regulatory requirements and standards must be met throughout the exploration, development and mining stage of a property with regard to air quality, water quality, fisheries, wildlife and forestry management and protection, solid and hazardous waste management and disposal, noise, land use and reclamation. The financial and operating effect of environmental protection requirements on the capital expenditures and earnings of each mineral property are not significantly different than those of similar sized mines and therefore do not and will not impact the Company's competitive position in the current or future financial years.

Under the Brazilian Environmental Policy Act Law No. 6938/81, certain environmental licenses must be secured prior to the construction, installation, expansion and operation of facilities that use natural resources or that may pollute the environment, including those related to mining activities, and are subject to the preparation of environmental impact assessment studies and reports. According to Resolution CONAMA No. 237/97 and Complementary Law No. 140/2011, the environmental licensing for a mining project is commonly handled by the state in Brazil where the project is located. There are three types of licenses: (i) preliminary license (Licença Prévia) (a "**Preliminary License**"), which approves the location and design of the project and must be obtained in the early stages of the project or activity to certify its environmental feasibility; (ii) installation license (Licença de Instalação) (an "**Installation License**"), which authorizes the installation of the project or activity in accordance with the specifications set forth in approved plans, programs and projects; and (iii) operation license (Licença de Operação) (an "**Operation License**"), which authorizes commencement of operations once the conditions for compliance with the Preliminary and Installation Licenses are met, and may impose additional conditions applicable to the project's operations.

It is by means of the above-mentioned licensing procedure that the issuing agency determines the conditions, limits and measures for the control and use of natural resources and allows the installation and implementation of a mining project. Depending on the nature of the operation, licenses are required to be issued by federal, state or municipal agencies. Federal entities are responsible for licensing activities that may cause national or regional environmental impacts (where more than one federal state is affected). State entities, including the Federal District, are responsible for the environmental licensing of potentially polluting activities. Municipal entities are responsible for licensing activities that may cause local environmental impacts, as defined by the state environmental agency.

Please see "*Vale Do Curaçá Property – Environmental, Permitting, and Social or Community Impact – Status of MCSA Environmental Permits and Licenses*" and "*Boa Esperança Property – Infrastructure, Permitting and Compliance Activities – Mining Rights Status, Permitting and Environmental Management*" for additional detail regarding the permits and licenses applicable to the Vale Do Curaçá Property and the Boa Esperança Property.

In addition, environmental regulations affecting the Company's operations relate to, among other matters, emissions into the air, soil and water, recycling and waste management, tailings dams, protection and preservation of forests, coastlines, caves, watersheds and other features of the ecosystem, water use, climate change, decommissioning and reclamation, interference with areas of cultural and historical relevance and with environmental conservation units ("UCs"), or surrounding areas, permanent preservation areas ("APPs"), and contaminated areas. Environmental legislation is becoming stricter worldwide, including Brazil, which could lead to greater costs for environmental compliance.

Also, under certain circumstances, Brazil's environmental laws require environmental compensation for potentially polluting activities, such as mining, to apply a percentage of the total cost of the relevant project (as defined by the relevant environmental agency) to the creation and maintenance of UCs.

Pursuant to the Brazilian Forestry Code Law No. 12651/12, the total or partial destruction of vegetation in APPs, which are areas of importance for environmental preservation, must receive prior approval by the relevant environmental agency and be grounded in cases of public interest (*utilidade pública*) or low environmental impact. Mining is included in the cases of public interest. Also, the Brazilian Forestry Code Law No. 12651/12 requires that an area of at least 20% of any rural property be maintained as a reserve. Such percentage may be higher in the Amazon, such as 35% for those properties located in *cerrado* areas, and 80% for properties located in forest areas. The reserved areas must be properly identified in the property records or registered with the National Institute for Colonization and Agrarian Reform ("INCRA") pursuant to the registry known as the Rural Environmental Registry (*Cadastro Ambiental Rural*) and said areas may not be changed.

Additionally, the Company is subject to administrative review of its activities. Companies in violation of administrative environmental regulations can be fined up to R\$50,000,000, have their operations suspended, be barred from entering into certain types of government contracts, be required to repair or provide indemnification in respect of any environmental damages they cause or be subjected to a suspension of tax benefits and incentives, among others.

In Brazil, violating environmental rules or regulations may result in civil, administrative or criminal liability. With respect to civil liability, Brazilian environmental laws adopt a standard of unlimited strict, several and joint liability in determining the obligation to remediate damages caused to the environment. In addition, Brazilian courts may pierce the corporate veil when and if it poses an obstacle to the full recovery of environmental damages.

Brazilian environmental authorities have been adopting an increasingly stringent position in connection with the handling of contaminated areas and the security and stability of tailings dams. Non-compliance with guidelines set by the relevant environmental and health authorities with respect to surveys and analyses of potentially contaminated areas or the exposure of persons to toxic fumes or residues may result in administrative and legal penalties for the developments and their management. Also, non-compliance with requirements on the control of security and stability of tailings dams may expose the Company to administrative, criminal and civil sanctions. Criminal liability includes certain actions or omissions committed with negligence or willful misconduct by individuals or corporations against the environment (such as the destruction of APPs and the total or partial suppression of vegetation without the approval by relevant environmental agencies) which are deemed environmental crimes. Individuals, including directors, officers and managers of legal entities, are subject to penalties that range from fines to imprisonment and legal entities are subject to penalties that can include fines, loss or reduction of incentives, cancellation or interruption of credit facilities by governmental institutions or a shutdown of such entity's plant, among others.

The closure plan for each of the Company's properties will be required to follow the directions provided by the DNPM (which is in the process of being succeeded by the ANM) of the Federal Ministry of Mines and Energy, and as applicable, the environmental licensing authorities, as set out in the plans for each of the Company's properties. The present value of the estimated mine closure costs for the MCSA Mining Complex are R\$75 million as at December 31, 2016.

#### *Use and Development of Mineral Properties*

The legal framework for the development and use of Mineral Resources in Brazil was established by the Brazilian federal constitution, which was enacted on October 5, 1988 (the "**Brazilian Constitution**"). According to the Brazilian Constitution, all Mineral Resources in Brazil are the property of the Federal Union. Mining companies are required to be incorporated under Brazilian law and must have management domiciled within Brazil. The primary mining legislations in Brazil are the 1967 Federal Mining Code Decree-Law No. 227 (the "**Brazilian Mining Code**"), updated in 1996 (Law No. 9314) and in 2017 (MP 790) and parts of the Brazilian Constitution. Mining rights are under the jurisdiction of the Federal Union and mining legislation is enacted at the federal level though the Brazilian Congress.

Mining companies are also subject to various obligations under the Brazilian Constitution, the Brazilian Mining Code and related regulation, including those relating to:

- the exploitation of mineral deposits;
- the construction, operation and maintenance of tailings dams;
- health and safety;
- environmental protection and remediation;
- pollution prevention; and
- the development of local communities.

In general, there are no restrictions to foreign investment in mining companies in Brazil, except for those companies that operate or hold mineral rights in the border area within a 150 km-wide strip of land parallel to Brazilian terrestrial borders, where the government currently requires that the equity interest of such companies be majority Brazilian-owned.

The DNPM (which is in the process of being succeeded by the ANM) is responsible for regulating and implementing the Brazilian Mining Code. The DNPM maintains offices in each state capital. Mineral exploration licenses (each, an “**Exploration License**”) and mining concessions (each, a “**Mining Concession**”) are administered by the DNPM which also monitors exploration, mining, and mineral processing. Exploration Licenses are issued by the DNPM and Mining Concessions are issued by the Ministry of Mines and Energy. To apply for and acquire mineral rights, a company must be incorporated under Brazilian law and have its head office and administration in Brazil. The process of acquiring title to a mineral right is a phased procedure involving progressive steps as exploration and development work on an area advances. Tenure is secured as long as the title holder meets clearly defined obligations over time, but the process of acquiring a Mining Concession can be lengthy.

Mining companies in Brazil may only prospect mineral properties pursuant to Exploration Licenses and mine them pursuant to Mining Concessions, as granted by the DNPM (which is in the process of being succeeded by the ANM) and the Ministry of Mines and Energy, respectively. Brazil currently follows an open access approach to exploration rights, which means that those that first apply for the Exploration License have priority in receiving title to explore and exploit a given area, as long as there are no mineral rights in force associated to the area at stake. In addition, Exploration Licenses can also be obtained through a proceeding similar to a tender (*Availability or Disponibilidade*) in which interested parties submit offers for the respective areas of former mineral rights that lapsed (MP 790 is simplifying this tender proceeding to online auctions).

Exploration Licenses are granted for a maximum period of up to four years, provided that all requirements are met and the area of interest does not overlap with an existing mineral right. The size of an individual license area ranges from 50 ha to 10,000 ha, depending on the state. There is an annual fee on exploration rights to be paid to the Brazilian government. Exploration Licenses can be extended for a second period of up to four years. The renewal of an Exploration License requires that a holder submits an interim report at least 60 days prior to the license term, along with a justification for the extension. The renewal is at the DNPM’s (which is in the process of being succeeded by the ANM) discretion. Subsequent renewals may be granted on an extraordinary basis, for example when a title holder has been unable to access the ground despite having taken all action necessary. Nonetheless, the company that holds the Exploration License may proceed with exploration work after the submission of the final exploration report (the “**Final Exploration Report**”), in order to obtain more information to convert Mineral Resources into Mineral Reserves, which shall be considered for the economic development plan. The Brazilian Congress is in the process of reviewing the amendments introduced to the Brazilian Mining Code by MP 790, and such terms and conditions may change. The Brazilian Congress has until November 2017 to approve, amend or reject MP 790.

Experimental mining authorization can be applied for and is granted by the DNPM (which is in the process of being succeeded by the ANM) for the purpose of establishing Mineral Resources and Mineral Reserves through processing of large scale bulk sampling (by a plant) for example. This is allowed within a specific area of an Exploration License before a Mining Concession is granted. The experimental mining authorization is granted subject to receiving an underlying environmental license to be issued by the relevant environmental agency. The experimental mining authorization is not designed for commercial production purposes and is limited in time and volume of extracted material.

Mining Concessions can be applied for following approval of a Final Exploration Report by the DNPM (which is in the process of being succeeded by the ANM). Such Final Exploration Report must be submitted to the DNPM prior to the final expiry date of the Exploration License. The report must conclude and demonstrate that an economic Mineral Resource has been delineated and measured. A development and mining plan must be presented within one year of approval of the Final Exploration Report (this term may be extended for an additional year). An Installation License (which follows the Preliminary License) needs to be issued by the applicable environmental agency as a prerequisite to the granting of the Mining

Concession. A Mining Concession is granted for a period covering the mine life until the Mineral Reserves of the deposit are exhausted. A Mining Concession does not convey title to a mineral deposit but the concession holder will be the legal owner of all produced metals. Hence, the Mining Concession provides the holder with the right to extract, process, and sell the minerals covered by the Mining Concession and extracted from the deposit in accordance with a plan approved by the DNPM.

Governments (municipal, state and federal) are entitled to royalties ranging from 2% to 4% of gross revenue, depending on the mineral being extracted. With respect to copper ore and gold ore, the holder of a Mining Concession must pay the Brazilian government the CFEM, a federal royalty, which is established at 2.0% of the gross income from the sale thereof. The only deductions that are allowed are taxes levied on the commercialization of the mining product. Prior to the enactment of MP 789, which establishes the royalty and its rates, external transportation costs and related insurance costs could also be deducted for the purposes of calculation of the CFEM. In addition, prior to the enactment of MP 789, the rate for gold was established at 1%. These prior criteria were considered for the preparation of the Vale do Curaçá Technical Report and the Boa Esperança Technical Report. The Brazilian Congress is in the process of reviewing the royalty rates for mining companies, which means that the above-mentioned percentages may change. The Brazilian Congress has until November 2017 to approve, amend or reject MP 789 (which establishes the royalty and its rates). The Company has determined that in their current form, these amendments will not have a significant impact on the Company's business or plans.

In addition, a royalty must be paid to the landowner if the surface rights do not belong to the mining title holder. This royalty amounts to 50% of the CFEM percentage. It is common practice to negotiate a separate compensation agreement that is satisfactory to both parties as this amount may not be sufficient for the landowner; however, the Company does not currently have any such agreements that exceed 50% of the CFEM percentage. Surface rights in Brazil are distinct from mining rights and must be acquired separately. The landowner has no title to the sub-soil or minerals contained therein. The Brazilian Mining Code provides for some form of access to and use of privately held surface rights subject to fair compensation. The holder of an Exploration License and/or a Mining Concession is entitled to use the surface to conduct exploration activities and the holder of a Mining Concession is entitled to use the surface to conduct mining operations, including the construction of facilities required for such operations (as applicable). The access to the land and reclamation of disturbed areas must be negotiated with each individual surface right holder. However, as a general rule the landowners and occupiers are obliged by law to provide access to the Exploration License or Mining Concession holder to enable them to conduct the activities permitted under such mineral tenure. If an agreement cannot be reached by negotiation, there are legal mechanisms in place to allow courts to dictate an arrangement. Surface owners or occupiers are entitled to receive compensation for damages and rent for occupation of the property by the exploration or mining company. See *“Risk Factors – Risks Related to the Company’s Foreign Operations”* and *“Vale do Curaçá Property – Property Description and Location – Mineral Titles”* and *“Boa Esperança Property – Property Description and Location – Mineral Titles.”*

Existing mineral tenure initially issued in the name of Mineração Vale do Curaçá S.A., a former subsidiary of MCSA that merged into MCSA, has been transitioned into the name of MCSA and new mineral tenure applied for by Mineração Vale do Curaçá S.A. will be issued in the name of MCSA.

#### *Acquisition or Use of Rural Properties by Foreign Investors or Brazilian Companies under Foreign Control*

Non-resident individuals and non-domiciled foreign legal entities are subject to restrictions on the acquisition or lease of rural properties in Brazil. Limitations also apply to legal entities domiciled in Brazil and controlled by foreign investors, such as the Company's subsidiaries through which it operates in Brazil. Such limitations are set forth mainly in Law No. 5709/1971 and in Decree No. 74965/1974.

Until 2010, it was interpreted that limitations imposed on the acquisition or lease of rural property did not apply to Brazilian companies under foreign control. However, on August 23, 2010, a new opinion, Opinion CGU/AGU, issued by the General Counsel of the Federal Government Office (CGU/AGU No. 01/2008-RVJ), approved by the General Counsel to the Federal Government and by the Brazilian President, was published in the Official Gazette. Opinion CGU/AGU, based on the principle of Brazilian sovereignty, significantly changed the interpretation of the applicable laws at the time. Accordingly, Brazilian companies that have the majority of their capital stock owned by foreign individuals and legal entities domiciled abroad are deemed “foreign investors” for the purposes of application of the restrictions on the acquisition or lease of rural property in Brazil. The legality of Opinion CGU/AGU has been and is currently being challenged; however, prior challenges to the opinion have been unsuccessful.

Under current rules, a foreign investor or a Brazilian company under foreign control may only acquire or lease rural property in Brazil without breaching Opinion CGU/AGU if certain conditions are met, including approval by INCRA and by the

Ministry of Agriculture (after consulting the relevant federal authorities) or by the Ministry of Industry and Trade (for industrial projects), and others, such as the following:

- foreign entities may only acquire or lease rural properties designed for the implementation of agricultural activities, cattle raising, industrial or colonization projects that are encompassed by their corporate purposes, provided that such projects must be approved by the Ministry of Agriculture, after hearing the competent federal agency in charge of regional development in the relevant area; industrial projects shall be submitted to, and approved by, the Ministry of Industry and Trade;
- the aggregate of the rural areas of property held by foreign legal entities may not exceed 25% of the total surface area of the municipality in which they are located, evidenced by a certificate issued by the Real Estate Registry Office; the acquisition of areas exceeding this limit is subject to prior approval of the President of Brazil;
- foreign legal entities and/or individuals of the same nationality may not own, in each municipality, more than 40% of the limit set forth in the second bullet above (therefore, 10% of the total area of each municipality);
- in the case of rural real estate ranging from three to 100 indefinite exploitation modules (the size of each is variable and defined for each region in Brazil), the approvals mentioned above are required, in addition to approval from the Brazilian Institute of Settlement and Land Reform – INCRA for land registration;
- the acquisition of areas in excess of 100 indefinite exploitation modules will be subject to the prior approval by the Brazilian Congress, in addition to the other approvals mentioned above;
- the acquisition must be formalized by means of a public deed of sale and purchase; and
- the acquisition of rural properties located at the country's border area (a strip of up to 150 km of length along the country's terrestrial borders, which is deemed essential to the defense of Brazilian territory) is subject to the fulfillment of additional requirements, such as the prior authorization by Brazil's National Defense Council.

Any corporate changes, such as mergers or corporate reorganizations, must be carefully considered. Pursuant to the applicable legislation, any agreements regarding the lease and/or direct or indirect ownership of rural properties by foreign individuals or entities, as well as any agreements regarding corporate changes which might imply indirect acquisition or lease of rural properties by foreign individuals or entities, may be considered null and void.

MCSA and NX Gold have not sought INCRA approval prior to the Acquisitions, since the process would be time-consuming, which would have an adverse impact in the Judicial Reorganization, and because the Company understood that the risks of the challenge of the Acquisitions would be low.

#### *Business Permits and Other Requirements*

Requirements for a company carrying out business operations in Brazil through a subsidiary or controlled company include the following:

- Brazilian subsidiaries and their foreign shareholders must be registered with the Central Bank of Brazil (the "BACEN"), and comply with regulations regarding foreign direct investment. In particular, all international transfers of funds or foreign direct investments related to Brazilian subsidiaries must be registered with BACEN. The Company's subsidiaries and their respective shareholders have completed such registrations and are in compliance with such regulations.
- Each Brazilian subsidiary must be registered with the boards of trade of the states in which such subsidiary is incorporated and has a branch office. A board of trade is a governmental authority responsible for the approval, registration, filing and publication of certain corporate information and functions as the Brazilian registry of commerce. MCSA and NX Gold, are registered in the States of Bahia and Mato Grosso, respectively.
- Each Brazilian subsidiary's foreign shareholders must appoint a legal representative, who is resident in Brazil, including to receive service of process and subpoenas. A power of attorney or equivalent document in respect of such appointment must be filed with the board of trade of the state in which a Brazilian subsidiary is incorporated. The document appointing such representative must be apostilled in jurisdictions in which this is possible or certificated by the Brazilian consulate in the foreign shareholder's jurisdiction of residence or incorporation, where apostilling is not permitted, and translated into Portuguese by an official translator. In the case of MCSA and NX Gold, one or more Brazilian residents or foreigners with permanent residence in Brazil has been appointed to act as the legal representative on behalf of the Company.
- Registration with the federal and state tax authorities. In the Company's case, MCSA is registered in the States of Bahia and Pará, and NX Gold is registered in the State of Mato Grosso.

## ***Social and Environmental Policies***

The Company places great emphasis on providing a safe and secure working environment for all of its employees, contractors and consultants, and recognizes the importance of operating in a sustainable manner. The Company has adopted the Code, which sets out the standards which guide the conduct of its business and the behavior of its directors, officers, employees and consultants. All new employees must read, and acknowledge that they will abide by, the Code when hired. The Code, among other things, sets out standards in areas relating to the Company's commitment to health and safety in its business operations and the identification, elimination or control of workplace hazards; promotion and provision of a work environment in which individuals are treated with respect, provided with equal opportunity and is free of all forms of discrimination and abusive and harassing conduct; and ethical business conduct and legal compliance.

The Company has also adopted a Whistleblowing Policy for individuals to report complaints and concerns regarding, among other things, accounting, internal accounting controls and auditing matters. As well, the Company has an Anti-Corruption Policy which requires that directors, officers, employees and consultants of the Company conduct business in a manner that does not contravene local and international anti-bribery and anti-corruption laws that apply to the Company, including the *Criminal Code* (Canada) and *Corruption of Foreign Public Officials Act* (Canada). The Lead Director and the Audit Committee, or a designated member thereof, are responsible for monitoring compliance with this policy and investigating any reported violations, although employees may approach the Company's external legal counsel if preferred for concerns under the Anti-Corruption Policy.

The Board has also established an Environmental, Health, Safety and Sustainability Committee to assist it in fulfilling its oversight responsibilities in respect of development, implementation and monitoring of the Company's health, safety, environment and sustainability policies. In particular, the Environmental, Health, Safety and Sustainability Committee is responsible for, among other things: developing policies and maintaining standards of performance that meet or exceed legal and regulatory requirements and industry standards in the areas of health, safety, and environmental stewardship; identifying risks related to the environment, health and safety and recommending the adoption of appropriate programs and procedures to reduce such risks; and requiring management to take steps to ensure that employees receive necessary training to meet health, safety and environmental standards.

## **VALE DO CURAÇÁ PROPERTY**

The scientific and technical information in this section relating to the Vale do Curaçá Property is derived from, and in some instances is a direct extract from, and based on the assumptions, qualifications and procedures set out in, the Vale do Curaçá Technical Report. Such assumptions, qualifications and procedures are not fully described in this prospectus and the following summary does not purport to be a complete summary of the Vale do Curaçá Technical Report. Reference should be made to the full text of the Vale do Curaçá Technical Report, which will be available for review under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Property Description and Location**

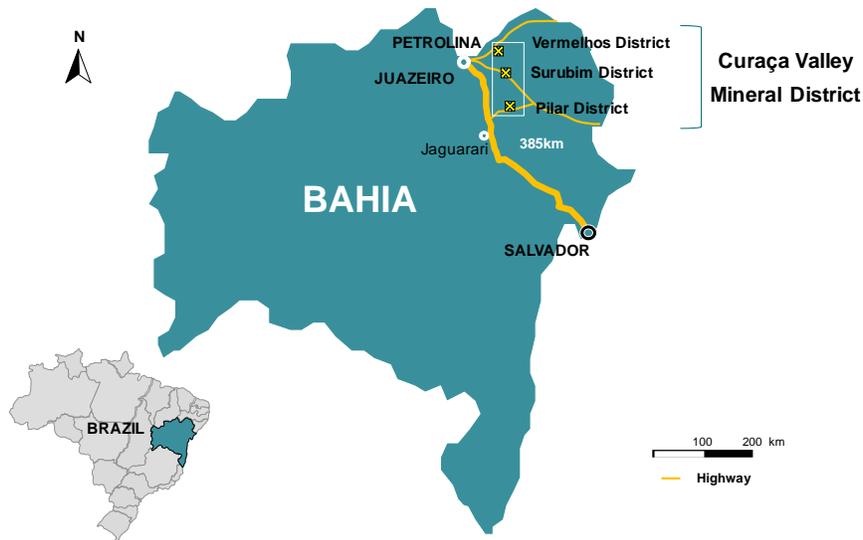
#### ***Property Location***

MCSA has four primary operating and development operations located within the Curaçá Valley in northeastern Bahia State, Brazil: the Caraíba Mine, R22W Mine, the open pit Surubim Mine and the underground Vermelhos Mine currently under construction. The Caraíba Mine, containing the Pilar Mine and the fully integrated Caraíba Mill, and the past producing R22W Mine are located on the same property, approximately 385 km north-northwest of the capital city of Salvador and 90 km southeast of the dual-cities of Petrolina and Juazeiro (combined population of approximately 500,000), State of Pernambuco on the São Francisco River. The Surubim Mine is located 33 km north of the Caraíba Mine and the Vermelhos Mine is located 31 km north-northwest of the Surubim Mine. The Caraíba Mine and R22W Mine are located at 9°52'04"S and 39°52'18"W. The Surubim Mine is located at 9°34'12"S and 39°51'52"W and the Vermelhos Mine is located at 9°18'28"S and 39°56'14"W. Figure 2 illustrates the location of the mining, exploration and development concessions.

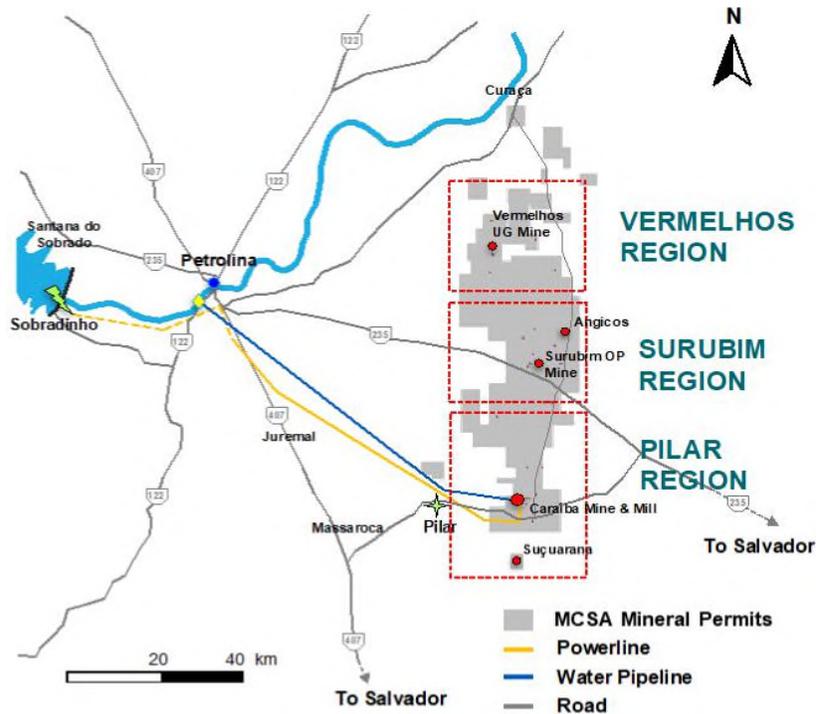
The primary access to the properties is from the Petrolina Airport, featuring daily flights to Salvador and São Paulo, via federal and state highways. From the Petrolina Airport it is approximately 125 km to the main access road of the Caraíba Mine. The nearest town of Pilar (population of approximately 10,000 people) is located approximately 15 km from the mine entrance. The town features two hotels, community centers, a hospital and housing for mine employees and their families. Daily bus service transports employees from Pilar to the mine entrance. The three principal mineral districts contained within

the Curaçá Valley in relation to major cities in Bahia State are shown below in Figure 1 while a more detailed local map is shown in Figure 2.

**Figure 1: Location of the Primary Mineral Districts, MCSA Mining Complex, Bahia State, Brazil**



**Figure 2: Detailed Map of MCSA Mining Complex, Curaçá Valley, Bahia State, Brazil**



\*The Caralba Mine, the Caralba Mill and the R22W Mine are located on the same property.

### ***Mineral Title in Brazil***

Please see “*General Development and Business of the Company – Business of the Company – Regulations*”.

### ***Mining Legislation, Administration and Rights***

MCSA’s operations in the Curaçá Valley are subject to a 2% royalty on gross concentrate sales net of sales costs. In the case of MCSA, sales costs include the transportation and logistics costs associated with shipping concentrate from the concentrate storage facility on site to the local smelter or to the Port of Salvador for export. Following the effective date of the Vale do Curaçá Technical Report, the method for calculating the CFEM royalty changed to 2% of gross concentrate sales net of sales tax. Under the new method for calculating the CFEM royalty, the only deductions that are allowed are taxes levied on the commercialization of the mining product. For additional information regarding Brazilian mining legislation, administration and rights, including the CFEM, see “*General Development and Business of the Company – Business of the Company – Regulations*”.

### ***Exploration Licenses***

Please see “*General Development and Business of the Company – Business of the Company – Regulations – Use and Development of Mineral Properties*” for general information regarding Exploration Licenses.

### ***Annual Fees and Reporting Requirements***

Annual license fees for Exploration Licenses are based on size and are calculated at US\$1.03/ha for the first license term and US\$1.55/ha in subsequent terms. Each license holder must submit an exploration plan, budget and timeline, although there is no work or expenditure requirement. The renewal of an Exploration License requires that a holder submits an interim report at least 60 days prior to the license term, along with a justification for the extension. The DNPM (which is in the process of being succeeded by the ANM) has discretion on deciding on the extension. A Final Exploration Report is due at the end of the term of the Exploration License (or its extension, if applicable).

### ***Mineral Titles***

Mining rights in Brazil are governed by the Brazilian Mining Code. As of the effective date of the Vale do Curaçá Technical Report, MCSA and its wholly owned subsidiaries hold or have applications in process for 73 mineral rights (approximately 110,143 ha) in the Curaçá Valley, shown by type in the following table. These mineral rights encompass the area within the Vale do Curaçá Property that form the basis of the Mineral Resources and Mineral Reserves estimates contained in the Vale do Curaçá Technical Report and where MCSA is currently engaging in exploration, development and mining activities.

ID NUMBER	PERMIT PHASE	AREA (HA)	PERMIT HOLDER	EXPIRATION DATE
871263/2011	Mining	342.21	Mineração Caraiba S.A.	-
873648/2006	Mining	343.62	Mineração Caraiba S.A.	-
812998/1973	Mining	900	Mineração Caraiba S.A.	-
000619/1964	Mining	390.28	Mineração Caraiba S.A.	-
000737/1940	Mining	400	Mineração Caraiba S.A.	-
874450/2007	Application for Mining	966.27	Mineração Caraiba S.A.	-
855815/1996	Application for Mining	4033.81	Mineração Caraiba S.A.	-
872817/2016	Exploration	1136.13	Mineração Caraiba S.A.	4/6/2020
872816/2016	Exploration	1792.04	Mineração Caraiba S.A.	3/2/2020
872555/2016	Exploration	768.64	Mineração Caraiba S.A.	3/2/2020
871834/2016	Exploration	1797.29	Mineração Caraiba S.A.	3/20/2020
871502/2016	Exploration	878.14	Mineração Caraiba S.A.	10/6/2019
871497/2016	Exploration	1800.01	Mineração Caraiba S.A.	10/6/2019
871531/2015	Exploration	385.86	Mineração Caraiba S.A.	12/15/2018
871525/2015	Exploration	76.29	Mineração Caraiba S.A.	12/15/2018
871432/2014	Exploration	1999.99	Mineração Caraiba S.A.	11/7/2017
871431/2014	Exploration	1998.26	Mineração Caraiba S.A.	11/7/2017
871125/2014	Exploration	1212.26	Mineração Caraiba S.A.	10/22/2017
871124/2014	Exploration	1999.23	Mineração Caraiba S.A.	10/22/2017
871123/2014	Exploration	1897.4	Mineração Caraiba S.A.	10/22/2017
871122/2014	Exploration	1371.02	Mineração Caraiba S.A.	10/22/2017
871121/2014	Exploration	1998.16	Mineração Caraiba S.A.	10/22/2017
871120/2014	Exploration	1493.53	Mineração Caraiba S.A.	10/22/2017
871119/2014	Exploration	1999.14	Mineração Caraiba S.A.	10/22/2017
871118/2014	Exploration	1997.99	Mineração Caraiba S.A.	10/22/2017
871117/2014	Exploration	1999.11	Mineração Caraiba S.A.	10/22/2017
871116/2014	Exploration	1365.25	Mineração Caraiba S.A.	10/22/2017
871115/2014	Exploration	1999.99	Mineração Caraiba S.A.	10/22/2017
870353/2014	Exploration	998.73	Mineração Caraiba S.A.	8/24/2020
872286/2013	Exploration	1637.55	Mineração Caraiba S.A.	11/7/2017
872124/2012	Exploration	1999.77	Mineração Caraiba S.A.	1/4/2018
872123/2012	Exploration	334.21	Mineração Caraiba S.A.	7/13/2020
871290/2012	Exploration	984.91	Mineração Caraiba S.A.	10/22/2017
874952/2011	Exploration	1827.01	Mineração Caraiba S.A.	10/22/2017
874951/2011	Exploration	1985.89	Mineração Caraiba S.A.	10/22/2017
874950/2011	Exploration	1914.16	Mineração Caraiba S.A.	10/22/2017
874949/2011	Exploration	1989.8	Mineração Caraiba S.A.	10/22/2017
874948/2011	Exploration	1913.93	Mineração Caraiba S.A.	10/22/2017
874947/2011	Exploration	730.71	Mineração Caraiba S.A.	10/22/2017
874946/2011	Exploration	1052	Mineração Caraiba S.A.	10/22/2017
874945/2011	Exploration	1798.84	Mineração Caraiba S.A.	10/22/2017
874944/2011	Exploration	1973.69	Mineração Caraiba S.A.	10/22/2017
874943/2011	Exploration	1772.91	Mineração Caraiba S.A.	2/23/2020
874942/2011	Exploration	1990.8	Mineração Caraiba S.A.	10/22/2017
874941/2011	Exploration	1706.04	Mineração Caraiba S.A.	10/22/2017
874940/2011	Exploration	1445.09	Mineração Caraiba S.A.	10/22/2017
874939/2011	Exploration	1955.75	Mineração Caraiba S.A.	2/23/2020
874669/2011	Exploration	419.71	Mineração Caraiba S.A.	3/16/2020
850843/2010	Exploration	3196.33	Mineração Caraiba S.A.	8/28/2018

ID NUMBER	PERMIT PHASE	AREA (HA)	PERMIT HOLDER	EXPIRATION DATE
874666/2011	Exploration	1951.63	Mineração Caraíba S.A.	10/22/2017
873667/2011	Exploration	1499.34	Mineração Caraíba S.A.	10/24/2017
873664/2011	Exploration	615.98	Mineração Caraíba S.A.	10/24/2017
873662/2011	Exploration	842.28	Mineração Caraíba S.A.	10/24/2017
873659/2011	Exploration	1503.42	Mineração Caraíba S.A.	10/24/2017
873518/2011	Exploration	1956.02	Mineração Caraíba S.A.	9/30/2017
873473/2011	Exploration	1500.01	Mineração Caraíba S.A.	9/9/2017
873472/2011	Exploration	1363.14	Mineração Caraíba S.A.	9/30/2017
873471/2011	Exploration	2000	Mineração Caraíba S.A.	12/12/2017
873470/2011	Exploration	1991.11	Mineração Caraíba S.A.	9/9/2017
873469/2011	Exploration	1497.52	Mineração Caraíba S.A.	9/9/2017
873204/2011	Exploration	1997.61	Mineração Caraíba S.A.	9/9/2017
872019/2011	Exploration	2000	Mineração Caraíba S.A.	8/27/2017
872018/2011	Exploration	1999.93	Mineração Caraíba S.A.	8/27/2017
872017/2011	Exploration	997.29	Mineração Caraíba S.A.	8/27/2017
872015/2011	Exploration	1996.17	Mineração Caraíba S.A.	8/27/2017
872010/2011	Exploration	871.57	Mineração Caraíba S.A.	8/27/2017
872009/2011	Exploration	1498.05	Mineração Caraíba S.A.	8/27/2017
872008/2011	Exploration	1999.42	Mineração Caraíba S.A.	8/27/2017
871074/2011	Exploration	1741.33	Mineração Caraíba S.A.	8/27/2017
871305/2010	Exploration	822.39	Mineração Caraíba S.A.	1/2/2017
870621/2010	Exploration	1632.39	Mineração Caraíba S.A.	9/4/2016
870086/2010	Exploration	1973.13	Mineração Caraíba S.A.	9/4/2016
870347/1984*	Application for Mining	923.5	Mineração Vale do Curaçá S.A.	-

\* Please note that subsequent to the effective date of the Vale do Curaçá Technical Report, Permit ID 870347/1984 was transferred by Mineração Vale do Curaçá S.A. to MCSA.

The following table shows the overall status, as of the effective date of the Vale do Curaçá Technical Report, of the Mining Permits in which the Caraíba Mine, R22W Mine, Surubim Mine, and Vermelhos Mine are located.

DNPM Issue ID	Permit Status	Holder	MCSA Project
000737/1940	Mining	Mineração Caraíba S.A.	Caraíba Mine
000619/1964	Mining	Mineração Caraíba S.A.	Surubim Mine
812998/1973	Mining	Mineração Caraíba S.A.	R22W Mine
870347/1984	Mining Application	Mineração Vale do Curaçá S.A. <sup>(1)</sup>	Vermelhos Mine

**Note:**

(1) Please note that subsequent of the effective date of the Vale do Curaçá Technical Report, Permit ID 870347/1984 was transferred to MCSA.

**Surface Rights**

MCSA is the holder of the majority of the land required to support the three mine operations considered in the Mineral Reserves estimate for the Vale do Curaçá Property.

## **Accessibility, Climate, Local Resources, Infrastructure, and Physiography**

### ***Accessibility***

The Caraíba Mine and the R22W Mine are accessed from Petrolina or Juazeiro via BR407 south for 80 km to the village of Barrinha. From Barrinha, BA314 is followed east for 45 km to the mine access road. Both BR407 and BA314 are paved roads.

The Surubim Mine is accessed from the Caraíba Mine via BA314 east 34 km to the intersection with BR235, an unpaved road. From this intersection, the Surubim Mine is 33 km northwest along BR235 immediately beyond the village of Poço de Fora.

The Vermelhos Mine property lies approximately 83 km north-northwest of the Caraíba Mine and is accessed from Petrolina or Juazeiro by following BR407 15 km to the intersection with BR235. At 70 km, approximately 2 km before the village of Poço de Fora, the road intersects a dirt road to Curaçá. The property is accessed by taking this dirt road north for 40 km, and then by traveling 8 km along various farm roads. Construction of a permanent haul-road from Vermelhos Mine to the Surubim Mine will occur prior to the commencement of commercial operations. The nearest town to the Vermelhos Mine property is the town of Curaçá (population of approximately 30,000). Daily bus service will transport MCSA employees working at the Vermelhos Mine from the town of Curaçá to the Vermelhos Mine property.

### ***Physiography***

The Curaçá Valley can be characterized as a plain featuring scattered elongated ridges, isolated rock outcrops and inselbergs. The elevation ranges from 400 m to 600 m above mean sea level. The presence of inselbergs is indicative of an advanced erosional cycle, developed under arid to semi-arid conditions. The inselbergs within the Curaçá Valley have peak elevations of up to 600 m, approximately 100 m to 200 m above the valley floor.

Drainage is from south to north by the Curaçá River, a tributary of the São Francisco River. Two important tributaries of the Curaçá River are the Esfomeado and Vaca Creeks, which drain the west side of the valley. The drainage pattern is reticular and largely fault controlled.

### ***Climate***

The region is classified as arid to semiarid, or BSh per the Köppen climate classification system. Within the mining and development properties, temperatures range from a low of 20°C in the winter months to a high of 40°C in the summer months. Summer average temperatures are 29°C while winter averages are 23°C. Annual rainfall is erratic and has a range of 100 mm to 900 mm. On average, total annual rainfall is less than 700 mm. Most precipitation occurs during the rainy season, December to March, in isolated high rainfall events associated with thunderstorm activity.

### ***Infrastructure and Local Resources***

Except for a short period in 2016, the Caraíba Mine has been in continuous operation since 1979 and has all of the necessary infrastructure and skilled mine personnel for continued operation.

During construction of the Caraíba Mine, the town of Pilar was constructed to house mine employees and to provide logistical support for mining activities. Initially, Pilar consisted of approximately 1,800 houses with fresh water supply, electrical power, and a sewage system. As of the date of the Vale do Curaçá Technical Report, Pilar has a population of approximately 10,000 people providing support for MCSA and its personnel in the form of outsourced labour and small local businesses. This district also has banks, a hospital and a health center, schools, a post office, a town hall and recreational facilities including clubs and sports stadiums. All of the streets are paved and the district has a reliable phone system. Daily bus service takes MCSA employees from the center of Pilar to the Caraíba Mine main entrance.

The main water supply for Pilar and the Caraíba Mine is brought from the São Francisco River via an 86 km pipeline that was constructed by, and is owned and maintained by MCSA. Electrical power is obtained from CHESF via a 13.8 kV substation connected to a 230 kV power transmission line.

In the Brazilian northeast, MCSA is the largest primary copper mining company. Throughout its operating history, a social and logistics infrastructure has been developed, sufficient to supply all of the industrial and labour needs related to the production of copper from the MCSA Mining Complex.

## History

The first documented occurrence of copper in the Curaçá Valley was located at Serra da Borracha, Curaçá County in 1782. Samples were taken to Salvador for tests and were reported to contain “pure” copper. The information about the discovery was delivered to the Portuguese Crown in Lisbon. The then governor of Bahia State authorized a company to exploit copper, but the company never began commercial production.

In 1874, engineer A. M. de Oliveira Bulhões reported copper occurrences in the vicinity of the Caraíba Mine in a series of documented accounts. Mr. Bulhões made this observation while he was working for the São Francisco Railroad and wrote “copper exists in abundance and in many places the mineral can be seen on top of the soil”. No formal copper exploration was completed on the property.

In 1915, the International Ore Corporation and the then landowner of the Caraíba Mine property signed a purchase option contract. No further work was done under the terms of the contract and very little exploration activity occurred beyond a preliminary test pit in 1915 and a surface sample program in 1938.

In 1962, the DNPM conducted a regional exploration program in the Curaçá Valley and made a preliminary resource estimate on the basis of that work. Mineral rights were obtained by the Pignatari Group in 1966 and the first feasibility studies were completed on the project in 1969 by Francisco Pignatari. In 1974, the investment branch of the Brazilian National Economic and Social Development Bank took control of the property, and between 1974 and 1978, the property was developed by the Brazilian state owned company Caraíba Metais S.A. Exploration work in support of the design and development of the mine was performed by CVRD. The Caraíba Mine began commercial production in 1979. In addition to construction of mine and processing facilities, a smelter was constructed for refining copper concentrate into copper metal. Underground operations started in 1986 and were conducted concurrently with open pit operations. The original open pit mine was depleted in 1998, but underground mining continued and is still in operation.

In 1988, the smelting and mining operations were split into two separate business units. The smelting unit was privatized under the name Caraíba Metais S.A. and was later sold to Eluma, a part of the Paranapanema Group in 1992. The mining and processing units remained state owned and operated under the name MCSA until 1994, when MCSA was placed in the National Privatization Program and later sold to Eluma as well.

Between 1997 and 2004, under new ownership, MCSA did not invest in new acquisitions or expansions. Beginning in 2004, MCSA began expansion and exploration programs within the Curaçá Valley. This resulted in the transfer of the R22W Mine to MCSA in 2005 from DOCEGEO, the exploration division of CVRD, and the formation of the Codelco JV in 2004 for exploration of known copper occurrences within Curaçá Valley. In February 2008, Codelco withdrew from the Codelco JV and received payment of R\$5.6 million from MCSA. In 2012, Swiss-based Glencore International acquired a 28.5% equity interest in MCSA.

In December 2016, the Company acquired approximately 85% interest in MCSA. On June 14, 2017, the Company acquired an additional 14.5% by way of capital increase, for a total interest in MCSA of approximately 99.5%.

Throughout MCSA’s operating history, many internal and third-party technical reports have been prepared for mine planning, development and estimation purposes. The work performed by SRK Brazil on the Surubim Mine in 2008, discussed in greater detail below, was the only such work updated for the purposes of the current Mineral Resources and Mineral Reserves estimate.

### ***Surubim Mine Historic Resource Estimate***

The Surubim Mine Mineral Resources were estimated by SRK Brazil in 2008 in accordance with CIM classification criteria. The resource estimation was performed by Leah Mach, a member of the American Institute of Professional Geologists, under the requirements of NI 43-101 classification. The methodology of estimation and results were presented to MCSA in an internal report, “Caraíba Mineração S.A.-Update Report-Caraíba Copper Project-Bahia, Brazil – SRK Consulting Engineers and Scientists – Project Reference No. 175601 – July 28, 2008”.

This resource database consisted of 286 drill holes with a total of 26,422 m of drilling. The maximum length of any drill hole was 500 m, and the average was 92.4 m. About half of these holes were less than 60 m and were drilled vertically on a 25 m x 35 m grid to test for oxides. The remainder of the holes averaged about 182 m in length and most were drilled at inclinations between -35° and -75° to the southeast.

The historic Mineral Resources estimation was preceded by examination of basic statistics, histograms cumulative probability plots, and variographic analyses. The mine was modeled by first generating drill hole cross-sections and drawing polygons around the mineralized intercepts at a cut-off grade of 0.2% Cu and at 0.8% Cu. Wireframe solids were created from the polygons to be used as a constraint in Mineral Resources estimation.

Drill holes were composited on 1m intervals from the top of the drill hole with breaks at the wireframe solids. A block model was created and copper grades were estimated within the solids using only composites contained therein. The Oxide Domain was estimated using Inverse Distance Squared and the Sulfide Domain was estimated by OK. A minimum of four and a maximum 12 composites were used for block estimation, with a maximum of three from a single drill hole, meaning a minimum of two drill holes were required to estimate each block.

The estimation was done in three passes: the first used ranges equal to 25% of the variographic range, the second used 100% and the third used 200% of the variographic range. The historic Mineral Resources were classified as Measured, Indicated and Inferred depending on the pass in which the block grade was estimated. Specifically, the first pass defined Measured Mineral Resources, the second defined Indicated Mineral Resources, and the third defined Inferred Mineral Resources. The following table summarizes the historic Surubim Mine Mineral Resources Statement from July 28, 2008.

Classification	Domain	Tonnage (kt)	Grade (Cu%)	Copper Metal (kt)
Measured	Oxide	16.1	1.58	0.3
	Sulfide	224.8	0.91	2.1
	Total	240.9	0.98	2.4
Indicated	Oxide	455.2	0.79	3.6
	Sulfide	4,155.4	0.96	40
	Total	4,610.6	0.95	43.6
Measured and Indicated	Oxide	471.3	0.82	3.9
	Sulfide	4,380.2	0.96	42.1
	Total	4,851.5	0.95	46
Inferred	Oxide	105.3	0.75	0.9
	Sulfide	628.9	1.10	6.9
	Total	734.2	1.42	7.4

The Company is not treating the 2008 historical estimate for the Surubim Mine as current Mineral Resources. Work required to upgrade the historic Mineral Resources to current Mineral Resources included third-party validation of the methodologies employed by SRK Brazil and a re-design of the open pit shell using updated economic input parameters. This work was performed by GE21. The Surubim Mine updated Mineral Resources estimates are set out under “– *Mineral Resource Estimates*” below.

## Geological Setting and Mineralization

### *Regional Geology*

The MCSA Mining Complex’s active mining and development projects are located within the Curaçá Valley mafic-ultramafic complex, located within the Curaçá high-grade metamorphic gneissic terrain, a part of the Salvador-Curaçá orogen, a northern extension of the Atlantic Coast Granulite Belt in the São Francisco Craton. The São Francisco Craton is made up of four Archean to Paleoproterozoic crustal segments ranging in age from 3.4 Ga in the western Gavião block of tonalite-trondhjemite-granodiorites to 2.0 Ga in the low-K calc-alkaline plutonic rocks of the Itabuna-Salvador-Curaçá belt that extends from southeast Bahia State through Salvador along the Atlantic coast and then inland to northeast Bahia State.

The Proterozoic Transamazonian orogenesis occurred at approximately 2.0 Ga when the four crustal segments that make up the São Francisco Craton collided, resulting in mountain building and a regional metamorphic event. The Itabuna-Salvador-Curaçá belt formed at approximately the same time and consists of intercalated metasediments and ocean floor/back-arc basin gabbro and basalt. This belt is also referred to as the Paleoproterozoic Atlantic Coast Granulite Belt.

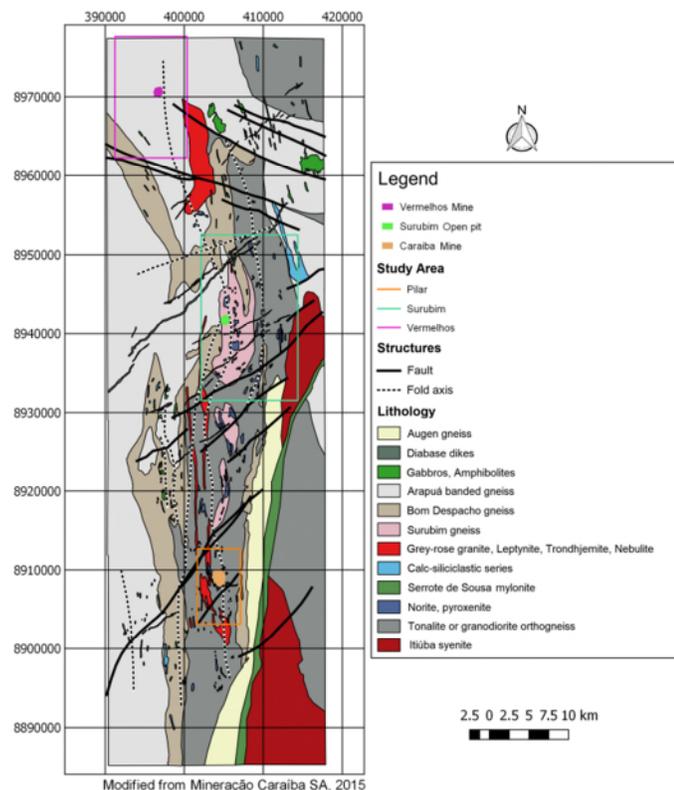
The Curaçá high-grade gneiss terrain hosts copper-bearing mafic-ultramafic rocks that were intruded into a supracrustal sequence now represented by banded gneisses (Surubim Gneiss), graphite gneiss, banded iron formation, calc-silicate rocks and alumina-rich gneisses (Born Despacho Banded Gneiss), and biotite hornblende-bearing quartz-feldspar gneiss with minor amphibolites and quartzites (Arapua Banded Gneiss).

The mining and development projects located within the MCSA Mining Complex, lie within a Trans-Amazonian age belt bordered on the west by volcano-sedimentary rocks of the Jacobina Group and on the east by the Itiúba intrusive syenite rocks. The copper deposits are hosted by the Rio Curaçá and Tanque Novo sequences, which are differentiated by metamorphic facies. The two sequences are located at the base of the Caraíba Complex and include mafic to ultramafic rocks as well as granite, granodiorite and syenite.

The Rio Curaçá and Tanque Novo sequences include charnockite gneiss, granulite of variable composition, and biotite gneiss with or without hornblende and amphibolite. Migmatite also occurs within the sequences. Mafic-ultramafic units occur within the charnockite and biotite gneisses as lenses or sills with thicknesses generally less than 50 m. The mafic-ultramafic lenses are composed of hypersthénite (pyroxenite), norite, gabbro-norite, gabbro and rarely, anorthosite. The absence of dunite and peridotite indicates that the rocks are ultrabasic. Extensive pyroxenite has been described within the mafic-ultramafic lenses at the Caraíba Mine; whereas to date pyroxenite reportedly occurs as a minor part of the mafic-ultramafic lenses at the R22W Mine, the Surubim Mine, the past-producing Agnicios Mine and the Vermelhos Mine.

Biotite schist and amphibolite occur in shear zones, at contacts with granite, or as isolated lenses within gneiss. Biotite schist and amphibolite are thought to have formed from the mafic-ultramafic units during retrograde metamorphism and deformation. The contacts are sharp between the biotite schist, gneiss, hypersthénite, and other basic rocks. Contacts within the basic rocks are gradational and mainly observed in thicker units such as those found in the northern part of the Caraíba Mine. The melanocratic units tend to be uniform while the leucocratic bodies tend to be banded. Anorthosite lenses are rare and when present, are less than 1m thick. Gabbro-norite dikes are directly associated with the mineralized hypersthénite and norite rocks. However, gabbro-norite dikes appear not to contain significant copper sulphide. The relict textures and layering suggests that these rocks may have formed by fractional crystallization.

The following is a regional geological map of the Curaçá Valley, which sets out the localization of the Caraíba Mine, Surubim Mine, the Vermelhos Mine and the associated Mineral Districts of Pilar, Surubim and Vermelhos.



## ***Regional Structure***

The copper-rich deposits are hosted by irregular-shaped intrusive bodies of pyroxenite (hypersthene) and minor gabbro norite that were intruded into granulite facies gneiss and migmatite at the northern margin of the São Francisco Craton. The geometry of the intrusions has been interpreted as either deformed sill-like bodies or irregular shaped intrusion into an anastomosing ductile shear zone.

At Caraíba, a deformed structure interpreted as an interference pattern between deformational events was mapped. In plan, this structure is 800 m wide (east-west) and 5,000 m long (north-south). Deformation occurred in two episodes of isoclinal folding. The early set of isoclinal folds (F2) is composed of east-west axial planes and the later set (F3) is composed north-south axial planes. These structures are best preserved in the thick hypersthene and norite rock packages. The scale of the isoclinal folds is 100 m to 1,000 m.

Both isoclinal fold sets exhibit deformed banding and small scale folds as a result of the third deformational event (D3). The D3 deformation was so intense and ductile that it reoriented the foliation in the majority of the previous structures to a north-south orientation parallel to the axial planes of the F3 isoclinal folds. This D3 event occurred contemporaneously with intense migmatization and syntectonic granitic intrusions (G3).

During D2 deformation, the rocks were metamorphosed to the granulite facies whereas the D3 deformation event was dominated by amphibolite facies metamorphism. Centimeter scale features near basic xenoliths and hornblende in G1 and G2 granitoid rocks show dehydration textures. This suggests that the D1 deformational episode reached the amphibolite metamorphic facies.

The metamorphism and deformation appears to have affected the entire sequence of rocks in the Curaçá Valley. Because of this, it is believed that all copper deposits in this district are of the same age, and have the same metamorphic and deformational history.

## ***Local Geology of the Caraíba Mine and the R22W Mine***

### *Lithology*

The Caraíba Mine is located in the southern part of the MCSA Mining Complex within the Curaçá Valley and the R22W Mine is located northwest of the Caraíba Mine. The host rocks are differentiated mafic-ultramafic rocks. These rocks were intruded into gneissic rocks formed by granulite facies metamorphism. The mafic-ultramafic sequence at the mine is composed of hypersthene, norite and gabbro-norite rocks which are generally massive in texture.

At the Caraíba Mine and the R22W Mine, the norite and gabbro are generally barren (non-economic) but occasionally host copper bearing zones. The gneissic rocks are well exposed in the northwest wall rock in the open pit at the Caraíba Mine. Here, the gneiss is a banded, undifferentiated, mafic gneiss composed of quartz feldspar gneiss with layers of amphibolite and calc-silicate rocks thought to be derived from basic-ultrabasic rocks. At a smaller scale, these rocks are migmatitic as observed in the southeast side of the open pit.

The youngest rocks found in the mine area are very fine-grained rose to grey, syn- to late tectonic granite. These are found in elongated bodies aligned with the S3 regional foliation and can be observed in the western side of the Caraíba Mine open pit.

### *Structure*

The mineralization at the Caraíba Mine and the R22W Mine are associated with a thickened portion of the mafic-ultramafic intrusion. Mineralized lenses dip steeply to the west and plunge steeply to the north. The mafic-ultramafic sequence is reportedly thickened along a D3 synform. This structure is interpreted as a parasitic isoclinal fold developed on a larger scale D2 antiform and is interpreted as an interference structure, with an orthogonal north-south axis. The mineralized zones thicken along the F3 axial plane, S3 foliations and D2/D3 fold interference. In addition, the mineralized zones can be disrupted and offset along F3 due to the D3 deformational event.

## ***Local Geology and Surubim Area***

### *Lithology*

The Surubim deposit is located 22 km north of the Caraíba Mine. Surubim is located in the Caraíba Complex sequence of rocks which have undergone granulite facies metamorphism. The lithologies include gneiss, basic and felsic granulite, and charnockite as the host rock assemblage. In addition, there are biotite and graphite bearing norite and gabbro. The norite and gabbro are the intrusive basic to ultra-basic assemblages which host mineralization. Unlike Caraíba, Surubim has more biotite-rich rocks.

### *Structure*

At Surubim, four deformational events have been identified (D1 to D4). In these events, F1 and F2 folding are co-axial while F3 is perpendicular to these. The D4 deformational event is characterized by brittle deformation and includes faults and fractures. The F1 and F2 folds are similar and have north-south, vertical axial planes. The F1 and F2 folds have amplitudes from 100 m to 1,000 m. As a consequence of the F3 folding, F1 and F2 axial planes strike between N40°E to N40°W. The F3 folds are concentric with vertical axial planes. They form gentle folds with a medium scale amplitude. There are five main faults in the Surubim area related to D4 deformation. These faults have produced little offset in the previous three deformation events.

In the north part of the Surubim area, the mineralization is confined to a synform structure with a north-south axial plane dipping 40°W and plunging gently to the north. The edges of the synform have parasitic folds that extend 200 m to 300 m with thicknesses of about 50 m. At the south end, the mineralization is vertical and has a “stretched S” appearance. The mineralized zone also has lateral extensions with thicknesses ranging from 40 m to 150 m.

## ***Local Geology of the Vermelhos Area***

### *Lithology*

The Vermelhos area is almost entirely covered by quartz-rich colluvium with rare outcrops along drainages. Host rocks to mineralization are north-trending steeply dipping norite, pyroxenites and melano-norite that were intruded into the host gneiss.

### *Mineralization*

The mineralization at the Caraíba Mine is hosted by pyroxene hypersthene. The copper content is typically directly proportional to hypersthene content and magnetite and inversely proportional to plagioclase and clinopyroxene. The gabbro-norite, gabbro and anorthosite units tend to be barren. At the Caraíba Mine, the copper sulphide zones are up to 20 m thick.

Sulphides are dominated by chalcopyrite and bornite with accessory digenite, pyrrhotite, pentlandite, covellite, pyrite and cubanite. Magnetite dominates the oxide phases with minor ilmenite and chromite. Silicate minerals, are mainly orthopyroxene, plagioclase and phlogopite with minor amphibole, chlorite, epidote and late quartz. Mineralization at the Surubim Mine includes chalcopyrite and bornite as well as the copper-iron sulphide, idaite, and lesser amounts of pyrrhotite and pentlandite.

The mineralization within the Aprofundamento or the Deepening zone at the Caraíba Mine extends from elevation -400 m to -1,150 m levels and occurs as lenses that strike north-south and dip steeply to the east or west in a synformal pattern. The total down plunge length of the mineralization is currently approximately 1,600 m from surface and the individual lenses average about 12 m in thickness.

The R22W Mine mineralization is the northern extension of the Caraíba Mine mineralization into the R22W Mine license area. At the R22W Mine, the copper mineralization occurs as lenses striking northerly and dipping steeply to the west. The length of mineralization is about 450m and the lenses vary between 1 m and 40 m in thickness depending on depth.

Mineralization at the Vermelhos Mine occurs as sulphide in disseminated to semi-massive and massive bodies and along fractures also striking north and dipping steeply to the west. Most of the current tonnage is hosted by a semi-massive to massive tabular sulphide body that plunges north. Mineralization includes chalcopyrite and bornite, pyrrhotite and pentlandite. Three mineralized zones have been defined to date at Vermelhos: Vermelhos South, Vermelhos East and Vermelhos West. Only the Vermelhos South area is currently considered for development and comprises the Vermelhos Mine as currently defined.

## **Deposit Types**

Mineralization within the Curaçá Valley is hosted by a series of irregular-shaped, layered or zoned mafic-ultramafic intrusive bodies of Archean to Proterozoic age. Determination of genetic models for the deposition of copper has been complicated by the multiple episodes of metamorphism and deformation. These deposits are generally believed to be magmatic sulphide deposits and interpreted to be similar to those found in O'okiep, South Africa.

Four genetic models have been presented, mainly for Caraíba, which has the most available information. These four genetic models for Caraíba are:

- sulphide segregation from mantle material;
- a hydrothermal model;
- metamorphic de-sulphidation from primary magmatic minerals; and
- orthopyroxene fractionation from a dioritic protolith.

If a sulphide segregation model is used for Caraíba, the mineralization is confined to sills derived from a tholeiitic magma that has undergone magmatic differentiation through crystal fractionation after emplacement. The absence of dunite and peridotite supports this interpretation as these crystals would have settled to the bottom of the sill and separated from the norite and pyroxenite layers. Above the peridotite and dunite, dense magma would form pyroxenite and norite with copper-rich zones, while less dense magma would result in barren gabbro, norite and anorthosite. Emplacement is thought to have occurred at mid-crustal levels.

## **Exploration**

### ***Exploration History***

The first well documented accounts of copper mineralization in the Curaçá Valley date back to 1871 and 1874. However, exploration work was not conducted until 1944 by the DNPM. Results from these programs were published in 1964, providing a historic estimate of 10,795 tonnes grading 1.0% Cu at the Caraíba Mine. The parameters and assumptions used to determine this estimate are unknown. Additionally, this material was most likely contained within the mined-out open pit. Accordingly, the Company is not treating this historical estimate, nor any portions of it, as relevant to the current Mineral Resources.

From 1952 to 1953, Northfield Mining Inc. conducted trenching and drilling at the Caraíba Mine and in 1960, the Pignatari Industrial Group conducted systematic exploration work over the Caraíba Mine in association with T. Janer and Mitsubishi Metal Mining. In parallel, systematic investigations were carried throughout the Curaçá Valley by the DNPM.

In 1965 the “Projeto Cobre do Vale do Curaçá” was created by the DNPM and in 1974 the Financiamento de Insumos Basicos SA assumed control of the concessions and created the “Caraíba Project”. In 1975 DOCEGEO was contracted for the planning and execution of exploration of the area.

Once open pit operations began in 1979, very little exploration work was conducted outside of the main Caraíba Mine area. The open pit operated until 1998 and underground operations began in 1986.

The Caraíba operation was privatized in 1994 and again very little formal exploration work was conducted until the Codelco JV. Codelco conducted work on several prospects outside the Pilar Mine area including an airborne VTEM geophysical survey over the Vermelhos District. Oxide leach operations started in 2006 and operated continuously from 2007 to 2015. Most of the exploration work was focused on (i) replacing mined reserves annually, and (ii) where performed regionally, were focused on individual properties to maintain tenure ownership.

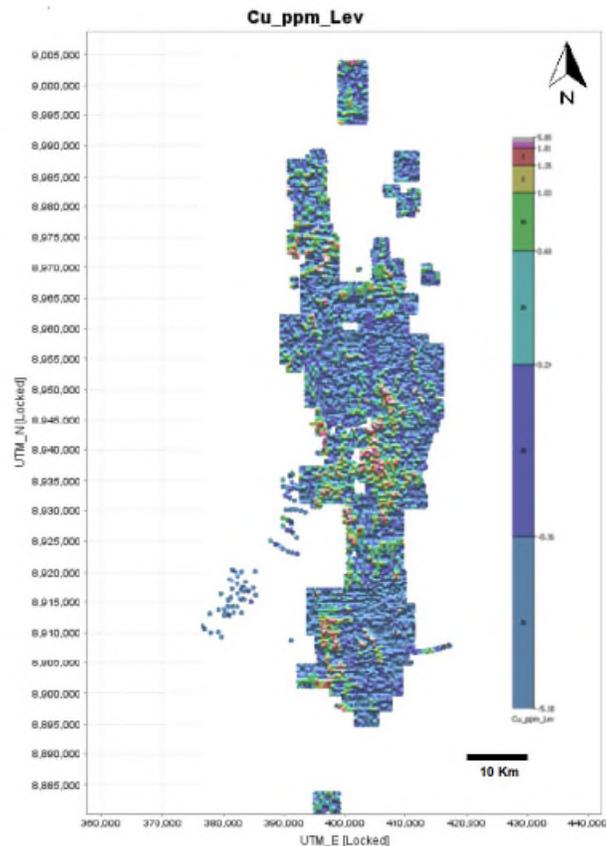
### ***Geochemical Surveys***

Near-surface copper mineralization in the Curaçá Valley is well-defined by geochemical sampling techniques including drainage and soil surveys. Mineralized ultramafic-mafic intrusions show anomalous Cu, Ni, Co and Ag. Several drainage and soil geochemical surveys were conducted along the Curaçá Valley. Over 50,000 drainage and soil samples were collected during the various exploration campaigns.

The Company engaged Infoterra, specialists in geo-focused remote sensing and database management, to compile and validate geochemical data from the various surveys. Heberlein Geoconsulting, specialists in exploration geochemistry, were

then contracted by the Company to further validate and perform levelling analysis on the historical soil and drainage sediment geochemistry datasets.

Given the long history of the sampling programs, interpretation of anomalies and targets would not be possible without appropriate data levelling to remove artifacts caused by differences in laboratories and analytical methods across discrete surveys. The following figure shows the re-interpretation of copper results in soil based on historic geochemical surveys after z-score levelling has been performed.



### *Geophysical Surveys*

In addition to geochemical surveys, several geophysical surveys have been carried out along the Curaçá Valley prior to Ero's acquisition of MCSA. Most surveys were conducted on specific targets or properties. These surveys included ground magnetic, gravity and IP surveys. Historic regional airborne geophysical surveys included a magnetic and radiometric survey that was flown by the DNPM. An airborne VTEM survey was flown over Vermelhos District by Codelco who also conducted follow-up Ground EM and Bore-hole EM. The EM survey data is currently being analyzed and re-processed.

Mineralized mafic-ultramafic intrusions respond well to gravity and IP. As of the effective date of the Vale do Curaçá Technical Report, Ero was conducting physical property surveys of drill core from the Pilar, Vermelhos and Surubim Districts in order to better characterize ore types and optimize geophysical detection methods for use in re-interpretation of historic results and in guiding future geophysical surveys.

### *Drilling Programs*

A series of drill programs were conducted throughout the years. The bulk of the drilling has been related to the Caraíba Mine open pit and subsequent Pilar Mine where over 500,000 m were drilled in over 3,000 holes. Outside of the Caraíba Mine, a total of 143,000 m were drilled in 704 holes, most of which were drilled in the Vermelhos District. Drilling conducted outside

Carafba and Vermelhos Districts was mainly focused on defining open mineralization to feed the plant following closure of the Carafba Mine pit in 1998.

In 2007 MCSA acquired mineral rights and previously collected historic drill data adjacent to the Carafba Mine from Vale. There is no drill core available for the Vale drill holes and, as such, restrictions were applied to this information, whereby the geological coding from these holes has been allowed to inform the geological model, but all recorded assays from the Vale drill holes have been excluded from the current Mineral Resources and Mineral Reserves estimates.

In addition to the Vale holes, any other historic drill holes that could not be sufficiently verified through QA/QC analysis procedures were removed from the database for the purposes of the current Mineral Resources and Mineral Reserves estimate.

In support of the current Mineral Resources and Mineral Reserves estimate, a total of 414,231 m of diamond core drilling, 450 m of RC and 24,099 m of rotoperussive drilling had been performed through the end of 2016, prior to the acquisition of MCSA by Ero.

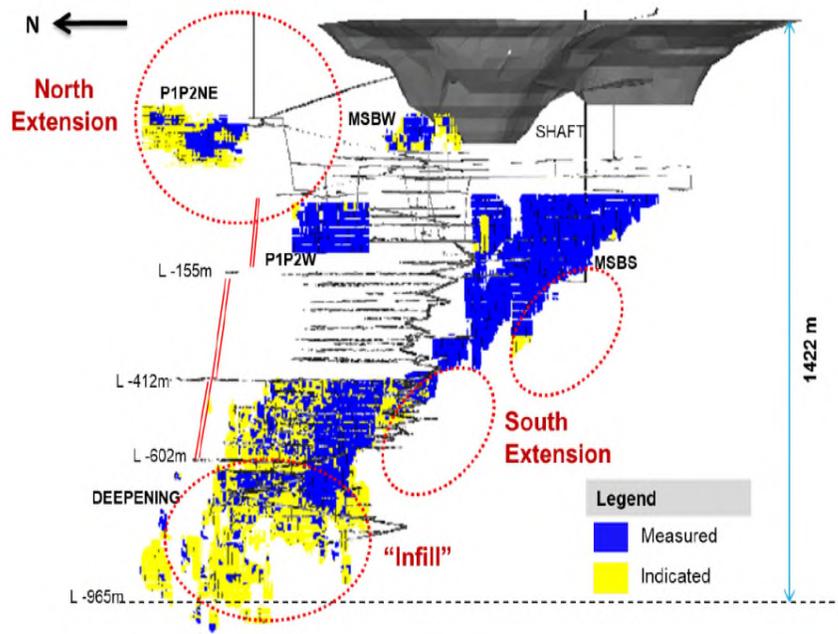
**Exploration Targets**

Since acquisition of MCSA in late 2016, Ero has been working with MCSA to compile, organize, validate, analyze and interpret the various historical data sets. A list of exploration targets has recently been created and is continually updated and prioritized. Priority targets occur in three main clusters or “Districts”: Pilar, Vermelhos and Surubim.

*Pilar Mine Exploration*

Exploration in the immediate Carafba Mine area is currently focused on the southern and northern extensions of the mineralized bodies along the controlling structures. Initial drilling is focused on expanding resources at relatively shallow levels of the southern end of current mine infrastructure.

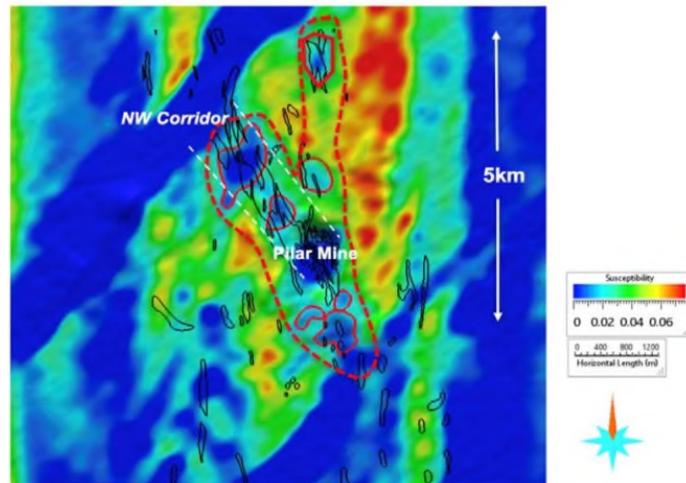
The following is a figure of the longitudinal section of the Pilar Mine showing zones as well as exploration areas that are the focus of near-mine exploration efforts. Extensional areas shown are illustrative and not intended to show extent of mineralization which has not yet been defined.



*Pilar District Exploration*

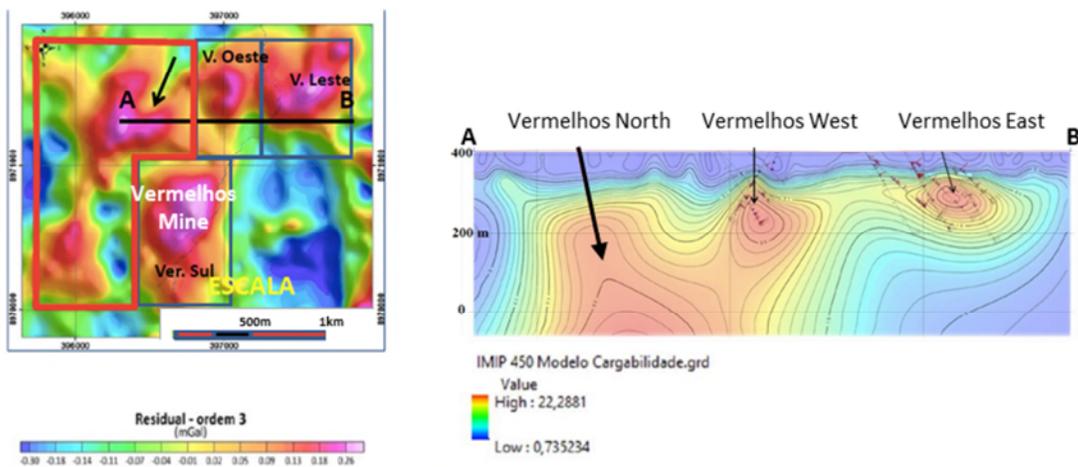
Data compilation work suggests that the Pilar District is 5 km long by 1.5 km to 3 km wide centered on the Pilar Mine. Several compelling drill targets occur in the Pilar District, detailed in the figure below, where data integration work shows

coincident magnetic, gravity, IP and soil geochemical anomalies. Initial drill testing will focus on anomalies along the northwest corridor. The following is a figure of magnetic apparent susceptibility of the Pilar District showing anomalies of interest (exploration targets) contoured in red. The red dashed line in the figure indicates the interpreted Pilar District outline.



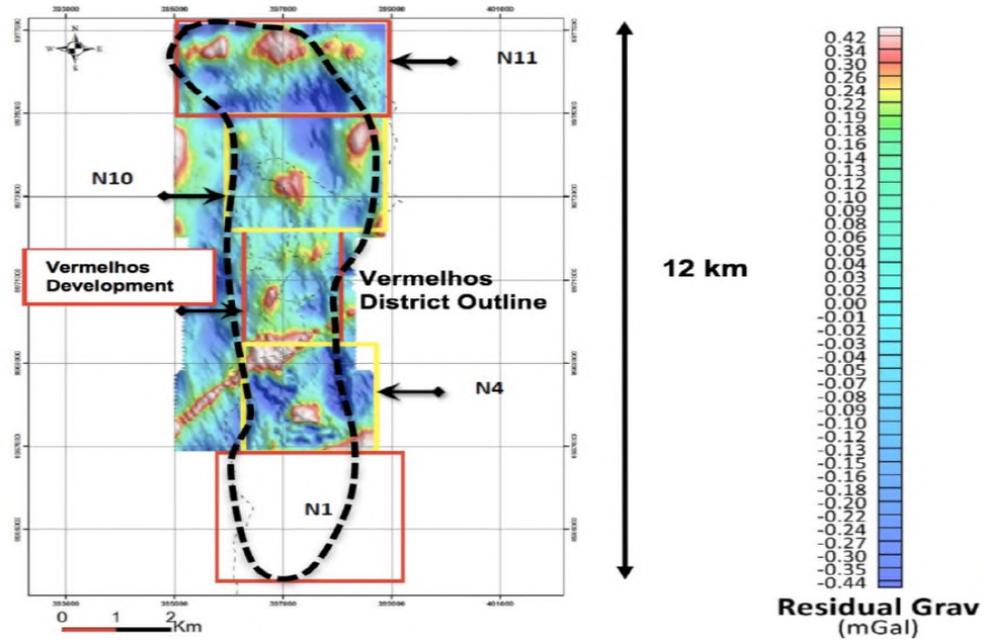
### Vermelhos Mine Exploration

Exploration potential in the Vermelhos District including the area immediately surrounding the currently under construction Vermelhos Mine is considered very good. Resource modeling shows that the main Vermelhos ore body is open both along strike and at depth. In addition to the main deposit, significant historic drill intercepts occur in the surrounding mine area at Vermelhos East and Vermelhos West. The following figure shows coincident gravity, IP and chargeability anomalies located to the north of the main Vermelhos Mine. A 5 m to 20 m thick oxidation profile exists throughout the Vermelhos District.



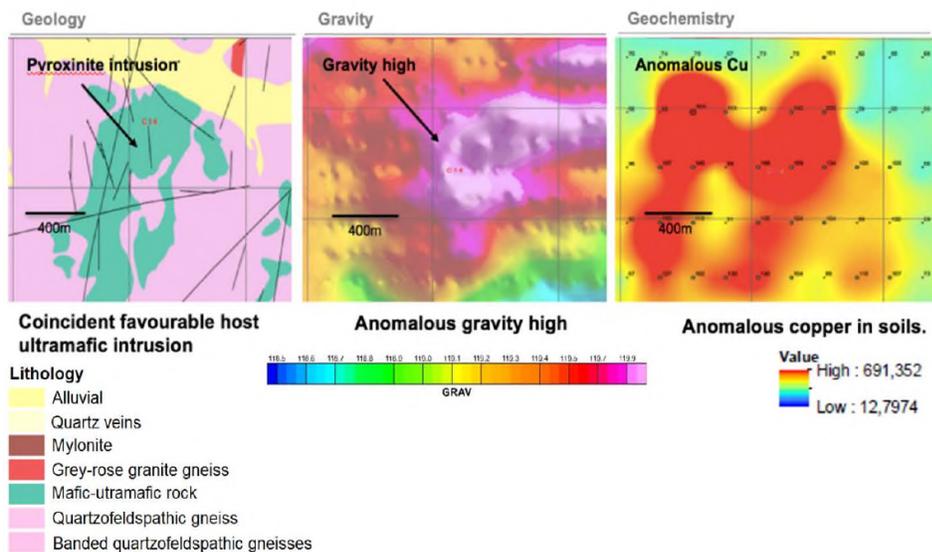
### Vermelhos District Exploration

Data compilation work shows that the Vermelhos District is approximately 12 km long by 1.5 km to 2 km wide along a north-trending structure. Coincident IP and gravity anomalies outline several targets that remain to be tested, as detailed in the following figure. Drilling to date has been primarily focused within the Vermelhos Mine area.



*Curaçá Valley Regional Exploration*

Since the acquisition of MCSA by Ero, and for the first time in the property’s history, a list of priority exploration targets has been developed following compilation and comparative analysis of historic data from throughout the Curaçá Valley. Priority targets tend to cluster in three main Districts: the Pilar District, the Vermelhos District and the Surubim District. To date, the least explored of the Districts is the Surubim District which, based on compilation work, is estimated to be approximately 20 km by 8 km in size. Several quality targets are emerging from compilation work on the past producing open pit mines of Angicos and Surubim, the latter of which is in the process of recommencing operations. The following figure illustrates the coincident favourable geology, anomalous residual gravity and soil geochemistry at the Bela Vista C-14 target, which is located within the Surubim District.



### Subsequent Events

Since the MCSA Acquisition, the Company has focused its exploration efforts within three Districts: Pilar, Surubim and Vermelhos. Subsequent drilling activity as set out below within each District has not been included in the Mineral Resources or Mineral Reserves estimates.

#### Pilar Mine and District Exploration

Exploration drilling has been directed at identifying and delineating the South Extension Zone at the Pilar Mine. As of the date of the Vale do Curaçá Technical Report, 27 holes, totalling approximately 5,070 m have been drilled at the South Extension Zone and the drill program remains ongoing. Mineralized intercepts are similar to those grades within the nearby zones that are included in the Mineral Resource estimates set out under “– *Mineral Resource Estimates*” above and range in grade between 0.98% and 2.84% Cu.

In April 2017, the exploration program at Pilar was expanded to include exploration and infill drilling to identify new Mineral Resources and upgrade known Mineral Resources and Reserves in the area below the -707 level (the Aprofundamento or, the “**Deepening**”) at the Pilar Mine. The Deepening comprises the deepest identified mineralization in the mine. The objective of the program is to follow-up a series of historic drill intersections that were drilled in 2014 including hole FC45101 (54.66 m grading 5.86% Cu) that identified a new lens of high-grade copper mineralization.

Infill and exploration drilling of the Deepening was conducted from the -707 level targeting the area between the -700 and -850 levels. As of the date of the Vale do Curaçá Technical Report, 23 holes, totaling approximately 4,200 m have been drilled intersecting copper grades between 0.7% Cu and 8.0% Cu. Notable intercepts drilled into the lens include:

Hole #	From (m)	To (m)	Length (m)	Cu (%)
FC45126	48.67	81.11	32.44	7.98
FC45127	81.0	99.7	18.7	4.75
FC46108	70.75	80.52	9.77	6.79
FC46109	51.26	62.73	11.47	7.37
FC47104	47.6	83.25	35.65	3.44
FC47105	47.58	68.37	20.79	5.84
FC47106	66.6	77.31	10.71	6.71

**Note:**

(1) Drill holes in the above table were drilled from level -700 in the Pilar Mine. The length of intercept may not represent the true width of mineralization.

As of the date of the Vale do Curaçá Technical Report, two underground drill rigs are operating in the Deepening with a third rig expected to begin operating within the fourth quarter of 2017. The results have shown that mineralization has been identified over three adjacent vertical sections (45 m spacing) and suggest that mineralization remains open to depth. Drilling will continue to be focused on delineating the high-grade lens, exploring for additional zones of mineralization and upgrading known Mineral Resources.

A fourth drill rig is currently operating from surface at the Pilar District. The rig began operating in June 2017 and is focused on identifying new Mineral Resources surrounding the Pilar Mine. To date, three holes, totaling approximately 1,500 m have been drilled. No significant copper mineralization has been encountered to date.

#### Surubim District

Since May 2017, three drill rigs (one as of the date of the Vale do Curaçá Technical Report) have been operating in the past producing Surubim Mine area with the objective of testing the down-dip continuity of mineralization and expanding the current Mineral Resources. As of the date of the Vale do Curaçá Technical Report, 21 holes, totaling approximately 3,512 m have been drilled. Significant intersections are similar to those grades within the nearby zones that are included in the Mineral Resource estimates set out under “– *Mineral Resource Estimates*” above and range in grade between 0.40% and 3% Cu.

## Vermelhos Mine and District Exploration

At Vermelhos, drilling was initiated in June 2017 with a single drill rig. The initial focus of the program was to follow-up on intercepts from three historic drill holes located in an area “UG1 Target” located 350m south of the main Vermelhos deposit and immediately east of the ramp that is under construction to access the main deposit: (i) FVS-06 (15m at 0.85% Cu) drilled in 2001; (ii) FVS-49 (4m at 0.68% Cu) drilled in 2009; and (iii) FVS-126 (14m at 0.63% Cu) drilled in 2015. The drill program is also testing a geophysical anomaly identified from reprocessing work of historical geophysical data. Two holes (FVS-131 and FVS-137), totalling approximately 258 m tested the geophysical anomaly on two adjacent sections (25m spacing). Results from these two drill holes are shown in the following table.

Hole #	Target	From (m)	To (m)	Length (m)	Cu (%)
FVS-131	UG1	63.44	69.08	5.64	1.62
<i>and</i>		73.08	89.07	15.99	4.90
<i>and</i>		97.07	101.41	4.34	1.37
<i>and</i>		115.74	120.60	4.86	1.01
FVS-137	UG1	83.72	107.80	24.08	2.38
<i>including</i>		94.23	103.34	9.11	3.89

**Note:**

- (1) Drill holes in the above table were drilled from surface. The length of intercept may not represent the true width of mineralization. Values may not add due to rounding.

Drilling will continue on the UG1 Target to evaluate its extent of the high-grade zone both along strike and to depth.

The drill program was expanded at Vermelhos in August 2017 from one to three rigs. The second drill rig is testing an area near historic hole FVS-123 (23.01m at 3.18% Cu) within the UG2 Target which is located approximately 150m to the southeast of the Vermelhos deposit. The drill program also tested a geophysical anomaly at UG2 identified through the reprocessing of the same historical geophysical data. To date, two holes (FVS-144 and FVS-149), totalling approximately 233 m have been drilled to evaluate the geophysical anomaly in the UG2 Target. Results are shown in the following table.

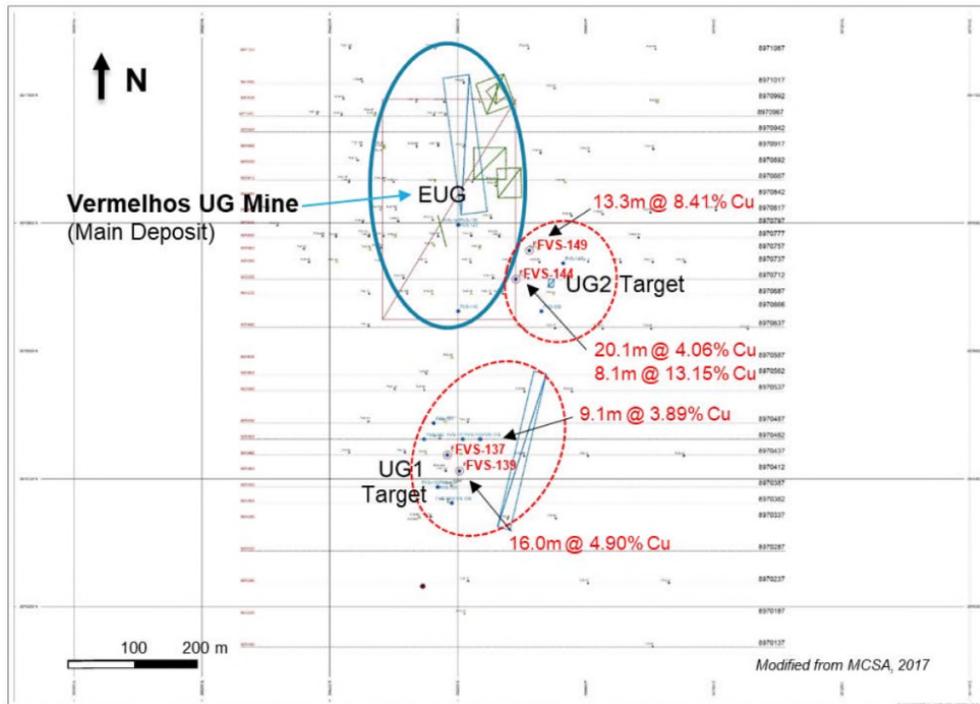
Hole #	Target	From (m)	To (m)	Length (m)	Cu (%)
FVS-144	UG2	1.00	21.07	20.07	4.06 <sup>(2)</sup>
<i>including</i>		11.80	21.07	9.08	7.18
FVS-144	UG2	80.80	99.44	18.64	6.20
<i>including</i>		80.80	88.88	8.08	13.15
FVS-149	UG2	68.52	81.80	13.28	8.41

**Notes:**

- (1) Drill holes in the above table were drilled from surface. The length of intercept may not represent the true width of mineralization. Values may not add due to rounding.  
 (2) The 20.07 m intercept in FVS-144 is from surface and includes oxidized copper mineralization.

The third drill rig is undertaking an infill drill program within the Vermelhos Mine area to upgrade Mineral Resource categories. Additional drill rigs are expected to be added to the drilling campaign during the fourth quarter of 2017 and will focus on exploring and delineating other prospects near the Vermelhos Mine, including testing of the surface oxide copper mineralization in the main deposit area.

The following is a notable intercept plan view map with regards to subsequent exploration activity within the Vermelhos District. Target areas shown are illustrative and not intended to show extent of mineralization, which has not yet been defined.



**Notes:**

- (1) The 20.1m intercept in FVS-144 is from surface and includes oxidized copper mineralization.
- (2) The drill holes were drilled from surface. The length of intercept may not represent the true width of mineralization.
- (3) Intervals have been rounded to the nearest 0.1 m. Please refer to the above tables under this heading “- Vermelhos Mine and District Exploration” for additional intercepts and additional details regarding surrounding notable intercepts shown.

**Drilling**

MCSA has conducted subsurface drilling with its own drill machines and employees at the Caraíba Mine. The drilling conducted at surface has been performed by the following Brazilian companies:

- Geosol Geologia e Sondagem Ltda.;
- Geoserv, based in Rio de Janeiro;
- Congel, based in Senhor do Bonfim; and
- Bahia and Drillgeo, based in Salvador, Bahia State.

Drill locations are located on a grid map and sited on the ground by an MCSA geologist. The planned drill sites are located using a portable GPS.

When drill holes are completed, they are sealed with cement and an aluminium plate is set showing the drill hole number, azimuth, angle, depth and date. The cement marker is surveyed to give the final location of the drill hole.

In oxide material, typically confined to the top 5 m to 20 m of soil throughout the Curaçá Valley, MCSA commonly uses rotapercussive RC drilling. NQ diameter drill holes are used for surface drilling and in underground exploration while BQ diameter drilling is commonly used for short term stope definition (production drilling) in the underground mines.

Drill core recovery is measured by the drilling company, when drilling is not being performed by MCSA, and is subsequently checked by an MCSA technician. Core recoveries are generally good, averaging approximately 90%.

For inclined surface holes, stakes are set in the ground marking the azimuth and the drill rig is then aligned with the stakes. The drill supervisor uses an inclinometer to ensure the drill mast is aligned with the intended angle of the drill hole.

At the Pilar Mine, Mineral Resource drill spacing is generally set on approximately 45 m centers whereas the Mineral Reserve grid is approximately 22.5 m on center. Due to the dominant orientation of the mineralization, sections are east-west oriented

and drill angles are arranged in a fan position targeting perpendicular intersection, to the extent possible, along the north-south trending ore bodies.

At the Vermelhos Mine, the Mineral Resources and Mineral Reserves estimate has been defined by 15 RC drill holes and 130 diamond drill holes that have been drilled in east-west vertical sections spaced at approximately 20 m to 25 m centers for Mineral Reserve definition. The drill holes are drilled in an east-west direction with dips varying from 45° to 60°.

At the Surubim Mine, Mineral Resource drill spacing has been performed with an approximate 35 m spacing on center, whereas the Mineral Reserve grid is drilled at approximately 17.5m on center. The drill holes are performed in a fan pattern dipping 45° to 60°, at an azimuth of 115°.

R22W Mine was drilled using a combination of diamond and rotopercussive machines. Diamond drilling was performed in a fan pattern, investigating the hinge zone of the Caraíba Mine synclinal fold. The drill program was designed to confirm positioning of mineralized ore bodies and target zones of potential mineralization, coincident with geophysical anomalies. Rotopercussive drilling was performed to complement data gathered through geological and geophysical investigation accomplished in prior programs and to test the possibility for oxide ore discoveries at R22W Mine. A Rockdrill rig was used for fast and low cost sampling. Hole locations using this method were performed on a 50 m x 10 m grid with 1,330 drill holes at a maximum depth of 21 m. Samples were only collected using a minimum recovery of 60% of total planned mass.

In support of the current Mineral Resources and Mineral Reserves estimate, a total of 414,231 m of diamond core drilling, 450 m of RC and 24,099 m of rotopercussive drilling has been performed through the end of 2016, prior to the acquisition of MCSA by Ero.

Deviation surveys are executed with Reflex Maxibor II® equipment at 3 m intervals, and analyzed with Reflex Sprocess® software following the completion of the survey. Two measurements are performed in the upper movement (out) to validate the readings, with a 3% deviation between measurements admitted as the maximum permissible deviation according to that adopted standard operational procedure.

Diamond drill core is stored in wooden boxes with 5 m of capacity each (for BQ diameter core considering running with 100% recovery). All drill core is photo registered. Photos are stored in a centralized database. The wooden core boxes are stored in steel shelves specially built for the purpose within the MCSA core shed, where they are identified with permanent aluminium tags affixed to each box. Core logging is performed by the MCSA geology team according to industry best practices and following well defined standard operating procedures.

The following information is registered by the MCSA geology team for each drill log:

- main lithology;
- geological contacts, including recorded angles if possible measured with a protractor;
- presence of magnetism;
- presence of carbonaceous material performed using hydro-chloric acid (“HCl”) of 10%;
- presence of foliation, including recorded angles if possible;
- any other geological structures such as faults, folds, shearing and banding;
- fractured zones or faults and their representation in the drill core; and
- presence of copper or other elements, indicating the sampling interval used for chemical analysis (50 cm to 150 cm within mineralized zones, defined by prevalent geologic features).

## **Density**

Rock density is determined using the Arquimedes method. The standard operating procedures for the method are detailed below:

- selection of core interval for testing;
- length measurement (10 cm to 14 cm) and project association;
- lithology logging, mineralization and mineral type;
- record dry core weight in air – defining the Mass in Air (“MRxAR”);
- submerge core in melted paraffin to create a thin waterproof layer;
- repeat core weighing to calculate mass of paraffin coating (“MParaf”);

- core underwater weighing (the difference between the mass of the paraffin coated sample in air and mass of the paraffin coated sample in water corresponds to the mass of the water displaced by the core or the volume of the core sample); and
- the procedure considers the paraffin effect on the measurement (specific density  $\pm 0.9$ ). For high precision the following formula is used:

$$\text{Density} = \frac{\text{MR} \times \text{AR}}{(\text{MR} \times \text{Paraf. air} - \text{MR} \times \text{Paraf. water}) - (\text{MParaf.} / 0.9)}$$

### Sample Preparation, Analyses and Security

Sampling procedures are executed in accordance with mining industry best practices and well-defined standard operating procedures.

Core boxes are transported to the core shed by an MCSA technician or a designated representative from the drilling company. After the drill hole and meterage are confirmed by an MCSA geology technician and logging is performed by an MCSA geologist, all core boxes are photographed. The intervals and the sample numbers are clearly labeled on all core boxes. A diamond core saw is used to split the drill cores in half lengthwise. A spatula is used in core sections where the rock has deteriorated due to intense alteration or is highly fractured. Sample intervals are between 50 cm and 150 cm within the mineralized zone as defined by geological features. The only exception to this rule was within the Surubim Mine deposit where three-meter sample intervals were adopted within the near-surface oxidized zones.

Once the core has been cut, half of the drill core is placed in plastic bags and sent to the MCSA laboratory for physical preparation and chemical analysis. The remaining half-core is retained for storage in MCSA's core shed.

Due to the limited size of the drill core shed, MCSA must regularly discard older drill core sample material. The criteria for selecting core for disposal is well defined and limited to:

- drill core from areas of the deposit that have already been mined; and
- drill core obtained from duplicated zones via fan drilling for production definition are discarded, provided, that a confirmed representative drill core from each mineralized zone is kept.

The following standard operating procedures are undertaken at the MCSA on-site laboratory for completion of the physical preparation and chemical analysis of the samples:

#### Physical Preparation:

- arrival, verification and logging of samples;
- crushing and drying of the samples in an oven at 105°C;
- crushing of the samples in a ½" jaw crusher;
- further crushing in a cone crusher to a particle size of minus #6 mesh;
- homogenization and quartering of the material in a rotary splitter. Half of the sample is utilized in the process and half is sent to be stored in the core shed;
- the half used in the process is sent to a disk mill to be milled to minus 20 mesh;
- the material is then homogenized and quartered to  $\pm 70$  g;
- the material is then pulverized in a pan mill to minus 150 mesh;

#### Quantitative Determination:

- weigh 0.250 g using an analytical scale and transfer the material to a 250 ml beaker; weigh one duplicate sample for every five samples weighed;
- apply an acid mixture to the material (5ml of HNO<sub>3</sub> and 10 ml of hydro-chloric acid);
- heat the solution on a hotplate for 10 minutes;
- after 10 minutes, the solution is removed from the hotplate and 25 ml of distilled water is added. The solution is then allowed to cool for about five minutes until it reaches room temperature;

- filter paper, held in place by a retention band, is used to filter the solution and the filtered material is then homogenized; and
- the analysis for copper and nickel is conducted using an AAS.

GE21 has evaluated the sample collection, analysis and security procedures, as well as the procedures that were executed by MCSA's internal laboratory, and found them to be sound, having been executed in accordance with industry best practices.

### ***Quality Assurance and Quality Control (QA/QC)***

MCSA began to implement routine QA/QC procedures in its activities in 2007. Henceforth MCSA has been perfecting these procedures based on continuous improvement initiatives implemented by MCSA personnel and recommendations from external consultants.

The QA/QC program covers each chemical analysis performed on drill core samples with the aim of:

- avoiding the use of poor quality information during the construction of geological models and the execution of resource estimates; and
- promoting procedures for controlling and guaranteeing the quality and reliability of the samples that are prepared and of the chemical analytical result that are obtained in the laboratory.

### ***Preparation Duplicate Samples***

The typical QA/QC program implemented at MCSA involves sending duplicate batches of 2 mm coarse samples to the laboratory which are then pulverized to minus 150 mesh. Samples are chosen so as to be representative of the sampling data. One sample is selected from the original batch of material at an interval of at least every 20 samples (a rate of 5%). Within the batches of duplicates, control samples are inserted in accordance with the following procedure:

### **Blank Samples**

Mafic gneiss samples that are pulverized to minus 150 mesh at MCSA's laboratory are used as blank control samples. These samples are included with the aim of verifying the quantitative analysis that was undertaken by the laboratory. The blank samples are sent at an interval of one blank sample for every 10 samples within each batch (a rate of 10%). Results from samples that underwent these quality control procedures are considered acceptable.

### **Standard Samples**

MCSA uses standard samples to verify the laboratory's level of precision. One CRM control sample is inserted at every 10 samples (a rate of 10%) within the batch of duplicates. At the beginning of the QA/QC program employed by MCSA, commercial CRMs were used that were acquired from the company GEOSTATIS (GBM306-14 and GBM907-14) and from ITAK (ITAK-809).

In 2015, MCSA contracted ITAK to complete a certification of material that was collected from the Caraíba Mine. The CRM samples that were used for this project were of low grade (ITAK 823), intermediate grade (ITAK 824) and high grade (ITAK 825).

As an internal parameter for evaluating this QA/QC method, MCSA established that 90% of the samples should be within the minimum and maximum limits defined as  $2SD \pm \text{Average of the CRM certified value}$  in accordance with the following table.

CRM ID	Certified value	Lower Limit	Upper Limit
		95% Confidence	
GBM306-14	1.67%	1.55%	1.79%
GBM907-14	0.82%	0.75%	0.89%
ITAK 809	0.36%	0.34%	0.38%
ITAK 823	0.90%	0.85%	0.93%
ITAK 824	2.67%	2.54%	2.80%
ITAK 825	5.83%	5.66%	6.00%

Outliers that were found within the populations were associated with switches between standards. These samples were removed from the database.

Based on the analysis of the QA/QC results that the MCSA laboratory provides good precision at lower copper grades, below 2% Cu. However, it was also observed that the MCSA laboratory displays a tendency to underestimate the higher-grade copper values above 2% Cu. It is recommended that the calibration of the equipment and standards for samples of grades greater than 2% Cu be discussed with the laboratory.

#### Analysis of the Results of the Duplicate Samples

In analyzing the results of duplicate samples, the following limits of acceptability were considered: 20% of the relative difference for the coarse reject duplicates and 10% of the relative difference for the pulverized duplicates.

Analysis of the QA/QC data shows that the most critical points are related to the low copper grades. Greater than 90% of all sample for both coarse rejects and pulverized duplicates showed results that were within the defined limits of acceptability.

Overall, the evaluation of MCSA's QA/QC procedures and lab results shows that not only are the results from the laboratory satisfactory, but that MCSA's laboratory produces precise results as well.

#### *Field Duplicates*

In addition to blank and standard duplicates, MCSA included duplicate field samples into its QA/QC procedures in order to test for the variability present in the deposit, the quality of the drill core sampling, and for the precision of the laboratory. The procedure consists of the inclusion of one field duplicate sample for every 20 drillcore samples (a rate of 5%). The duplicate samples are obtained by splitting the half-core into a ¼ core duplicate sample.

The analysis of the results of this QA/QC measure show that approximately 73.8% of the pairs that were analyzed presented a relative precision better than 25%. In considering the precision of the laboratory with control standards, the low precision obtained for these tests was interpreted to be caused by localized variability of mineralization between sample pairs. For this reason, and because 2,066 pairs had been analyzed previously, in work performed in 2013 Coffey Mining recommended that this quality control method should no longer be implemented.

#### *QA/QC Post Mortem Analysis*

The samples that were analyzed before the implementation of the standard QA/QC program in 2007 were subjected to the same quality control tools that allow for an evaluation of the accuracy and precision of the grades that were obtained. On the basis of the demonstrated quality associated with the current sampling procedures and the post-2007 performance of MCSA's laboratory, which was evaluated through daily QA/QC campaigns, MCSA conducted a Post Mortem QA/QC Analysis (defined below) with the aim of validating the samples that were analyzed before the QA/QC program was effectively implemented.

The Post Mortem QA/QC Analysis involved re-analyzing a minimum of 10% of the total number of samples with no corresponding QA/QC data that would be used in the resource and reserve grade estimation to validate the historic assays. After the selection of the samples that were used in the estimate and the identification of available core samples or coarse tailing samples, the intervals that were to be re-analyzed were selected.

On further analysis of the Aprofundamento area within the Pilar Mine, showing that only 2% of the samples utilized in the Mineral Resources estimate were without QA/QC data, GE21 considered the post mortem validation of the quality of these samples to be unnecessary.

The samples of the intervals that were selected for reanalysis were drawn by splitting the remaining core to ¼ of the half drill core remaining in the core shed for this purpose.

Due to the availability of 2 mm rejects from the Vermelhos Mine, the decision was made to evaluate these samples rather than splitting the remaining half core. The procedure for reanalyzing these QA/QC validation batches followed the same procedures used for the standard QA/QC sampling process.

Blank control samples and CRMs were included in the batches that were sent to the laboratory in order to evaluate their quality. No significant deviations were found in the results of these control tests.

A total of 90.7% of the duplicates and 90.9% of the coarse reject samples displayed levels of precision that were within the established acceptable criteria of 20% and 10%, respectively.

### ***Opinion of the Qualified Persons***

GE21 completed an evaluation of the quality of the chemical analyzes of the samples contained in the sampling database during two distinct phases:

- evaluation of the sampling processes, completion of a qualitative instrumental analysis, standard QA/QC procedures and an analysis of the QA/QC control instruments; and
- for samples that pre-dated the standard QA/QC process implemented in 2007, the reanalysis of 10% of the samples that were used in the Mineral Resources estimate to validate their inclusion, starting with field duplicates or coarse reject samples (the “**Post Mortem QA/QC Analysis**”).

GE21 considered the standard QA/QC procedures to be in accordance with mining industry best practice. It is recommended, however, that blank control samples be inserted at a higher rate of 20%. GE21 concluded that the result of the Post Mortem QA/QC Analysis was satisfactory, and considered the samples that pre-dated the implementation of the standard QA/QC program at MCSA to be acceptable for use in the Mineral Resource estimate. GE21 recommends that the QA/QC program include mass controls within the standard granulometric control process during sample crushing and pulverization in order to evaluate the quality of the comminution procedures and ensure no sample loss during sample preparation.

### **Data Verification**

GE21 personnel conducted periodic field visits at MCSA to verify its infrastructure, the procedures it employs and the results it obtained from the activities that are carried out by MCSA staff.

Geologist Mario Reinhardt, Geologist Bernardo Viana, and mine engineer Porfirio Rodriguez, all GE21 Qualified Persons, along with mine engineer Leonardo Aparicio conducted their final field visit at MCSA between January 23 and 26, 2017.

Porfirio Rodriguez is an independent consultant and has conducted field visits at the project site since year 2006. Since that year, Mr. Rodriguez has accompanied MCSA personnel in the development of the resource and reserve estimate activities that have subsequently been implemented by the MCSA staff.

GE21 is of the opinion that the exploration data is adequate for use in the Mineral Resources and Mineral Reserves estimates. What follows below are some observations that were recorded by GE21 personnel during the course of visits as it relates to the generation, collection, control and storage of exploration data on site at MCSA:

- *Drill Hole Logging:* This task was considered as standard industry practice and is improving at MCSA with a renewed focus on long-term exploration. GE21 performed a review of logging procedures for randomly selected drill core and verified the completeness of the logs, but noted that standard lithological codes were not recorded across all drill holes and some geologic features were omitted from the logs. Considering all the content that was evaluated however, MCSA has demonstrated that it understands the geology that occurs at the deposit.

- *Laboratory and Chemical Analyses:* standardized QA/QC procedures were found to be complete and within standard industry practice. A portion of the older information (collected before the QA/QC procedures were in place) could not be assessed and was omitted from the resource calculation.
- *Database:* Recent data is stored in a standard commercial database. Historical records are well managed and are currently being migrated to the database. Data storage procedures at MCSA are considered within standard industry practice. As part of the validation process, GE21 verified 377 holes totaling 96,417 m of drilling. Database validation was conducted with the help of MCSA staff according to standard validation procedures. No inconsistencies were found in the database.
- *Density:* The density information is vast having been collected over the operating history of the mine. The process whereby density data is obtained is considered within standard industry practice. GE21 noted that average densities for each rock type and style of mineralization are used which may lead to underestimating density in high grade areas. Modern data management and an estimation system based on interpolation within the block model should be considered in the future.

## **Mineral Processing and Metallurgical Testing**

### ***Introduction***

Metallurgical recovery data for ore zones that have been previously mined and processed, including of the mineralized zones of the Pilar Mine and the Surubim Mine, is extensive. Forecast recoveries for these areas are based on laboratory testing performed in MCSA's laboratory. Forecast recoveries in these zones are described in greater detail under "*Forecast Metallurgical Recoveries for Pilar Mine Zones and Surubim Mine Zones*", below. Such tests were designed to mimic the residence time, grind size and reagent scheme of the processing operations in practice in order to predict recoveries in the Caraíba Mill. Due to the extensive nature of the test work, regression curves based on copper head-grades were applied to each ore zone.

Vermelhos UG Mine metallurgical recoveries are forecast based on metallurgical composite test work performed by the MCSA laboratory in conjunction with characterization and work index classification completed by SGS Geosol Laboratories ("**CETEM**"). The results of these studies and forecast recoveries for the Vermelhos Mine are discussed in greater detail in "*Vermelhos Mine Metallurgical Test Work*", below.

Tested samples used to generate the forecast metallurgical recoveries are representative of the expected mineral composition of the production plan and consistent with the operating history of the Caraíba Mill.

### ***Forecast Metallurgical Recoveries for Pilar Mine Zones and Surubim Mine Zones***

Drill hole composites from each area within the Pilar Mine are routinely tested for metallurgical performance and characterization by MCSA's process engineering team and laboratory personnel. The test work consists of sample preparation, mineralogical characterization, grind studies, rougher and cleaner flotation tests. The objective of this work is to predict the recoveries of the ores in the various regions of the underground and open pit mines for planning purposes and to develop optimal process parameters for each ore type. The following sections detail the results of these studies.

#### ***Deepening (Aprofundamento)***

Flotation tests were carried out with metallurgical composites from 94 drill holes representing 2,078 samples in the composite test work. An average recovery of 91.4% is forecast for the Deepening area at the average feed grade of 2.55% Cu.

#### ***P1P2NE***

Flotation tests were carried out with metallurgical composites from 17 drill holes representing 573 samples in the composite test work. Recoveries of 88% are forecast for P1P2NE at the average feed grade of 1.41% Cu.

#### ***P1P2W***

Flotation tests were carried out with metallurgical composites from 10 holes representing 201 samples in the composite test work. Recoveries of 83.2% are forecast for P1P2W at the average feed grade of 1.57%.

## *MSBS*

Ore from MSBS mine area has been processed by the plant. Actual plant performance serves as the guide for forecast metallurgical results. Recoveries of 79.6% are forecast for MSBS at the average feed grade of 1.18% Cu.

## *GO2040 + Piloto 1*

Ore from GO20140+Piloto 1 mine areas have been processed by the plant. Actual plant performance serves as the guide for forecast metallurgical results. Recoveries of 83.4% are forecast for GO2040 + Piloto 1 at the average feed grade of 1.10% Cu.

## *Sill Pilar*

Ore from the Sill Pilar mine area has been processed by the plant. Actual plant performance serves as the guide for forecast metallurgical results. Recoveries of 90.2% are forecast for Sill Pilar at the average feed grade of 2.33% Cu.

## *Surubim Mine*

Ore from the Surubim Mine has been processed by the Caraíba Mill previously. Actual plant performance serves as the guide for forecast metallurgical results. Recoveries of 88.0% are forecast for Surubim at the average feed grade of 0.79% Cu.

## ***Vermelhos Mine Metallurgical Testwork***

Vermelhos Mine characterization and composite metallurgical testing was performed by MCSA's process engineering group, in conjunction with mineral characterization and work index classification completed by CETEM. The Vermelhos Mine characterization and metallurgical testing program consisted of composite sample preparation, characterization, Bond work index determination, grinding studies and flotation test work including variability analyses. The Vermelhos Mine metallurgical program objectives were to: (i) perform Vermelhos Mine ore composite flotation test work to determine if the conventional process flowsheet for processing copper at the Caraíba Mill would yield satisfactory results on the Vermelhos Mine ore; and (ii) estimate recoveries for the Vermelhos Mine Mineral Reserves for use in mine planning. MCSA's process engineering group received approximately 150 kg of core samples that were composited for the study. Test work results show that a saleable concentrate with minimal impurities can be produced using the existing infrastructure and process flowsheet currently in use at the Caraíba Mill.

### *Vermelhos Composite Preparation and Characterization*

Samples from each drill hole and a representative master composite were formed based on the expected composition of the overall Vermelhos Mine deposit were crushed and homogenized into samples weighing approximately 1.5 kg for chemical analysis and further metallurgical test work. Optimized flotation parameters were determined for the master composite sample. The same parameters were used on samples for each of the drill holes to analyze variability in metallurgical response. Mineral liberation analysis, performed by CETEM, on the Vermelhos Mine composite sample indicates that a significant portion of the sulphides can be liberated with a relatively coarse grind.

The mineralogical composition of the composite Vermelhos sample, in percent by mass, consists of the following: plagioclase (18%), pyroxenite (18%), quartz (15%), chalcopyrite (13%), as well as lesser amounts of biotite (7.6%), k-feldspar (4.1%), serpentine (3.8%), chlorite (3.8%), bornite (2.8%) and pentlandite (0.6%). Based on the characterization test work, over 98% of the contained copper in the Vermelhos Mine ore is in the form of chalcopyrite and bornite, with each representing 71% and 27% of the total copper content, respectively.

### *Vermelhos Bond Ball Mill Work Index*

Test work performed by CETEM shows the Vermelhos Mine ore has an average bond mill work index of 21 kWh per tonne. This result is both compatible with the Caraíba Mill and consistent with that of the Pilar Mine ore currently being processed.

### *Vermelhos Grind Studies*

A series of grind studies were performed on the Vermelhos Mine master composite sample. The tests were carried out with the following grind times: six, seven, eight and nine minutes, with percent passing 150 mesh recorded for each grind duration. Based on the test work, an average grinding time of eight minutes resulted in the sample particle size distribution being

representative of the current product grind of the Caraíba Mill's grinding unit operations, obtaining approximately 65% of the material passing 150 mesh. An eight minute grind was therefore selected as the target grind time for additional laboratory flotation test work. The sieve analysis performed with eight minutes of grinding time resulted in approximately 80% of the contained copper within the 65% passing 150 mesh fraction.

#### *Flotation and Variability Test Work*

The Vermelhos Mine master composite was subjected to flotation optimization analysis to define optimal flotation parameters to be used in additional variability flotation test work. Composite optimization testing indicated optimal dosage of 52 g/t of collector (plus 20 g/t PAX) and 22 g/t of frother.

Flotation kinetic test work was performed to determine rougher recovery as a function of flotation time. The objective of the analysis was to validate flotation time against maximum recovery and concentrate grade when considering the current configuration of the Caraíba Mill. The general parameters for the study were as follows:

- grind: 35% + 106 microns;
- pH: natural;
- collector: 52 g/t dithiophosphate;
- frother: 22 g/t MIBC; and,
- sample mass: 1.5 kg.

The rougher kinetics tests showed that within one to three minutes of flotation, in all but Test 1, the rougher concentrate obtained was above 30% copper and could be considered final copper concentrate, at recoveries up to 89.8%. After eight minutes of flotation, 96% of copper was recovered with a cumulative rougher concentrate grade of 20% copper. Variability flotation tests were performed under the same operating conditions as the master sample with eight minutes of grind time. In each of the samples tested, rougher tests showed an average bulk concentrate grading approximately 24% copper at 95% metallurgical recovery.

#### *Open Circuit Cleaner Flotation*

Open circuit cleaner flotation tests were performed on the Vermelhos Mine master composite sample. Test work included rougher flotation and two stages of cleaner flotation to demonstrate the feasibility of producing a final concentrate. Flotation stage residence time was selected to mirror that of the Caraíba Mill operations. Test conditions for the open circuit cleaner test work were as follows:

- grind: 65% passing 106 microns;
- pH: neutral;
- collector: 52 g/t dithiophosphate and 20 g/t PAX;
- frother: 22 g/t MIBC;
- sample mass: 1.5 kg; and
- rougher, cleaner and scavenger stages of three minutes, and recleaner stage of two minutes.

The test work was performed for global tests with dosage of reagents occurring in bulk in the rougher stage and in another series of tests, added in ½ dose increments in the rougher stage. The results demonstrated that concentrate grades ranging from 28% Cu to 40% Cu could be easily produced from the composite sample. Flotation carried out with the dosage of reagent added in ½ dose increments showed better quality results and enhanced stability across each of the flotation stages. The results indicate global metallurgical recoveries of 94.0% with a concentration factor of 5.28.

#### *Open Circuit Flotation Tests on Vermelhos Mine Ore Blended With Pilar Mine Ore*

To verify the behavior of the Vermelhos Mine ore when blended with that of the Pilar Mine ore, additional variability test work was performed with blended Vermelhos Mine and Pilar Mine ore. The test program was based on 70% by mass of ore from the Pilar Mine grading 1.7% Cu blended with 30% by mass of the same Vermelhos Mine master composite grading 6.5% Cu. The blended composite resulted in a feed grade of 3.14% Cu, in line with production plans on commencement of production from the Vermelhos Mine. To assess feasibility of creating a saleable concentrate with the existing process flowsheet, flotation stage residence time was selected to mirror that of the Caraíba Mill. The test conditions were as follows:

- grind: 65% passing 106 microns;
- pH: neutral;
- collector: 40 g/t dithiophosphate and 20 g/t PAX;
- frother: 25 g/t MIBC;
- sample mass: 1.5 kg; and,
- rougher, cleaner and scavenger stages of three minutes, and recleaner stage of two minutes.

Test work resulted in similar global recoveries of 94.1% and a concentration factor of 12.1 due to the decline in head-grade of the blended sample.

#### *Vermelhos Forecast Metallurgical Recoveries*

Composite and variability test work on the Vermelhos Mine ore resulted in excellent copper recoveries and final concentrate grades. Demonstrated recoveries for the Vermelhos Mine composite sample on both a stand-alone basis and when combined with Pilar Mine ore resulted in global recoveries in excess of 94%. Recoveries of 90% are assumed for the Vermelhos Mine ore in the mine plan to account for more variable grades than those captured in the composite test work, variable ore sources within the deposit and the scale-up of laboratory test work. Forecast recoveries may be impacted from time to time by the presence of talc, for which a suppression system is already in place and operational at the Caraíba Mill.

#### *Forecast Metallurgical Recoveries*

Forecast plant performance for the production plan through 2025 and recovered metal contribution by mine area are shown in the following tables.

#### **Forecast Caraíba Milling Operations (Adjusted for Stockpiles and In-process Inventory)**

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
Production Tonnage (tonnes)	1,614,460	1,268,336	1,627,940	1,845,656	1,507,404	1,037,980	259,078	198,031	98,036
Grade (% Cu)	1.34	1.77	2.23	2.29	3.88	2.98	2.72	2.52	1.71
Metallurgical Recovery (%)	88.07	87.96	89.06	90.21	90.66	90.84	91.78	91.11	87.62
<b>Copper Production (tonnes)</b>	<b>19,022</b>	<b>19,726</b>	<b>32,305</b>	<b>38,099</b>	<b>53,063</b>	<b>28,137</b>	<b>6,476</b>	<b>4,555</b>	<b>1,465</b>
Concentrate Grade (% Cu)	35.11	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00
Dry Concentrate Production (tonnes)	54,178	56,359	92,300	108,853	151,608	80,392	18,502	13,015	4,187

## Recovered Metal by Mine Area (Unadjusted for Stockpiles and In-process Inventories)

Mine Production Detail (Recovered Cu by Area, tonnes)	2017	2018	2019	2020	2021	2022	2023	2024	2025
<b>Pilar Mine</b>									
Deepening (Aprofundamento)	11,052	11,816	10,032	12,531	14,099	12,421	-	-	-
MSBS	394	2,824	178	-	-	-	-	-	-
P1P2W	522	2,736	2,365	-	-	-	-	-	-
P1P2 NE	-	719	5,387	4,201	2,894	-	-	-	-
Piloto 1 + GO2040	2,188	-	-	-	-	-	-	-	-
Sill Pilar Recovery	370	-	-	2,029	-	-	6,476	4,555	1,465
<b>Pilar Mine Total</b>	<b>14,526</b>	<b>18,094</b>	<b>17,963</b>	<b>18,761</b>	<b>16,993</b>	<b>12,421</b>	<b>6,476</b>	<b>4,555</b>	<b>1,465</b>
<b>Open Pit Operations</b>	<b>4,560</b>	<b>794</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Vermelhos Mine</b>									
Vermelhos Main Ore Body	-	-	12,842	18,501	36,107	15,546	-	-	-
Vermelhos Expansion 01	-	848	1,046	445	-	-	-	-	-
Vermelhos Expansion 02	-	-	489	416	-	-	-	-	-
<b>Vermelhos Mine Total</b>	<b>-</b>	<b>848</b>	<b>14,377</b>	<b>19,361</b>	<b>36,107</b>	<b>15,546</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Copper Production</b>	<b>19,086</b>	<b>19,737</b>	<b>32,339</b>	<b>38,122</b>	<b>53,100</b>	<b>27,966</b>	<b>6,476</b>	<b>4,555</b>	<b>1,465</b>

From June 1, 2017 to August 27, 2017 a total of 1,603 tonnes of contained copper has been mined from the Suçuarana Mine, which is nearing the end of its mine life.

### Mineral Resource Estimates

#### *Introduction*

The Mineral Resource calculation includes the Mineral Resources for each zone within the Pilar Mine (comprised of the discrete mineralized zones of “MSBS”, “MSBW”, “P1P2W”, “P1P2NE” and the “Aprofundamento” zone), the Vermelhos Mine, the Surubim Mine and the R22W Mine. The Vermelhos Mine, Surubim Mine and R22W Mine have no such resource estimate zonation and have been considered as single deposits. Under the direct supervision of GE21, MCSA personnel prepared the geological models and used Datamine Studio 3<sup>®</sup> software for grade estimation for all areas, with the exception of the Surubim Mine which was previously estimated by SRK in 2008. The resource estimation of the Surubim Mine was conducted by Leah Mach and performed under the requirements of CIM classification, and updated for use in the current Mineral Resources estimation. The estimation methodology and results were presented and reviewed by the MCSA geology department. GE21 then updated the Mineral Resources for depletion of mined blocks through the effective date of the Vale do Curaçá Technical Report and, for open pit mines, constructed a new resource pit shells using updated economic parameters.

The authors of the Vale do Curaçá Technical Report consider the work performed by SRK in 2008 on the Surubim Mine, and updated by GE21, to be of acceptable quality for inclusion in the current Mineral Resources estimate.

### *Mineral Resources Statement and Classification of Mineral Resources*

#### *Introduction*

The OK method was used on the variable copper for the estimation of the block model grades. Estimates were performed for each domain of the MCSA Mining Complex, and for each mineralized zone within the Pilar Mine. OK identifies the contributing composite samples by means of an investigative process originating from the center of each block. The weighting of influencing composite samples are determined so as to minimize the variance, after considering the spatial relationship of the composites captured within the investigation parameters as defined by the modelled variogram. Variography describes the correlation between composite samples as a function of their distance and direction. The weighted composite sample grades are then combined to generate the grade within each block and the variance.

### *Mineral Resources Estimation Strategy*

The Mineral Resources estimation strategy that was adopted considered criteria such as the type and continuity of the mineralization and the spacing of the drilling grid within each zone and mineralized geological domains. An estimate of the variable Cu (%) was completed for the block models in accordance with the results of the structural analysis that was undertaken for each one of these variables. The plan that was established considered up to four estimation steps. A high grade restriction method was applied to the composite values to restrict the influence of the composite population outliers used in the OK method. Capped grades were estimated for each domain and a limited search radius was applied for those samples that have a grade equal or higher than this capped value. In the case of the current Mineral Resource estimate, a limited search radius of 30m was applied to restrict the influence of high grade copper values on the Mineral Resources estimate. This simple procedure led to better results in local estimates as observed on the swath plots.

### *Mineral Resources Classification*

When it comes to deposits amenable to open-pit mining methods, the Lerchs-Grossman pit of measured, indicated and inferred confidence categories captures the required inputs under the CIM Definition Standards for Mineral Resources. A grade shell based approach implementing stope optimization was used to verify the economic extraction of material via underground methods for the MCSA Mining Complex. In both cases, the cut-off calculation methodology for underground and open pit mining resources considered the total costs (excluding general and administrative and operational support). The same methodology has been applied for Mineral Reserves.

A 0.68% Cu cut-off was considered for the MCSA Mining Complex’s Mineral Resources amenable to underground mining methods and a 0.18% Cu cut-off was considered for Mineral Resources amenable to open pit mining. Operating costs were based on actual operating 2015 performance (the last full year of operation). When combined with practical limits of available mining rights and the mathematical optimization results a RPEE is guaranteed for the current Mineral Resources estimate. The main parameters used to define the underground stopes and open pit shells set out in the following table.

<b>RPEE Factors</b>	<b>Input</b>
<b>Economic Parameters</b>	
Copper Price (US\$/tonne)	\$6,614
FX Rate (BRL:USD)	3.60
Net Smelter Return (“NSR”)	87.5%
Metallurgical Recoveries	87.5%
Adjusted Copper Revenue (US\$/tonne) <sup>(1)</sup>	\$5,064
<b>Cost Parameters</b>	
Mining Cost OP Mining (US\$/tonne)	\$3.30
Mining Cost UG Mining (US\$/tonne)	\$28.60
Processing Costs, including Transport (US\$/tonne Run-of-Mine)	\$5.70

**Note:**

(1) Copper revenue shown includes the effects of metallurgical recoveries and NSR adjustments.

The geometric definition of the RPEE for open pit mining was performed using Geovia Whittle software for the Surubim Mine and NPV Scheduler for the R22W Mine. The geometric definition of the RPEE for underground mine stopes was performed using Datamine’s Minalbe Shape Optimizer (“MSO”). MSO provides a stope-shape that maximizes recovered resource value above a defined cut-off grade while also considering more practical underground mining parameters such as: minimum and maximum mining width, minimum and maximum wall angles, minimum separation distances between parallel and sub-parallel stopes, minimum and maximum stope heights, stope widths, etc. The MSO searches for the optimal mineable shapes taking into account the geometry of the mineralized ore body.

The main geometrical and economical parameters for all Mineral Resources amenable to underground mining methods are listed the following table.

<b>Stope Optimization Parameters</b>	
Cutoff	0.68 %Cu
Waste default density value	2.89 t/m <sup>3</sup>
Waste default grade value	0.01%
Minimum strike angles	-45°
Maximum strike angles	45°
Minimum dip angles	45°
Maximum dip angles	105°
Minimum separation distances between parallel and sub-parallel stopes	0m
Sub-stope heights <sup>(1)</sup>	5m
Minimum sub-stope widths	2m
Sub-stope Length	5m

**Note:**

(1) For the Vermelhos Mine sub-stope heights of 6m were used.

In considering the overall quality of the data that was utilized in the estimate, the Mineral Resource was classified as:

- Measured – Blocks estimated on Estimate Pass 1;
- Indicated – Blocks estimated on Estimate Pass 2 or 3; and
- Inferred – Blocks estimated on Estimate Pass 3 or 4.

Maximum pass distances vary by mine and domain therein. Values range from 3 m to 53 m for Pass 1, 11 m to 125 m for Pass 2 and from 6 m to 188 m for Pass 3. A limited search radius of 30 m was applied to restrict the influence of high grade copper values on the Mineral Resources estimate. The following table sets out the maximum distances used for estimation passes in more detail.

Mine / Zone	Domain	Direction	Variographic Range (m)	Pass #1	Pass #2	Pass #3
Vermelhos Mine	100	X	25	17	25	38
		Y	50	33	50	75
		Z	11	7	11	17
	200	X	21.6	14	22	32
		Y	80	53	80	120
		Z	16	11	16	24
	300	X	56.7	38	57	85
		Y	72	48	72	108
		Z	19	13	19	29
Pilar Mine (Aprofundamento)	2004	X	15	10	15	23
		Y	35	23	35	52
		Z	4	3	4	6
	2005	X	52	35	52	78
		Y	80	53	80	120
		Z	11	7	11	17
	5005	X	38	25	38	57
		Y	70	47	70	105
		Z	10	7	10	16
Pilar Mine (MSBW)	-	X	50	33	50	75
		Y	60	40	60	90
		Z	15	10	15	23
Pilar Mine (MSBS)	3001/3002	X	69	46	69	104
		Y	125	83	125	188
		Z	45	30	45	68
Pilar Mine (P1P2 NE)	-	X	46	33	46	70
		Y	70	50	70	105
		Z	25	16	25	35
Pilar Mine (P1P2 W)	-	X	55	37	55	82
		Y	82	55	82	123
		Z	27	20	27	40
R22W Mine	-	X	40	27	40	60
		Y	80	53	80	120
		Z	20	13	20	30

Only the blocks within the defined pit shell or optimized stopes were considered as Mineral Resource.

The Mineral Resources that were estimated are shown in the following tables. Such Mineral Resources have an effective date of March 31, 2017. Mineral Resources shown are inclusive of Mineral Reserves. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. All figures in the tables below have been rounded to reflect the relative accuracy of the estimates.

### Mineral Resources – Pilar Mine

Resource Classification	Tonnes (kt)	Cu (%)	Contained Cu (kt)
Measured	10,777.9	1.52	163.4
Indicated	6,451.7	2.67	172.5
<b>Measured+Indicated</b>	<b>17,229.7</b>	<b>1.95</b>	<b>335.9</b>
Inferred	1,513.9	2.45	37.2

**Note:**

(1) Mineral Resources estimated by OK inside a 5 m by 10 m by 20 m block for the Aprofundamento, MSBW and MSBS deposits, 10 m by 20 m by 20 m blocks for the P1P2NE deposit and 2.5 m by 2.5 m by 20 m blocks for the P1P2W deposit.

### Mineral Resources – Vermelhos Mine

Resource Classification	Tonnes (kt)	Cu (%)	Contained Cu (kt)
Measured	1,340.8	6.91	92.7
Indicated	1,200.6	2.40	28.8
<b>Measured+Indicated</b>	<b>2,541.4</b>	<b>4.78</b>	<b>121.5</b>
Inferred	2,189.4	1.52	33.3

**Note:**

(1) Mineral Resources estimated by OK inside 5 m by 10 m by 10 m blocks.

### Mineral Resources – Surubim Mine

Resource Classification	Tonnes (kt)	Cu (%)	Contained Cu (kt)
<b>Oxides</b>			
Measured	0.0	0.00	0.0
Indicated	5.9	0.35	0.02
<b>Measured+Indicated</b>	<b>5.9</b>	<b>0.35</b>	<b>0.02</b>
Inferred	0.8	0.34	0.003
<b>Sulphides</b>			
Measured	17.6	0.53	0.1
Indicated	393.6	0.89	3.5
<b>Measured+Indicated</b>	<b>411.2</b>	<b>0.88</b>	<b>3.6</b>
Inferred	78.6	1.02	0.8
<b>Total, Surubim Mine</b>			
Measured	17.6	0.53	0.1
Indicated	399.5	0.89	3.5
<b>Measured+Indicated</b>	<b>417.1</b>	<b>0.87</b>	<b>3.6</b>
Inferred	79.4	1.01	0.8

**Note:**

(1) Mineral Resources estimated by OK inside 5 m by 5 m by 5 m blocks.

## Mineral Resources – R22W Mine

<b>Resource Classification</b>	<b>Tonnes (kt)</b>	<b>Cu (%)</b>	<b>Contained Cu (kt)</b>
Measured	306.2	0.54	1.7
Indicated	2.0	0.79	0.0
<b>Measured+Indicated</b>	<b>308.3</b>	<b>0.54</b>	<b>1.7</b>
Inferred	0.0	0.00	0.0

**Note:**

(1) Mineral Resources estimated by OK inside 5 m by 10 m by 10 m blocks.

### ***Estimation Validation***

GE21 evaluated the overall bias via comparison of the OK derived estimate to the NN method. The method consists in arriving at a Mineral Resource estimate using only one pass, whereby the block that is being estimated is designated as having the same grade as the sample that is closest to it, within the parameters of anisotropy defined by the search ellipsoid. Comparison of this grade with the grade that was estimated for the model using OK provides a check on the influence of sample bias. The estimate validation was performed with the aid of Kriging histograms and quantile-quantile plots used to check for the occurrence of bias and to smooth the estimate. The NN validation method made it possible to check for the occurrence of estimate smoothing due to Kriging, within what is expected for the type of mine and the dimensions of the block model. The comparison showed that the Kriging respected the average of the grades.

Local validation via the Swath Plot method was performed to analyze the occurrence of any localized biases by comparing the average estimated grades for the Mineral Resources model obtained via OK methodology, with the grades that were estimated via the NN method for the same x, y or z coordinates. Grade scatter plots were developed for copper grades versus coordinates.

### ***Qualified Persons Opinion***

Based on the validation methods employed, GE21 considers that results obtained for the estimate via OK is acceptable, and notes that there appears to be no observable overall or local bias. GE21 considers the quality of the data used for the estimate as acceptable for the classification of the Mineral Resources estimate.

### **Mineral Reserve Estimate**

#### ***Mineral Reserve Estimation Methodology***

The Mineral Reserves for the Pilar Mine, Vermelhos Mine and Surubim Mine have been based on the Measured and Indicated Mineral Resources defined within a resource block model. Inferred Mineral Resources, where unavoidably included within a defined mining shape in both open pit and underground mining activity have been assigned zero copper grade.

The Mineral Reserves estimate is based on the following cut-off grade parameters:

<b>Cut-Off Grade Calculation Parameters</b>	
<b>Mining Cost (US\$/tonne ore mined)</b>	
Pilar Mine	\$32.22
Vermelhos Mine	\$26.52
Surubim Mine	\$3.71
<b>Transportation Costs (US\$/tonne ore)</b>	
Vermelhos Mine	\$6.63
Surubim Mine	\$5.98
<b>Processing Costs (US\$/tonne processed)</b>	
<b>\$6.38</b>	
<b>Metallurgical Recovery</b>	
<b>87.5%</b>	
<b>LME Copper Price (US\$ per lb.)</b>	
<b>\$2.75</b>	
<b>Net Smelter Return</b>	
<b>87.5%</b>	
<i>Foreign Exchange Rate (BRL:USD)</i>	
<i>3.20</i>	

Other technical criteria considered in the determination of Mineral Reserve estimation include:

- Mining panel maximum height of 35m for underground mines; benches of 10m for Surubim Mine. Underground stope maximum dimensions were based on geotechnical assessments from previous studies and past operating performance.
- The VRM method with cemented paste fill was selected for Pilar Mine, where the method is currently in use. For the Vermelhos Mine, SOS method was chosen as the mining method on consideration of the dip, plunge and thickness of the mineralized geological domains, the rock quality designation and overall competence of the host rock. Variations of this method are planned for the central area for the maximum possible recovery with the rockfill matrix filling (“CRF”).
- Practical mining shapes (stope wireframes) were designed from geological wireframes/Mineral Resource block model using the cut-off value as a guide.
- Stope size varies per the geotechnical conditions at depth factoring the magnitude of induced stress and the defined rock mass classification.
- Within designed stopes, all contained material is assumed to be mined with no selectivity. Inferred Mineral Resources, where unavoidably included within a defined mining shape were assigned zero grade.
- In-situ quantities inside the mining shapes were reported using mine planning software Datamine Studio 5DP for underground mines and Minesight<sup>®</sup> for the Surubim Mine.
- Pilar Mine operational dilution of 10%, mining recovery of 96%.
- Vermelhos Mine operational dilution of 20%, mining recoveries of 81% and 84% for horizontal and vertical stopes, respectively.

### Mineral Reserve Estimate

The following table sets out the Mineral Reserve estimate of MCSA’s mineral assets in the Curaça Valley, Bahia State, Brazil, consisting of Mineral Reserves at the Pilar Mine, Vermelhos Mine and the Surubim Mine. The effective date of Mineral Reserves estimate is June 1, 2017. The copper price forecasts are internal estimates provided by Ero and have been deemed reasonable by SRK Brazil. All figures in the following table have been rounded to reflect the relative accuracy of the estimates. The Mineral Reserve estimates are prepared in accordance with the CIM Definition Standards, 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 Reserve estimates include mining dilution at zero grade. Mining dilution and recovery factors vary for specific Mineral Reserve sources and are influenced by factors such as deposit type, deposit shape, stope orientation and selected mining method.

Mine	Category	Tonnes (kt)	Cu (%)	Contained Cu (kt)
Pilar Mine	Proven	2,841	1.47	41.8
	Probable	3,350	2.28	76.3
	<b>Proven + Probable</b>	<b>6,191</b>	<b>1.91</b>	<b>118.1</b>
Vermelhos Mine	Proven	1,743	4.84	84.4
	Probable	676	2.37	16.0
	<b>Proven + Probable</b>	<b>2,418</b>	<b>4.15</b>	<b>100.4</b>
Surubim Mine	Proven	11	0.51	0.1
	Probable	248	0.80	2.0
	<b>Proven + Probable</b>	<b>259</b>	<b>0.79</b>	<b>2.1</b>
<b>TOTAL</b>	<b>Proven</b>	<b>4,595</b>	<b>2.75</b>	<b>126.3</b>
	<b>Probable</b>	<b>4,274</b>	<b>2.21</b>	<b>94.3</b>
	<b>Proven + Probable</b>	<b>8,868</b>	<b>2.49</b>	<b>220.5</b>

SRK Brazil presents the following accompanying comments:

- The Mineral Resource dated March 31, 2017 informs the base of the Mineral Reserve estimate. The Mineral Resource contains an aggregate of 12.1 million tonnes grading 2.11% Cu in the Measured category and 8.1 million tonnes grading 2.28% Cu in the Indicated category for a Measured and Indicated total of 20.2 million tonnes grading 2.28% Cu in aggregate for the Pilar Mine, the Vermelhos Mine and the Surubim Mine.

- Only the Measured and Indicated Mineral Resources have been considered as potentially economic.
- Any sample with less than 0.45% Cu and 0.20% Cu grade, for underground and open pit mines, respectively was logged as waste and was excluded from the ore lithology modelling.
- Due to the geometry of the ore body, a variation of the mining method used in Pilar Mine has been adopted for the Vermelhos Mine.
- Conventional open pit mining methods and equipment has been proposed for mining activities at the Surubim Mine.
- The Mineral Reserves estimate considers long term copper prices of US\$2.75 per pound.
- The Mineral Reserves of the underground units have been estimated to be 4.6 million tonnes grading 2.75% Cu in the Proven category and 4.0 million tonnes grading 2.29% in the Probable category for an underground unit total Proven and Probable Mineral Reserve of 8.6 million tonnes grading 2.53% Cu.
- The Mineral Reserves of the open pit unit have been estimated to be 0.11 million tonnes at 0.51% Cu in the Proven category and 0.25 million tonnes in the Probable category for an open pit unit total Proven and Probable Mineral Reserve of 0.26 million tonnes grading 0.79% Cu, within optimized and engineered open-pits designed on the basis of long term copper price of US\$2.75 per pound.
- The products are currently transported by truck to the Paranapanema Smelter in Brazil or the port of Salvador for export sales.
- MCSA holds the majority of the surface rights required to support the three mine operations considered in the Mineral Reserves estimate. Future development beyond the stated Mineral Reserves of these areas may require additional acquisition of surface rights.
- MCSA has successfully acquired, or, as in the case of the Vermelhos Mine, is in the process of acquiring the requisite permits to enable mining operations.
- Overall, SRK Brazil considers that the components of the Mineral Reserve estimate (geology, mine, processing, infrastructure, logistic, market, environmental and social) have been carried out to feasibility study level and in accordance with NI 43-101 standards.

SRK Brazil has not identified any known mining, metallurgical, infrastructure, legal, political, environmental or other risks that could materially affect the potential development of the stated Mineral Reserves. SRK Brazil has carried out the appropriate review to satisfy that the Mineral Reserve can be technically and profitably extracted through to the production of copper concentrate. Consideration has been given to all technical areas of the operations, the associated capital and operating costs, and relevant factors including marketing, permitting, environmental, land use and social. SRK Brazil is satisfied that the technical and economic feasibility has been demonstrated.

## **Mining Methods**

### ***Pilar Mine***

The underground portion of the Pilar Mine has been in operation for approximately 31 years. The mine was designed with an average production rate of 3,000t/d and an average development rate of approximately 500 m per month. The forecast production plan calls for an average production rate of 1,819t/d, peak production rate of 2,990t/dm, average development of 206 m per month and peak development of 510 m per month.

### ***Geotechnical***

The geological environment of Pilar Mine is predominantly composed of gneiss, pyroxenite, gabbro-norite and metasomatite. Mineralization occurs along a north-south direction, dipping sub-vertically to the west and plunging to the north. Two main fault zones marginal to the deposit have been mapped from surface to approximately 1,200 m below surface. Localized fracturing and faulting occurs throughout the mine development area. MCSA uses a combination of two-dimensional and three-dimensional modeling software to ensure appropriate stope design and the overall stability of underground workings. The geotechnical characterization of the Pilar Mine is based on the RMR classification system, which allows classifying the rock mass based on geotechnical quality. Main parameters of RMR include: IS, RQD, fracture spacing, fracture condition (persistence, roughness, filling and modification) and ground water. Geotechnical mapping within the Pilar Mine has resulted in the definition of five sub-groups of RMR. Each sub-group is described along with additional geotechnical design criteria in the following table.

<b>Group</b>	<b>Description</b>	<b>General Geotechnical Design</b>
Class I	Massive rock with little to no disturbance	No systematic support required
Class II	Moderately fractured rock mass	Resin anchors and mesh for permanent openings
Class III	Moderately fractured rock mass, Significant deformation zones	Grouted steel cables for permanent openings, shotcrete with fiber
Class IV	Broken rock mass, significant deformation zones	Resin anchors, mesh and/or shotcrete for temporary support. Shotcrete and grouted steel cables for permanent openings
Class V	Highly fractured and deformed rock mass	Resign anchors and/or shotcrete with fiber for temporary galleries. Grouted steel cables for permanent openings

### *Micro-seismic System*

In support of the geotechnical design and geomechanical monitoring, MCSA incorporates MMS to map micro-seismic events within the Pilar Mine. MMS has been shown to accurately determine the location of natural and/or induced seismic events, their magnitude and as a tool to predict potential interference with mine operations. The system consists of sensors installed throughout the mine which send signals to a database real-time. The geomechanical behavior of the rock mass is monitored by MCSA personnel in real-time using the installed MMS sensors.

### *Hydrogeology*

The MCSA Mining Complex (including the Vermelhos Mine and the Surubim Mine) is located in a semi-arid region of northeast Brazil near the Curaçá River. The river extends for 90 km between its source in the piedmont of the Serra do Elias region of Uauá and its entrance on the southern bank of the São Francisco River. The area of Brazil is characterized by high thermal averages (above 26°C) and two distinct annual dry and wet seasons. During the wet season, irregular precipitations occur that range from a minimum of 300 mm to a maximum of 1,000 mm annually. The absence, scarcity, irregularity and poor distribution of precipitation during the rainy season along with intense evaporation during the dry season and surface runoff of the waters combine to form a marked water deficiency in the region and contributes to the relatively low pumping requirements for underground and open pit mining in the region.

### *Underground Mining Methods*

#### Mining Method

The Pilar Mine has previously employed or currently employs the following mining methods: Sublevel Stopping, VRM and Vertical Crater Retreat. Sublevel Stopping, no longer planned for future development, is a method whereby the ore is blasted by fan drilling or in a parallel array. Ore is removed from the stope after it is blasted at a reinforced draw-point leaving an open stope. VRM is a method whereby the mine is divided into vertical zones of approximately 50m consisting of two operational levels – one for drilling and one for extraction.

#### Drilling

Stope drilling for VRM is performed via radial, upward and downward drilling within each stope. Downward drilling, where possible, is performed in a parallel array. Radial drilling is performed with a hole diameter of 4½” (6½” used for the free face and chimneys). On the lower extraction level, upward drilling is performed with a hole diameter of 3½”. The upward holes (under cut) have lengths ranging from 15 m to 25 m, and the descending holes vary from 25 m for fans to 50 m for free face drilling.

#### Stope Orientation and Dimensions

Stope angle orientation is based on the calculated factor of safety determined by analyzing the predominate orientation of localized faulting and fractures. Solids are designed from the north-south trending steeply dipping (approximately 80°W) ore bodies. Critical fractures for development stopes are projected using data from geotechnical mapping and knowledge gained from MCSA’s operating experience with the ore bodies.

Stope dimensions vary according to the geotechnical conditions at depth in response to the calculated magnitude of induced stress and defined rock mass classification within the area of development. While locally variable, on average, stope parameters can be described as having the following dimensions:

- In non-faulted zones: 10 m width x 20 m length x 35 m height; and
- In fault zones, the size of stopes is reduced to: 10 m width x 15 m length x 35 m height.

### Development

Pilar Mine ramp development utilizes a maximum design grade of 15% and 25 m radius on center. Ramp design targets an average distance of 20 m from the ramp to ore gallery access to limit access development meterage. Gallery access design dimensions of 5.0 m x 5.5 m are employed due to the size of the equipment operated by MCSA and the infrastructure necessary for further development of the galleries (ventilation ducts and production equipment access). Production galleries design dimensions are 4.5 m x 4.8 m. Transport cross-cuts are located at an average distance of 35 m from the ore body and are made parallel to the mineralized zone.

### Longitudinal Mine Profile

The Pilar Mine is divided into six main zones. Mineable Reserves are calculated for each area and have been shown in aggregate for the Mineral Reserve estimate.

### *Pilar Mine Plan*

The annual production for the Pilar Mine, beginning on the effective date of June 1, 2017, is summarized in the following table. The production plan shown includes no incremental production from conversion of Mineral Resources outside of the Proven and Probable Mineral Reserves. Production in years 2023 through 2025 consists of sill pillar recovery. It is anticipated that Mineral Resource conversion and delineation of new mineralization within the Pilar Mine will serve to augment the production profile, subject to satisfactory exploration results, technical, economic, legal and environmental conditions.

	2017 <sup>(1)</sup>	2018	2019	2020	2021	2022	2023	2024	2025	Total
Production (kt)	515	1,090	1,138	1,089	755	511	259	198	98	<b>5,653</b>
Grade (% Cu)	1.96	1.89	1.79	1.91	2.44	2.64	2.72	2.52	1.71	<b>2.08</b>
Met Recovery (%)	89.16	87.87	88.32	90.43	92.10	91.94	91.78	91.11	87.62	<b>90.01</b>
Copper Production (kt)	9.0	18.1	18.0	18.8	17.0	12.4	6.5	4.6	1.5	<b>105.7</b>

**Note:**

(1) The 2017 plan includes the production from June to December of 2017, corresponding to the Mineral Reserve Estimate above, effective June 1, 2017.

To meet the production plan targets, the following development rates are planned for the Pilar Mine:

Year	Total Development (meters)	Average Development Rate (meters / month)
2017 (May – Dec)	3,280	410
2018	4,459	372
2019	6,120	510
2020	4,980	415
2021	2,119	177
2022	523	44
2023-2025	248	<10

Note that in the last years the development rates ramp down due the completion of all development drifts for the Mineral Reserves included in the production plan. Sill Pilar recovery is expected to start in 2023. A total of 1,730 m of vertical development is planned, which includes raise bore long-segment service raises and requisite ventilation raises. All vertical development is planned to occur from 2017 to 2021.

### *Equipment*

The current mining fleet to be used in support of planned mining activities at the Pilar Mine are listed below in the following table. Subject to equipment replacement at the end of each equipment's useful life as captured in the capital expenditure forecast, the existing fleet is sufficient to meet the demands of the production plan.

<b>Equipment</b>	<b>Primary Function</b>	<b>Qty</b>
Jumbos	Horizontal drilling	5
Cubex	Vertical drilling	4
Cabolt	Cable bolting	2
Simba	General drilling	1
Rockbolts	Rock bolting	6
Scalers	Scaling	3
Concrete mixers/ sprayers	Shotcrete	4
Loaders	Loading and transport	13
Trucks	Material transport	17
Shift trucks	Personnel transport	5
Shotcrete carriers	Shotcrete transport	4
Platforms	Mesh installation and infrastructure	10
Support	Support Equipment	23
<b>Total</b>		<b>97</b>

### *Ventilation*

Ventilation of the Pilar Mine is performed mechanically through auxiliary fans installed on surface, serving to both expel dust and gases and draw air into the mine. The current ventilation circuit is made of four ventilation raises, each 3.0 m in diameter that connects the interior of the mine to surface and the auxiliary fans. Ventilation boosters, installed underground, are placed and sized to ensure sufficient air flow at the working faces. Secondary wells are also used to direct airflow according to the mines' needs. Ventilation design criteria are based on Brazilian standard NR 22.24.8 and considering the highest required airflow for mining and development. The capacity of the current mine ventilation system is 400m<sup>3</sup>/s. The current demand is 352m<sup>3</sup>/s. In the event of power failure, two emergency generators are available to provide back-up power to the ventilation system.

### *Water Ingress and Pumping*

The Pilar Mine pumping system is designed to direct water infiltration into the mine to a pumping station where sumps are located to both capture and filter water. The filtered water is pumped back to the upper stations. There are currently 10 pumping stations distributed along the ramp with a gauge height of 80 m (vertical) between each station, each with a nominal capacity of 200m<sup>3</sup>/h. All water from the pumping stations is directed to the N-6 station where a high capacity pumping substation is located. Pumping to the surface is done by pumping lines positioned inside the shaft with a total capacity of 480m<sup>3</sup>/h. All water from the Pilar Mine is treated and recycled for concentrator operations.

### *Ore Transport to Surface via the Production Shaft*

All ore produced in the underground mine area (except ore from the near surface mine zone of MSBW) is directed to the -78 level where it is discharged into an ore pass. After crushing in one of the two primary jaw crushers, the crushed material is transported by conveyor to an intermediate ore silo connected to the shaft hoisting system. The vertical shaft is equipped with two skips with a capacity of 15 tonnes each. The system is rated for 600t/h of production.

### *Paste Fill*

Paste fill using a combination of flotation tailings and cement is used to fill mined out stope volumes to provide additional support, reduce in-situ stresses and increase mine recoveries. Paste comprised of thickened tails and approximately 4% cement by weight is gravity fed from the paste fill plant to the underground workings as called for in the production sequence.

### ***Vermelhos Mine***

The Vermelhos Mine, currently under construction, is located approximately 80 km north of the Pilar Mine and the Caraíba Mill. The initial design production rate calls for up to 2,500 tonnes of ore per day. The currently envisioned mine depth is

limited to 300 m, commensurate with the focus of historic exploration activities. Current Mineral Reserves at that depth are sufficient for production of approximately five years. The main Vermelhos Mine deposit remains open along strike and at depth.

### *Geotechnical*

The geological environment of the Vermelhos Mine is composed of approximately 5.0 m of soil and saprolite followed by unweathered rock of gneiss, pyroxenite, gabbro-norite, metasomatites and calcium-silicates. The Vermelhos ore is generally associated with the mafic (gabbro-norite, pyroxenite) phases, commonly overprinted by metasomatic and calcium-silicate assemblages. The quality of the rock mass was determined based on geotechnical drill logging and the resulting RMR geomechanical classification system. At Vermelhos, RMR values are typically above 60, indicating a rock mass of good quality that can be classified as Type II. The support systems designed for mine development are based on the calculated RMR classification (from geotechnical core logging) and the knowledge of the rock mass gained after 31 years of operating experience at the underground portion of the Pilar Mine. The gneissic rocks of the Vermelhos Mine show a fabric that is preferentially orientated in a north-south direction with a dip of 70° to 80° west. Mafic-ultramafic bodies also trend north-south with another dominant fabric orientation observed in the northeast orientation.

The geotechnical stability of the Vermelhos Mine stopes have been verified using the empirical method for unsupported open stopes. The factors considered include the classification of the rock mass value, observed state of fractures, structural orientation of predominant rock fabrics and the hydraulic radius of the opening. The study was performed on the roof of the East, North and Toboggan ore zones, located in the central part of Vermelhos Mine.

In addition, numerical simulation was performed using Phase2D software by RockScience, which further indicated high relative stress in the walls and ceiling of the East, North stopes and within the sub-horizontal high grade central ore body; suggesting the need for cables to stabilize the excavations if stopes are left unsupported at spans of more than 35 m. The CRF, comprised of cemented aggregate waste rock, was selected to fill the excavations to reduce in-situ stresses, eliminate the need for cable bolting, and enhance recovery of mining of the mineralized sub-horizontal high grade ore body in the central part of the Vermelhos Mine.

### *Hydrogeology*

As observed in drill core, and due to the competency of the rock, very little fracturing occurs below 30 m in depth at the Vermelhos Mine. Conditions are not favourable for water percolation and consequently, water ingress rates into the underground workings are expected to be low in comparison to rates observed in the Pilar Mine. The Vermelhos infrastructure will have the installed capacity to pump 130m<sup>3</sup>/h of water from the mine to surface. The water will be collected on surface, treated and recycled for use in mine development and mine support activities.

### *Mining Methods*

SOS method was chosen as the mining method at Vermelhos South on consideration of the dip, plunge and thickness of the ore bodies in conjunction with the rock quality designation and overall competence of the host rock. Variations of this method are planned for the central area for the maximum possible recovery using the CRF technique. The design entails mining panels of up to 35 m in vertical dimension without the need for rib pillars to support the open excavation. In the central and western high-grade areas (the “toboggan”) mining occurs using sub horizontal stopes. In these areas, the panel size has been reduced to 25 m and will be filled using CRF to maximize mining recoveries and limit in-situ stresses. Panel size and thickness has been constrained by the geotechnical design parameters as determined by 2D and 3D geotechnical modeling of the stresses generated by panel excavation.

### Drilling

Within each mining panel, the top and bottom levels are drilled. Within the sub-horizontal stopes of the toboggan, drilling will be performed with ascending (from the base level) 15 m and descending (from the top level) 15 m, with a 3” diameter in a radial fan pattern.

### Stope and Deposit Dimensions

Within the Vermelhos Mine, the vertical sections of the deposit typically range from 2.5m to 8.0m wide, with strike dimensions of up to 80.0 m. Within the sub-horizontal high-grade portion of the deposit (toboggan) the dimensions are

approximately 195 m in length, 75m in thickness and 23 m to 27 m in height. The typical dimensions of stopes within the toboggan central zone are 15 m in width by 25 m in height by 65 m in length. Stopes of the east and west vertical areas have the average dimensions of 10 m in width by 30 m in height by 50 m in length.

### Mining Sequence

After the generation of the mine layout, MCSA used the Studio 5D Planner Module Enhanced Production Scheduler to sequence development, infrastructure installation, verify the overall mining sequence as well as inform equipment selection and requirements.

### *Vermelhos Mine Plan*

The current scheduled annual production for the Vermelhos Mine is summarized in the following table.

	2018	2019	2020	2021	2022	Total
Production (kt)	60	490	757	752	522	<b>2,581</b>
Grade (%)	1.58	3.26	2.84	5.34	3.31	<b>3.71</b>
Recovery (%)	90.0	90.0	90.0	90.0	90.0	<b>90.0</b>
Copper Contained (kt)	0.8	14.4	19.4	36.1	15.5	<b>86.2</b>

To meet the production targets, the following development rates are planned for the Vermelhos Mine.

Year	Total Development (meters)	Average Development Rate (meters / month)
2017	817	117
2018	3,565	297
2019	5,263	439
2020	3,201	267
2021	1,088	100
2022	54	<5

In total, the production plan calls for approximately 14,000m of development, including ramp and horizontal access development meters. The allocation of total development is as follows:

- 2017 – 656 m of ramp and 161 m of horizontal development. Vertical development of 53 m for ventilation;
- 2018 – 1,095 m of ramp and 2,470 m of horizontal development. Vertical development of 258 m for ventilation;
- 2019 – 434 m of ramp and 4,829 m of horizontal development. Vertical development of 475 m for ventilation;
- 2020 – 5 m of ramp and 3,195 m of horizontal development. Vertical development of 322 m for ventilation;
- 2021 – 1,088 m in horizontal development. Vertical development of 22 m for ventilation; and
- 2022 – 54 m in horizontal development. No vertical development.

### *Equipment*

The Vermelhos equipment fleet, as set out in the following table, has been designed based on the estimated equipment work hours, adjusted for equipment availability. Availability assumptions are variable for each piece of equipment and are estimated based on actual operating experience and achieved availabilities from within the Pilar Mine.

Equipment	Qty	Model	Producer	Capacity
Jumbo	2	DD321-40C	Sandvik	
Fandrill	1	DL-421C	Sandvik	
LHD	6	1.700 G	Caterpillar	10 t
Trucks	12	FMX460	Volvo	30 t
Scaler	2	HSF-20	BTI	
Scissor Lift	1	JCB	JCB	
Backhoe loader	1	416 E	Caterpillar	
Motor Grader	1	12 K	Caterpillar	

### *Ventilation*

The mine ventilation design is based on the published requirements of Brazil regulation NR 22.24 pertaining to underground mining activities and required air flow. Model simulations to ensure adequate air flow were conducted using VENTSIM software. The ventilation system design calls for three clean air intake points (via ramp and raises), and three exhaust points (raises) all located at surface. The ventilation raises have a design diameter of 3.0 m and will be drilled using a Raise Bore Machine, as is done at the Pilar Mine. Chimneys between levels will be opened by blasting. Auxiliary surface fans will be installed at the three points of exhaust. Simulation of the design results in flow rates at full operation of approximately 300m<sup>3</sup>/s, with 100m<sup>3</sup>/s allocated to each exhaust raise. The design simulation resulted in a total pressure of 194 mmWC (1,900 Pa). Working faces will be supplied with fresh air via mechanical auxiliary ventilation and flexible temporary ductwork, as is currently performed at the Pilar Mine.

### *Dewatering*

The Vermelhos Mine pumping system design consists of four main pump stations capable of pumping a total flow of 130m<sup>3</sup>/h. The pumping stations are located, on average, every 60 m in vertical elevation along the ramp development. Water pumped from the mine will undergo treatment in a surface thickener to return to the mine in a closed circuit for operations use. Each main pumping station consists of two pumps, where one is to remain on standby in case of failure. The stations will utilize a system of sluice gates to aid in the removal of fines prior to pumping.

### ***Surubim Mine***

The Surubim Mine is located approximately 33 km north of the Pilar Mine and Caraiba Mill. Phase 1 of the Surubim Mine is forecast to produce a total of approximately 1,811 tonnes of contained copper between August 2017 and February 2018. The Surubim Mine has a design capacity of approximately 3,000 tonnes of ore per day.

### *Geotechnical*

The geology of the Surubim Mine consists of a highly metamorphosed environment of mafic-ultramafic rocks embedded in gneisses of good geomechanical quality. In aggregate, the rock mass surrounding the Surubim Mine is considered to be of mixed medium to good quality, with the limiting geotechnical design criteria based on mapped faulting within the immediate open pit. The predominate fault and rock fabric orientations, identified in field mapping, were analyzed against design pit orientations to calculate planar and wedge failure possibilities for each expanded sector of the pit (north, south, east and west). Three main faults located in the eastern and southern portions of the mine dominate the modeled potential failure mechanism.

The overall slope safety factor was determined using the finite element analysis calculated in PHASE/RS 2D software by Rockscience. A model was developed to evaluate the steepest section of the southern portion of the expansion project of the Surubim Mine, which included the waste rock stockpiles. The numerical simulation indicates that the slope shows adequate stability. The resultant inter-ramp angle for the south expansion of the Surubim Mine (Phase 1) was designed using a maximum of 50° with berms of 4 m and bench face angle of 65°.

### *Hydrogeology*

Similar to the Vermelhos Mine, very little fracturing occurs below 30 m in depth at the Surubim Mine due the competent nature of the rock. Outside of surface run-off, conditions are not favourable for water ingress nor are sufficient pore-pressures generated to markedly degrade the calculated rock mass quality.

### *Final Pit Optimization*

The final pit, incorporating geotechnical design constraints, was optimized with MineSight Economic Planner software applying the Lerchs-Grossman algorithm. The resultant mine plan shows the highest accumulated NPV.

### *Mine Plan*

The scheduled annual production for the Surubim Mine is summarized in the following table.

	<b>2017*</b>	<b>2018</b>	<b>Total</b>
Production (kt)	141	118	<b>259</b>
Grade (%)	0.82	0.76	<b>0.79</b>
Recovery (%)	88.00	88.00	<b>88.00</b>
Copper Contained (kt)	1.0	0.8	<b>1.8</b>

**Note:**

(1) The production from the Surubim Mine starts in October 2017.

To meet the production targets, the design calls for the following monthly material movement.

	<b>Unit</b>	<b>Jul/17</b>	<b>Aug/17</b>	<b>Sep/17</b>	<b>Oct/17</b>	<b>Nov/17</b>	<b>Dec/17</b>	<b>Jan/18</b>	<b>Feb/18</b>	<b>Total</b>
Ore	t		9,093	11,507	33,990	45,136	80,374	44,569	34,431	259,100
Grade	%		0.80	0.78	0.79	0.87	0.81	0.75	0.74	0.79
Metallurgical Recovery	%		88.00	88.00	88.00	88.00	88.00	88.00	88.00	88.00
<b>Copper Contained</b>	<b>t</b>		<b>64</b>	<b>79</b>	<b>237</b>	<b>345</b>	<b>569</b>	<b>293</b>	<b>224</b>	<b>1,811</b>
Waste	t	26,440	66,730	76,330	95,610	80,934	29,556	31,029	29,971	436,600
Total Moved	t	26,440	75,823	87,837	129,600	126,070	109,930	75,598	64,402	695,700
Strip Ratio	ad.		7.34	6.63	2.81	1.79	0.37	0.70	0.87	1.69

### *Staff and Equipment*

Ore will be loaded by hydraulic loaders with bucket capacities of 4.5 tonnes and transported from the pit to the Surubim Mine ore stock pile by trucks with a capacity of 35 tonnes. Transportation from the stock pile to the primary open pit crusher at Pilar will be performed by 70 tonnes double axel haulage trucks. All drilling will be conducted by a Sandvik DX800. Auxiliary support equipment includes a D6 bulldozer, wheel loader, fuel truck, water truck and hydraulic rock breaker. An estimated 100 direct employees will be working at the mine, whom are currently employed and working at MCSA's operations.

### *Mine Support Infrastructure*

All required support infrastructure exists at the Surubim Mine and is in good condition, having been last used to support operations from 2010 to 2014.

### *Integrated Production Plan*

The current scheduled annual production for all sources (Pilar Mine, Vermelhos Mine and Surubim Mine), beginning on the effective date of June 1, 2017, is summarized in the following table.

Production Plan		2017 <sup>(1)</sup>	2018	2019	2020	2021	2022	2023	2024	2025	Total
PILAR	Production (kt)	515	1,090	1,138	1,089	755	511	259	198	98	5,653
	Grade (%)	1.96	1.89	1.79	1.91	2.44	2.64	2.72	2.52	1.71	2.08
	Recovery (%)	89.16	87.87	88.32	90.43	92.10	91.94	91.78	91.11	87.62	90.01
	Copper Contained (kt)	9.0	18.1	18.0	18.761	17.0	12.4	6.5	4.6	1.5	105.7
VERMELHOS	Production (kt)	-	60	490	757	752	522	-	-	-	2,581
	Grade (%)	-	1.58	3.26	2.84	5.34	3.31	-	-	-	3.71
	Recovery (%)	-	90.00	90.00	90.00	90.00	90.00	-	-	-	90.00
	Copper Contained (kt)	-	0.85	14.38	19.36	36.11	15.55	-	-	-	86.2
OPEN PIT	Production (kt)	477	118	-	-	-	-	-	-	-	595
	Grade (%)	0.71	0.76	-	-	-	-	-	-	-	0.72
	Recovery (%)	86.03	88.00	-	-	-	-	-	-	-	86.44
	Copper Contained (kt)	2.9	0.8	-	-	-	-	-	-	-	3.7
TOTAL	Production (kt)	992	1,268	1,628	1,846	1,507	1,033	259	198	98	8,829
	Grade (%)	1.36	1.77	2.23	2.29	3.89	2.98	2.72	2.52	1.71	2.46
	Recovery (%)	88.37	87.97	89.06	90.21	90.66	90.85	91.78	91.11	87.62	89.94
	Copper Contained (kt)	11.9	19.7	32.3	38.1	53.1	28.0	6.5	4.6	1.5	195.6

**Note:**

(1) The production plan in 2017 only reflects forecast production from June to December 2017, corresponding to the Mineral Reserve Statement with the effective date of June 1, 2017.

From June 1, 2017 to August 27, 2017 a total of 1,603 tonnes of contained copper has been mined from the Suçuarana Mine open pit operation, which is nearing the end of its mine life.

## Recovery Methods

### *Caraíba Mill Flowsheet and Process Description*

The Caraíba Mill was designed and built by Mill Der Kaiser. Processing operations commenced in 1979 and the plant has since had the benefit of decades of process optimization work performed by the Caraíba Mill's process engineering team with the support of third-party consultants as needed. The concentrator is operated 24 hours per day, seven days per week with monthly scheduled downtime to perform routine maintenance. In its current configuration, the plant has capacity to treat a nominal 3.2 million tonnes of copper bearing ore per annum, assuming 91% availability.

The Caraíba Mill is of a conventional three-stage crush, milling and flotation design. Three-stage crushing is used to prepare a nominal 12.5 mm crushed feed for the ball milling circuit prior to being sent to flotation for the recovery of copper-bearing minerals. Final flotation concentrate is filtered to a design target of 7.5% moisture and is transported via highway for smelting and refining either (i) locally at Paranapanema Company, located in Dias D'Ávila, or (ii) sold via international export markets from Salvador's port, both approximately 475km from the Caraíba Mill.

### *Crushing*

There are two primary crushing operations. Ore from open pit mining is delivered to the surface primary cone crusher, featuring a nominal capacity of 1,600t/h. Ore from underground mining is crushed underground by one of two primary jaw crushers with a nominal capacity of 400t/h each. Feed enters the primary crushing operations with maximum size of 48" and is discharged with maximum size of 10".

The blended product of the primary crushing operations is transported via conveyors to an apron feeder stockpile with a capacity of 12,000 tonnes and fed to one of two secondary cone crushers (1,400t/h of capacity each) set to 28 mm aperture. The secondary discharge feeds two primary double deck screens, configured with 100 mm gaps on the top and 40 mm gaps on the bottom decks. Screen undersize passes to the collection conveyor while oversize material passes to the secondary crushers in an open circuit configuration. Secondary cone crusher discharge and primary screen fines are blended with tertiary crusher discharge and are conveyed to the seven secondary double screen decks, configured with 25 mm gaps on the top and 16mm gaps on the bottom decks. Tertiary crushing is performed with four standard CH660 Sandvik cone crushers (capacity of 350t/h

each) set to 20 mm aperture. Oversize material passes to the tertiary crushers operating in a closed circuit configuration. Final product from the combined crushing and screening operations is 88% passing 1/2”.

*Ore Blending*

Crushed ore is conveyed to the stacker-reclaimer system to further homogenize the ore for feeding the plant. The stacker-reclaimer system is comprised of a two-armed stacker and a 16 bucket-wheel reclaimer with capacities of 1,600t/h and 1,200t/h, respectively. Crushed ore capacity of the stacker-reclaim system is 140,000 tonnes.

*Grinding*

The grinding circuit consists of two identical lines operating with a primary ball mill operating in closed circuit with a dedicated battery of 26” cyclone classifiers. Each ball mill is 5.0m by 7.6 m, charged with 90 mm in diameter high chrome cast steel balls. The nominal grinding capacity of each mill is 200t/h each. Typical ball consumption is 340g/t. Blended ore from the stacker-reclaimer is withdrawn through belt feeders below one of the 3,000 tonne ore surge bins on each line. Ore is delivered to the ball mill over a weightometer to monitor the mass of ore sent to each mill for metallurgical accounting purposes. The coarse fraction from the cyclone underflow recycles to the ball mill feed chute for further grinding. Overflow from both grinding lines combines as feed to flotation, at approximately 40 to 45 percent solids and a target P65 to P70 (65% to 70% of discharge passing a screen aperture) of 105 microns.

*High Frequency Screeners and Regrinding*

The rougher flotation stage tails are pumped to high frequency screening operations comprised of eight screens with five decks each of 105 micron aperture. The high frequency screening coarse fraction is gravity fed to the vertical mill for regrinding, operating in closed circuit with a hydrocyclone battery. The screening operation fines combine with the regrind cyclone overflow and are pumped to the scavenger flotation stage.

*Flotation and Dewatering*

The flotation circuit at the Caraíba Mill consists of a conventional rougher-cleaner-scavenger flotation process. The rougher circuit consists of three rougher banks divided into two stages of flotation (rougher, cleaner) with four cells in each unit operation. The first four cells of each bank produce a rougher concentrate that passes to the four cleaner cells. In practice, the concentrate of second rougher stage is returned to the head of the circuit to increase total rougher mass pull and retention time. Rougher concentrate is fed to the cleaner circuit and tails are fed to the scavenger circuit.

Rougher concentrate, combined with recleaner circuit tails and scavenger concentrate, is sent to the cleaning circuit which consists of four cell banks. Each bank contains one recleaner cell, three cleaner cells and four scavenger cells. Operated in a continuous process, the recleaner cell concentrate becomes the final product grading 35% copper with minimal impurity elements. Notably, in 2016, all concentrate assays fell below detection limits of 100 ppm for Arsenic. By-product gold and silver averaged 2.3 g/t and 28.8 g/t, respectively. A recent assay of copper concentrate, performed on concentrate shipment dated May 26, 2017 resulted in the following composition:

Cu	S	Fe	SiO <sub>2</sub>	MgO	Al <sub>2</sub> O <sub>3</sub>	CaO	TiO <sub>2</sub>	K <sub>2</sub> O	Ni	Cr <sub>2</sub> O <sub>3</sub>	Zn	MnO	P <sub>2</sub> O <sub>5</sub>	V <sub>2</sub> O <sub>5</sub>	CoO	SrO	PF
35.4	24.7	18.8	12.5	5.12	1.84	0.75	0.24	0.19	0.18	0.11	0.67	0.06	0.04	0.02	0.01	0.01	11.0

**Note:** Cu, Fe, Ni, S and Zn determined using ICP-OES, other values by FRX without standards. Na<sub>2</sub>O, Cl, ZrO<sub>2</sub> and Ag were detected below limit values. Recent assay results provided are not intended to be representative of total concentrate production.

The scavenger concentrate from the cleaner cells is recycled back to the cleaner circuit. Scavenger concentrate recycles to the beginning of the recleaner circuit, while the tails of the recleaner circuit are pumped to the final tails thickener.

Throughout the flotation circuit samples of new feed, final concentrate, rougher tailings and final tailing are sampled by an automatic sampling device. A fraction of the pulp is sent to an online XRF analyzer to determine the copper grade. The balance of each sample is accumulated during the duration of each operating shift for further laboratory assay and analysis performed by MCSA’s laboratory and process engineering teams.

The final copper flotation concentrate is sent to one of two thickeners for dewatering prior to the filter press. Both concentrate thickeners are 2.4 m in diameter, and configured such that one is operating and one is on standby or undergoing routine maintenance. Water from the concentrate thickeners is recycled for plant process water. The thickener underflow is transferred to holding tanks that feed the filter press. The thickened concentrate is filtered by a Diemme (GHT1500) plate filter press configured with 49 plates, producing a final dry concentrate of 7% to 8% moisture. Dry concentrate is stored in the Caraíba concentrate shed until it is loaded, weighed and transported via highway to local or international markets.

Final tailings from flotation operations are pumped to one of two tailings thickeners for dewatering. Both thickeners are 90 m in diameter and configured such that one is operating and the other is on standby or undergoing routine maintenance. Water from the thickeners is recycled for plant process water. The dewatered tails are pumped to the waste piles for co-disposal or to the paste fill plant for backfilling operations.

#### *Loading and Transportation of Concentrate for Sale*

The Caraíba Mill's primary concentrate shed, located adjacent to the filter press, has storage capacity for approximately 8,000 tonnes of final concentrate. The building has a concrete floor, steel siding and dimensions of 50m in length, 36 m in width and an average height of 11 m (peak height of 13 m). A secondary, uncovered cemented floor storage area adjacent to the primary shed has capacity for an additional 6,000 tonnes of final concentrate (covered with canvas tarps). The dimensions of the uncovered storage area are 60 m by 36 m.

MCSA ships final concentrate for sale to both the domestic market, via the Paranapanema Company smelter located in Dias D'Ávila, Bahia State, and to international markets via Salvador's port located in Salvador city, Bahia State. All concentrate is transported by road using standard highway trucks loaded with 32 tonnes of concentrate. Trucks are loaded to specified weight using a loader configured with a scale-coupled bucket. After loading, the truck is directed to MCSA's 100 tonne truck scale (+/- 10 kg), which is calibrated annually and certified by National Institute for Metrology, Quality and Technology (Inmetro). After final weight is recorded, the trucks are sampled for final assay. The samples obtained are hermetically packaged for moisture determination and copper, nickel, magnesium, silica, gold and silver. Analyses of final concentrates are performed by MCSA's laboratory. The invoice is issued for transport of concentrate and shipped to Paranapanema or Salvador's port.

#### *Concentrate Shipments for Export Market*

After site weight and sampling, concentrate trucks leave the MCSA Mining Complex via state highways number BA314, traveling 54 km on BR407 until Capim Grosso town, the trucks then follow federal highway number BR324 to Salvador city and the city's port, the second largest in Brazil's northeast. The total route is approximately 472.7 km from the concentrate shed. On delivery, the concentrate is discharged into a secure warehouse contracted in Salvador approximately 15 km from the port. Containers are loaded with bobcats. During loading, samples are taken from each loaded bucket for moisture and metal assay. Assay results are composited to determine final metal and moisture content.

#### *Delivery of Concentrate for Domestic Market*

After site weight and sampling, concentrate trucks leave the MCSA Mining Complex via state highway BA314, traveling 54 km on BR407 until Capim Grosso town, then federal highways BR324 and BA512 to Dias D'Ávila town and the Paranapanema Company smelter. The total route is approximately 475.2 km from the concentrate shed. The copper concentrate delivered at Paranapanema is weighed to determine the final weight, unloaded and then transported via conveyor to the smelting facilities. Conveyor samples are taken during unloading for moisture and metal assay. Assay results are composited to determine final metal and moisture content.

#### ***Caraíba Mill Performance***

Through the end of 2016, the Caraíba Mill has produced a total of approximately 2.9 million tonnes of concentrate containing approximately 982,000 tonnes of copper. Summarized processing results of concentrate flotation operations between 1998 and 2016 are provided in the following table.

Year	Caraíba Mill Feed		Copper Production	
	Tonnes	Grade (% Cu)	Tonnes	Recovery (%)
1998	2,665,700	1.49	34,325	89.6
1999	1,248,720	2.88	31,371	90.9
2000	1,173,452	3.11	31,786	89.0
2001	1,185,834	2.92	30,111	89.4
2002	1,195,136	2.97	30,642	88.7
2003	1,109,396	2.87	27,237	88.0
2004	1,557,261	1.93	25,748	88.1
2005	2,553,803	1.11	23,991	86.9
2006	3,093,042	0.99	22,720	82.0
2007	2,882,542	1.00	25,191	81.3
2008	3,340,765	0.80	22,911	85.3
2009	2,932,262	0.97	25,873	85.4
2010	2,044,002	1.32	23,313	86.4
2011	2,749,812	1.09	25,096	83.7
2012	2,717,980	1.07	24,827	85.4
2013	2,940,566	0.91	22,494	84.3
2014	3,014,269	1.01	25,717	84.7
2015	2,836,528	1.11	27,046	86.0
2016	826,759	0.71	4,895	83.5

The following table summarizes processing results between January 2017 and May 2017.

	Feed	Grade (%Cu)	Copper	Tailing	Recovery
	Tonnes		Tonnes	Tonnes	(%)
2017 (Jan-May)	620,552	1.32	7,109	600,483	86.6

The reagent scheme utilized by the Caraíba Mill is determined by MCSA’s process engineering team for each source of ore and verified through daily metallurgical composite bench testing as well as online process monitoring via an online XRF unit. Power for the Caraíba Mill is supplied from CHESF. Average power consumption for total Caraíba Mill operations is currently 30 kWh/t to 32 kWh/t of ore processed. Water consumption averages approximately 3.0m<sup>3</sup>/t of ore processed, of which 70% (approximately 2.1m<sup>3</sup>/t) is obtained from recycled process water. Total forecast power and water consumption (including recycled process water) are 32kWh and 3.0m<sup>3</sup>/t of ore processed, respectively. These projections are in line with current and prior plant performance.

### ***SX/EW Plant***

The SX/EW operations at the Caraíba Mine operated from 2007 until 2014, processing a total of approximately 5.9 million tonnes of oxidized ore from open pit operations throughout the Curaçá Valley. Processing operations consisted of crushing, agglomeration/pre-treatment, leaching, solvent extraction (“**SX**”) and electrowinning (“**EW**”) producing a copper cathode. The EW unit operation has a maximum installed capacity of 430 t of copper cathode per month.

In practice, crushed oxide ore was pre-treated with 98% sulphuric acid and water to agglomerate the material prior to placement on one of 22 lifts used for leaching. Each lift had approximate dimensions of 130 m by 12 m. Design lift height was initially 4 m, but later reduced to 2 m in practice. Leaching was performed over a period of 45 to 60 days, producing a pregnant leach solution (“**PLS**”) of five to seven grams per liter of copper in solution prior to SX/EW unit operations.

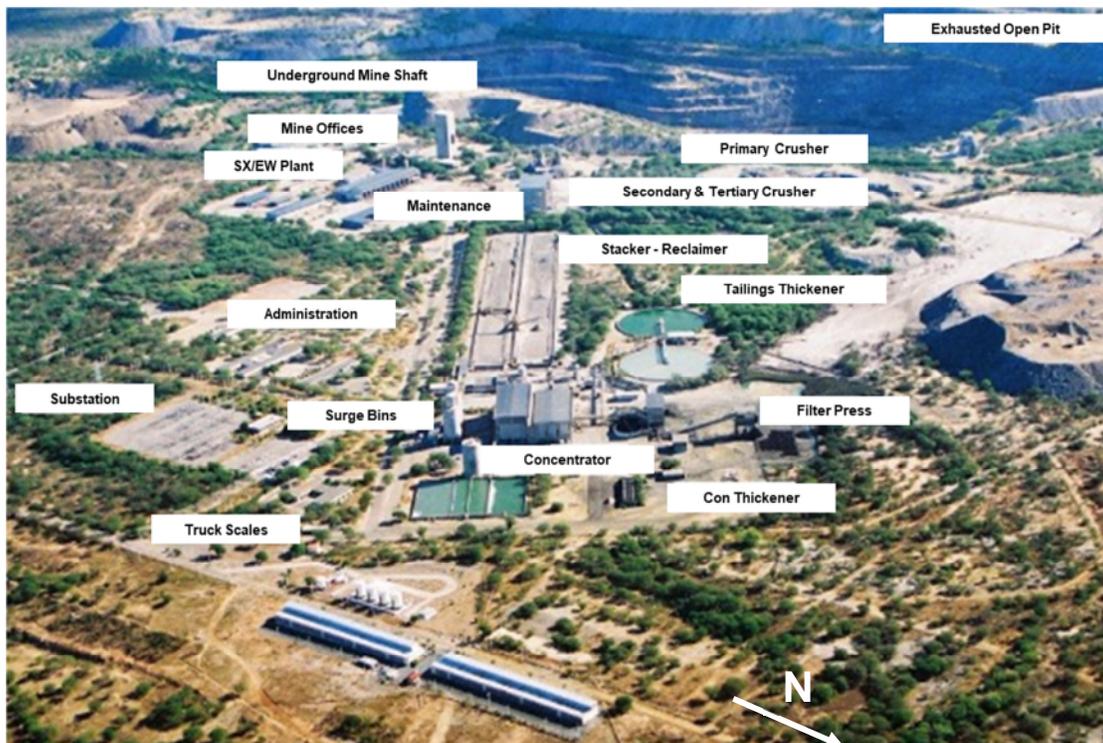
Recovery of copper from PLS averaged 96%, with global metallurgical recoveries of 70.5%. Historic operating data from the SX/EW operations is shown in the following table.

Year	Oxide Ore Treated		Cu Cathode Production		Acid Consumption	
	Tonnes	Grade (% Cu)	Tonnes	Recovery (%)	(kg/tonne Ore)	(kg/ kg Cu)
2007	117,533	0.72	913.0	60.0	28.0	3.6
2008	758,456	0.77	3,807.8	68.6	38.0	7.6
2009	891,934	0.73	4,398.0	74.9	35.7	7.2
2010	895,145	0.66	4,496.8	75.6	34.4	6.9
2011	943,580	0.68	4,549.8	77.4	30.6	6.3
2012	982,055	0.62	4,374.3	76.9	34.2	7.7
2013	1,077,577	0.57	3,999.2	71.2	36.3	9.8
2014	214,946	0.41	685.3	62.4	35.9	11.3
<b>Total</b>	<b>5,881,231</b>	<b>0.66</b>	<b>27,224.2</b>	<b>70.5</b>	<b>34.7</b>	<b>7.5</b>

As at the effective date of the Vale do Curaçá Technical Report, there is no copper cathode production included in the production plan, economic projections, nor have oxide Mineral Resources been defined in sufficient quantities to incorporate economic projections.

### Project Infrastructure

The MCSA Mining Complex consists of fully-integrated mining, processing facilities and supporting infrastructure and has been in operation since 1979 with several recent upgrades. The following figure illustrates the primary Caraíba Mine infrastructure and site layout.



### ***Process and Mine Water Supply***

Water is supplied to the mine via an 86 km permanent steel pipeline (80 cm in diameter) from the São Francisco River. The primary pumping and water intake system is located 6.5km upstream of Juazeiro city, in Bahia State. Flow rates of the river are controlled by the Sobradinho Hydroelectric Power Dam, located upstream of the primary adduction system. Due to the regional importance of the Sobradinho Hydroelectric Power Dam power supply, it is unlikely that water would not be available downstream of the dam; however, isolated daily restrictions on water draw from the river have occurred during periods of extreme drought. These isolated restrictions are infrequent and are not expected to have a material impact on the operations.

Supported by three pumping stations, the maximum capacity of the system is 3,240m<sup>3</sup>/h, equivalent to approximately 2,000,000m<sup>3</sup>/month at 21 hours of operation per day. Current pumped volume of water is approximately 2,287m<sup>3</sup>/h, equivalent to approximately 1,234,980m<sup>3</sup>/month with only 17 hours of operation per day. MCSA uses only a fraction of the total pumped volume of the pipeline, a critical component of the infrastructure in the region. As operator of the pipeline, MCSA provides water to the region's municipalities of Massaroca City, Abobora City and Umburnas City as well as local farmers located along the pipeline.

### ***Mine Infrastructure and Underground Development***

The MCSA Mining Complex consists of the underground mine at Pilar, the open pit mines of R22W, Angicos, Suçuarana and Surubim as well as the Vermelhos Mine, currently under development. Including historic mines and current development, the mining infrastructure extends for approximately 100 km along the Curaçá Valley. The Pilar Mine complex is approximately 1.2 km deep and in total consists of approximately 100 km of gallery development.

### ***Caraíba Mill***

The fully integrated MCSA Mining Complex has been producing copper concentrate in the Caraíba Mill since commercialization in 1979. The mill was initially constructed with four ball mills for a total nameplate capacity of 800t/h. In 1999, two of the four ball mills were sold, reducing the nominal capacity of the milling operations to 400t/h using both mills. The balance of the Caraíba Mill operations, including secondary, tertiary crushing and blending operations remain configured for the original design capacity, which collectively serves as built-in redundancy for each process operation, resulting in mill availability approaching 100%.

### ***Site Power***

Energy is supplied to the MCSA Mining Complex by the CHESF via an overhead transmission line from the Sobradinho Hydroelectric Power Dam at 230 kV. Power from CHESF is fed to the primary substation at Caraíba, containing two transformers configured with 60MVA/230kV/13.8kV that serve to distribute power to the Caraíba Mine, the Caraíba Mill, processing support facilities and administration offices.

## **Environmental, Permitting, and Social or Community Impact**

### ***Environmental Laws and Licensing in Brazil***

Please see “*General Development and Business of the Company – Business of the Company – Regulations – Environmental Protection*” for further details regarding environmental laws and licensing in Brazil.

MCSA's operating permits and licenses are in good standing and sufficient for the envisioned operations. Permit modifications, renewals and amendments undertaken under normal course of business are monitored and evaluated by MCSA's environmental team to ensure continuity of operations.

### ***Status of MCSA Environmental Permits and Licenses***

The Caraíba Mine, including the integrated processing operations, was granted a renewed Operation License on April 5, 2017, valid for the next three years. The Operation License was issued by INEMA, the environmental agency responsible for implementing the environmental legislation of the State of Bahia, in support of both the underground operations of the Pilar Mine complex and the R22W Mine, with defined permitted ore production of 1,440,000t/year. The Operation License also supports the Caraíba Mill with a defined permitted processing limit of 3,300,000t/year as well as administrative and

operational support infrastructure, totaling approximately 2,400 ha of permitted area within the five Mining Concessions. In support of the operations, there are two gas fueling stations under permit from the Secretaria de Meio Ambiente of Jaguarari issued in October, 2016 and valid for two years.

Water for industrial use is pumped from the São Francisco River via an 86km pipeline. MCSA is granted water use permit for up to 1,690,000m<sup>3</sup>/month, from Resolução da Agência Nacional de Águas (the National Water Agency Resolution) n°18, issued on January 8, 2016 valid for the next 10 years.

The Surubim Mine obtained its Operation License through INEMA, which expired on November 18, 2015 and was not renewed at that time due to lack of defined extension drilling. On May 22, 2017, an amended and new Operation License was requested. Subsequent to the effective date of the Vale do Curaçá Technical Report, such amended and new Operation License was obtained.

The Vermelhos Mine obtained an Environmental License jointly with its Installation License, through INEMA, valid until October 7, 2018. An Environmental Change License was requested on April 27, 2017 to finalize the process and proceed with granting of a full Operation License in response to the acceleration of the previously envisioned Vermelhos Mine development. The license is in process. In addition to the Installation License, the Vermelhos Mine was granted a groundwater discharge permit through INEMA, valid until July 6, 2019.

The following table sets out the primary environmental licenses of MCSA's mine and processing facilities. As noted previously, some of the licenses are under renewal or conversion. These renewals and amendments are all considered within the normal course of business.

MINE/PROJECT	LICENSE SCOPE	LICENSE PHASE	LICENSE PHASE	PERMIT PERIOD		STATUS	NOTE
				START	END		
Caraíba Mine	Operation License	Operational	Renewal	Apr-06-2017	Apr-06-2020	Valid	Underground Mine, Plant and R22W open pit
Caraíba Mine	Chemical products	Operational	Renewal	Oct-13-2015	Oct-13-2017	Valid	Under work for submission with Policia Federal
Caraíba Mine	Water Use Permit (São Francisco River)	Operational	Renewal	Jan-08-2016	Jan-08-2026	Valid	
Caraíba Mine	Fire Department Authorization	Operational	Renewal	Jun-02-2017	June-02-2018	Valid	
Caraíba Mine	Fuel station	Operational	Renewal	Oct-07-2016	Oct-07-2018	Valid	
Surubim Mine	Fuel station	Suspended	New	-	-	Renewal Submitted	
Surubim Mine <sup>(1)</sup>	Environmental	Operational	New	-	-	Renewal Submitted	Under analysis by INEMA
Vermelhos Mine	Previous/ installation	Installation	New	Oct-07-2015	Oct-07-2018	Valid	
Vermelhos Mine	Ramp Survey & Access Permit	Installation	Renewal	Dec-31-2016	Dec-31-2017	Valid	
Vermelhos Mine	Water and vegetation removal	Installation	New	Oct-06-2015	Jul-06-2019	Valid	
Vermelhos Mine	Environmental Change License	Installation	New	-	-	Scope Change Notification Submitted	Under analysis by INEMA

**Note:**

(1) Subsequent to the effective date of the Vale do Curaçá Technical Report, the Company obtained the amended and new Operation License for the Surubim Mine.

## ***Environmental Control and Mitigation***

### *Mitigation of Liquid Effluent and Solid Waste*

The effluent discharge system of the Caraíba Mine consists of reclamation pumping, thickeners and treatment facilities to maintain site-wide water quality and reduce consumption of raw water through discharge re-use. Monthly sampling and analyses are carried out in a water and effluent monitoring network, in accordance with the Water Resources Quality Monitoring Plan approved by INEMA. Used lubricating oils and hydraulic fluids are collected, stored and sent to third-parties for disposal and or sold to recycling companies for re-use.

MCSA operates a controlled landfill for non-hazardous and non-recyclable waste, a composting unit for organic waste and a warehouse for the temporary storage of recyclable waste, all licensed by INEMA. Hazardous waste produced on site is removed from site and sent for disposal by licensed third-parties. For human waste, distal operations such as the Surubim Mine and the Vermelhos Mine utilize a combination of chemical toilets and septic systems to collect and treat organic effluent as established by the Brazilian Association of Technical Standards.

### *Atmospheric Emissions*

MCSA follows an Air Quality Monitoring Plan to ensure neighboring air quality standards are met. Monitoring points are distributed throughout all inhabited areas of the MCSA Mining Complex to measure total particulates and breathable particulates in suspension, as specified in the monitoring plan. The main sources of particulate emission in the mining activities of the Vermelhos Mine and the Surubim Mine are the fugitive emissions from unpaved routes within the area directly affected by the mines, and en-route to the Caraíba Mine. With ongoing mitigation measures such as haul road dust suppression and air quality monitoring, the environmental impacts in these areas have been deemed reversible and insignificant. Air quality monitoring is carried out in accordance with CONAMA Resolution 003/90.

### *Tailings Co-Disposal*

Approximately 10% of tailings generated in the Caraíba Mill operations are mixed with cement and utilized in the Pilar Mine for paste-backfill operations to enhance mineable recoveries and geotechnical stability. The balance, approximately 90% of the tailings, is sent for co-disposal within the surface waste rock stockpiles generated during historic open-pit mining operations.

Since 2011, approximately 7.0 million tonnes of tailings have been sent for co-disposal within the surface waste rock stockpiles. The co-disposal method entails utilizing the inherent void space within the waste rock stockpiles by allowing tailings to permeate the piles. The method has produced excellent results, allowing increased water recovery, significantly reduced pumping costs, creating substrate for revegetation of the waste rock stockpiles and, since implementation, has eliminated the need for conventional tailings storage. In practice, waste tailings, after thickening to approximately 65% solids, are pumped to the waste rock stockpiles for co-disposal. Small discrete compacted berms are created along of each stockpile to allow the material to permeate the void space within the waste rock. Permeation rates depend on the rate of deposition from the plant, percent solids and void space within each waste rock stockpile. Multiple discrete ponds are prepared allowing operators to fill multiple sections and enhance control of the co-disposal process.

Based on MCSA's operating history of co-disposal, the realized benefits to date include:

- eliminated the need to utilize a conventional-tailings dam;
- recover up to 70% of the water from the tailings pulp reducing the freshwater make-up requirements of the operations;
- reduced pumping costs due to waste rock stockpiles' proximity to the Caraíba Mill; and
- recontoured berms containing a mixture of coarse and fine particles create an enhanced substrate for revegetation efforts.

Considering all technically suitable waste piles for tailings co-disposal, and an average void space of 50%, it is estimated that a total of 11,823,381 m<sup>3</sup> or 21,282,086 tonnes of tailings can be co-disposed using this method. Based on the current production plan's peak operating throughput of 1.8 million tonnes of ore per year, and approximately 90% of feed being placed for co-disposal, or approximately 1.6 million tonnes of tailings per annum, the estimated storage capacity available for co-disposal is sufficient for approximately 13 years of production. In addition to the waste rock stockpiles, the southern portion of the historic open pit mine at Pilar is estimated to have an additional 12.7 million tonnes of back-fill tailings storage

capacity. At 1.6 million tonnes of tails produced per annum, this would add an additional eight years of tailings storage capacity for a combined total sufficient for approximately 21 years of tailings storage capacity outside of the conventional tailings storage facility.

### ***Reclamation of Degraded Areas***

MCSA has developed Reclamation of Degraded Areas Plans (“PRADs”) for each mine currently in operation in addition to the past producing mines within the Curaçá Valley. The plans are managed by MCSA personnel in conjunction with the governing regulatory agencies. The PRADs are subjected to periodic reviews and updates in response to new techniques, review of rehabilitation alternatives and adjustments for the remaining Mineral Reserves, new mining activities and the restart of previously mined areas. For the Vermelhos Mine, the PRAD is under development and will be submitted in connection with the mine’s Operation License.

### ***Mine Closure Cost Estimates***

Brandt Meio Ambiente, a Brazilian environmental management firm, with the support of MCSA’s environmental team has prepared conceptual mine closure and reclamation plans for each mine currently in operation and the past producing mines in the region. The closure cost estimates and trade-off studies were updated in April 2017 as part of the routine periodic review process. The total estimated reclamation costs, as of April 2017, for the MCSA Mining Complex in the Curaçá Valley is approximately R\$75 million. The Vermelhos Mine Closure & Reclamation Plan is currently under development using the same environmental management firm. There is no current estimate for the remediation of surface infrastructure and mine portal associated with the Vermelhos Mine, currently under development.

The estimated reclamation costs for the Caraíba Mine, excluding operations elsewhere in the Curaçá Valley, totals approximately R\$69.5 million. The estimate, as of April 2017, includes the removal of surface infrastructure, re-contouring, revegetation and reclamation of the SX/EW plant and associated infrastructure. The estimated reclamation cost for the Surubim Mine totals approximately R\$2.3 million. The estimate, as of April 2017, includes the removal of surface infrastructure, re-contouring, and revegetation. The estimated reclamation cost for the Angicos Mine totals approximately R\$1.2 million. The estimate, as of April 2017, includes the removal of surface infrastructure, re-contouring, and revegetation. The estimated reclamation cost for the Suçuarana Mine totals approximately R\$1.9 million. The estimate, as of April 2017, includes the removal of surface infrastructure, re-contouring, and revegetation.

### ***Social Community and Outreach***

MCSA maintains an excellent relationship with the communities throughout the Curaçá Valley, having held regular meetings and consultation sessions with local stakeholders regularly over the last 40 years. In support of this relationship, MCSA undertakes several key initiatives focused on sustainable community development. MCSA engages in and supports various programs, projects and social outreach activities in the influenced areas of its mining projects in the Curaçá Valley, including with respect to education, environmental education programs, sports, roots projects, sustainable development projects, communication and outreach, and cultural and social initiatives (such as support of local cultural clubs and groups, and toy drive campaigns).

### ***Capital and Operating Costs***

Cost estimation for the MCSA Mining Complex is based on incorporating extensive operating data, including historic equipment costing and consumption coefficients, which are applied to the specific demands of the production plan. SRK Brazil reviewed the capital and operating cost estimates prepared by MCSA and found them to be in accordance with industry best practices, and sufficient for use in support of the current Mineral Reserves estimate.

### ***Capital Cost Estimate***

Total capital cost for the period 2017 to 2022 is estimated to be R\$588.0 million. This includes capitalized development as well as ongoing capital investment. Capital cost projections were estimated based on vendor quotes and management estimates incorporating historical operating data. Beyond 2022, there are no capital expenditure requirements for the stated production plan. The following table summarizes such capital costs. Capital costs for 2017 include five months of actual expenditures through May 31, 2017. Capital expenditures shown inclusive of mines for which there are Mineral Reserves and are included in the stated production plan (Pilar Mine, Vermelhos Mine and Surubim Mine).

<b>Total Capital Expenditures</b>	<b>Unit</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>Total</b>
Total Development	R\$M	37.0	68.7	86.1	39.3	11.7	0.5	243.2
Sustaining Capex	R\$M	43.1	24.4	9.7	3.2	3.1	3.4	86.9
Equipment	R\$M	15.2	30.5	13.7	4.3	0.4	-	64.0
Exploration/Drilling	R\$M	27.9	12.6	12.6	12.6	10.6	10.2	86.6
Infrastructure	R\$M	15.1	18.6	10.7	1.0	-	-	45.5
Others	R\$M	9.8	5.2	4.8	1.2	-	-	21.0
Social, Health, & Environment	R\$M	1.6	0.8	0.5	0.9	0.1	0.6	4.6
Ventilation	R\$M	15.8	12.7	5.9	1.7	0.1	-	36.2
<b>Total</b>	<b>R\$M</b>	<b>165.5</b>	<b>173.4</b>	<b>144.0</b>	<b>64.3</b>	<b>26.0</b>	<b>14.7</b>	<b>588.0</b>

Capitalized development includes a portion of the underground lateral development in addition to vertical development within the primary ramps of the Pilar Mine and the Vermelhos Mine. Total capitalized development is estimated to be R\$243.2 million. Capitalized development for 2017 includes five months of actual expenditures through May 31, 2017. The following table sets out the estimated capital development costs in more detail.

<b>Capitalized Development</b>	<b>Unit</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>Total</b>
Pilar Mine Development	R\$M	22.3	27.6	40.8	24.2	8.1	0.5	123.6
Vermelhos Mine non-Ramp	R\$M	2.9	25.9	37.6	15.0	3.5	-	84.9
Vermelhos Mine Ramp	R\$M	11.8	15.2	7.7	0.1	-	-	34.7
<b>Total</b>	<b>R\$M</b>	<b>37.0</b>	<b>68.7</b>	<b>86.1</b>	<b>39.3</b>	<b>11.7</b>	<b>0.5</b>	<b>243.2</b>

Total sustaining capital costs are estimated at R\$86.9 million. Sustaining capital consists primarily of equipment rebuilds, replacements and ongoing reclamation work. Due to the nature of the stated production plan, there are no sustaining capital requirements beyond the year 2022. Sustaining capital expenditures for 2017 include five months of actual expenditures through May 31, 2017. The following table sets out the estimated sustaining capital costs in more detail.

<b>Sustaining Capital Expenditure</b>	<b>Unit</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>Total</b>
Equipment	R\$M	34.5	18.9	4.4	-	-	-	57.8
Infrastructure	R\$M	1.7	-	-	-	-	-	1.7
Others	R\$M	2.9	0.0	0.6	-	-	-	3.5
Social, Health, & Environment	R\$M	3.7	5.5	4.6	3.2	3.1	3.4	23.5
Ventilation	R\$M	0.3	-	-	-	-	-	0.3
<b>Total</b>	<b>R\$M</b>	<b>43.1</b>	<b>24.4</b>	<b>9.7</b>	<b>3.2</b>	<b>3.1</b>	<b>3.4</b>	<b>86.9</b>

### ***Operating Cost Estimate***

An operating cost model was generated based on MCSA's actual historic operating costs and specific consumption coefficients with adjustments for differences between ore sources in the stated production plan. Cost estimates are built using first principles incorporating both fixed and variable components to account for production rate variations. All costs are based on historical operating data. Costs were adjusted annually based on the changes to ore sources including rock support, transport and infrastructure requirements. Operating costs for 2017 include five months of actual costs incurred through May 31, 2017. The following table summarizes the operating costs.

Operating Cost Summary	Unit	2017 <sup>(3)</sup>	2018 <sup>(4)</sup>	2019	2020	2021	2022	2023	2024	2025	Average
Pilar Mine - Mining	R\$/t <sup>(1)</sup>	116.82	104.75	100.97	104.29	128.33	167.46	62.84	69.42	52.20	109.93
Vermelhos Mine - Mining	R\$/t <sup>(1)</sup>	-	22.54	84.71	100.97	105.27	95.26	-	-	-	89.94
Open Pit - Mining	R\$/t <sup>(1)</sup>	14.48	79.56	-	-	-	-	-	-	-	17.92
Caraíba Mill – Processing	R\$/t <sup>(2)</sup>	28.06	33.71	28.12	26.67	30.30	39.39	140.38	179.28	57.95	36.71
G&A Ops Support and Selling	R\$/t <sup>(2)</sup>	33.12	37.56	31.59	29.09	38.48	49.59	126.39	141.41	49.55	40.32

**Notes:**

(1) Cost per tonne mined.

(2) Cost per tonne processed.

(3) 2017 operating costs totals shown include actuals through May 31, 2017.

(4) 2018 open pit mining costs shown include retrenchment benefit payments.

### Underground Mine Operating Costs

Underground mine costs consist of the operational costs related to the ore extraction at the Pilar Mine and the Vermelhos Mine. Direct mining costs include drilling, blasting and mucking. Indirect costs include ore and waste transport, mine services, and mine supplies. The average mine operating cost at the Pilar Mine for the period 2017 to 2025 is estimated at R\$109.93/t mined while the average mine operating cost for the Vermelhos Mine is estimated at R\$89.94/t mined. The following table sets out the estimated underground mine costs for the Pilar Mine in more detail.

Pilar Mine Costs	Unit	2017	2018	2019	2020	2021	2022	2023	2024	2025	Average
Salaries	R\$/t <sup>(1)</sup>	53.53	42.43	38.59	43.07	66.70	107.84	28.80	49.77	37.43	51.46
Operational Materials	R\$/t <sup>(1)</sup>	24.91	27.11	27.36	25.76	24.47	22.85	13.40	5.25	3.95	24.18
Maintenance	R\$/t <sup>(1)</sup>	19.16	19.69	20.53	19.98	20.58	19.66	10.31	6.31	4.74	18.80
Services and Contracts	R\$/t <sup>(1)</sup>	12.30	8.69	8.64	8.67	9.00	9.18	6.61	2.40	1.80	8.76
Public Services	R\$/t <sup>(1)</sup>	6.55	6.57	5.78	6.56	7.22	7.50	3.52	5.57	4.19	6.43
Taxes and Fees	R\$/t <sup>(1)</sup>	0.03	0.01	-	0.01	0.01	0.01	0.01	0.04	0.03	0.01
Others	R\$/t <sup>(1)</sup>	0.36	0.27	0.24	0.25	0.36	0.43	0.19	0.08	0.06	0.28
<b>Total</b>	<b>R\$/t<sup>(1)</sup></b>	<b>116.82</b>	<b>104.75</b>	<b>100.97</b>	<b>104.29</b>	<b>128.33</b>	<b>167.46</b>	<b>62.84</b>	<b>69.42</b>	<b>52.20</b>	<b>109.93</b>

**Note:**

(1) Cost per tonne mined.

The following table sets out the estimated underground mine costs for the Vermelhos Mine in more detail.

Vermelhos Mine Costs	Unit	2017	2018	2019	2020	2021	2022	2023	2024	2025	Average
Mining	R\$/t <sup>(1)</sup>	-	15.58	39.20	49.77	61.90	64.17	-	-	-	49.44
Cost of Development	R\$/t <sup>(1)</sup>	-	0.25	25.52	25.86	13.20	1.51	-	-	-	16.26
Crushing/Fill	R\$/t <sup>(1)</sup>	-	-	2.25	4.13	6.65	5.68	-	-	-	4.21
Transportation Cost (Mine to Caraíba)	R\$/t <sup>(1)</sup>	-	5.22	14.85	18.69	20.71	21.11	-	-	-	17.42
Overhead/G&A	R\$/t <sup>(1)</sup>	-	1.50	2.88	2.53	2.81	2.79	-	-	-	2.60
<b>Total</b>	<b>R\$/t<sup>(1)</sup></b>	<b>-</b>	<b>22.54</b>	<b>84.71</b>	<b>100.97</b>	<b>105.27</b>	<b>95.26</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>89.94</b>

**Note:**

(1) Cost per tonne mined.

### Open Pit Mine Operating Costs

Open pit mine costs consist of the operational costs related to ore extraction at the open pit mines of the MCSA Mining Complex. Direct mine costs include drilling, loading, and mucking. Indirect mine costs include ore and waste transport, mine services, and mine supplies. The average open pit mine operating cost for the period 2017 to 2018 is estimated at R\$17.92/t moved. The following table sets out the estimated open pit mining operating costs in more detail.

<b>Open Pit Mining Costs</b>	<b>Unit</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>Average</b>
Salaries	R\$/t <sup>(1)</sup>	6.25	50.85	-	-	-	-	-	-	-	8.62
Operational Materials	R\$/t <sup>(1)</sup>	2.12	5.58	-	-	-	-	-	-	-	2.30
Maintenance	R\$/t <sup>(1)</sup>	0.35	0.90	-	-	-	-	-	-	-	0.38
Services and Contracts	R\$/t <sup>(1)</sup>	5.66	21.06	-	-	-	-	-	-	-	6.47
Public Services	R\$/t <sup>(1)</sup>	0.09	1.02	-	-	-	-	-	-	-	0.14
Taxes and Fees	R\$/t <sup>(1)</sup>	-	-	-	-	-	-	-	-	-	-
Others	R\$/t <sup>(1)</sup>	-	0.15	-	-	-	-	-	-	-	0.01
<b>Total</b>	<b>R\$/t<sup>(1)</sup></b>	<b>14.48</b>	<b>79.56</b>	<b>-</b>	<b>17.92</b>						

**Note:**

(1) Cost per tonne mined.

*Processing Costs, Caraíba Mill*

The Caraíba Mill is a conventional three-stage crush and flotation operation producing a high-grade copper concentrate. The plant operates 24 hours per day, seven days per week. The primary components of plant costs are salaries and power accounting for 38% and 28% of total plant costs, respectively. The average processing cost for the period 2017 to 2025 is estimated to be R\$36.71/t processed. The following table sets out the estimated processing costs in more detail.

<b>Caraíba Mill Processing Costs</b>	<b>Unit</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>Average</b>
Salaries	R\$/t <sup>(1)</sup>	10.90	13.51	9.87	8.79	10.84	15.83	54.55	69.67	22.52	14.69
Operational Materials	R\$/t <sup>(1)</sup>	5.54	5.82	5.71	5.91	6.12	6.77	27.73	35.41	11.45	6.54
Maintenance	R\$/t <sup>(1)</sup>	2.56	2.79	2.67	2.69	2.77	2.98	12.81	16.36	5.29	3.03
Services and Contracts	R\$/t <sup>(1)</sup>	1.34	2.04	1.55	1.38	1.68	2.45	6.70	8.55	2.76	1.98
Public Services	R\$/t <sup>(1)</sup>	7.35	9.13	8.00	7.60	8.53	10.83	36.76	46.94	15.17	10.03
Taxes and Fees	R\$/t <sup>(1)</sup>	0.29	0.32	0.25	0.22	0.27	0.39	1.44	1.83	0.59	0.34
Others	R\$/t <sup>(1)</sup>	0.08	0.10	0.08	0.08	0.09	0.14	0.40	0.51	0.16	0.10
<b>Total</b>	<b>R\$/t<sup>(1)</sup></b>	<b>28.06</b>	<b>33.71</b>	<b>28.12</b>	<b>26.67</b>	<b>30.30</b>	<b>39.39</b>	<b>140.38</b>	<b>179.28</b>	<b>57.95</b>	<b>36.71</b>

**Note:**

(1) Cost per tonne processed.

*General and Administrative Operational Support, and Selling Costs*

General and administrative costs include sales expenses related to concentrate transport, assaying, insurance, other sales related expenditures, and administrative expenses. Operational support costs include general support items, most notably site security, employee transport to site, mine site dining services and unallocated maintenance activities. Selling costs reflect the cost to transport concentrate from the concentrate shed to the place of sale. Over the period 2017 to 2025, the total average cost is estimated to be R\$40.32/t processed. The following table sets out the estimated general and administrative costs, operational support costs and selling costs in more detail.

G&A, Operational Support & Selling Costs	Unit	2017	2018	2019	2020	2021	2022	2023	2024	2025	Average
Salaries	R\$/t <sup>(1)</sup>	13.66	16.95	12.92	11.51	14.15	20.72	58.15	54.59	18.49	16.53
Operational Materials	R\$/t <sup>(1)</sup>	0.64	0.78	0.61	0.56	0.68	0.99	1.57	2.06	0.69	0.74
Maintenance	R\$/t <sup>(1)</sup>	0.27	0.44	0.34	0.31	0.39	0.56	1.18	1.54	0.52	0.42
Services and Contracts	R\$/t <sup>(1)</sup>	15.08	15.35	14.48	13.89	19.81	22.33	53.93	68.10	24.75	18.61
Public Services	R\$/t <sup>(1)</sup>	0.20	0.25	0.19	0.17	0.21	0.30	1.42	1.85	0.62	0.28
Taxes and Fees	R\$/t <sup>(1)</sup>	1.08	0.76	0.59	0.53	0.65	0.95	2.44	3.19	1.07	0.85
Others	R\$/t <sup>(1)</sup>	2.18	3.03	2.45	2.10	2.59	3.74	7.71	10.09	3.40	2.89
<b>Total</b>	<b>R\$/t<sup>(1)</sup></b>	<b>33.12</b>	<b>37.56</b>	<b>31.59</b>	<b>29.09</b>	<b>38.48</b>	<b>49.59</b>	<b>126.39</b>	<b>141.41</b>	<b>49.55</b>	<b>40.32</b>

**Note:**

(1) Cost per tonne processed.

### Economic Analysis

The economic analysis of MCSA's Vale do Curaçá Property is based on solely on Mineral Reserves and includes no Measured and Indicated Mineral Resources which are not part of the Mineral Reserves estimate. The economic results consider that the date of first production and corresponding capital and operating costs is June 1, 2017. Reclamation costs have not been considered in the economic analysis provided below, please refer to “– *Environmental, Permitting, and Social or Community Impact – Status of MCSA Environmental Permits and Licenses*” for estimated reclamation liabilities. A summary of the key criteria and assumptions are provided below. SRK Brazil has reviewed and verified the economic analysis prepared by MCSA in conjunction with the capital and operating estimates presented in the Vale do Curaçá Technical Report and confirms the outcome is a positive economic result in support of the statement of the Mineral Reserves.

### Revenues

- Total ore processed of 8.8 million tonnes at an average feed grade of 2.46% copper.
- Total sales of 195,705 tonnes of contained copper in concentrate.
- Payability, treatment and refining charges based on contracts in place at the time of the effective date of the Vale do Curaçá Technical Report.
- By-product revenue based on historic average gold and silver in concentrate of 2g/t and 43g/t respectively.
- Metal prices of US\$2.75/lb copper in 2017 and US\$3.00/lb copper in years 2018 through 2025.
- US\$:R\$ exchange rate of 3.30 in 2017, 3.60 in 2018 and 3.80 in years 2019 through 2025.
- Total undiscounted net revenue of R\$4.3 billion including R\$48.9 million in other revenues comprised of insurance recovery payments, scrap sales, and water pipeline operating cost recovery.

### Costs

- Total capital expenditures of R\$557.2 million including capitalized development.
- Total operating expenditures of R\$1.7 billion including general and administrative costs.

### Taxation & Royalties

SRK Brazil relied upon MCSA for the calculations related to royalties and taxation, including:

- Total Income and social contribution taxes of R\$160.2 million.
- CFEM royalty based on 2% of gross revenue less sales costs.
- Incentivo Sudene adjusted income tax of 6.25%.
- Social contribution on profits based on 9% of taxable income base.
- Application of available tax credits for federal PIS/Confins tax credits and ICMS credits on export sales.
- Utilization of MCSA tax loss pools from the MCSA Mining Complex.

## After-tax Cash Flow and Sensitivity Analysis

The Vale do Curaçá Property comprising the MCSA Mining Complex will produce an undiscounted after-tax cash flow of R\$1.9 billion, or US\$492.6 million. Simple payback occurs 2.0 years after June 1, 2017, the effective date of the Vale do Curaçá Technical Report. The after-tax NPV at an 8% discount rate is US\$360.4 million and the after-tax IRR is 185.6%. The MCSA Mining Complex cash flow forecast is shown in the following table.

Assumptions		2017 <sup>1</sup>	2018	2019	2020	2021	2022	2023	2024	2025	Total
USD	R\$/US\$	3.30	3.60	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.72
Copper Price	US\$/tonne	6,063	6,614	6,614	6,614	6,614	6,614	6,614	6,614	6,614	6,553
Copper Price	US\$/lb	2.75	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	2.97
<b>Production</b>											
Ore <sup>2</sup>	tonnes	996,868	1,268,336	1,627,940	1,845,656	1,507,404	1,037,980	259,078	198,031	98,036	8,839,329
Grade	%	1.35	1.77	2.23	2.29	3.88	2.98	2.72	2.52	1.71	2.46
Recovery	%	88.5	88.0	89.1	90.2	90.7	91.8	91.1	91.1	87.6	90.0
<b>Copper Contained</b>	<b>tonnes</b>	<b>11,879</b>	<b>19,726</b>	<b>32,305</b>	<b>38,099</b>	<b>53,063</b>	<b>28,137</b>	<b>6,476</b>	<b>4,555</b>	<b>1,465</b>	<b>195,705</b>
<b>Copper Contained</b>	<b>lbs</b>	<b>26,187,853</b>	<b>43,487,737</b>	<b>71,220,522</b>	<b>83,993,109</b>	<b>116,983,469</b>	<b>62,032,163</b>	<b>14,276,830</b>	<b>10,042,888</b>	<b>3,230,585</b>	<b>431,455,156</b>
<b>Capex</b>											
<b>Total</b>	<b>000 R\$</b>	<b>134,813</b>	<b>173,429</b>	<b>143,982</b>	<b>64,293</b>	<b>26,023</b>	<b>14,742</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>557,282</b>
<b>Operating Costs</b>											
General & Administrative	000 R\$	17,807	26,731	27,253	27,771	27,815	27,935	17,629	14,933	2,496	190,371
Operational Support	000 R\$	9,791	15,512	15,332	15,487	15,665	15,838	13,474	11,917	1,990	115,006
Pillar Underground Mining	000 R\$	80,542	138,542	144,709	135,370	108,351	88,058	16,281	13,747	5,118	730,718
Open Pit Mining	000 R\$	17,639	11,138	-	-	-	-	-	-	-	28,777
Vermelhos Underground Mining	000 R\$	-	5,484	58,847	87,290	81,728	49,705	-	-	-	283,054
Processing	000 R\$	28,035	42,758	45,784	49,222	45,676	40,882	36,368	35,503	5,681	329,909
Selling Cost	000 R\$	3,527	5,398	8,841	10,427	14,522	7,700	1,641	1,154	371	53,582
<b>Sub Total</b>	<b>000 R\$</b>	<b>157,342</b>	<b>245,563</b>	<b>300,766</b>	<b>325,567</b>	<b>293,757</b>	<b>230,117</b>	<b>85,394</b>	<b>77,255</b>	<b>15,656</b>	<b>1,731,417</b>
<b>Depreciation/Exhaustion</b>	<b>000 R\$</b>	<b>38,977</b>	<b>69,131</b>	<b>97,000</b>	<b>110,162</b>	<b>162,576</b>	<b>109,793</b>	<b>9,625</b>	<b>6,771</b>	<b>2,178</b>	<b>606,213</b>
<b>Total Costs</b>	<b>000 R\$</b>	<b>196,319</b>	<b>314,694</b>	<b>397,766</b>	<b>435,729</b>	<b>456,332</b>	<b>339,910</b>	<b>95,020</b>	<b>84,026</b>	<b>17,834</b>	<b>2,337,629</b>
<b>Revenue</b>											
Copper Sales	tonnes	11,879	19,726	32,305	38,099	53,063	28,137	6,476	4,555	1,465	195,705
Gross Metal Revenue	000 R\$	237,654	469,667	811,913	957,520	1,333,610	707,166	162,756	114,489	36,829	4,831,604
Net Metal Revenue	000 R\$	209,012	416,194	722,051	847,018	1,182,529	626,222	144,670	101,809	32,649	4,282,155
Other Revenue <sup>3</sup>	000 R\$	14,601	6,924	3,924	3,924	3,924	3,924	3,924	3,924	3,924	48,993
<b>Net Revenue</b>	<b>000 R\$</b>	<b>223,613</b>	<b>423,118</b>	<b>725,975</b>	<b>850,942</b>	<b>1,186,453</b>	<b>630,146</b>	<b>148,594</b>	<b>105,733</b>	<b>36,573</b>	<b>4,331,148</b>
<b>Cash Flow</b>											
Revenue	000 R\$	223,613	423,118	725,975	850,942	1,186,453	630,146	148,594	105,733	36,573	4,331,148
Opex (ex-Depreciation & Exhaustion)	000 R\$	(157,342)	(245,563)	(300,766)	(325,567)	(293,757)	(230,117)	(85,394)	(77,255)	(15,656)	(1,731,417)
Income & Social Contribution Taxes	000 R\$	(247)	(4,356)	(23,267)	(33,694)	(68,734)	(24,138)	(3,779)	(882)	(1,154)	(160,251)
<b>Operating Cash Flow</b>	<b>000 R\$</b>	<b>66,024</b>	<b>173,199</b>	<b>401,942</b>	<b>491,681</b>	<b>823,963</b>	<b>375,891</b>	<b>59,421</b>	<b>27,595</b>	<b>19,763</b>	<b>2,439,480</b>
CAPEX	000 R\$	(134,813)	(173,429)	(143,982)	(64,293)	(26,023)	(14,742)	-	-	-	(557,282)
<b>Free Cash Flow</b>	<b>000 R\$</b>	<b>(68,789)</b>	<b>(230)</b>	<b>257,960</b>	<b>427,388</b>	<b>797,940</b>	<b>361,149</b>	<b>59,421</b>	<b>27,595</b>	<b>19,763</b>	<b>1,882,198</b>
<b>Accumulated Cash Flow</b>	<b>000 R\$</b>	<b>(68,789)</b>	<b>(69,019)</b>	<b>188,941</b>	<b>616,329</b>	<b>1,414,269</b>	<b>1,775,418</b>	<b>1,834,839</b>	<b>1,862,434</b>	<b>1,882,198</b>	<b>1,882,198</b>
<b>Free Cash Flow</b>	<b>000 US\$</b>	<b>(20,845)</b>	<b>(64)</b>	<b>67,884</b>	<b>112,471</b>	<b>209,984</b>	<b>95,039</b>	<b>15,637</b>	<b>7,262</b>	<b>5,201</b>	<b>492,569</b>
<b>Accumulated Cash Flow</b>	<b>000 US\$</b>	<b>(20,845)</b>	<b>(20,909)</b>	<b>46,975</b>	<b>159,446</b>	<b>369,430</b>	<b>464,469</b>	<b>480,106</b>	<b>487,368</b>	<b>492,569</b>	<b>492,569</b>
<b>Results</b>											
After-Tax NPV <sub>8</sub>	000 US\$	360,381									
IRR	%pa	185.6%									
Simple Payback	years	2.0									

(1) 2017 based on the 7 months from the Effective Date (June 1, 2017) to December 31, 2017

(2) Assumes ore mined is processed in the same period

(3) Other Revenue includes insurance payments, recovery of water pipeline operating costs, and scrap sales

Sensitivity analyses were performed considering changes in copper price, foreign exchange rates, capital and operating costs. The MCSA Mining Complex cash flow is most sensitive to changes in metal price and foreign exchange. The results of the analyses are set out in the following table.

Parameters	Units	-20%	-15%	-10%	-5%	Base Case	+5%	+10%	+15%	+20%
Copper Price	LT US\$/tonne Cu	5,291	5,622	5,953	6,283	6,614	6,945	7,275	7,606	7,937
	NPV - 000 US\$	196,501	237,471	278,441	319,411	360,381	401,351	442,321	483,291	524,262
	IRR - %/year	78.8%	98.4%	121.5%	149.7%	185.6%	233.7%	302.6%	410.9%	608.0%
Foreign Exchange	LT R\$/US\$	3.04	3.23	3.42	3.61	3.80	3.99	4.18	4.37	4.56
	NPV - 000 US\$	245,626	279,378	309,379	336,222	360,381	382,239	402,110	420,253	436,885
	IRR - %/year	78.8%	98.4%	121.5%	149.7%	185.6%	233.7%	302.6%	410.9%	608.0%
Capex	000 US\$	445,826	473,690	501,554	529,418	557,282	585,146	613,010	640,874	668,738
	NPV - 000 US\$	387,879	381,005	374,130	367,256	360,381	353,507	346,632	339,758	332,883
	IRR - %/year	306.6%	263.6%	231.3%	206.0%	185.6%	168.9%	154.7%	142.7%	132.2%
Opex	000 US\$	1,385,134	1,471,704	1,558,275	1,644,846	1,731,417	1,817,988	1,904,559	1,991,130	2,077,700
	NPV - 000 US\$	434,332	415,844	397,357	378,869	360,381	341,894	323,406	304,918	286,431
	IRR - %/year	376.8%	303.1%	252.1%	214.6%	185.6%	162.5%	143.5%	127.5%	113.9%

#### Notes:

- (1) After-tax NPV.
- (2) Copper prices shown are long-term values for years 2019 through 2025. Values in years 2017 and 2018 are not shown, but have been calculated as a percentage change from base case assumptions of US\$6,063 in 2017 and US\$6,614 in 2018.
- (3) Foreign exchange rates shown are long-term values for years 2019 through 2025. Values in years 2017 and 2018 are not shown, but have been calculated as a percentage change from base case assumptions of 3.30 BRL:USD in 2017 and 3.60 BRL:USD in 2018.

Average C1 cash costs of copper produced per pound over the production forecast period are estimated to be US\$0.81/lb of copper produced. A reconciliation of C1 cash costs of copper produced per pound is presented in the following table.

		2017 <sup>(1)</sup>	2018	2019	2020	2021	2022	2023	2024	2025	Total
Exchange Rate	R\$/US\$	3.30	3.60	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.72
Ore Treated	(tonnes)	996,868	1,268,336	1,627,940	1,845,656	1,507,404	1,037,980	259,078	198,031	98,036	8,839,329
<b>Copper Contained</b>	<b>(tonnes)</b>	<b>11,879</b>	<b>19,726</b>	<b>32,305</b>	<b>38,099</b>	<b>53,063</b>	<b>28,137</b>	<b>6,476</b>	<b>4,555</b>	<b>1,465</b>	<b>195,705</b>
<b>Copper Contained</b>	<b>(lbs)</b>	<b>26,187,853</b>	<b>43,487,737</b>	<b>71,220,522</b>	<b>83,993,109</b>	<b>116,983,469</b>	<b>62,032,163</b>	<b>14,276,830</b>	<b>10,042,888</b>	<b>3,230,585</b>	<b>431,455,156</b>
Operational Support	000 R\$	9,791	15,512	15,332	15,487	15,665	15,838	13,474	11,917	1,990	115,006
Pilar Underground Mining	000 R\$	80,542	138,542	144,709	135,370	108,351	88,058	16,281	13,747	5,118	730,718
Open Pit Mining	000 R\$	17,639	11,138	-	-	-	-	-	-	-	28,777
Vermelhos Underground Mining	000 R\$	-	5,484	58,847	87,290	81,728	49,705	-	-	-	283,054
Processing	000 R\$	28,035	42,758	45,784	49,222	45,676	40,882	36,368	35,503	5,681	329,909
Selling Cost	000 R\$	3,527	5,398	8,841	10,427	14,522	7,700	1,641	1,154	371	53,582
Less Shared Services	000 R\$	(1,750)	(3,000)	-	-	-	-	-	-	-	(4,750)
<b>Sub Total</b>	<b>000 R\$</b>	<b>137,784</b>	<b>215,832</b>	<b>273,512</b>	<b>297,796</b>	<b>265,942</b>	<b>202,182</b>	<b>67,765</b>	<b>62,322</b>	<b>13,160</b>	<b>1,536,296</b>
Less Precious Metal Income	000 R\$	(7,003)	(11,693)	(20,213)	(23,838)	(33,201)	(17,606)	(4,052)	(2,850)	(917)	(121,373)
Less Development	000 R\$	(17,151)	(27,631)	(40,792)	(24,226)	(8,124)	(544)	-	-	-	(118,468)
<b>Total</b>	<b>000 R\$</b>	<b>113,631</b>	<b>176,508</b>	<b>212,507</b>	<b>249,732</b>	<b>224,616</b>	<b>184,033</b>	<b>63,713</b>	<b>59,472</b>	<b>12,243</b>	<b>1,296,454</b>
<b>C1 Cash Cost</b>	<b>R\$/lb</b>	<b>4.34</b>	<b>4.06</b>	<b>2.98</b>	<b>2.97</b>	<b>1.92</b>	<b>2.97</b>	<b>4.46</b>	<b>5.92</b>	<b>3.79</b>	<b>3.00</b>
<b>C1 Cash Cost</b>	<b>US\$/lb</b>	<b>1.31</b>	<b>1.13</b>	<b>0.79</b>	<b>0.78</b>	<b>0.51</b>	<b>0.78</b>	<b>1.17</b>	<b>1.56</b>	<b>1.00</b>	<b>0.81</b>

(1) 2017 based on the 7 months from the Effective Date (June 1, 2017) to December 31, 2017

## Recommendations

Regarding the Mineral Resources and Mineral Reserves estimation, the authors of the Vale do Curaçá Technical Report recommend a work program with a proposed budget of US\$575,000, to include the following: (a) to review the interpretation of the identified potential targets within the Vermelhos Mine, (b) to perform additional sampling of the Vermelhos Mine drill core, (c) to analyze and perform QA/QC across the full spectrum of trace metals (nickel, platinum, palladium, vanadium and others), (d) to review the Mineral Resources model considering both grade and structural behavior in conjunction with a more selective stope design, aimed at reducing dilution, (e) to review the influence of outlier intercepts on the Mineral Resource estimation so that such intercepts may be further analyzed for use in the grade estimation method, (f) to perform a Mineral Resource classification process based on Kriging variance and risk index, (g) to investigate re-commencing SX/EW operations to process oxides (including oxidized tailings to recover copper cathode), (h) to perform additional metallurgical test work to evaluate the economic recovery of nickel and pre-sorting of ore from the Vermelhos Mine, and (i) to analyze the potential for geophysical methods, such as airborne VTEM, and other EM methods, to assist in identifying priority drill targets. The following table sets out the proposed budget for the recommended work:

<b>Program</b>	<b>Budget (US\$)</b>
Review the interpretation of targets within the Vermelhos Mine	\$30,000
Perform additional Vermelhos Mine drill core sampling	50,000
Analyse and perform QA/QC across trace metals	10,000
Review the resources model considering both grade and structural behavior	80,000
Review the influence of high-grade outliers on the resource estimation	15,000
Perform a resource classification process based on Kriging variance and risk index	20,000
Metallurgical testing on oxides (including tailings) and Vermelhos ore pre-sorting	350,000
Investigate the use of geophysical methods including airborne methods	20,000
<b>Total</b>	<b>\$575,000</b>

In addition, the authors of the Vale do Curaçá Technical Report recommend that the QA/QC program include mass controls during sample crushing and pulverization in order to evaluate the quality of the comminution procedures and ensure no sample loss during sample preparation. The authors also recommend that the calibration of the equipment and standards for samples of grades greater than 2% Cu be discussed with the laboratory.

### **Exploration, Development and Production**

The Company's 2017 planned exploration program with respect to the Vale do Curaçá Property includes a proposed total of 48,750 m of drilling comprised of: (i) 24,500 m of underground infill and step-out exploration within the Pilar Mine and the Pilar District; (ii) 21,700 m of infill and step-out exploration within the Vermelhos Mine and the Vermelhos District (including 7,500 m of near-surface oxide drilling); and (iii) 5,250 m of drilling at the Surubim Mine and the Surubim District and 1,800 m of regional exploration drilling. Please see “– *Exploration – Exploration Targets – Subsequent Events – Pilar Mine and District Exploration*”.

In 2017, the Company anticipates producing between 19,000 and 20,500 tonnes of contained copper in concentrate. The 2017 production plan calls for a total of approximately 1.6 to 1.7 million tonnes of ore to be processed at the Caraíba Mill, sourced from both underground and open pit operations. Increased head-grades from the Surubim Mine and increasing production volumes from the Pilar Mine are expected to contribute to the increase in copper production throughout the year. In support of the production plan, a total of 3,800 m of development within the Pilar Mine is expected to be completed in 2017, with an additional 800 to 1,400 m of development expected to be completed at the Vermelhos Mine, currently under construction.

### **BOA ESPERANÇA PROPERTY**

The scientific and technical information in this section relating to the Boa Esperança Property is derived from, and in some instances is a direct extract from, and based on the assumptions, qualifications and procedures set out in, the Boa Esperança Technical Report. Such assumptions, qualifications and procedures are not fully described in this prospectus and the following summary does not purport to be a complete summary of the Boa Esperança Technical Report. Reference should be made to the full text of the Boa Esperança Technical Report, which will be available for review under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **Property Description and Location**

The Boa Esperança Property is located in the municipality of Tucumã, Pará State, Brazil. The site is located approximately 40 km to the southwest of the town. Tucumã can be accessed by state highway PA279, which connects the town of Xinguara to the town of São Felix do Xingu, a stretch of road that runs for approximately 160 km. The junction of PA279 with federal highway BR155 is in Xinguara. The latter is the main highway leading to the city of Marabá, situated around 220 km north of Xinguara. The following figure sets out the location of the Boa Esperança Property.



### ***Mineral Titles***

Please see “*General Development and Business of the Company – Business of the Company – Regulations – Use and Development of Mineral Properties*” for information regarding Brazilian mining legislation, administration and rights including CFEM.

The following table presents the Exploration License held by MCSA related to the Boa Esperança Property.

<b>Concession</b>	<b>Area (ha)</b>	<b>Permit</b>	<b>Start Date</b>	<b>End Date</b>	<b>Renewal</b>	<b>Final Exploration Report Filed</b>
855815/1996	4,033.81	19/07/1996	13/07/2000	13/07/2003	12/04/2005	10/04/2008

The legal status of MCSA’s mining rights is as follows:

- The Final Exploration Report was presented to the DNPM on April 10, 2008 and was approved by the DNPM on July 30, 2009;
- MCSA filed for the Mining Concession through the presentation of a PAE, which was filed with the DNPM on May 5, 2010; and
- The Preliminary License was filed with the DNPM on March 22, 2012.

As such, all criteria to obtain the Mining Concession have been fulfilled. During the validity of an Exploration License, the holder must pay an annual tax per hectare. The amount is R\$2.02/ha for the first three years, and R\$3.06/ha once the Exploration License has been renewed.

After the Final Exploration Report is approved by the DNPM, the holder has one year to present a PAE. The PAE may be equated with a Feasibility Study, which was submitted to the DNPM on May 5, 2010. Only after the approval of the PAE can construction activities commence under an Installation License, currently under review by the Pará State environmental agency. Aside from additional corporate taxes, mining companies also pay the CFEM. This royalty is levied on the sale of raw or improved minerals. The rate is 2% for copper as at the time of the effective date of the Boa Esperança Technical Report. The prior landowners of the project area were financially compensated, and all surface rights in the immediate project area are beneficially owned by MCSA.

### ***Nature and Extent of MCSA's Interest***

The estimated Mineral Resources and Mineral Reserves for the Boa Esperança Property are entirely within the surface rights (or granted surface rights) and current Exploration License area held by MCSA. The Company has filed an application for a Mining Concession and is awaiting approval of the Installation License, currently under review by the Pará State environmental agency, and final approval of the application by the DNPM. All requirements to receive the Installation License and have the Mining Concession issued to MCSA have been filed with the government agencies.

### **Accessibility, Climate, Physiography, Local Resources and Infrastructure**

#### ***Accessibility***

The area of the Boa Esperança Property is located in the municipality of Tucumã, in the southeast portion of the Pará State. The terrestrial access is through the city of Marabá using the following route:

- leave Marabá using the paved road BR155 southeast bound until Xinguara is reached;
- in Xinguara change to the paved road PA279 and drive through Água Azul do Norte, Ourilândia do Norte and Tucumã;
- from Tucumã continue on the same paved road another 25 km until the P5 village is reached; and
- a dirt road, which is usable throughout the year, is used from P5 for another 16 km towards southeast until Boa Esperança.

Although no airfield exists near the Boa Esperança Property, flights are available to Ourilândia do Norte, 9.7 km from Tucumã. This is a single-engine airplane flight from Belém, capital of Pará State, with a stop in Marabá.

#### ***Climate and Length of Operating Season***

The climate in Pará State, Brazil is “humid tropical” according to Köppen’s climate classification system, with rainy summers, dry winters and very intense rainfall between January and April. The climatic subtypes in the Xingu region and surrounding municipalities are classified as AM (Am3 and Am4) and AW (Aw3, Aw4 and Aw5). The AM subtype represents tropical monsoon climates, with a moderate dry season during which the monthly average precipitation is less than 600 mm. The AW subtype is characterized by a dry winter and monthly average rainfall of about 500 mm. Therefore, there are several climatic zones with different levels of rainfall within the region which can be grouped as follows:

- Am3 - characterized by annual average rainfall ranging from 2,000 to 2,500 mm; and
- Am4 - characterized by annual average rainfall between 1,500 and 2,000 mm.

Climate subtypes Aw3 and Aw4 present a similar behavior to the Am3 and Am4 subtypes. However, Aw5 (which is found at the eastern end of the region) presents an annual average rainfall of between 1,000 mm and 1,500 mm.

The rainfall patterns can be assessed by five rainfall stations located around the city of Tucumã: Boa Esperança Station, Tucuma Project, São Félix do Xingu, Onça Puma mine and Onça Puma Site. The nearest station is the Tucuma Project, located 12 km away, and the farthest is Sao Felix do Xingu, approximately 63 km from the project area.

The average precipitation during the hydrological year (October to September), according to the yearly breakdown (1972 to 2010), is 1,993.6 mm. The largest annual precipitation recorded was in the twelve-month period between 1988 and 1989 (2,485.7 mm), while the lowest value per cycle was recorded between the years 2006 and 2007, with a rainfall of 1,400.3 mm. The rainy season between the months of October and April represents, on average, 83% of annual rainfall. The dry period is therefore characterized by a dry season between May and September, of which the driest month is July, which has an average rainfall of 17.2 mm.

The presented subtypes belong to the “tropical rainy” climate and they are characterized by an annual average temperature above 27°C and differ from each other by the annual and monthly average rainfall. The climate in the São Felix do Xingu region and its surrounding areas is classified, according to Köppen, as “tropical humid”. According to meteorological parameters, the wet season extends from December to May, while the dry season occurs from June to October. The average rainfall is about 1,754.9 mm/year. During the wet season there are about 20 rainy days per month and in the dry season there are approximately three.

The area has a humid climate, with little or no water deficit. The dry season is shorter than the wet season. The region has a warm climate, mainly at lower elevations and at low latitudes. The availability of heat and water mass favour high evaporation levels and result in a humid climate in the region.

The lowest average air temperatures occur from February to April. Higher average air temperatures occur in September and October, which indicates the start of the transition period from the dry season to the wet season. From June to October the maximum air temperature continuously rises, decreasing in November due to the increase of nebulosity and the beginning of the rainy season.

Temperatures are generally elevated, where annual average values vary from 24.9° to 26.7°C with low thermal amplitudes. Humidity is high, with values above 70% percent throughout the year. The annual average is 82%, with February being the most humid month and August the least. Winds predominantly arrive from the northwest, except between May and July, when they come from the southwest. Annual atmospheric pressure is about 900.4 mbar.

In general, the southern region of Pará is dominated by trade winds from the southeast, which can also assume an easterly direction. These winds come from the northeast in the months with low levels of rainfall and are regular and constant with low speeds (breezes).

### ***Topography, Elevation and Vegetation***

The Boa Esperança Property is located in the southeast of the Pará State, Brazil, within the municipality of Tucumã, which is bounded by the municipalities of Ourilândia do Norte, São Félix do Xingu, Parauapebas and Água Azul do Norte. It is a part of the São Félix do Xingu region. This region is characterized by the existence of large mineral deposits including the nickel deposits of Onça Puma and Vermelho. Further to the northeast, are the Sossego and 118 copper deposits, and the mineral province of Carajás, which contains significant iron ore deposits.

The deposit that makes up the Boa Esperança Property occurs in an isolated hill which is elongated in north-northeast direction and located 38 km southwest from Tucumã's center. The topography is supported mainly by breccias composed of quartz and magnetite, which cut the neo-Archean biotite-granite, the ore host which intrudes the meso-Archean Rio Maria granodiorite (2.85 Ga). The elevation of the future mine buildings is about 250 masl and the elevation of Boa Esperança hill is about 450 masl.

The original vegetation is a tropical rainforest. However, the original vegetation in the Boa Esperança Property area has undergone intense anthropogenic alteration primarily due to deforestation from agricultural expansion and timber extraction.

The Mineral Resources and Mineral Reserves disclosed in the Boa Esperança Technical Report are completely contained within the Exploration Licence held by MCSA. MCSA is either the beneficial owner or has the right to the required surface rights for the envisioned operations.

### **History**

The area encompassing the Boa Esperança Property previously belonged to the Chilean company Codelco, the largest copper producer in the world. Codelco conducted an exploration program from 2003 to 2006 at the Boa Esperança Property. The resulting copper deposit defined by this exploration work was considered too small to justify Codelco's continued interest. In the second half of 2007, Codelco, through its subsidiary in Brazil, initiated a competitive process to sell the Boa Esperança Property copper and cobalt mineral deposit rights. MCSA acquired the contract and became the legal owner of the mineral rights to the Boa Esperança Property.

After the purchase, MCSA began several studies of the Boa Esperança Property with the objective of preparing a technical economic Feasibility Study for the project, in order to evaluate the industrial production of copper concentrate from copper mineralization, with associated cobalt, based on minerals obtained from the Boa Esperança Property. With this objective, MCSA has initiated several engineering studies and other support services, by consulting engineering firms, and including an in-fill drilling campaign.

SRK Brazil completed the first Feasibility Study in November of 2012. The drilling conducted during 2011 and 2012 was not used in the Boa Esperança Technical Report; the 2011 and 2012 drilling campaign corresponds to a total of 43 core boreholes totaling 14,147.15 m. The table below represents the 2012 Mineral Resource statement.

Domain	Category	Quantity (Mt)	Cu %	Contained Cu (tonnes)
Sulfide	Measured	8.03	0.95	76,700
	Indicated	42.89	0.77	329,600
	Measured + Indicated	50.92	0.80	406,300
	Inferred	7.68	0.78	60,100
Oxide	Inferred	4.15	0.91	37,900

**Notes:**

- (1) Effective date of December 31, 2011.
- (2) Tonnes and grade are rounded to reflect approximation.
- (3) Mineral Resources are stated at a cut-off grade of 0.185% and are contained within a pit optimization shell.

A qualified person has not done sufficient work to classify the historical estimate as current Mineral Resources or Mineral Reserves. Ero is not treating the historic Mineral Resources prepared in 2012 and presented in the table above as current Mineral Resources.

In 2013, a new drilling campaign was carried out; 17 new core boreholes were drilled, totaling 5,371.40 m drilled. In addition, MCSA updated many of its engineering studies, primarily those regarding mineral processing. This allowed for an update of the new Mineral Resource and, thus, for an update of many of the technical aspects of the Boa Esperança Property. A qualified person has not done sufficient work to classify the historical estimate as current Mineral Resources or Mineral Reserves. Ero is not treating the historic Mineral Resources prepared in 2013 as current Mineral Resources. The table below represents the 2013 Mineral Resource statement.

Domain	Category	Quantity (Mt)	Cu %	Contained Cu (tonnes)
Sulfide	Measured	10.6	0.95	101,300
	Indicated	55.9	0.68	380,400
	Measured + Indicated	66.5	0.72	481,800
	Inferred	5.5	0.72	38,900
Oxide	Inferred	3.6	0.92	33,200

**Notes:**

- (1) Effective date of June 20, 2013.
- (2) Tonnes and grade are rounded to reflect approximation.
- (3) Mineral Resources are stated at a cut-off grade of 0.185% and are contained within a pit optimization shell.

## Geological Setting, Mineralization and Deposit Types

The Carajás Mineral Province, where the Boa Esperança Property is located, is on the east side of the Amazon Craton and is considered one of the most important mineral provinces in Brazil. It is a region of high economic importance, as it hosts large high-grade Fe deposits, as well as significant Cu-Au deposits, such as Salobo, Sossego, 118, Cristalino and Igarapé Bahia Alemão. Deposits of Mn, Ni, Cr, Al and Zn have also been identified in the province. Its copper and gold resources are greater than 2,500 Mt, at 1% Cu and 0.5 g/t Au.

### Regional Geology

The Carajás Mineral Province encompasses two distinct tectonic domains, both of these Archean in age. The South Block, which is the older of the two (3.0 to 2.86 Ga) and is where the Boa Esperança Property is located, is called the Rio Maria Block and contains a typical granite-greenstone belt terrain. The North Block, which is the younger domain (2.8 to 2.5 Ga), is called Carajás and is composed of volcano-sedimentary rocks and granitoids, which host the large Fe, Cu-Au, Mn, Ni and Zn deposits in the province. These two blocks are considered to be products of the juxtaposition of volcanic island arcs and plutonic-like Andes environments, associated with an intra-continental mantle plume.

The North Block of Serra dos Carajás consists of a west-northwest-trending belt, composed of basaltic andesites and felsic volcanic rocks (2.7 Ga). As part of the Itacaiúnas Supergroup, the North Block has banded iron formations (jaspilites) intercalated with volcano-clastic and clastic sedimentary rocks, whose degree of metamorphism ranges up to amphibolite facies. These units are discordantly covered by younger (2.6 Ga) clastic, shallow marine and fluvial deposits of the Aguas Claras Formation. The basement is dominated by granitic, tonalitic and trondhjemitic gneisses, amphibolites and quartzites from the Xingu Complex (2.8 Ga).

Older granulitic cores, such as the Pium Complex, are elongated following an east-west direction and located in the south of Serra dos Carajás. These occupy limited areas and are composed of mafic and felsic granulites, enderbites and charnockites, which date from around 3.0 Ga. They are considered lower crustal fragments, placed along regional shear zones, defined by the juxtaposition of the two blocks.

The greenstone belt sequences from the Rio Maria Block, which are greenschist facies, are composed of basaltic flows, komatiitic at their base, and include interlayers of banded iron formations and cherts. The upper part of the sequences grade into rhyodacites with psammites and pelites at the top. These sequences constitute narrow and distorted strips, which are distributed over the gneissic basement of the Xingu Complex and among the Archean and paleo-Proterozoic granitoids, which are widespread in the region.

The Mesoarchean-aged granitoids (2.95 to 2.87 Ga) are represented by the Arco Verde, Parazônia and Caracol tonalities; the Mogno and Agua Fria trondhjemites; the Guarantã, Xinguara, and Mata Surrão granites; and the Rio Maria Granodiorite. The latter surrounds the Boa Esperança Granite, which hosts the Boa Esperança Property.

The Rio Maria granodiorite, which runs through a ductile shear zone, is limited on the east and west, by the Xingu Complex, São Felix Group and Plaque Granite. Locally, it is covered by volcanic rocks of the Sobreiro formation. It consists of leucocratic to mesocratic granitic rocks, which are equigranular to porphyritic and composed of plagioclase, microcline, quartz, biotite, hornblende, epidote, chlorite, sericite, allanite, apatite and zircon. The rocks were affected by structural tectonic processes, resulting in the formation of cataclasites. The Rio Maria granodiorite was emplaced prior to the formation of the Itacaiúnas shear zone. Copper mineralization, which is associated with fractures of feldspar, mica and chlorite in fractures, is found north of the city of Ourilândia.

Another set of diverse Neoproterozoic-aged intrusives (2.7 Ga) includes granite, both alkaline and metaalkaline, which occur at Serra dos Carajás. Examples of these include the Estrela Granitic Complex, Planalto Granite and Serra do Rabo Granite, in addition to those occurring at Rio Maria Block, such as the Plaque Suite. They suggest the existence of an important regional strain episode concomitant with the basaltic andesites in the Serra dos Carajás.

The differences between the two Archean domains, the Carajás (North Block) and the Rio Maria (South Block) are also reflected in their metallogeny. The younger Carajás domain hosts the most important mineral deposits currently known in the Archean Craton (Fe, Cu-Au, Mn, Ni, Al). The older Rio Maria domain hosts known as Cu deposits, namely those of Tucumã (Boa Esperança) and the Cuca region, as well as Au and W deposits.

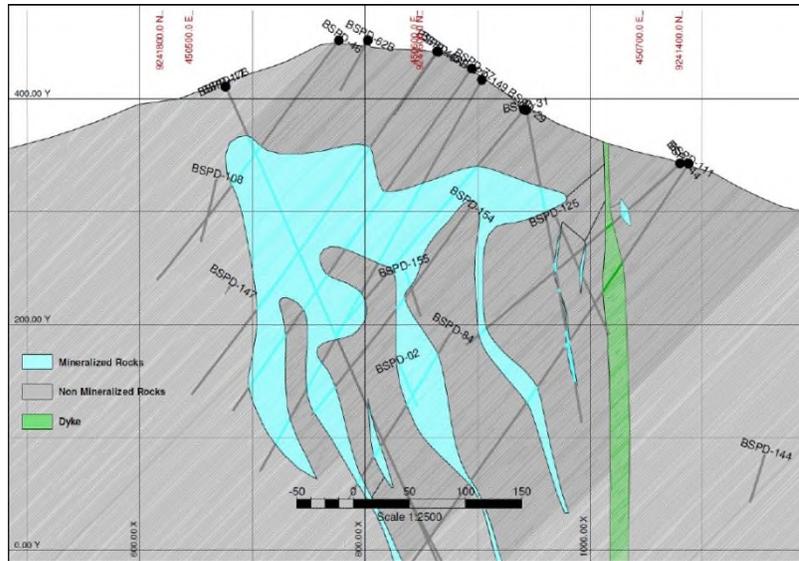
### ***Local Geology***

The Boa Esperança Property occurs within an isolated hill, which is elongated in a north-northeast direction and located 38 km southwest following a straight line from the town of Tucumã. The topographic high is supported mainly by breccias composed of quartz and magnetite, which cut the Neoproterozoic biotite-granite (2.78 Ga), the host of the copper mineralization. The Neoproterozoic biotite granite intrudes into the Mesoarchean Rio Maria granodiorite (2.85 Ga).

Mineralization consists of a series of brecciated zones, which are aligned N60°-70°E and incline in a southeast direction (60°-70°SE). However, another alignment of about N40°E was observed in the field and coincides with the elongation of the Boa Esperança hill.

The rock types that make up the Boa Esperança Property were defined and described in the geological and geotechnical work carried out and are shown in table below titled “Boa Esperança Property Rock Types”. The mineralization types that occur in the deposit, and which serve as the basis for all geological, geotechnical and geostatistical discussions, are described in the following table below titled “Boa Esperança Property Mineral Types”.

The stripping ratio between waste-rock and mineralization can be roughly observed in vertical section 10,000, as shown in the following figure.



### Boa Esperança Property Rock Types

Group Code	Rock Code	Description
SDAT	SDAT	No data. No sample recovered.
DIQ	DIQ	Dykes of uncertain composition.
	DAC	Dacitic dykes. Veins associated with the most recent structure, N75W direction.
MDI	MDI	Microdiorites. Veins associated with the most recent structure, N75W direction.
BXX	BXX	Hydrothermal breccia, with a matrix composed of Magnetite (Mag), Biotite (Bio) and Chalcopyrite (Cpy). Fragments of Quartz (Qtz), Granite and Pyrite (Py).
	BXQ	Breccia with predominant fragments of Qtz, Mag matrix, Bio, Cpy, Py.
	BXG	Breccia with predominant fragments of Granite, Mag matrix, Bio, Cpy, Py.
GRA	VET	Massive sulphide veins, with a greater composition of Py and smaller quantities of Cpy, Mag.
	GRA	Granite, host rock.
	GRB	Brecciated Granite. Incipient brecciation or intervals of Granite alternating with smaller intervals of breccia, not expressive enough for modelling.
	GRG	Coarse Granite. Porphyritic Granite, appears in the north of BSP.
	PGR	Granitic porphyry. Point distribution rock. Development of abundant Feldspar.
	TON	Tonnealite. Possibly constituted of host rock not affected by potassic alteration.
	TOF	Fine Tonnealite, Variation of TON unit (?)
	TOB	Brecciated Tonnealite.
	GRF	Foliated Granite. Rock affected by dynamic metamorphism.
	MIL	Mylonite. Rock associated with faults in ductile environment.
GRM	Mylonitic Granite. Evidence of ductile faulting in granite.	
MET	MET	Metamorphic rock with strong compositional banding. Unknown protolith.

## Boa Esperança Property Mineral Types

Mineralization Codes		
Interpreted Code	Intensity	Description
SDAT		No data. Interval was not recovered or was contaminated.
EST	0	Waste. Minerals associated with soils (with organic matter).
LIX	1	Leached zone found at the top of the deposit. The intensity of the mineralization depends on the limonite content and the degree of supergene alteration of the rock.
	2	
	3	
OXI	1	Copper oxide zone. Located next to sulphide breccias and/or associated with dams that control the precipitation of copper oxides (geochemical barriers). The intensity depends on the quantity of copper oxide observed.
	2	
	3	
MIX	1	Mix of oxide and sulphide copper minerals (Chalcocite (Cc), Py and Cpy).
	2	
	3	
ENR	1	Rich zone with secondary copper sulphides (mainly Cc) and varying quantities of Cpy and Py.
	2	
	3	
CPY	3	Unit composed of abundant Cpy and of generally large quantities of Py. The intervals usually have average Cu grades greater than 1%.
CPYPY	1	Cpy is the dominant copper mineral, with greater amounts of Py. The intensity refers to Cpy.
	2	
PYCPY	1	Py is the dominant mineral with trace amounts of Cpy. The intensity refers to the amount of mineralization.
	2	
	3	
PY	1	Mineralization composed solely of Py. Cpy is not observed or is absent. Intensity refers to the quantity of Py.
	2	
	3	

The breccias are concentrated around the top of the hill, occupying an area of approximately 450 x 350 m. The copper mineralization has a geometric shape similar to an inverted cone. Currently known mineralization lies between elevations of 350 m to -200 masl.

The breccias are composed of magnetite, quartz, biotite, chalcopyrite, and pyrite, including very small quantities of molybdenite. The alteration zones around the breccias are small (about 1/3 the thickness of the breccia) and composed of chlorite with epidote and potassium feldspar.

### ***Property Geology***

The geological features observed in the outcrops and drill cores are consistent with the vertical and horizontal sections of the Boa Esperança Property developed by SRK Brazil and MCSA. Furthermore, the mineralization style is also compatible with a Cu-Fe magmatic-hydrothermal deposit, a granite-related mineral deposit.

The Boa Esperança Property includes primary and secondary zoning. The primary zoning corresponds to a distal zone, where pyrite (py) dominates, grading towards the copper mineralized zones of pyrite-chalcopyrite (py-cpy), chalcopyrite-pyrite (cpy-py) and chalcopyrite (cpy).

The secondary zoning is a supergene alteration and is composed of sub-horizontal and discontinuous lenses of a barren leached zone (LIX), a copper oxide zone (OXY) and a mixed zone (MIX) of oxides and primary copper sulfides. The barren leached zone outcrops at the hill top and is composed of hematite, goethite and clay minerals. Despite the large amount of sulfide boxworks found in this area, the leached zone does not contain copper. A copper oxide (OXY) zone is located immediately beneath the leached zone, and is composed of malachite and copper-bearing clays. Below the copper oxide zone is an area of mixed oxides (MIX), carbonates, secondary supergene sulfides (chalcocite and covelite) and primary sulfides (pyrite and chalcopyrite).

The bottommost layer, beneath the mixed oxide (MIX) zone, is a copper-enriched (ENR) zone composed of sub-horizontal 5 to 10 m thick lenses extending up to 20 to 30 m and formed by primary and secondary sulfides.

Geochemical associations have been identified. Cobalt is concentrated on the surface, as expected according to its geochemical properties. However, there is no correlation between the copper and cobalt grades in the mineralization. Iron is more abundant in the pyrite and chalcopyrite zones, and higher molybdenum content is found in the chalcopyrite-pyrite mineralization and in the leached zone.

The stratigraphy of the project area can be defined, from the oldest unit to the youngest, as shown below:

1. **Metamorphic Rocks (MET)** – Rocks varying in color from light brown to gray with strong banding, strong silicification. These rocks contain chlorite and epidote and are located in the west of the deposit, surrounded by intrusive rocks with large xenoliths.
2. **Boa Esperança Granite (GRA)** – This group of intrusive rocks of varying compositional and textural types hosts the copper mineralization and intrudes into the metamorphic rocks.

*Granite (GRA)* – Corresponds to a granitic body, which encompasses the alteration/mineralization in the project area. Macroscopically, it is a biotite granite with a hypidiomorphic granular texture and an average composition consisting of feldspar (40%), silica (35%), plagioclase (10%) and biotite (15%). The biotite displays a weak alteration to chlorite and the granite has some veins of feldspar, quartz and pyrite with epidote halos. There is granodiorite along the edge of the granite, which likely indicates that the granite is the result of a hydrothermal alteration phase, representing potassic alteration consisting of biotite-sericite-K-feldspar.

*Granite breccia (GRB)* – Corresponds to granite with a weak incipient brecciation.

*Coarse-Grained Granite (GRG)* – In the northern area of the deposit, there is an intrusive porphyritic granite rock, with phenocrysts of zoned feldspar up to 2 cm in size, in a matrix of quartz and feldspar. No contact relationships with the enclosing granite have been observed, but it may correspond to a change in composition from the same event.

*Granite Porphyry (PGR)* – Displays porphyritic texture, with phenocrysts of feldspar in an aphanitic crystalline matrix. Contacts with the enclosing granite range from passive to diffuse.

3. **Tonalite (TON)** – Intrusive rock that occurs in the western area of the copper deposit; of tonalitic composition. It seems to be part of the intrusive complex of the host rock to mineralization. There are textural variations, such as fine texture (TOF), on the edge of the intrusive body, or variations of the degree of brecciation as in the tonalite breccia (TOB), which shows small areas of a strong incipient brecciation.
4. **Mylonite (MIL)** – Mylonite occurs in the areas north, east and northeast of the main copper deposit. Mylonite is characterized by the occurrence of sericite schists, interstratified with quartzite. It exhibits mild folding, with attitudes ranging from N15°W to N10°E and dips between 30° and 80° E. Macroscopically, the rock is a sericite-quartz mylonite, fine-grained, white to yellowish in color, foliated, nonmagnetic, with large translucent quartz crystals surrounded by clusters of light yellow sericite. The petrographic analysis describes a foliated rock of medium to coarse crystallinity, intensely sheared and hydrothermally altered, featuring a cataclastic texture with few traces of the original rock texture remaining.

The mineralogical composition is as follows: quartz (60%), which occurs as oriented and deformed medium-grained to coarse-grained anhedral crystals displaying strong undulatory extinction in thin sections and as granoblastic aggregates which were formed following cataclasis and partial recrystallization; sericite (38%), which occurs as sheets that form small aggregates surrounding oriented quartz crystals; locally, prismatic and subhedral pseudomorphs replace feldspar; rutile (2%) is observed as fine prismatic crystals that are included in aggregates of sericite; and zircon (trace), as a fine-grained accessory mineral disseminated in the rock. The mylonites correspond to the local deformation of the granite, or sheared equivalent, which would have occurred before the brecciation.

5. **Mylonitic Granite (GRM)** – Consists of intrusive rocks affected by mylonitization, with occurrences of foliation defined by biotite and quartz. Texturally, this rock corresponds to a medium-grained rock, which is similar to the granite. GRM is pale pink in color, with abundant microcline, quartz, plagioclase, and epidote crystals. Microscopically, it is a sheared and altered granite, medium-grained, strongly deformed, and hydrothermally altered to microcline, sericite and epidote, which have granular and hypidiomorphic granophyric relict textures.

The mineralogical composition is: quartz (25%), allanite (1%), microcline (30%), zirconium (trace), plagioclase (15%), apatite (trace), sericite (19%), opaques (trace), biotite (3%), chlorite (trace), epidote (5%), calcite (trace), and sphene (2%).

The mineralogical composition is: quartz (25%), allanite (1%), microcline (30%), zirconium (trace), plagioclase (15%), apatite (trace), sericite (19%), opaque (trace), biotite (3%), chlorite (trace), epidote (5%), calcite (trace), and sphene (2%).

GRM represents an intermediate phase between the granite and mylonites, in which the deformation is not so severe. This unit is also called foliated granite (GRF).

6. **Boa Esperança Breccia (BXX)** – Corresponds to a hydrothermal breccia, strongly controlled by tectonic shear structures, in which the open spaces allowed for the later introduction of hydrothermal mineralization.

The first pulse of mineralization introduced quartz-pyrite, which is found in some areas as massive replacement deposits. The characteristics of these units, its composition and degree of foliation indicate that the first pulse would have been formed in a brittle structural setting.

The second pulse of mineralization introduced magnetite, biotite and copper. Biotite appears to be the first event of this second pulse, showing a fluid texture interpreted as syn-shearing. Magnetite has a massive and only faintly fluid texture, invading the biotite and leaving, in some cases, elongated clasts of biotite. Pyrite and chalcopyrite were deposited on the edges of the breccia fractures, perhaps suggesting that the solutions from this event were low in sulfur.

7. **Dykes (DIQ)** – The grouping of the dykes is primarily dacitic in composition, while others are intermediate to acidic in composition. They are associated with the younger intrusive volcanic event (Uatumã) of probable age 1.8 Ga.

*Dactitic Dikes (DAC)* – These are porphyritic dacites, N70°W in general strike orientation, and whose general direction is similar to the major regional structural lineaments.

Macroscopically, the dykes are dark pink colored rocks with feldspar crystals which have concentric zoning, "eyes" of clear quartz with recesses (resorption), chloritized mafic minerals (biotite), as well as abundant xenoliths (1 to 4 cm in size) of rounded granite.

The matrix is medium- to fine-grained, composed of aggregates of potassium feldspar, quartz and mafic minerals. In some locations, this unit is moderately chloritized and sericitized. In the area of the Boa Esperança hill, this unit exhibits supergene alteration to clay, as a result of oxidation of sulfides in the breccia and granite.

*Intermediate to acidic dykes (DIQ)* – These are dykes of variable composition and are related to the regional structures.

8. **Microdiorites (MDI)** – Microdiorites are present as a series of dikes with a general N50°W to N70°W direction, are of dioritic composition with a fine granular texture and consist of an aggregate of plagioclase and mafic minerals. The rock corresponds to a lamprophyre dike of sub-volcanic emplacement. It exhibits strong hydrothermal alteration to chlorite and saussurite, without deformation, showing original porphyritic, amygdaloidal, and well-preserved panidiomorphic granular textures.

### ***Significant Mineralized Zones***

Copper mineralization associated with breccia bodies is present over an area of 1.2 km in a north-south direction by 1.5 km in an east-west direction. However, the focus of mineralization is beneath the topographic hill at the Boa Esperança Property, covering an area of about 600 x 400 m. The breccia bodies on plan maps are sub-radial finger-like bodies that extend NW, W, and SW from the center of mineralization under the hilltop. Individual breccia bodies are shown in this plan as being perhaps 30 m in width and 200 to 800 m in strike length. The main body of mineralization is cone shaped and tends to pinch out at depths of 400 to 500 m below the base of oxidation, with the mineralization oriented in a predominantly NE/SW direction.

### ***Deposit Type***

The presence of magnetite (iron) in the breccias hosting the copper mineralization suggests a deposit type classified as Iron Oxide Copper Gold (“**IOCG**”). However, there are many features that do not match the proposed IOCG deposit type. Among these is the presence of high-sulfur mineral assemblage (chalcopyrite-pyrite), rather than the low-sulfur copper sulfide mineral

assemblage characteristic of the IOCG deposit type (chalcopyrite - bornite - chalcocite), as well as the high quartz content, the absence of pervasive hydrothermal alteration of the host rock, in particular sodic (albite) alteration, and the absence of gold. As such, the deposit that makes up the Boa Esperança Property is a variant of an IOCG deposit type.

### ***Geological Model***

IOCG deposits are considered to be metasomatic expressions of large crustal-scale alteration events driven by intrusive activity. IOCG deposits are classified as separate to other large intrusive related copper deposits such as porphyry copper deposits and other porphyry metal deposits primarily by their substantial accumulations of iron oxide minerals, association with felsic-intermediate type intrusives (Na-Ca rich granitoids), and lack of the complex zonation in alteration mineral assemblages commonly associated with porphyry deposits.

IOCG deposits are still relatively loosely defined and as such, some large and small deposits of various types may or may not fit within this deposit classification. IOCG deposits may have skarn-like affinities, although they are not strictly skarns in that they are not metasomatites in the strictest sense.

IOCG deposits can express a wide variety of deposit morphologies and alteration types dependent on their host stratigraphy, the tectonic processes operating at the time (for example some provinces show a preference for development within shears and structural zones).

IOCG deposits have been recognized within epithermal regimes (caldera and maar styles) through to brittle-ductile regimes deeper within the crust. What is common in IOCGs is their genesis within magmatic-driven crustal-scale hydrothermal systems.

IOCG deposits typically occur at the margins of large igneous bodies, which intrude into sedimentary strata. As such, IOCG deposits form pipe-like, mantle-like or extensive breccia-vein sheets within the host stratigraphy. Morphology is often not an important criterion of the ore body itself, and is determined by the host stratigraphy and structures.

IOCG deposits are usually associated with distal zones of particular large-scale igneous events, for instance a particular Suite or Supersuite of granites, intermediate mafic intrusives of a particular age. Often the mineralizing intrusive event becomes a diagnostic association for expressions of IOCG mineralization within a given province.

IOCG mineralization may accumulate within metasomatized wall rocks, within brecciated maar or caldera structures, faults or shears, or the aureole of an intrusive event (possibly as a skarn) and is typically accompanied by a substantial enrichment in iron oxide minerals (hematite, magnetite). IOCG deposits tend to accumulate within iron-rich rocks such as banded iron formations, iron schists, and others, although iron enrichment of siliciclastic rocks by metasomatism is also recognized within some areas.

Supergene profiles can be developed above weathered examples of IOCG deposits, as exemplified by the Sossego deposit, Pará State, Brazil and at Boa Esperança, where typical oxidized copper minerals are present; for example, malachite, cuprite, native copper and minor amounts of digenite and chalcocite.

Gangue minerals are typically some form of iron oxide mineral, classically hematite, but also magnetite. This is typically associated with gangue sulfides of pyrite, with subordinate pyrrhotite and other base metal sulfides.

Silicate gangue minerals include actinolite, pyroxene, tourmaline, epidote and chlorite, with apatite, allanite and other phosphate minerals common in some IOCG provinces.

### **Exploration**

Project exploration has consisted of ground geological mapping and sampling, geophysical surveys and exploration drilling. Ground geophysical surveys completed include magnetic and gravity surveys and induced polarization electrical surveys.

The geophysical surveys were completed by Codelco during the period from 2003 to 2006. The exploration work conducted by MCSA includes confirmation drilling conducted during the period from 2008 through 2013, and site-specific studies in support of the feasibility studies.

### ***Mapping and Sampling (Codelco)***

Early exploration included mapping 5.0 square kilometres at a scale of 1:5,000 and surface sampling over 100 x 200 m of approximately 1,100 soil samples. The mapping and sampling identified the copper mineralization and the general style of mineralization.

### ***Geophysical Surveys (Codelco)***

Ground-based magnetic surveys were completed over 91 linear km on 100 m-spaced lines. A gravity survey was completed with over approximately 680 point measurements on 200 m spaced lines. Induced polarization electrical surveys were conducted over approximately 35 linear km.

A Mise-à-la-Masse electrical survey was also completed during the rainy season, which favoured good electrical conduction through the surface environment of leached rock oxides, resulting in resistivity and chargeability data of excellent quality. The results show a well-defined body, with IP chargeability.

The resistivity and IP data have been modeled in 3D using data inversion, which indicated a conductive mineralized body. The mineralized conductive body defined by the geophysics model appears limited in all directions except to the southeast. The geophysical anomaly defined does not have a preferential directional orientation and has no apparent structural control; it represents a primary geophysical drill target beneath the Boa Esperança Property.

### ***Drilling (Codelco)***

The identification of geological, geochemical and geophysical anomalies was followed by core drilling programs that totaled 62 holes for a total depth of 21,956.12 m on a 200 m x 200 m drilling grid and was infill drilled with 100 m x 100 m spacing.

Average drill core recoveries exceed 98%. The drill core was also used to collect RQD information for geotechnical purposes and core samples were used to determine specific gravity.

### ***Drilling (MCSA)***

MCSA conducted additional drilling, between 2008 and 2013, of 103 drill holes totaling 36,016.13 m drilled, for a project total of 57,972.25 m drilled in 165 diamond drill holes. Infill drilling was completed to approximately 50 and 25 m centers.

### ***Relevant Exploration Work***

The Codelco drilling during the period of 2003 to 2006 and the follow-up drilling by MCSA between 2008 and 2013 are the relevant exploration work that generated the drill hole assay database, which is the basis for the Mineral Resource estimate.

### ***Surveys and Investigations***

The topography of the Boa Esperança Property was obtained using high-precision GPS with an accuracy of <5 cm and a total station system, using two Trimble 5700 GPS receivers and a TOPCON GPT 3007W Total Station. Two companies were contracted for the topography and drill collar surveying, Topovale Serviços Topográficos LTDA. and Master Planejamento LTDA.

The drill hole collars are marked with PVC pipes and cement blocks. Detailed information on the drill holes is recorded on aluminium tags on the cement blocks in such a manner that collar locations can be verified.

### ***Significant Results and Interpretation***

The initial exploration drilling was guided by the mapping and geophysical surveys, and subsequent drilling conducted was follow-up and infill drilling. The exploration methods used at the RQD are appropriate for the deposit and were executed in a logical progression, culminating with infill definition drilling. SRK Brazil is of the opinion that the exploration methods applied at the Boa Esperança Property have been appropriate for the style of mineralization, are representative of the deposit, and have successfully generated a verifiable drill hole assay database sufficient to support the Mineral Resources stated below.

## Drilling

The identification of geological, geochemical, and geophysical anomalies was followed by a core drilling campaign during the period from 2003 through 2013.

### *Type and Extent*

The Boa Esperança Property's first drill hole campaign began in 2003 under the supervision of Codelco Brazil. Codelco Brazil completed four drill hole campaigns in 2003 to 2004, 2005 and 2006. Codelco Brazil completed 62 core drill holes, totaling 21,956.12 m on a 200 m x 200 m drilling grid that was infill drilled to 100 m x 100 m. The following table summarizes the exploration drilling at the Boa Esperança Property.

Company	Year	Number	Meters	Drill hole Series	Comments
Codelco Brazil	2003-2004	8	2,865.95	BSPD-01 to 08	
Codelco Brazil	2004	8	2,990.30	BSPD-09 to 16	
Codelco Brazil	2005	19	7,798.45	BSPD-17 to 34	Includes BSPD-17 and BSPD-17A
Codelco Brazil	2006	27	8,301.42	BSPD-36 to 60	Includes BSPD-45 and BSPD-45A
<b>Total Codelco Brazil</b>		<b>62</b>	<b>21,956.12</b>		
MCSA	2008-2010	43	13,497.58	BSPD-61 to 103	Includes BSPD-64 and BSPD-64B
MCSA	2011	5	1,672.15	BSPD-104 to 108	
MCSA	2012	38	15,475.00	BSPD-109 to 146	
MCSA	2013	17	5,371.40	BSPD-147 to 165	
<b>Total MCSA</b>		<b>103</b>	<b>36,016.13</b>		
<b>Total</b>		<b>165</b>	<b>57,972.25</b>		

MCSA completed additional drilling between 2008 and 2013, totaling 36,016.13 m, for a project total of 57,972.25 m in 165 core holes. Infill drilling was completed to approximately 50 and 25 m centers for the core of the deposit. Most drill holes are oriented along an azimuth of  $330 \pm 10^\circ$  with dips of approximately  $50^\circ$  to the NW. Drill holes were down-hole surveyed for azimuth and dip.

### *Procedures*

All exploration drilling was conducted using diamond-drill coring. Holes were drilled at an HQ diameter through soil, saprolite and weathered rock and were reduced to NQ size upon reaching fresh rock. Average drill core recoveries are reported as exceeding 98%. The drill core samples were also used to collect RQD information for geotechnical purposes and core samples were used to determine specific gravity (bulk density) measurements.

### *Interpretation and Relevant Results*

Information on down-hole survey procedures for hole deviations was not made available to SRK Brazil. Drilling procedures were conducted following industry best practices and provided sufficient information to allow for Mineral Resource estimation.

### **Sampling, Analysis and Data Verification**

#### *Methods*

This section describes the methods used by MCSA. Similar methods were followed by Codelco.

The core sampling procedure begins when the drill core boxes are delivered by the drilling company to MCSA. A technician checks the drill runs for length and recovery, then marks and photographs the core. The technician then calculates the RQD

and notes the general degree of alteration and hardness. MCSA geologists then log the drill core and mark the core for sampling, based on the observed geology and mineralization. The sampling is limited to a maximum sample length of 1.50 m in the mineralized zones and 4.0 m in the non-mineralized zones. After the sampling intervals are marked, the core is split in half using a diamond saw and then quartered, with one quarter sent for analysis and the remaining three quarters stored for future reference.

Codelco used the SGS Geosol laboratory in Parauapebas, Pará State, Brazil to prepare all samples from the 2003 to 2006 drilling campaigns. MCSA used the same laboratory to prepare all samples from the 2008/2009, 2012 and 2013 drilling campaigns. Sample analyses were carried out by SGS Geosol in Vespasiano, Minas Gerais, Brazil. SGS Geosol is an internationally recognized mineral testing laboratory. Its management system is accredited in the ISO 9001:2008 certification standards by ABS Quality Evaluation Inc., Texas, USA. MCSA used the Intertek laboratory in Parauapebas, Pará State, Brazil to prepare all samples from the 2010 drilling campaign. Intertek is an internationally recognized mineral testing laboratory. Its management system is accredited in the ISO 9001:2008 certification standards by ABS Quality Evaluation Inc., Texas, USA. All analytical laboratories involved in sample preparation and analyses are independent from MCSA.

### ***Security Measures***

Samples are in MCSA's possession from the time the core boxes are delivered by the drilling company until the ¼ cut core samples are delivered to the SGS Geosol preparation laboratory, located in Parauapebas, Pará State, Brazil. The drilling company provides sample security at the drill site, and MCSA provides sample security during the geological logging process and through the core quartering for assay samples. The analytical laboratories provide sample security from the time of delivery at the SGS Geosol preparation laboratory.

### ***Sample Preparation***

The Codelco and MCSA 2008 to 2009 drill core samples were sent to the SGS Geosol preparation laboratory, located in Parauapebas, Pará State, Brazil, where they were crushed to a size of 2 mm, then separated into a 0.5 kg sample. The 0.5 kg sample was then pulverized to 85 % passing through a 150 mesh sieve. A 50 g sample was taken from the 0.5 kg pulp and was then sent to SGS Geosol, located in Vespasiano, MG for analysis by Atomic Absorption. The samples from the 2010 drilling campaign were sent to Intertek laboratory, also in Parauapebas, where a similar procedure was followed.

Samples from 2012 and 2013 were sent for preparation to the SGS Geosol laboratory located in Parauapebas, Pará State, Brazil and after that for analysis at the SGS Geosol laboratory in Vespasiano, MG, Brazil; the same procedures for sample preparation and analysis used in the 2008 to 2009 drilling campaign were used in those performed in 2012 and 2013.

### ***Laboratories***

The SGS Geosol laboratory in Vespasiano, MG, Brazil and the Intertek laboratory in Cotia, SP, Brazil completed Cu, Co, Mo, Fe and S analyses on the 50 g pulp samples. The samples were analyzed for Cu using Atomic Absorption Spectroscopy at SGS Geosol (Method AAS40B for samples with Cu <0.5 % and Method AAS41B for samples with Cu >0.5 percent) and Intertek (Method GA50 for samples with Cu <0.5 % and Method GA51 for samples with Cu >0.5 %) laboratories. Samples were also analyzed for Co, Mo and Fe using Atomic Absorption Spectroscopy and for S using a Lecco analyzer (Method CSA17V). The SGS Geosol and Intertek laboratories are both known within the industry as reputable international analytical labs. The management systems for both laboratories are accredited in the ISO 9001:2008 certification standards by ABS Quality Evaluation Inc., Texas, USA.

In addition, the QA/QC procedures and their results, as well as the fact that the analyses conducted were primary analyses for a common commodity such as copper by a standard analytical technique, do not raise any concerns with respect to the database. SRK Brazil recommends that MCSA document all analytical procedures used by the SGS Geosol and Intertek laboratories.

### ***Quality Assurance and Quality Control Programs***

Quality control measures are typically established to ensure the reliability and trustworthiness of the exploration data. These measures include written field procedures and independent verifications of aspects such as drilling, surveying, sampling and assaying, data management and database integrity. Appropriate documentation of quality control measures and regular analysis of quality control data are important safeguards of project data and form the basis for the quality assurance program implemented during exploration.

Analytical control measures typically involve internal and external laboratory control measures implemented to monitor the precision and accuracy of the sampling, preparation and assaying. They are also important in preventing sample mix-up and monitoring the voluntary or inadvertent contamination of samples.

Assaying protocols typically involve regularly duplicating and replicating assays and inserting quality control samples to monitor the reliability of assaying results throughout the sampling and assaying process. Check assaying is normally performed as an additional test of the reliability of the assaying results; it generally involves re-assaying a set number of sample rejects and pulps at a secondary umpire laboratory.

MCSA relied partly on the internal analytical quality control measures implemented by the SGS Geosol and Intertek laboratories. In addition, MCSA implemented external analytical control measures consisting of inserting control samples (standard reference and blank material and replicate assays) in all sample batches submitted for assaying.

The blank material used for MCSA is not a certified material; it consists of rhyolite and rhyodacite dykes from the Boa Esperança Property. These samples were prepared internally.

The samples were analyzed for Cu using Atomic Absorption Spectroscopy in the SGS Geosol (Method AAs40B for samples with Cu <0.5 % and Method AAS41B for samples with Cu >0.5 %) and Intertek (Method GA50 for samples with Cu <0.5 % and Method GA51 for samples with Cu >0.5 %) laboratories. Samples were also analyzed for Co, Mo and Fe using Atomic Absorption Spectroscopy and for S using a Lecco analyzer (Method CSA17V).

MCSA also used three copper non CRM obtained from SGS Geosol in Belo Horizonte, Brazil. Their characteristics are listed in the table below. Control samples were inserted in one of approximately every seven samples; analyses of replicate pulp assays of mineralized rock were also completed. Each batch of drilling samples (40 samples per batch) consisted of one duplicate sample, one blank sample and three Standard Reference Materials. MCSA did not use an umpire laboratory during the drilling campaigns, and it is SRK Brazil’s recommendation that they implement the use of one in future studies.

**Specifications of Standard Reference Materials used by MCSA for the Boa Esperança Property**

Standard Reference Material	Source	Reference Value (Cu%)	Standard Deviation	Number of Samples
SGS LG	SGS	0.2048	0.0037	177
SGS MG	SGS	0.6063	0.0137	172
SGS HG	SGS	1.1018	0.0691	251

*SRK Brazil Comments*

It is SRK Brazil’s opinion that the sampling preparation, security, and analytical procedures used by MCSA, SGS Geosol and Intertek laboratories are consistent with generally accepted industry best practices. SRK Brazil considers the exploration data collected by MCSA to be of sufficient quality to support Mineral Resource evaluation. SRK Brazil suggested that MCSA certify the standards and blanks used in the Boa Esperança Property and document all QA/QC procedures.

**Data Verification**

*Procedures*

SRK Brazil verified the database by checking more than 10% of the database against the original laboratory certificates and found no significant errors. About 25% of the drill hole collars were also checked against original certificates for accuracy. MCSA has a QA/QC program in place and regularly monitors the results.

*Verification of Analytical Quality Control Data*

MCSA provided SRK Brazil with external analytical control data containing the assay results of the quality control samples from the Boa Esperança Property. All data were provided in Microsoft Excel spreadsheets. Control samples (blank and standard reference materials) were summarized on time series plots to highlight their performance. Paired data (pulp duplicates) were analyzed using bias charts, quantile-quantile plots and relative precision plots.

The external analytical quality control data produced for the Boa Esperança Property are summarized in the table below. The external quality control data produced for this project represent around 5% of the total number of samples assayed.

	<b>Total</b>	<b>(%)</b>
Sample Count	22,436	
Blanks	270	1.20%
Standards	600	2.67%
Pulp Replicates	268	1.19%
<b>Total QC Samples</b>	<b>1,138</b>	<b>5.07%</b>

Blank samples were analyzed for five elements (Cu, Co, Mo, Fe and S). The most relevant of these elements (Cu), particularly in the last drilling campaigns, yielded values below the 0.1% Cu warning limit. In the blank results for the 2008/2009 drilling campaign, more than 20 % of the results are above the UL. According to SRK Brazil's 2012 report, MCSA reported that the blanks were from contaminated material, and the material has been changed. All blank results from the 2010 and 2012 drilling campaigns are below the UL. In the 2013 drilling campaign 3 % of samples are above the UL.

MCSA used one standard reference material (High Grade) during the 2008/2009 campaign. In more recent years, three standard reference materials (Low Grade, Medium Grade and High Grade) were used.

SGS and Intertek delivered consistent Cu results, mostly within two standard deviations. The results for the High Grade (“**HG**”) standard reference material show consistently lower values than expected in all drilling campaigns. This shows that there is a negative bias for the HG standard reference material.

In the 2010 drilling campaign there are two results for Medium Grade (“**MG**”) standard reference material that appear to be mislabeled. This is also the case for Low Grade (“**LG**”) and MG standard reference materials during the 2012 drilling campaign.

Paired assay data examined by SRK Brazil show that assay results can be reproduced by the SGS Geosol and Intertek laboratories from duplicate pulp with high confidence. Rank half absolute difference (“**HARD**”) plots show that for the 2008/2009 samples, 74 % have HARD below 10 %, while for 2010 samples, 75 % have HARD below 10 %, for 2012 samples, 88 % have HARD below 10 % and for 2013 samples, 84.6 % have HARD below 10 %. In addition, all duplicate pairs have a correlation coefficient of 0.98 or higher.

MCSA did not use an umpire laboratory for testing. In general, SRK Brazil considers the analytical quality control data delivered by the laboratories utilized by MCSA and reviewed by SRK Brazil to be sufficiently reliable for the purpose of Mineral Resource estimation. SRK Brazil recommends that future quality control programs include the use of certified blank samples and certified standard reference materials and that MCSA employ an umpire laboratory.

#### *Data Adequacy*

It is SRK Brazil's opinion that the database has been adequately verified and is suitable for use in Mineral Resource estimation.

#### **Mineral Processing and Metallurgical Testing**

The Boa Esperança Property's deposit was considered as a conventional disseminated copper deposit. However, it has two distinct geological features, a breccia and a granite rock type. The sulphide minerals have been concentrated in faults and open spaces within the granite body. An experimental program was developed in two primary stages, to characterize the ore and evaluate pre-concentration methods: bench scale testing performed on a trays jig, followed by continuous tests with a small-scale pilot plant. Their results confirmed the previous experimental conclusions:

- 30% of the crushing product is under 3 mm and shows copper enrichment factors between 1.55 and 2.0 as compared to the ROM copper grade. The coarse fraction which fed the jig had a copper grade enrichment factor between 0.75 and 0.8 of the ROM grade, implying copper is mostly contained in the -3 mm fraction; and
- 50% of the mass was rejected in jigging. The copper recovery varied from 86% to 96%. Adding to this recovery the recovery of the copper contained in the finer fraction (-3 mm) of the crushed product, the total recovery of the circuit increased to 90% to 96%.

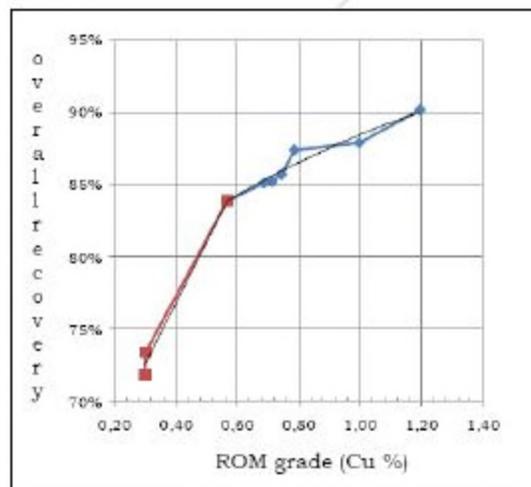
After the jiggling continuous testing, the jig concentrate was crushed to -3.35 mm and recombined with the natural fines (-3 mm) from each rock type then ground to 106 µm. Locked cycle froth flotation locked tests were performed to concentrate the copper sulphide.

The tailings of this initial flotation were refloatated to concentrate pyrite (sequential flotation). The tailings of this second stage flotation were submitted to magnetic separation and yielded an iron ore concentrate and the final fine tailing. The conclusion of this work is that pre-concentration is an effective method for rejecting a significant mass of ROM feed, with minimum copper losses. In practice, this will reduce the size of the crushing and concentrating plant and as a result, capital and operating costs.

It was also demonstrated that jiggling using simple equipment as the AllMineral jig (a Baum-type pneumatic jig) is effective. More sophisticated equipment, such as dense media separators, or specialized jigs with artificial beds or for special use, are unnecessary. The pre-concentration study was followed by blending the jig concentrate with the -3 mm of the ROM, grinding and performing froth flotation and magnetic separation testing. The main deleterious contaminants like F, Cl, U, As, P, Pb and Zn are present in the concentrate in traces such that significant smelter penalties are not anticipated.

Bond crushability indexes varied from 14.9 to 18.1 kWh/t, averaging 16.7 kWh/t indicating difficult crushing plant feed. Bond ball mill work indexes ranged from 13.9 to 17.0 kWh/t with an average of 15.7 kWh/t, indicating a medium/hard plant feed. The final result used to estimate the predicted recovery, as a function of feed grade is summarized in the figure below. The blue line shows the recovery for ROM grades greater or equal to 0.57% Cu and the red shows expected recovery for grades below 0.57% Cu.

**Overall recovery (%) x ROM grade (% Cu)**



## Mineral Resource and Mineral Reserve Estimates

### *Mineral Resources*

The Mineral Resource estimate was prepared using a three-dimensional percentage block model of 10 m x 10 m x 5 m. In addition, oxidation state and Mineral Resource classification codes were assigned to each block. The Mineral Resource estimation was conducted using Geovia GEMSTM (v6.6) software. Other graphs were created using GSLIB software.

The general procedure used for Mineral Resource estimation was as follows:

- the drill hole data was imported into GEMSTM and examined for data errors, such as overlapping intervals, missing data, etc. The problems detected were corrected by MCSA geologists;
- wireframes were constructed at a cut-off grade of 0.2 % copper. The wireframes followed the same guidelines as in earlier estimations, adjusting for the inclination of the bodies, and were established in collaboration with MCSA geologists;
- statistics were run for assays within the wireframes and lognormal probability plots were examined for data outliers;

- assays were composited into 2 m length intervals from the top of the drill hole and statistics were run for the composites within the wireframes;
- block grades were estimated for copper, iron, sulfur, molybdenum and cobalt using OK with composites inside the wireframes for sulfide ore. NN grades were also estimated, in order to provide a comparative model used to validate the OK grades; and
- Mineral Resources were classified in accordance with the estimation pass and the anisotropic distance to the nearest composite.

### ***Mineral Resource Statement***

The Mineral Resources are constrained to a pit optimization shell run with the following parameters:

- Copper price: US\$4.00/lb;
- Mining cost: US\$2.25/t moved;
- Processing cost + G&A: US\$8.21/t processed;
- TC/RC: US\$0.32/lb copper; and
- Recovery: 91%.

The internal copper cut-off grade (excluding mining costs) is 0.20% Cu.

The Measured, Indicated and Inferred Resources within the pit optimization shell are given in the table below. The copper grades are undiluted grades within the grade shell wireframes.

#### **Mineral Resource Statement, Boa Esperança Property, Pará State, Brazil, SRK Brazil, June 1, 2017**

<b>Domain</b>	<b>Category</b>	<b>Quantity (Mt)</b>	<b>Cu (%)</b>	<b>Contained Cu (tonnes)</b>
Sulfide	Measured	41.00	0.81	332,100
	Indicated	26.17	0.62	162,254
	Measured + Indicated	67.17	0.73	490,341
	Inferred	1.35	0.56	7,560
Secondary Sulfide	Inferred	2.05	0.69	14,145
<b>Total</b>	<b>Measured</b>	41.00	0.81	332,100
	<b>Indicated</b>	26.17	0.62	162,254
	<b>Measured + Indicated</b>	67.17	0.73	490,341
	<b>Inferred</b>	3.40	0.64	21,760

**Notes:**

- (1) Effective date of June 1, 2017.
- (2) Tonnes and grade are rounded to reflect approximation.
- (3) Mineral Resources are stated at a cut-off grade of 0.2% Cu and are fully contained within an optimized pit shell.
- (4) Stated Mineral Resources are inclusive of Mineral Reserves.

Mineral Resources are not Mineral Reserves and have not demonstrated economic viability. Mineral Resource estimates do not account for mineability, selectivity, mining loss and dilution. These Mineral Resource estimates include Inferred Mineral Resources that are normally considered too geologically speculative to allow for the application of economic considerations that would see them categorized as Mineral Reserves. There is also no certainty that these Inferred Mineral Resources will be converted to Measured and Indicated categories through further drilling or into Mineral Reserves once economic considerations have been applied.

### ***Mineral Reserves***

The conversion of Mineral Resources to Mineral Reserves requires accumulated knowledge achieved through pit optimization, pit design, economics and associated modifying parameters. The Mineral Reserve was calculated based on a cut-off grade of 0.28% Cu and an LOM copper price of US\$7,000/t London Metal Exchange Cu.

In accordance with the CIM classification guidelines, only Measured and Indicated Mineral Resource categories are converted to Proven and Probable Mineral Reserves respectively (through inclusion within the open-pit mining limits). Inferred Mineral Resources are treated as waste with a grade of zero.

#### Mineral Reserve Statement

The table below shows the Boa Esperança Property Mineral Reserve statement.

Mineral Reserve Classification	Volume <i>m<sup>3</sup> x 1,000</i>	Density <i>t/m<sup>3</sup></i>	Dry Tonnage <i>t x 1,000</i>	Cu %	Contained Cu <i>t x 1,000</i>
Proven	5,744.50	3.225	18,528.1	0.96	178.05
Probable	315.6	3.089	975.0	0.72	7.02
<b>Total</b>	<b>6,060.10</b>	<b>3.218</b>	<b>19,503.1</b>	<b>0.95</b>	<b>185.07</b>

- Effective date of June 1, 2017;
- Open pit Mineral Reserves assume full mine recovery;
- Open pit Mineral Reserves are diluted along lithological boundaries and assume selective mining unit of 2.5 m x 2.5 m x 5 m;
- The strip ratio was calculated to be 1.93 (waste to ore);
- Mineral Reserves are based on a price of US\$ 7,000/t London Metal Exchange Cu throughout the life of the mine;
- Mineral Reserves are based on a cut-off grade of 0.28% Cu;
- Mineral Resource tonnage and contained metal have been rounded to reflect the accuracy of the estimate. As a result of this rounding, the numbers may not add up; and
- Contained copper is reported as in-situ and does not include process recovery.

#### Mining Operations

Boa Esperança Property is a copper deposit, averaging approximately 0.95% Cu diluted grade within the minable pit. The mineralization is close to the surface and the resource is appropriate for an open pit mining operation. The final pit design in this feasibility phase of the Boa Esperança Property totals 19.5 Mt of Proven and Probable Mineral Reserves with an average diluted grade of 0.95% Cu. From this total, 17.5 Mt is classified as high grade material with an average Cu content of 1.02% and the remaining 2.0 Mt as low grade material, with a grade of 0.34% Cu.

Waste materials amount to 37.7 Mt, which is comprised of 19.6 Mt of saprolite, 8.9 Mt of weathered rock and 9.2 Mt of fresh rocks. The LOM strip ratio of waste to ore is 1.93. The operation of the Boa Esperança Property will utilize conventional open pit mining techniques and small size mining equipment to mine a total of 57.2 Mt of material over the life of the mine. This comprises 19.5 Mt of ore and 37.7 Mt of waste materials. A total of 5.1 Mt of ore will be moved from the stockpiles to the plant.

The Boa Esperança Property will be developed in three different phases, as follows:

- Phase 1: two years of pre-production conducted by a contracted mine operation firm;
- Phase 2: seven years of mine operation with own equipment; and
- Phase 3: two years of plant operation fed with previously stockpiled low grade ore.

The mine is scheduled to operate in three-eight hour shifts, seven days per week, 365 days per year. Whenever mine production needs to be reduced or interrupted, the primary crusher will be fed from the regularization pile using a front-end loader.

#### Processing and Recovery Operations

Open pit mining is planned for a production rate of 2.31 million tonnes per year at an average ore grade of 1.14% Cu. Ore will be processed in a concentrator at a rate of 9,033.6 t/d (primary crushing) using conventional processes considered standard to the industry.

### ***Final Process Flowsheet Design***

The process flowsheet includes three-stage crushing, screening, jigging, ball mill grinding, copper rougher flotation, two stages of copper cleaner flotation and pyrite flotation from the copper rougher and scavenger flotation tailing. The final copper concentrate is thickened prior to pressure filtration and the flotation tailing is cycloned, dewatered, thickened and filtered prior to discharge to the tailing storage facility. The pyrite concentrate from the pyrite flotation is sent to the high sulfur pond.

### ***Final Process Material Balance***

Process plant material balances have been developed for the crushing circuit, screening circuits, jigging, grinding, copper flotation, regrind, pyrite flotation, concentrate and tailing thickeners and dewatering circuits.

### ***Final Process Plant Water Balance***

The water balance includes the water requirements for both raw water and recycled process water. A fresh water requirement of 143 m<sup>3</sup>/h is estimated and is based on an overall process plant water requirement of 560.8 m<sup>3</sup>/h with 552.0 m<sup>3</sup>/h being provided as recycled process water. Water losses of 156.3 m<sup>3</sup>/h are estimated. It is assumed that the gland seal water for pumps, water for reagents preparation, potable water and make-up water will be provided by clean raw water. The rest of the water requirements within the process plant will be from recycled process water.

## **Infrastructure, Permitting and Compliance Activities**

### ***Infrastructure***

#### *Site Access*

The Boa Esperança Property is located in the county of Tucumã, Pará State. The Boa Esperança Property is only accessible by road and is located approximately 42 km southwest from the nearest town of Tucumã. To reach the site, travel west from Tucumã along state highway PA279 to a village known as P5. This highway connects the larger cities of Xinguara and São Felix do Xingu which flank the town of Tucumã. At P5, travel south for approximately 16 km, on an unpaved road, to reach the project site. Although there is no airfield in the project area and its neighborhoods, flights to the neighboring county from Belém do exist, with a stop at Marabá, in a single-engine airplane. Flights leave the capital city every day to Ourilândia do Norte, the nearby county located 6 miles from Tucumã.

#### *Power*

The estimated power demand to support operations is approximately 9.1MW at peak demand. The public concessionaire, CELPA supplies the region with electrical power. Initial discussions with CELPA have confirmed that excess electrical power is available within the region. The power for the project will be sourced from the regional grid within the county of Tucumã. A new 138 kV high voltage, three phase, 60 Hz transmission line branch, approximately 15 km long, tied into the grid along the power line from Tucumã to Sao Felix do Xingu will be installed. The tie-in will be 25 km west of Tucumã near Vila P5. The selected route will follow the access road to the site. Type “SS1!-PR” Double-T reinforced concrete poles will be used to carry the transmission line. The transmission line will enter the site from the north terminating at the main substation (5090-SE-01) located adjacent to the administration building.

#### *Main Substation*

The transmission line will terminate at the main substation (5090-SE-01SE-01) at the mine site. The main substation shall be an external area for high voltage equipment, power transformer, power factor correction and harmonic filtering equipment and a control house.

#### *5005-SE-01 – Primary Crushing Area Substation*

Substation 5005-SE-01 primarily services the primary crushing station. The substation shall be in civil construction (masonry type), with two levels. A cable room and transformer bay shall be built below the panel room.

#### *5010-SE-01 – Re-Crushing, Jigging and Screening Area Substation*

Substation 5010-SE-01 primarily services re-crushing, jigging and screening circuits. The substation shall be in civil construction (masonry type), with two levels. A cable room and transformer bay shall be built below the panel room.

#### *5015-SE-01 – Grinding, Re-milling, Thickening, Flotation and Water Distribution Area Substation*

Substation 5015-SE-01 primarily services the Grinding, Thickening, Flotation and Water Distribution circuits. The substation shall be in civil construction (masonry type), with three levels. A cable room and transformer bay shall be built below the panel room. In the third floor will be the control room operations.

#### *5020-SE-01 – Filtering, Reagents and Air Distribution*

Substation 5020-SE-01 primarily services the primary Filtering, Reagents and Air Distribution circuits. The substation shall be in civil construction (masonry type), with two levels. A cable room and transformer bay shall be built below the panel room.

#### *5030-SE-01 – Raw Water Capture and 5035-SE-01 – Waste Water Capture*

Substation 5030-SE-01 primarily services the raw water capture and 5035-SE-01 services waste water capture. The substations, 5030-SE-01 and 5035-SE01 are similar. The substations shall be in civil construction (masonry type), with one level and the transformer mounting in concrete post. The cable route will by floor ducts, which shall be above ground level.

#### *5040-SE-01 – Auxiliary Buildings and Facilities*

Substation 5040-SE-01 will service the auxiliary buildings and facilities including the administration building and offices; laboratory; warehouse, process operations workshop, mine dry, mine equipment maintenance shop, truck wash, gatehouse, fuel/lube storage/dispensing area, core shed and nonindustrial areas.

The 5040-SE-01 shall be in civil construction (masonry type), with one level and the transformer bay near to the panel room. The cable route will by floor ducts, which shall be above ground level.

#### *Ancillary Buildings*

Ancillary buildings will include:

- Administration building and offices;
- Laboratory;
- Warehouse and yard storage;
- Process operations workshop;
- Mine dry;
- Mine equipment maintenance shop;
- Truck wash;
- Explosives storage magazine;
- Gatehouse and weigh-scale;
- Fuel and lube storage;
- Core shed;
- first aid clinic and fire brigade building;
- canteen; and
- refuse storage.

### *Water Supply*

Water for construction activities will be sourced from an underground aquifer via semi artesian wells to a depth of 80 m. These wells have a production rate of 7.6 m<sup>3</sup>/h which is believed sufficient to support the non-potable water needs during the construction phase. During construction, it is the responsibility for the contractor to supply the necessary potable water requirements.

According with studies produced by Tecnomin, the water balance includes the water requirements for both raw water and recycled process water. A fresh water requirement of 143 m<sup>3</sup>/h is estimated and is based on an overall process plant water requirement of 560.8 m<sup>3</sup>/h with 552.0 m<sup>3</sup>/h being provided as recycled process water. Water losses of 156.3 m<sup>3</sup>/h are estimated. It is assumed that the gland seal water for pumps, water for reagents preparation, potable water and make-up water will be provided by clean raw water. The rest of the water requirements within the process plant will be from recycled process water.

The reservoir of the water pond will have the purpose of storing clean water to meet the supply demands of the plant, considering a flow of 150 m<sup>3</sup>/h during uninterrupted operations for a year. In December 2014 MCSA contracted VOGBR to develop the current work. The Water Pond will be built in the Jatobá Creek, within the limits of the MCSA properties.

The water pond will have the purpose of storing clean water to meet the demand of the plant, estimated at a flow of 150m<sup>3</sup>/h, working for a year without interruption. The water pond will be located in the Jatobá stream, within the area owned by MCSA.

The embankment of the dykes will be constituted of a homogeneous section of compacted soil. The defined geometry shows a dam crest at Elev. 240.0 m with 10.0 m width. The upstream and downstream slopes exhibit a declivity of 1V:2.0H.

### *B2 Dam*

The reservoir of the B2 Dam will have the purpose of containing the hazardous tailings resulting from the copper ore beneficiation and to recover water in order to limit the use of new water, minimizing the need to collect water in the waterbodies of the region. In December 2014 MCSA contracted VOGBR to develop the current work. At that time, the construction of a waterproof dam constituted by a compacted soil embankment to meet the new tailings volumes generated in the Boa Esperança Property was assessed. The considered operational life of the mine for the tailings volume to be generated was 11 years.

The tailings to be deposited in the B2 Dam will be classified according to the ABNT NBR 10.004/2006 Standard as Class I tailings (hazardous). Since the tailings are Class I the B2 Dam shall be watertight observing a minimum layer of non-saturated soil of 1.50 m, measured between the bottom of the deposit and the critical water level. In addition, the design shall include the definition of the leak detection system and waterproofing system.

### *Tailings Storage*

Studies for the basic design of saprolite and tailing dump aimed to define the geometry of its final arrangement and to size the proposed structures to internal and surface drainage systems.

The geometry proposed to the dump was adequate with regards to the geotechnical stability, showing security factors for normal and critical conditions equal to 1.5 and 1.3, respectively.

The final configuration of the dumps will consist of berms measuring 10 meters wide and benches with 10 m height, with final angle of 2H:1V, after compaction of the tailing and enveloping with compacted soil of the saprolite and tailings dump. The volumetric capacity for the disposal of tailing and waste in the final configuration is 15.4 Mm<sup>3</sup>.

The bottom drain system will be used to collect the contributions from the input of incident waters in the dump, avoiding its saturation. These drains should be protected by a saprolite layer, in order to prevent that the traffic or surface draining damages the granular material of the section.

The materials to be disposed will be transported by conveyor belts, in the case of the waste processing plant, and dump trucks from the pit, in the case of the saprolite.

## ***Project Infrastructure***

Based on the estimated production volumes of copper concentrates, the best logistic alternatives between the Boa Esperança Property and ports have been reviewed.

Tucumã, PA was considered as the starting point for the Boa Esperança Property, considering:

- Domestic transportation;
- Cargo handling at the port; and
- Sea transportation.

For domestic transportation, haulage by truck appears to be the only viable ground transportation. Although Para's State is crossed by the Carajas' Railroad and the Tocantins River, both of these alternatives present some deficiencies that hinder the utilization of the routes.

Vila do Conde has shown the best conditions for loading since Itaquí is limited to train transport options. Further, Vila do Conde is a better organized industrial port, with ample area which can be leased from the port authorities or from third companies.

The primary logistic challenges facing the project are:

- long distance to the port;
- limited accessibility to the railroad, owned by a private company with a track record of poor third-party service levels;
- limited port infrastructure; and
- chronic congestion at ports near the project.

## ***Mining Rights Status, Permitting and Environmental Management***

Based on information obtained from the DNPM, the legal status of MCSA mining rights is as follows:

- The Final Exploration Report was presented to the DNPM on April 10, 2008 and was approved by the DNPM on July 30, 2009;
- MCSA filed for the Mining Concession through the presentation of an Economic Exploitation Plan (Plano de Aproveitamento Econômico or PAE), which was filed with the DNPM on May 5, 2010;
- The Preliminary License was filed with the DNPM on March 22, 2012; and
- As such, all criteria to obtain the Mining Concession have been fulfilled and the Company is awaiting final approval of the change status to a full Mining Concession after the issuance of the Installation License, currently under review by the Pará State environmental agency.

The Pará State Environmental Agency granted a Preliminary License to MCSA on March 7, 2012, which was subsequently renewed on June 19, 2013. MCSA filed for an Installation License request on April 1, 2013, which is currently under analysis.

A grant for well drilling and evaluation of water potential (considering future groundwater collection for the installation phase) was issued. The formal request for water use will be submitted immediately after the issuance of the Installation License.

The Installation License is prepared when the project design has advanced far enough for engineering plans to be submitted to the government for approval. The Installation License is accompanied by an Environmental Control Plan referred to as a PCA (Plano de Controle Ambiental) and a Degraded Area Recovery Plan or PRAD (Plano de Recuperação de Áreas Degradadas). Once the Installation License has been granted, the DNPM can issue a Mining Concession. It is at this licensing stage that the legal reserve (the "**Legal Reserve**") that may be affected by operations is considered. In Pará State the law has established that 80% of the propriety area should remain as a Legal Reserve. This percentage may be changed depending on the specific conditions of Environmental – Economical Zone in each region. At the time of the effective date of the Boa Esperança Technical Report, this was regulated by the Brazilian Forest Code, Law # 12.651/2012 and Pará State Decree # 2.099/2010.

The area earmarked for deforestation covers 38.65 ha at this stage of the project. The impact on the Legal Reserve is being discussed with the Environmental Agency (“SEMA”) and will be a condition of the Installation License. The environmental agency is analyzing the Installation License process for the granting of this license.

The Operation License allows the project to begin operations and is issued after all of the appropriate environmental measures have been implemented and verified by the authorities. The Operation License must be renewed during the life of the mine. When the Operation License is up for renewal, a report summarizing environmental performance must be presented.

If, during the operation, there are substantial changes to the initial project plan (e.g. an additional treatment plant), this will require another specific Installation License, which will subsequently become an Operation License.

The baseline characterization studies and environmental impact assessment (“EIA”) for the Boa Esperança Property were prepared and submitted to SEMA in 2008.

The EIA classifies areas of influence into three categories:

- Área Diretamente Afetada (“ADA”) = Directly Affected Area;
- Área de Influência Direta (“AID”) = Directly Influenced Area; and
- Área de Influência Indireta (“AII”) = Indirectly Influenced Area.

Changes to the boundary of the project area were necessary due to a demand made by the Pará State Environmental Agency during the review of the LP application. The ADA now includes village P07 and drainage of about 200m, which were previously not included. This update added approximately 1,202.1 ha to the ADA. Additionally, the AID now includes springs which flow to the Branco River and Jatobá Creek. The main drainage affected by the project totals 7,204.4 ha. They increased by 1,607.7 ha, due to the addition of two drainages areas.

The Environmental Control Plan (PCA) was submitted to the environmental agency in April, 2013.

Studies conducted in the period of January to November 2011, consisted of the following steps:

- inventory of water sources and users;
- flow measurements in major drainages;
- preparation of hydrogeological conceptual model;
- evaluation of impacts to water resources;
- assessment of water availability; and
- projection of the monitoring network.

During the months of February and September 2011 flow measurements related to the rainy and dry periods were conducted in the Boa Esperança Property area in conjunction with environmental permit work. In each of these periods five different points located in the main drainages were established for the implementation of flow measurements. Also in the month of September a flow measurement was held in the Branco River, located approximately 15 km south of the Boa Esperança Property.

The hydrogeological system in the region has the typical characteristics of formations located in crystalline basement aquifers. This is an aquifer consisting of a shallow weathered mantle with metric thickness (Porous Aquifer), superimposed over the crystalline basement (Fractured Aquifer), deformed and fractured.

The results indicate that the Boa Esperança Property area has a low water potential, as many springs and surface water bodies have intermittent flow, becoming dried during the dry season. The underground reservoirs were also evaluated as an alternative to water capturing. However, tests performed in tubular wells showed low production capacity, with pump flow rate of about 6 m<sup>3</sup>/h.

The water pond designed by VOGBR will have the purpose of storing clean water to meet the demand of the plant, estimated at a flow of 150 m<sup>3</sup>/h, working for a year without interruption. The water pond will be located in the Jatobá stream, within the area owned by MCSA.

## Capital and Operating Cost Estimates

### Capital Expenditures

The capital cost estimate developed for the Boa Esperança Technical Report comprises the costs associated with the engineering, procurement, construction, commissioning and pre-operation required for all project facilities. SRK Brazil relied upon third-party estimation based on studies developed for the project by engineering firms according to the following scope:

- SRK Brazil - Mine Equipment Schedule, Mineral Resources, Mineral Reserves, mine equipment capital and mining operating costs, environment and mine closure;
- Tecnomin Projetos e Consultoria Ltda (Minas Gerais, Brazil) - Plant basic engineering;
- Tyno Consultoria Tributária e Empresarial Ltda (Bahia, Brazil) - Fiscal; and
- VOGBR Recursos Hídricos & Geotecnia (Minas Gerais, Brazil) - Basic Project of Tailings Dam and Conceptual Design of Water Pond.

The required quotations for equipment, materials and services were obtained mainly by MCSA's Procurement Department and formal enquiries to well-known vendors in the mining business mainly in the second quarter 2015. Based on the deceleration in global mining activity and contraction in the Brazilian economy from the period of 2015 to 2017, no escalation was applied for the current capital cost estimates. SRK Brazil has reviewed the costing and third-party reports and is of the opinion that the estimates are valid for the purposes of the Boa Esperança Technical Report.

### Capital Costs Summary per Area

Area	% of Total	LOM Cost (R\$000's)	Initial (R\$000's)	Ongoing (R\$000's)
Pre-Production	14	89,306	89,306	0
Infrastructure	1	6,615	6,615	0
Mine	8	48,075	35,778	12,298
Plant	39	244,109	244,109	0
Power & Automation	12	76,709	76,709	0
Utility Systems	2	12,065	12,065	0
Administration & Support	4	23,562	23,562	0
Tailings Storage Facilities	7	45,439	45,439	0
Water Pond	1	6,398	6,398	0
Indirect Costs	10	59,740	59,740	0
Salvage	-4	(24,796)	0	(24,796)
Closure	6	39,898	0	39,898
<b>Total</b>	<b>100%</b>	<b>R\$627,120</b>	<b>R\$599,721</b>	<b>R\$27,400</b>

### Operating Costs

Operating costs are based on mine, process, tailings and infrastructure facility design criteria, engineering, as well as budgetary and vendor quotes. All operating costs include supervision staff, operations labour, maintenance labour, consumables, electricity, fuels, lubricants, maintenance parts and any other operating expenditure identified by contributing engineers.

### Project Operating Costs per Area

Item	R\$/t-ROM	R\$/t-Conc	LOM (R\$000's)
Mining	15.69	561.27	305,774
Processing	19.28	689.72	375,741
G&A	9.54	341.59	186,086
<b>Total</b>	<b>R\$44.48</b>	<b>R\$1,592.58</b>	<b>R\$867,598</b>

### Project Operating Costs by Element

Item	R\$/t-ROM	R\$/t-Conc	LOM (R\$000's)
Electric Power	8.10	289.93	157,938
Fuel (Diesel)	3.28	117.62	64,074
Labour: Mine and Plant	9.86	353.08	192,345
Consumables/Wear Parts / Others	9.20	329.11	179,285
Spare Parts	4.50	161.28	87,869
G&A (included G&A Labour)	9.54	341.59	186,086
<b>Total</b>	<b>R\$44.48</b>	<b>R\$1,592.58</b>	<b>R\$867,598</b>

### Economic Analysis

Key criteria used in the economic analysis are summarized in the table below.

Parameter	Value	Unit
Pre-Production Period	26	months
Mine Life	7.50	years
Post Production Period	1.5	years
Cu Price (Variable)	6,614	US\$/t-Cu
Cu Deduction & Losses	1.2	%
TC	78.5	US\$/t-Concentrate
RC	7.85	US\$ cents/lb-Cu
Truck to Port Storage	175.01	R\$/t-Concentrate
Handling & Storage (Port) - Bulk (50% of concentrate)	67.57	R\$/t-Concentrate
Ocean to Shanghai - Bulk (50% of concentrate)	236.25	R\$/t-Concentrate
Handling & Storage (Port) - Container (50% of concentrate)	124.39	R\$/t-Concentrate
Ocean to Shanghai - Container (50% of concentrate)	132.30	R\$/t-Concentrate
CFEM Royalty (% of (NSR - (Truck + Ocean)))	2.0	%
Depreciation Period	9.0	years
Discount Rate (by year)	8.0	%
Income Tax Rate	15.7	%

The financial analysis results, shown in the table below, indicate an after-tax net present value for the project at an 8% discount rate of US\$195.3 million with an IRR of 32.7%. Payback from project start is 3.6 years.

## Economic Results

<b>Item</b>	<b>Unit or Factor</b>	<b>Value</b>
Ore Mined	kt	19,500.3
Mined Cu (contained)	kt	185.0
Recovered Cu	kt	163.4
Payable Cu	kt	156.9
<b>Sales Volumes, Prices and Delivery Costs</b>		
Cu Price (average over production period)	\$/t-Cu	6,614
Treatment Charges (TC)	US\$/t conc.	78.50
Refining Charges (RC)	¢/lb	7.85
Tonnes Cu sold	kt	156.9
<b>Revenue</b>		
Gross Revenue	R\$000's	3,943,195
Logistics & Sales Costs	R\$000's	(333,113)
CFEM Royalty	R\$000's	(63,104)
<b>Gross Income</b>		
TC / RCs	R\$000's	<b>3,546,942</b>
	R\$000's	(454,875)
<b>Net Revenue</b>		
	<b>R\$000's</b>	<b>3,488,320</b>
<b>Operating Costs</b>		
Mining	R\$000's	(305,774)
Process	R\$000's	(375,741)
G&A	R\$000's	(186,086)
<b>Total Operating Costs</b>		
	R\$000's	<b>(867,600)</b>
Project Capital (Equity)	R\$000's	(626,126)
Financing Interest	R\$000's	-
Income & Social Contribution Taxes	R\$000's	(251,907)
<b>Operating Cash Flow</b>		
Initial Capital	<b>R\$000's</b>	<b>1,972,596</b>
Equity for funding	R\$000's	599,719
Share Holders Equity	R\$000's	-
Ongoing Capital	R\$000's	599,719
	R\$000's	12,298
<b>Free Cash Flow</b>		
	<b>R\$000's</b>	<b>1,345,477</b>
After-tax NPV 8% (per annum)	<b>U\$000's</b>	<b>195,295</b>
<b>IRR</b>		<b>32.7%</b>
<b>Payback</b>	<b>Yrs</b>	<b>3.6</b>

The table below shows annual production and cash flow forecasts for the life of the project.

Assumptions		Year -2	Year -1	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Total
USD	R\$/US\$	3.60	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.78
Copper Price	US\$/tonne	6,063	6,614	6,614	6,614	6,614	6,614	6,614	6,614	6,614	6,614	6,614	6,564
Copper Price	US\$/lb	2.75	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	2.98
<b>Production</b>													
Ore	tonnes	-	-	1,557,900	2,308,000	2,308,000	2,308,000	2,308,000	2,308,000	2,308,000	2,308,000	1,786,410	19,500,310
Grade	%	-	-	1.28%	1.39%	1.25%	0.91%	0.90%	0.91%	1.02%	0.51%	0.36%	0.95%
Recovery	%	-	-	90.6%	91.2%	90.4%	87.7%	87.5%	87.6%	88.7%	81.5%	75.2%	88.3%
Copper Contained	tonnes	-	-	18,058	29,177	26,159	18,454	18,077	18,304	20,798	9,600	4,806	163,432
Copper Contained	Mlbs	-	-	39.8	64.3	57.7	40.7	39.9	40.4	45.9	21.2	10.6	360.3
Concentrate Production	dmt	-	-	60,194	97,258	87,197	61,515	60,256	61,012	69,325	31,999	16,019	544,775
Pavable Copper Production	tonnes	-	-	17,336	28,010	25,113	17,716	17,354	17,571	19,966	9,216	4,613	156,895
<b>Capex</b>													
Initial Capex	000 R\$	311,135	280,828	7,757	-	-	-	-	-	-	-	-	599,720
Ongoing Capex	000 R\$	-	-	-	-	-	6,618	-	-	4,813	866	-	12,298
Mine Closure	000 R\$	-	-	-	-	-	-	-	-	-	-	39,897	39,897
Salvage	000 R\$	-	-	-	-	-	(1,097)	-	-	(798)	(144)	(22,757)	(24,796)
<b>Total</b>	<b>000 R\$</b>	<b>311,135</b>	<b>280,828</b>	<b>7,757</b>	<b>-</b>	<b>-</b>	<b>5,521</b>	<b>-</b>	<b>-</b>	<b>4,015</b>	<b>723</b>	<b>17,141</b>	<b>627,119</b>
<b>Operating Costs</b>													
Mining	000 R\$	-	-	(40,531)	(39,021)	(44,429)	(41,555)	(44,237)	(43,887)	(33,436)	(9,220)	(9,458)	(305,774)
Plant	000 R\$	-	-	(33,019)	(43,775)	(43,775)	(43,775)	(43,775)	(43,775)	(43,775)	(43,775)	(36,296)	(375,740)
Administrative	000 R\$	-	-	(20,676)	(20,676)	(20,676)	(20,676)	(20,676)	(20,676)	(20,676)	(20,676)	(20,676)	(186,086)
<b>Total Direct Costs</b>	<b>000 R\$</b>	<b>-</b>	<b>-</b>	<b>(94,226)</b>	<b>(103,472)</b>	<b>(108,880)</b>	<b>(106,007)</b>	<b>(108,688)</b>	<b>(108,338)</b>	<b>(97,887)</b>	<b>(73,671)</b>	<b>(66,430)</b>	<b>(867,600)</b>
<b>Revenue</b>													
Copper Sales	tonnes	-	-	17,336	28,010	25,113	17,716	17,354	17,571	19,966	9,216	4,613	156,895
Gross Metal Revenue	000 R\$	-	-	435,694	703,972	631,154	445,256	436,149	441,618	501,789	231,616	115,948	3,943,195
Other Revenue	000 R\$	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Revenue</b>	<b>000 R\$</b>	<b>-</b>	<b>-</b>	<b>385,434</b>	<b>622,763</b>	<b>558,346</b>	<b>393,892</b>	<b>385,836</b>	<b>390,674</b>	<b>443,904</b>	<b>204,897</b>	<b>102,573</b>	<b>3,488,320</b>
<b>Cash Flow</b>													
Revenue	000 R\$	-	-	385,434	622,763	558,346	393,892	385,836	390,674	443,904	204,897	102,573	3,488,320
CFEM Royalty	000 R\$	-	-	(6,973)	(11,266)	(10,101)	(7,126)	(6,980)	(7,067)	(8,030)	(3,707)	(1,856)	(63,104)
Direct Opex	000 R\$	-	-	(94,226)	(103,472)	(108,880)	(106,007)	(108,688)	(108,338)	(97,887)	(73,671)	(66,430)	(867,600)
Logistics & Sales Costs	000 R\$	-	-	(36,807)	(59,470)	(53,319)	(37,614)	(36,845)	(37,307)	(42,390)	(19,566)	(9,795)	(333,113)
Income & Social Contribution Taxes	000 R\$	-	-	(31,622)	(57,311)	(47,778)	(25,885)	(24,287)	(25,134)	(33,859)	(6,031)	-	(251,907)
<b>Operating Cash Flow</b>	<b>000 R\$</b>	<b>-</b>	<b>-</b>	<b>215,807</b>	<b>391,244</b>	<b>338,268</b>	<b>217,261</b>	<b>209,037</b>	<b>212,828</b>	<b>261,738</b>	<b>101,922</b>	<b>24,492</b>	<b>1,972,596</b>
CAPEX	000 R\$	(311,135)	(280,828)	(7,757)	-	-	(5,521)	-	-	(4,015)	(723)	(17,141)	(627,119)
<b>Free Cash Flow</b>	<b>000 R\$</b>	<b>(311,135)</b>	<b>(280,828)</b>	<b>208,050</b>	<b>391,244</b>	<b>338,268</b>	<b>211,740</b>	<b>209,037</b>	<b>212,828</b>	<b>257,722</b>	<b>101,200</b>	<b>7,351</b>	<b>1,345,477</b>
<b>Accumulated Cash Flow</b>	<b>000 R\$</b>	<b>(311,135)</b>	<b>(591,962)</b>	<b>(383,913)</b>	<b>7,331</b>	<b>345,599</b>	<b>557,339</b>	<b>766,376</b>	<b>979,203</b>	<b>1,236,926</b>	<b>1,338,125</b>	<b>1,345,477</b>	<b>1,345,477</b>
<b>Free Cash Flow</b>	<b>000 US\$</b>	<b>(86,426)</b>	<b>(73,902)</b>	<b>54,750</b>	<b>102,959</b>	<b>89,018</b>	<b>55,721</b>	<b>55,010</b>	<b>56,007</b>	<b>67,822</b>	<b>26,632</b>	<b>1,935</b>	<b>349,524</b>
<b>Accumulated Cash Flow</b>	<b>000 US\$</b>	<b>(86,426)</b>	<b>(160,328)</b>	<b>(105,578)</b>	<b>(2,619)</b>	<b>86,398</b>	<b>142,119</b>	<b>197,129</b>	<b>253,136</b>	<b>320,958</b>	<b>347,590</b>	<b>349,524</b>	<b>349,524</b>
<b>Discount Rate</b>	<b>%pa</b>	<b>8%</b>											
<b>Results</b>													
After-Tax NPV <sub>8</sub>	000 US\$	195,295											
IRR	%pa	32.7%											
Simple Payback	years	3.6											

(1) Assumes ore mined is processed in the same period, excluding low-grade stockpile from initial pre-striping

## Exploration, Development and Production

The Company does not have any current or contemplated exploration, development or production activities or plans with respect to the Boa Esperança Property.

## USE OF PROCEEDS

Assuming the Over-Allotment Option is not exercised, the estimated net proceeds to the Company from the Treasury Offering will be \$43.35 million, after deducting the Company's share of the Underwriters' Fee of \$2.85 million and estimated expenses of the Offering of \$1.3 million. If the Underwriters exercise the Over-Allotment Option in full, the estimated net proceeds to the Company from the Treasury Offering will be approximately \$58.943 million, after deducting the Company's share of the Underwriters' Fee of approximately \$3.845 million and estimated expenses of the Offering of \$1.3 million.

The Company intends to use the net proceeds from the Treasury Offering (i) to fund a portion of the capital expenditures required to complete the construction of the Vermelhos Mine, (ii) to fund exploration and development activities of the Vale do Curaçá Property, (iii) to conduct the work program recommended pursuant to the Vale do Curaçá Technical Report (see "Vale do Curaçá Technical Report – Recommendations"), (iv) for corporate purposes, consisting of business development, head office overhead and other administrative expenses, and (v) for working capital requirements, as indicated in the following table:

<u>Principal Purpose</u>	<b>Estimated Amount to be Expended (\$ millions)</b>
Funding a portion of the capital expenditures required to complete the construction of the Vermelhos Mine	20.833
Funding exploration and development activities of the Vale do Curaçá Property	9.298
Conducting the work program recommended pursuant to the Vale do Curaçá Technical Report	0.719 <sup>(1)</sup>
Business development	1.25
Head office overhead	3.75
Other administrative expenses	1.25
Working capital requirements	6.25
<b><u>Total</u></b>	<b>43.35</b>

**Note:**

(1) Equivalent of US\$575,000 based on the exchange rate of US dollars to Canadian dollars of US\$1.00 = \$1.2501.

Unutilized net proceeds of the Treasury Offering, if any, will be invested by the Company in an interest-bearing account with a major Canadian bank.

While the Company intends to spend the net proceeds from the Treasury Offering as stated above, there may be circumstances where, for sound business reasons, funds may be re-allocated at the discretion of the Board or management. See “*Risk Factors – Risks Related to the Company – The Company may not use the proceeds as described in this prospectus*”.

The net proceeds to the Selling Securityholders from the Secondary Offering will be approximately \$59.305 million, after deducting the Selling Securityholders’ share of the Underwriters’ Fee of approximately \$3.785 million. Ero will not receive any of the proceeds payable to the Selling Securityholders under the Secondary Offering. The Selling Securityholders will not pay any expenses of the Offering (other than the Underwriters’ Fee in respect of the Secondary Offering), which expenses will be paid by Ero. The Selling Securityholders are responsible for any and all legal fees and expenses incurred by legal advisors retained by the Selling Securityholders. See “*Principal and Selling Securityholders*”.

The Company had negative operating cash flow for the financial year ended December 31, 2016. MCSA has re-commenced its previously halted operations and first shipment of copper concentrate occurred on February 19, 2017. Since then, the Company has been generating revenue and cash flow from operations and reported positive operating cash flow for the three months ended June 30, 2017. The Company does not anticipate having negative cash flow from operating activities in future periods.

### **Business Objectives and Milestones**

The primary business objectives that the Company expects to accomplish by using the net proceeds from the Treasury Offering are to (i) increase copper production at the Vale do Curaçá Property over the next 18 to 24 month period, and (ii) extend the operating mine life of the Vale do Curaçá Property by expanding the Mineral Reserves over the next 18 to 24 month period. To increase copper production during this period, the Company intends to complete the construction of the Vermelhos Mine and surface infrastructure by late 2018. This work has been ongoing since January 2017 and will be funded by utilizing approximately \$20.833 million of the net proceeds from the Treasury Offering and revenue generated from ongoing mining operations at the Vale do Curaçá Property during this period. To expand the Mineral Reserves at the Vale do Curaçá Property, the Company will endeavour to continue to explore for and define new Mineral Resources and convert Mineral Resources into Mineral Reserves over the next 18 to 24 months. The Company currently has 10 exploration drill rigs operating at the Vale do Curaçá Property for the purposes of undertaking resource definition and exploration drilling. The Company is targeting initial drilling at the C-14 target, the largest single exploration target identified to date in the Curaçá Valley, located within the Surubim District during the third quarter of 2017. The Company intends to expand this drill

program both in meterage and in the number of drill rigs operating on the property by utilizing approximately \$9.298 million of the net proceeds from the Treasury Offering.

Further, over the next 12 to 18 months, the Company intends to complete the work program recommended in the Vale do Curaçá Technical Report, which has been designed to evaluate the following potential technical opportunities: (i) improving the Company's ability to target high-grade priority drill targets through utilization of multi-element analysis, additional sampling and advanced geophysical methods; (ii) reducing operating costs and increasing production by evaluating the use of pre-sorting prior to material entering the Caraíba Mill and determining the potential costs of restarting SX/EW operations and thereafter considering whether it is feasible to restart such operations; and (iii) improving the ore-genesis and structural control models to allow more selective mining to improve operating margins as well as the Company's geological models. This work program will be funded by utilizing US\$575,000 of the net proceeds from the Treasury Offering.

The remaining net proceeds from the Treasury Offering will be used to fund the Company's general and administrative expenses following completion of the Offering for an anticipated period of approximately 12 to 18 months.

In addition to the foregoing, the Company's business strategy includes achieving first quartile production costs, recommencing SX/EW operations and, within the next 24 months, obtaining visibility to long term (beyond 2022) annual copper production of more than 60 kt, and within the next 48 months, establishing 10 to 15 years of Mineral Reserves at annual copper production of more than 60 kt.

Information of a scientific or technical nature in respect of the work plans set out above, other than work plans included in the Vale do Curaçá Technical Report was reviewed and approved by Rubens Mendonça, MAusIMM, who is an independent "qualified person" under NI 43-101.

## **PLAN OF DISTRIBUTION**

The Offering consists of 23,282,116 Offered Shares at a price of \$4.75 per Offered Share, of which the Company has agreed to issue and sell 10,000,000 Offered Shares and the Selling Securityholders have agreed to sell 13,282,116 Offered Shares. In addition, the Offering also includes up to an additional 3,492,317 Over-Allotment Shares at the same price if the Underwriters exercise the Over-Allotment Option in full. The Offered Shares will be sold on the Closing Date pursuant to the Underwriting Agreement. For a summary of the material attributes and characteristics of the Common Shares and certain rights attaching thereto, see "*Description of the Securities Being Distributed*".

Pursuant to the Underwriting Agreement, the Company has agreed to issue and sell and the Selling Securityholders have agreed to sell, and the Underwriters have severally (and not jointly or jointly and severally) agreed to purchase, as principals, an aggregate of 23,282,116 Offered Shares at the Offering Price for aggregate gross proceeds of \$47,500,000 (assuming the Over-Allotment Option is not exercised) to the Company and aggregate gross proceeds of \$63,090,051 to the Selling Securityholders, payable in cash against delivery of the Offered Shares, all subject to the terms and conditions contained in the Underwriting Agreement. The Offering Price was determined by arm's length negotiation between the Company and the Underwriters based on several factors, such as prevailing market conditions; the capital structure of the Company; estimates of the Company's business potential and earnings prospects; an overall assessment of the Company's management; and the consideration of these factors in relation to market valuation of companies in related businesses, and may bear no relationship to the price that will prevail in the public market.

The Company has granted to the Underwriters the Over-Allotment Option, exercisable in whole or in part, at the sole discretion of the Underwriters, at any time and from time to time, for a period of 30 days from and including the Closing Date, to purchase at the Offering Price up to an additional number of Common Shares that is equal to 15% of the aggregate number of Common Shares purchased under the Offering, to cover over-allotments, if any, and for market stabilization purposes. If the Underwriters exercise the Over-Allotment Option in full, the gross proceeds raised under the Offering will be \$127,178,556.75, the Underwriters' Fee will be \$7,630,713.41, the net proceeds to the Company will be \$60,243,195.40 (before deducting expenses of the Offering) and the net proceeds to the Selling Securityholders will be \$59,304,647.94. This prospectus also qualifies the distribution of the Over-Allotment Option and the Over-Allotment Shares. A purchaser who acquires securities forming part of the Underwriters' over-allocation position acquires those securities under this prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or through secondary market purchases.

The obligations of the Underwriters under the Underwriting Agreement are several (and not joint or joint and several), and are subject to certain closing conditions and may be terminated at their discretion at any time before Closing upon the occurrence

of certain stated events, including “material change out”, “market out”, “disaster out”, “regulatory out” and “breach out” clauses. The Underwriters are, however, severally obligated to take up and pay for all of the Offered Shares if any Offered Shares are purchased under the Underwriting Agreement. The Company and the Selling Securityholders have each agreed in the Underwriting Agreement to indemnify each of the Underwriters and their affiliates and their respective directors, officers, employees, agents, partners and shareholders against certain liabilities and expenses or will contribute to payments that the Underwriters or such other parties may be required to make in respect thereof.

In consideration for their services in connection with the Offering, the Underwriting Agreement provides that the Company and the Selling Securityholders will pay the Underwriters’ Fee to the Underwriters, which is equal to 6% of the gross proceeds of the Offering (including in respect of any exercise of the Over-Allotment Option), for an aggregate fee payable by the Company and the Selling Securityholders of \$6,635,403.06 (assuming the Over-Allotment Option is not exercised). The Underwriters’ Fee will be paid proportionately by the Company and the Selling Securityholders based on their respective number of Offered Shares sold by each of them pursuant to the Offering.

The Underwriters propose to offer the Offered Shares initially at the Offering Price stated on the cover page of this prospectus. After the Underwriters have made a reasonable effort to sell all of the Offered Shares offered by this prospectus at that price, the initially stated Offering Price may be decreased, and further changed from time to time, by the Underwriters to an amount not greater than the initially stated Offering Price and, in such case, the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers for the Offered Shares is less than the gross proceeds paid by the Underwriters to the Company and the Selling Securityholders for the Offered Shares. Such reduced price sales will not affect the net proceeds to be received by the Company and the Selling Securityholders under the Offering.

Subscriptions for the Offered Shares to be sold pursuant to the Offering will be received subject to rejection or allotment, in whole or in part, and the right is reserved by the Underwriters to close the subscription books at any time without notice. It is expected that the Closing will take place on or about October 19, 2017, or such other date as the Company and the Underwriters may agree, but in any event, on or before a date that is not later than 42 days after the date of the receipt for this prospectus.

Pursuant to the rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period of distribution, bid for or purchase the Company’s securities for their own account or for accounts over which they exercise control or direction. The foregoing restrictions are subject to certain exceptions on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in or raising the price of the Common Shares. These exceptions include a bid for or purchase of the Company’s securities: (i) made through the facilities of the TSX, in accordance with the Universal Market Integrity Rules of the Investment Industry Regulatory Organization of Canada relating to market stabilization and passive market making activities; (ii) made for or on behalf of a client, provided that the client’s order was not solicited during the distribution period; and (iii) to cover a short position entered into prior to the commencement of the distribution period. Subject to applicable laws and in connection with the Offering, the Underwriters may engage in market stabilization or market balancing activities on the TSX where the bid for or purchase of the Company’s securities is for the purpose of maintaining a fair and orderly market in such securities, subject to price limitations applicable to such bids or purchases. Such transactions, if commenced, may be discontinued at any time.

The Offered Shares are being offered for sale to the public in each of the provinces and territories of Canada, other than Québec, by way of this prospectus and in the United States and internationally by way of private placement pursuant to private placement or available exemptions.

Numis Securities Limited is not registered as a dealer in any Canadian jurisdiction and accordingly, will not, directly or indirectly, solicit offers to purchase or sell any Offered Shares in Canada. This prospectus does not qualify the distribution of any Offered Shares sold by Numis Securities Limited outside Canada, and sales to residents of such foreign jurisdictions will be made in reliance on private placement or applicable exemptions in such foreign jurisdictions.

There is currently no market through which the Offered Shares may be sold, and purchasers may not be able to resell the Offered Shares purchased under this prospectus. This may affect the pricing of the Offered Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Offered Shares, and the extent of issuer regulation. See “*Risk Factors*”.

The TSX has conditionally approved the listing of the Common Shares under the symbol “ERO”, subject to the Company fulfilling all of the listing requirements of the TSX on or before January 4, 2018, including the distribution of the Offered Shares to a minimum number of public securityholders.

It is anticipated that the Company and the Selling Securityholders will arrange for one or more instant deposits of the Offered Shares issued and sold hereunder to or for the account of the Underwriters with CDS or its nominee through the non-certificated inventory system administered by CDS on the Closing Date, or will otherwise duly and validly deliver the Offered Shares to the Underwriters registered as directed by the Underwriters on the Closing Date. Except in limited circumstances, no certificates will be issued to purchasers of the Offered Shares and a purchaser will receive only a customer confirmation from a registered dealer that is a CDS participant and from or through which the Offered Shares are purchased.

The Offered Shares have not been and will not be registered under the U.S. Securities Act or any securities laws of any state of the United States, and may not be offered or sold within the United States except in transactions exempt from the registration requirements of the U.S. Securities Act and all applicable state securities laws. The Underwriters have agreed that they will not offer or sell the Offered Shares within the United States except pursuant to an exemption from the registration requirements of the U.S. Securities Act and pursuant to similar exemptions under applicable state securities laws. This prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any Offered Shares in the United States. The Underwriters may also offer and sell Offered Shares outside the United States in accordance with Regulation S under the U.S. Securities Act. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Offered Shares within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act unless such offer is made pursuant to an exemption from the registration requirements of the U.S. Securities Act.

Pursuant to the Brasil Plural Subscription Agreement, the Spectra II Subscription Agreement, the Spectra III Subscription Agreement, the Tembo Investor Rights Agreement and the General Debenture Subscription Agreements, each of Brasil Plural, Spectra II, Spectra III, Ndovu and each subscriber of the General Debentures, respectively, have participation rights to subscribe for Common Shares, securities convertible into or exchangeable for Common Shares, or any other securities of the Company, as applicable, in order to preserve their proportionate interest (in the case of Brasil Plural, Spectra II and Spectra III, their collective proportionate interest) in the total issued and outstanding Common Shares, in connection with any equity financings and certain other non-cash transactions involving the issuance of equity securities by the Company. Such participation rights are subject to certain exceptions as set out in the respective agreements and remain in effect, in the case of Brasil Plural, Spectra II and Spectra III, for so long as they collectively hold at least 5% of the issued and outstanding Common Shares, in the case of Ndovu, for so long as it holds at least 5% of the issued and outstanding Common Shares, and in the case of subscribers of the General Debentures, until immediately prior to the Closing. The Offering is subject to the participation rights granted to Brasil Plural, Spectra II, Spectra III, Ndovu and each subscriber of the General Debentures and, as at the date of this prospectus, Ndovu has indicated that it will exercise its participation rights to purchase 1,497,199 Offered Shares, assuming that the Over-Allotment Option is not exercised (if the Underwriters exercise the Over-Allotment Option in full, Ndovu has indicated that it will exercise its participation rights to purchase an additional 376,485 Offered Shares for an aggregate of 1,873,684 Offered Shares), and no other holder of a participation right has indicated that it will exercise such right in connection with the Offering. See “*Material Contracts*”. Assuming that the Secondary Offering is completed as currently contemplated, the participation rights of Brasil Plural, Spectra II and Spectra III will automatically terminate upon completion of the Offering.

Pursuant to the Underwriting Agreement, the Company will be obligated for a period of 180 days from the Closing Date to not offer or sell, agree to offer or sell, or enter into an arrangement to offer or sell any Common Shares or other securities of the Company (except in connection with the issuance of any securities pursuant to any warrant exercise or debenture conversion rights, debt conversion arrangements with Banco do Nordeste Brasil S.A., equity or other incentive compensation arrangements or dividend reinvestment plans outstanding or in effect as of the Closing Date), or securities convertible into, exchangeable for, or otherwise exercisable to acquire any securities of the Company in connection with financing transactions, unless otherwise consented to by the Co-Lead Underwriters, on behalf of the Underwriters, such consent not to be unreasonably withheld or delayed.

Additionally, pursuant to the Underwriting Agreement, other than in connection with the Secondary Offering, each of the directors, officers and principal shareholders of the Company and certain other persons as mutually agreed to by the Company and the Co-Lead Underwriters, will enter into lock-up agreements on or prior to the Closing Date pursuant to which, for a period of 180 days from the Closing Date, each such person will agree not to: (i) directly or indirectly, offer, sell, contract to sell, grant any option to purchase, make any short sale, or otherwise dispose of, or transfer, or announce any intention to do so, any Common Shares, whether currently owned directly or indirectly, or under their control or direction, or with respect to which they have beneficial ownership; or (ii) enter into any transaction or arrangement that has the effect of transferring, in whole or in part, any of the economic consequences of ownership of Common Shares, whether such transaction is settled by the delivery of Common Shares, other securities, cash or otherwise, other than pursuant to a take-over bid or any other similar transaction made generally to all of the shareholders of the Company. Common Shares acquired under the Offering, and

Common Shares and other securities acquired subsequent to the Offering, in each case by certain limited number of shareholders of the Company party to the lock-up agreements will be exempt from such lock-up agreements.

The Company estimates that approximately 95% of existing Common Shares will be subject to such lock-up agreements.

### SELECTED HISTORICAL FINANCIAL INFORMATION AND PRO FORMA FINANCIAL INFORMATION

The following table sets out certain selected historical consolidated financial information of the Company for the periods and as at the dates indicated. This information has been derived from the audited and unaudited financial statements and related notes thereto, included in this prospectus. The Company prepares its financial statements in accordance with IFRS. Investors should read the following information in conjunction with those financial statements and related notes thereto, along with the MD&A.

	As at and for the six month period ended June 30, 2017 (US\$000's) <sup>(2)</sup>	As at and for the period ended December 31, 2016 <sup>(1)</sup> (US\$000's) <sup>(2)</sup>
Current assets	65,659	54,408
Non-current assets	264,205	263,547
Working capital <sup>(3)</sup>	(23,095)	(130,717)
Mineral property, plant and equipment	217,497	216,296
Current liabilities	88,754	185,125
Shareholder's equity attributable to owners of the Company	36,427	24,778
Gross profit	2,840	-
Net income (loss)	(19,810)	(3,452)
Basic net income (loss) per share attributable to owners of the Company	(0.32)	(0.44)
Diluted net income (loss) per share attributable to owners of the Company	(0.32)	(0.44)

**Note:**

- (1) Period ended December 31, 2016 covers May 16, 2016, the Company's date of inception, to December 31, 2016.
- (2) Except for basic net income (loss) per share attributable to the owners of the Company and diluted net income (loss) per share attributable to owners of the Company, which are reported as US dollar per share amounts.
- (3) Working capital has been identified by the Company as a non-IFRS measure. Please see "*Non-IFRS Measures*" for a definition of working capital and a reconciliation against its most directly comparable measure specified, defined or determined under IFRS.

The following table sets out certain selected unaudited pro forma consolidated financial information of the Company for the periods indicated. This information has been derived from the Company's unaudited pro forma consolidated statement of income (loss) and related notes thereto included in this prospectus, and is based on the assumptions described in such notes. **The unaudited pro forma consolidated statement of income (loss) is not necessarily indicative of the Company's results that would have occurred if the events reflected had taken place on the dates indicated, nor does it purport to project the Company's consolidated financial position or results for any future period.** The selected unaudited pro forma consolidated financial information set out below should be read in conjunction with the description of the Acquisitions in this prospectus, the unaudited pro forma consolidated statement of income (loss) and related notes thereto, and the audited financial statements of the Company and MCSA and related notes thereto included in this prospectus.

	<b>Year ended</b> <b>December 31, 2016</b> <b>(US\$000's)<sup>(1)</sup></b>
Revenue	27,134
Cost of goods sold	(39,030)
Gross profit (loss)	(11,896)
Expenses:	
General and administrative expenses	(8,248)
Care and maintenance expenses	(24,072)
Other income	10,425
Loss before income taxes	(33,791)
Deferred income tax recovery	382
Net loss from continuing operations	(33,409)
Net income from discontinued operations	3,922
Net loss for the period	(29,487)
Net loss attributable to owners of the Company	(27,449)
Net loss per share attributable to owners of the Company – basic and diluted	(3.96)

**Note:**

(1) Except for net loss per share attributable to the owners of the Company – basic and diluted, which is reported as a US dollar per share amount.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Annual MD&A**

This Annual MD&A has been prepared for the period from the Company's incorporation on May 16, 2016 to the Company's financial year end on December 31, 2016. This Annual MD&A should be read in conjunction with the remainder of this prospectus, including sections entitled "*Selected Historical Financial Information and Pro Forma Financial Information*" and "*Risk Factors*" in this prospectus and the Company's audited consolidated financial statements and related notes thereto included in this prospectus. The Company's audited consolidated financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board (the "IASB"). All dollar amounts contained in this Annual MD&A are expressed in US dollars and tabular amounts are expressed in thousands of US dollars, unless otherwise indicated.

This Annual MD&A contains "forward-looking information" that is subject to various risks and uncertainties, including those set forth in "*Statement Regarding Forward-Looking Information*" and "*Risk Factors*" in this prospectus. 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.

### **Business Overview**

As at December 31, 2016, the Company's principal asset was its approximately 85% ownership interest in MCSA, which holds a 100% interest in the Vale do Curaçá Property as well as a 100% interest the Boa Esperanca Property. As at December 31, 2016, the Company also held an approximately 28% interest in NX Gold. The interests in MCSA and NX Gold were acquired on December 12, 2016.

Due to a decline in copper prices worldwide, as well as a flood event, certain mining activities of MCSA were suspended and MCSA filed for a court-supervised reorganization, the Judicial Reorganization, in Brazil on February 3, 2016. During most of 2016, MCSA operated at a reduced capacity and, unable to obtain the necessary funds from its shareholders and creditors, initiated negotiations with potential investors to obtain the funds necessary to resume its operations. On December 12, 2016, the Company acquired approximately 85% of MCSA and has since contributed sufficient capital resources that enabled MCSA to start-up and resume production of copper concentrate at its Vale do Curaçá Property in February 2017. The Company has consolidated MCSA from the acquisition date and net loss of the Company includes the net loss of MCSA from the acquisition date. On June 14, 2017, the Company increased its ownership interest in MCSA to approximately 99.5% by purchasing shares issued from treasury for US\$34.3 million in connection with multiple capital call transactions.

NX Gold originated from a partial spin-off from MCSA on April 2, 2013. NX Gold is a guarantor of the debts of MCSA. Accordingly, NX Gold was also part of the court-supervised reorganization initiated on February 3, 2016. On December 12, 2016, the Company acquired an approximately 28% interest in NX Gold in conjunction with the acquisition of MCSA.

However, by virtue of a shareholders' agreement among the Company and Tugalla and Branford, the shareholder vendors of NX Gold, the Articles of Incorporation of NX Gold and the composition of the board of directors of NX Gold, the Company also obtained control over all key operating, financing and investing activities of NX Gold. Accordingly, the Company has consolidated the accounts of NX Gold and net loss of the Company includes the net loss of NX Gold from the acquisition date. In August 2017, the Company increased its ownership interest in NX Gold to approximately 97.6% by way of a capital increase transaction. Such capital increase transaction involved the Company's subsidiary, MCSA, through Tugalla's and Branford's subscription rights assigned to it under the NX Gold Investment Agreement, subscribing for R\$19.4 million of common shares of NX Gold in exchange for partial repayment and forgiveness of an intercompany loan provided to NX Gold by MCSA.

For a further discussion as to the business of the Company, please see "*General Development and Business of the Company*" and "*Risk Factors*".

### ***Annual and Quarterly Highlights***

- During the period ended December 31, 2016, the Company successfully raised net proceeds of approximately US\$27.3 million through multiple private placement offerings. See "*Prior Sales*" for further details.
- In December 2016, the Company successfully completed the following acquisitions for a nominal amount of cash: (i) approximately 85% of the outstanding equity in MCSA which holds the Vale do Curaçá Property as well as the Boa Esperança Property, in Brazil; and (ii) approximately 28% of the outstanding equity in NX Gold, a gold mining company based in the State of Mato Grosso, Brazil. The acquisition of MCSA provides the Company with a strong growth profile.

### ***Business Acquisitions***

On December 12, 2016, the Company obtained control of MCSA and NX Gold by acquiring an approximately 85% and 28% interest in each entity, respectively. Although the Company only acquired an approximately 28% economic interest in NX Gold, by virtue of a shareholders' agreement among the Company and Tugalla and Branford, the shareholder vendors of NX Gold, the Articles of Incorporation of NX Gold and the composition of the board of directors of NX Gold, the Company obtained control over all key operating, financing and investing activities of NX Gold. Accordingly, the Company has consolidated the accounts of NX Gold. As NX Gold was acquired from one of the same shareholders as MCSA, and was contemplated as part of the MCSA Acquisition, for accounting purposes, the Acquisitions are considered as a single acquisition, and have been accounted for as a business combination. The MCSA Acquisition is in line with the Company's strategy to become a leading mid-tier copper producer through organic growth and disciplined acquisitions. The cash consideration paid in connection with the Acquisitions was nominal and the Company agreed to assume all of the loans and borrowing and other obligations of MCSA and NX Gold in connection therewith.

The preliminary purchase price allocation of the Acquisitions, which is subject to final adjustments, based on estimated fair value of the identifiable assets acquired and liabilities assumed on December 12, 2016, is as follows:

Cash and cash equivalents	US\$	131
Accounts receivable		90
Inventories		4,939
Other current assets		6,145
Mineral property, plant and equipment		212,067
Exploration and evaluation assets		25,745
Deposits		1,975
Other non-current assets		592
Goodwill		17,369
Assets held for sale		24,711
Account payable and accrued liabilities		(35,839)
Taxes payable		(17,566)
Loans and borrowings		(160,632)
Provisions		(28,135)
Other non-current liabilities		(9,512)
Deferred income tax liabilities		(17,369)
Liabilities related to assets held for sale		(24,711)
<b>Net</b>	<b>US\$</b>	<b>-</b>

The above purchase price allocation is preliminary as the Company is still in the process of determining the fair value of certain assets and liabilities. Specifically, the Company is in the process of determining the fair value of its mineral properties, plant and equipment, exploration and evaluation assets, deferred income tax liabilities and amounts allocated to goodwill. Such amounts may change once the purchase price allocation is finalized.

The majority of the fair value of identifiable assets acquired in respect of NX Gold relate to mineral property, plant and equipment and inventory. The majority of the fair value of identifiable liabilities assumed in respect of NX Gold relate to accounts payable and accruals, loans, borrowings and provisions.

The Company intends to dispose of NX Gold in the next year as it is not within its core copper business. Accordingly, the assets and liabilities of NX Gold acquired by the Company are presented as assets held for sale and liabilities related to assets held for sale, and subsequent results of operations as discontinued operations.

Mineral properties were valued using a discounted cash flow model using expected future cash flows to be generated by the mine over its remaining life, based on Proven and Probable Mineral Reserves. Copper prices used to estimate revenues ranged from US\$2.35/lb to US\$2.90/lb for the forecast period. The cash flows were discounted using a discount rate of 13.5%.

The fair value of the majority of the plant and equipment was determined using the depreciated replacement cost method which estimates the current replacement costs and adjusts such amount for physical depreciation and functional and technological obsolescence. Where an active market was available for these assets, the fair market value of these assets in active markets was used.

The fair value of the exploration and evaluation assets acquired was determined based on the identified Mineral Resources and a price per pound of copper identified in precedent transactions for similar properties.

The fair value of debt facilities and certain other long term liabilities was estimated using the expected cash flows discounted at market rates of interest for comparable instruments adjusted for the estimated credit risk of MCSA. Such discount rates ranged from 7% to 20% depending on the instrument, the term of the debt, security and other factors. Certain creditors of MCSA agreed to split amounts outstanding into Class A and B notes (see note 10 of the corresponding annual financial statements and note 9 of the corresponding interim financial statements) with the Class B notes repayable only if, among other things, the Class A notes are not repaid in accordance with the restructured agreements. On the date of the Acquisitions, 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 fair value of the Class B notes was determined to be nil.

Goodwill arose primarily as a result of the recognition of a deferred tax liability on temporary differences between the fair value of the assets and liabilities acquired and the tax values of these assets and liabilities. Goodwill is not deductible for tax purposes.

As the fair value of the net assets and liabilities acquired was nil, no non-controlling interest resulted from the Acquisitions.

The net loss of MCSA and NX Gold included in the corresponding consolidated financial statements from the date of the Acquisitions to December 31, 2016 totals US\$2.5 million. Had the Company completed the Acquisitions on May 16, 2016, the date on which the Company was incorporated, the consolidated revenues and net loss for the period from May 16, 2016 to December 31, 2016 would have been approximately US\$4.5 million and US\$49.2 million, respectively.

### ***Review of Operations***

#### ***MCSA***

##### **Vale do Curaçá Property**

MCSA is a Brazilian copper mining company that holds, among other things, a 100% interest in the Vale do Curaçá Property, which has been in operation since 1979. MCSA has rights to or applications in respect of, including by way of Mining Concessions, Exploration Licenses and applications thereof, an aggregate of over 110,000 ha of mineral tenure within the Curaçá Valley mineral district. The regional operations of MCSA include fully integrated processing operations and supporting infrastructure, three active mining locations (including one under construction), one mining location nearing the end of its mine life and two past-producing mining locations within the Curaçá Valley. MCSA's fully integrated Caraíba Mill at the Vale do Curaçá Property has a nominal capacity to process 3.2 million tonnes of copper bearing ore per annum. In addition to the Caraíba Mill, MCSA's integrated processing operations include an inactive solvent extraction electrowinning SX/EW Plant with installed capacity of approximately 5,000 tonnes of copper cathode per annum.

On December 12, 2016, the Company acquired approximately 85% of MCSA and has since contributed sufficient capital resources that enabled MCSA to resume its previously-halted operations and production of copper concentrate in February 2017. At the time of the MCSA Acquisition, MCSA's mines were in care and maintenance. Underground and open pit mining operations of MCSA re-commenced in January 2017 and, beginning in February 2017, the Company re-commenced processing operations. The first copper concentrate shipment occurred on February 19, 2017. Mining from open pit operations at the Suçuarana Mine are expected to conclude in the third quarter of 2017, at which point the fleet at the Suçuarana Mine will move to the Surubim Mine. On June 14, 2017 the Company increased its ownership interest in MCSA to approximately 99.5%.

The Vale do Curaçá Property has been in operation since 1979. The Vale do Curaçá Technical Report demonstrates an after tax net present value of approximately US\$360 million at an 8% discount rate, and an internal rate of return of 185.6% based on certain assumptions, including:

- Average copper price of US\$6,614/t;
- Total mill feed of 8.8 million tonnes grading 2.46% Cu;
- Total sales of 195.7 kt of contained copper in concentrate;
- Total capital expenditures of R\$557.2 million including capitalized development; and
- Total operating expenditures of R\$1.7 billion including general and administrative costs.

Ero has identified three primary mineral districts within the Curaçá Valley. The focus of the Company's 2017 exploration program is to aggressively develop Mineral Resources and Mineral Reserves through multiple concurrent drill programs at the Pilar, Vermelhos and Surubim Districts.

The following figure sets out the relative locations of Phases 1 and 2 of the Surubim Mine in relation to the Surubim Mine.



**Note:**

- (1) Highlighted area depicting the Surubim Phase 1 and Phase 2 extension in the figure is not to scale, and does not necessarily reflect the extent of the mineralization, which is yet to be defined.

See “*Vale do Curaçá Property*” for further details.

Boa Esperança Property

The Boa Esperança Property is also held by MCSA, and is comprised of a single mineral concession covering an area of approximately 4,034 ha.

The Boa Esperança Property is a “turn key” copper project with a Feasibility Study that was completed by SRK Brazil in October 2015 and subsequently updated in June 2017. The Boa Esperança Technical Report demonstrates an after tax net present value of approximately US\$195 million at an 8% discount rate, and an internal rate of return of 32.7% based on certain assumptions, including:

- Average copper price of US\$6,614/t;
- Life of mine of seven years;
- Total mill feed of 19.5 million tonnes grading 0.95% Cu;
- Total recovered copper of 163.4 kt; and
- Upfront capital cost: R\$599.7 million.

See “*Boa Esperança Property*” for further details.

The Company is currently targeting first production at the Boa Esperança Property in 2022.

*NX Gold*

The NX Gold Property is located in Mato Grosso State, Brazil and covers approximately 31,705 ha. It is comprised of a single Mining Concession covering an area of 620 ha where all gold mining and processing activities occur, six Exploration Licenses covering an area of approximately 17,796 ha, and two Exploration Licenses under application covering an area of approximately 13,909 ha. On December 12, 2016, in connection with the MCSA Acquisition, the Company also acquired approximately 28% of NX Gold. On August 18, 2017, the Company, MCSA and NX Gold effected a capital increase transaction of NX Gold pursuant to the NX Gold Investment Agreement. Such capital increase transaction involved MCSA, through Tugalla’s and Branford’s subscription rights assigned to it under the NX Gold Investment Agreement, subscribing for

R\$19.4 million of common shares of NX Gold in exchange for partial repayment and forgiveness of an intercompany loan provided to NX Gold by MCSA. As a result of such transaction, Ero's direct interest in NX Gold was diluted to approximately 1% and its indirect interest in NX Gold, through MCSA, was increased to approximately 96.6%.

### Review of Financial Results

The following table sets out the summary of financial results of the Company for the fiscal period ended December 31, 2016 (May 16, 2016 to December 31, 2016). Tabular amounts are in thousands of US dollars, except share and per share amounts.

		May 16, 2016 - December 31, 2016	
General and administrative expenses	US\$	1,844	(1)
Care and maintenance		3,687	(2)
<b>Operating loss</b>		<b>(5,531)</b>	
Finance income		37	
Finance expense		(1,409)	(3)
Foreign exchange		3,258	(4)
Other income		137	
<b>Loss before income taxes</b>		<b>(3,508)</b>	
Deferred tax recovery		121	(5)
<b>Net loss from continuing operations</b>		<b>(3,387)</b>	
Loss from discontinued operations		(65)	
<b>Net loss for the period</b>	US\$	<b>(3,452)</b>	(6)
<b>Net loss attributable:</b>			
Owners of the Company		(3,046)	
Non-controlling interests		(406)	
	US\$	<b>(3,452)</b>	
<b>Loss per share attributable to owners of the Company</b>			
<b>Loss per share from continuing operations</b>	US\$	<b>(0.44)</b>	
<b>Loss per share from discontinued operations</b>	US\$	<b>(0.00)</b>	
<b>Net loss per share (basic and diluted)</b>	US\$	<b>(0.44)</b>	
Weighted average number of Common Shares outstanding		<b>6,932,086</b>	
Cash and cash equivalents	US\$	<b>18,318</b>	
Total assets	US\$	<b>317,955</b>	
Non-current liabilities	US\$	<b>108,457</b>	

#### Notes:

- (1) Included in general and administrative expenses are head office costs totalling US\$1.0 million which include legal costs of US\$0.8 million incurred in connection with the Acquisitions, US\$0.1 million for consulting and US\$0.1 million in travel-related costs. MCSA-related costs since the date of the Acquisitions totalling US\$0.8 million are included in general and administrative expenses as well.
- (2) Although MCSA was subject to Judicial Reorganization proceedings prior to its acquisition, it continued to maintain staff, and the amount presented represents the care and maintenance costs post acquisition.
- (3) Comprised of interest expense on MCSA's restructured loans and borrowings.
- (4) Primarily comprised of US\$3.2 million in foreign exchange gains on outstanding restructured loans and borrowings denominated in US dollars at MCSA where the functional currency is Brazilian Reais.
- (5) The deferred income tax recovery is primarily the result of changes in the temporary taxable differences associated with the US dollar denominated debt of MCSA.
- (6) Net loss for the period represents a US\$1.0 million loss at the corporate head office, a US\$2.4 million loss by MCSA following its acquisition, and a US\$0.1 million loss associated with the discontinued operations of NX Gold.

## Summary of Quarterly Results

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

Selected Financial Information	2016				2015				
		Q4 <sup>(1)</sup>	Q3 <sup>(2)</sup>	Q2 <sup>(3)</sup>	Q1 <sup>(4)</sup>	Q4 <sup>(4)</sup>	Q3 <sup>(4)</sup>	Q2 <sup>(4)</sup>	Q1 <sup>(4)</sup>
Net loss from continuing operations	US\$	(3,045)	(235)	(107)	-	-	-	-	-
Loss from discontinued operations	US\$	(65)	-	-	-	-	-	-	-
Net loss for the period	US\$	(3,110)	(235)	(107)	-	-	-	-	-
Net loss attributable to owners of the Company	US\$	(2,704)	(235)	(107)	-	-	-	-	-
Loss per share attributable to owners of the Company (basic and diluted)	US\$	(0.19)	(0.08)	(53,500)	-	-	-	-	-
Weighted Average number of Common Shares outstanding		14,211,385	3,043,480	2	-	-	-	-	-

Notes:

- (1) Loss includes operations of MCSA following its acquisition by the Company, which includes US\$0.8 million of general and administrative expenses, US\$3.7 million in care and maintenance costs and US\$1.4 million in interest expense, partially offset by US\$3.2 million in foreign exchange gains and a US\$0.1 million deferred income tax recovery.
- (2) Loss includes legal fees of US\$0.2 million for due diligence in regards to the Acquisitions.
- (3) Loss includes legal fees of US\$0.1 million for due diligence in regards to the Acquisitions.
- (4) The Company was incorporated on May 16, 2016.

## Liquidity, Capital Resources and Contractual Obligations

### Liquidity

As at December 31, 2016, the Company held cash and cash equivalents of US\$18.3 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 increased by US\$18.3 million during the period ended December 31, 2016. The Company's cash flows from operating, investing and financing activities during the year are summarized as follows:

- Cash flows from financing activities of US\$27.2 million, including: (i) US\$27.3 million proceeds from issuance of share capital; (ii) US\$0.3 million proceeds from loans and borrowings; and (iii) US\$0.5 million in interest paid on loans and borrowings,

offset by:

- Cash used in investing activities of US\$0.07 million; and
- Cash used in operating activities of US\$8.7 million.

As at December 31, 2016, the Company had a working capital deficit of US\$130.7 million, due primarily to various debt facilities assumed as part of the Acquisitions being classified as current obligations. In connection with the MCSA Acquisition, MCSA restructured its debt obligations and negotiated new terms for debt service and repayment. In Brazil, until the amounts of the restructured debt are registered in each province of Brazil, the debt classification for accounting purposes is required to be kept as current obligations. By May 2017, all the revised bank loans of MCSA were officially registered in each province of Brazil and the new debt repayment terms are now recognized and have been reclassified to long-term. Subsequent to December 31, 2016, the Company raised approximately US\$30.4 million by way of private placement offerings of General Debentures and Common Shares and established the Tembo Debenture. See "Prior Sales". Working capital has been identified by the Company as a non-IFRS measure. Please see "Non-IFRS Measures" for a definition of working capital and additional information.

The Company has restructured its core debt such that there are no significant principal repayments in the next 18 to 24 months, at which time the Company anticipates that the Vermelhos Mine will have reached commercial production. The debt repayment obligations are repayable over an eight-year period commencing at the earliest of the date of commercial production at the Vermelhos Mine or, at the latest, 29 months following the signing of its restructured loan agreements (May 2019). The Company expects based on estimated cash flows, 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 and certain other factors that may cause a delay with respect to the commencement of commercial production at the Vermelhos Mine.

### *Capital Resources*

The Company's primary sources of capital resources are comprised of cash and cash equivalents and debt facilities. The Company will continuously monitor its capital structure and, based on changes in operations and economic conditions, may adjust the structure by issuing new 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. The Company's ability to continue as a going concern in the short-term is dependent on the continued support of its creditors and obtaining additional financing to settle its current liabilities. In the long-term the Company's ability to continue as a going concern is dependent on maintaining profitable operations. The recoverability of the carrying values of the Company's assets is dependent upon the ability of the Company to achieve profitable production, complete the development of activities at the Vale do Curaçá Property, including the Vermelhos Mine, and obtain the necessary financing to meet its debt obligations. Accordingly, there are material risks and uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. See "Risk Factors."

The Company is not subject to any externally imposed capital requirements.

For additional information regarding the Company's capital commitments and expenditures required to maintain its capacity, fund planned growth or fund development activities, see "Use of Proceeds" and "General Development and Business of the Company – The Acquisitions".

### *Contractual Obligations and Commitments*

As at December 31, 2016, the Company's contractual obligations consist of the Company's agreements for rental of office space, which require the following minimum payments:

2017	US\$	25
2018		50
2019		52
2020		52
2021		52
2022		22
<b>Total Commitments</b>		<b>US\$ 253</b>

### *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.

### *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 the Company incurring losses from a financial instrument arising from a counterparty's failure to comply with its contractual obligations.

With regards to the financial investments, the Company aims to invest cash and cash equivalents with financial institutions that are financially sound based on their credit ratings.

The carrying value of the following financial assets represents the maximum credit risk exposure as at December 31, 2016:

	<b>December 31, 2016</b>	
Cash and cash equivalents	<b>US\$</b>	<b>18,318</b>
Accounts receivable		<b>76</b>
Deposits		<b>2,021</b>
Financial investments		<b>598</b>
<b>Total</b>	<b>US\$</b>	<b>21,013</b>

### *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 risk management is to ensure as much as possible that sufficient liquidity exists to meet its maturity obligations on the expiration dates, under normal and stressful conditions, without causing unacceptable losses or with the risk of undermining the normal operation of the Company.

The table below shows the Company's maturity of financial liabilities as at December 31, 2016:

<b>Non-derivative Financial Liabilities</b>	<b>Carrying value</b>	<b>Contractual cash flows</b>	<b>Up to 12 months</b>	<b>1 – 2 years</b>	<b>2 – 5 years</b>	<b>More than 5 years</b>
Loans and borrowings	US\$ 162,124	174,153	3,891	5,257	68,970	96,035
Interest on loans and borrowings	US\$ -	67,271	3,970	10,029	33,055	20,217
Accounts payable and accrued liabilities	US\$ 33,819	33,819	33,819	-	-	-
Taxes payable	US\$ 18,323	18,323	18,323	-	-	-
Other non-current liabilities	US\$ 8,020	16,869	1,080	5,417	1,271	9,101
<b>Total</b>	<b>US\$ 222,286</b>	<b>310,435</b>	<b>61,083</b>	<b>20,703</b>	<b>103,296</b>	<b>125,353</b>

### *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. However, as at December 31, 2016, the Company has not entered into any such derivatives.

### Foreign Exchange Currency Risk

The Company is exposed to exchange risks related to the sale of products that are quoted in US dollars and loans and borrowings that are denominated in a currency other than the functional currency of the Company or its subsidiaries. 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 as at December 31, 2016 relates to US\$142.5 million in loans and borrowings of MCSA denominated in US dollars. Strengthening (weakening) in the Brazilian Real against the US dollar by 10% and 20%, would have reduced (increased) net loss by US\$14.3 million and US\$28.5 million, respectively. 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, including interest rates, are held constant.

## Interest Rate Risk

The Company is 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.

As a majority of the Company's loans and borrowings are fixed rate, the Company does not believe interest rate risk is significant.

## 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 is 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, 2016, 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*".

## ***Other Financial Information***

### *Off-Balance Sheet Arrangements*

As at December 31, 2016, the Company had no material off-balance sheet arrangements.

### *Related Party Disclosures*

For the financial year ended December 31, 2016, 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.

As at December 31, 2016, key management personnel consisted of the Company's directors and officers, including the Company's Executive Chairman, President and Chief Executive Officer, Senior Vice President, Exploration (now Chief Geological Officer), and Vice President, Evaluations (now Vice President, Evaluations and Planning), and related costs include management and consulting fees paid to these individuals, or companies controlled by these individuals. The aggregate value of compensation paid to key management personnel for the period from May 16, 2016 to December 31, 2016 was US\$24,000. Such amount was paid to the Vice President, Evaluations (now Vice President, Evaluations and Planning) who was not employed by the Company at such time, in relation to consulting services performed.

All directors of the Company except for Fabio Vassel (who was a director of the Company as at December 31, 2016 and resigned from such role on June 14, 2017), the Executive Chairman, the President and Chief Executive Officer, the Senior Vice President, Exploration (now the Chief Geological Officer), the Vice President, Evaluations (now the Vice President, Evaluations and Planning), and the now Chief Financial Officer and Vice President, Finance of the Company participated in certain financing activities by purchasing an aggregate of 11,760,000 units of the Company (with each unit comprised of one Common Share and one third of a Common Share purchase warrant) for total proceeds of US\$2,850,000. In addition, the Executive Chairman and the President and Chief Executive Officer purchased an aggregate of two Common Shares on May 16, 2016.

As at December 31, 2016, included in accounts payable and accrued liabilities are reimbursements for expenses in amounts totaling US\$60,000 payable to the Senior Vice President, Exploration (now the Chief Geological Officer), the Executive Chairman and to an entity affiliated with the Executive Chairman, the President and Chief Executive Officer, the Vice President, Evaluations (now the Vice President, Evaluations and Planning) and the now Vice President, Corporate Development of the Company. In addition, as at December 31, 2016, included in loans and borrowings are amounts totaling US\$325,000 payable to the Executive Chairman and the President and Chief Executive Officer of the Company.

## ***Accounting Policies, Judgments and Estimates***

### *Critical Accounting Judgments and Estimates*

The preparation of consolidated financial statements in conformity with IFRS as issued by the IASB 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 corresponding consolidated 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 December 31, 2016 consolidated financial statements of the Company set out in this prospectus. Certain of these policies, such as, capitalization and depreciation of property, plant and equipment and mining interests, derivative instruments, decommissioning liabilities provisions, and business combinations involve critical accounting estimates because they require management 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 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 of the audited annual financial statements included in this prospectus.

##### 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.

##### Control of NX Gold

The Company has concluded that it controls NX Gold and has consolidated NX Gold. The assessment of control requires judgement about the key activities of NX Gold and the Company's power to control them.

#### 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:

##### Business Combinations

Accounting for business combinations requires estimates with respect to the fair value of the assets and liabilities acquired. Such estimates require valuation methods including discounted cash flows, depreciated replacement costs and other methods. These models use forecasted cash flows, discount rates, current replacement costs and other assumptions. Changes in these assumptions changes the value assigned to the acquired assets and liabilities and goodwill, if any.

Significant assumptions related to the acquisition of MCSA and NX Gold are disclosed in Note 3 of the audited annual financial statements included in this prospectus.

#### 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 the statement of operations and comprehensive income (loss).

#### Mineral reserve 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 based on recoverable base metal pounds produced or mineral reserve tonnes processed, depending on the use of the asset. Changes to estimates of recoverable quantities of base 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 that are also impacted by changes in 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 annual financial statements included in this prospectus.

#### Inventory

The net recoverable value of 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 concentrate inventory is an estimate based on initial weights and assay results.

## 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.

## 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.

## *Future Changes in Accounting Policies not Effective as at December 31, 2016*

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017. The standards that may have a significant impact on the consolidated financial statements of the Company are as follows.

### Disclosure Initiatives (Amendments to IAS 7)

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

To satisfy the new disclosure requirements, the Company intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

### Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company does not expect these amendments to have any significant impact on its consolidated financial statements as it does not account for any debt instruments at fair value.

### IFRS 15 Revenue from Contracts with Customers

On May 28, 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). The new standard is effective for the Company on January 1, 2018. Earlier application is permitted. IFRS 15 will replace 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*. On

April 12, 2016, the IASB issued *Clarifications to IFRS 15, Revenue from Contracts with Customers*, which is effective at the same time as IFRS 15.

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 IFRS standards.

The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the standard to licenses of intellectual property.

The Company is currently evaluating the impact that IFRS 15 will have on its consolidated financial statements.

### IFRS 9 Financial Instruments

On July 24, 2014, the IASB issued the complete IFRS 9 *Financial Instruments* (“**IFRS 9**”). IFRS 9 is effective for the Company on January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 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 and amends the impairment model by introducing a new “expected credit loss” model for calculating impairment.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model.

The extent of the impact of adoption of the standard has not yet been determined.

### 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 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.

The extent of the impact of adoption of the standard has not yet been determined.

### **Interim MD&A**

This Interim MD&A has been prepared for the three and six month periods ended June 30, 2017. This Interim MD&A should be read in conjunction with the remainder of this prospectus, including sections entitled “*Selected Historical Financial Information and Pro Forma Financial Information*” and “*Risk Factors*” in this prospectus and the Company’s financial

statements and related notes thereto included in this prospectus. The Company's interim financial statements are prepared in accordance with International Accounting Standards 34, *Interim Financial Reporting* as permitted by IFRS as issued by the IASB. All dollar amounts contained in this Interim MD&A are expressed in US dollars and tabular amounts are expressed in thousands of US dollars, unless otherwise indicated.

This Interim MD&A contains "forward-looking information", such as statements regarding the Company's future plans and objectives, that are subject to various risks and uncertainties, including those set forth in "*Statement Regarding Forward-Looking Information*" and "*Risk Factors*" in this prospectus. 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.

### **Business Overview**

As at June 30, 2017, the Company's principal asset is its approximately 99.5% ownership interest in MCSA. As at June 30, 2017, the Company also holds an approximately 28% interest in NX Gold. See also "*Annual MD&A – Business Overview*", "*General Development and Business of the Company*" and "*Risk Factors*".

### **2017 First and Second Quarter Highlights**

	<b>Three Months Ended June 30, 2017</b>	<b>Three Months Ended March 31, 2017</b>	<b>Six Months Ended June 30, 2017</b>	<b>Three Months Ended June 30, 2016<sup>(1)</sup></b>
<b>Operating Information</b>				
<b>Copper (MCSA Operations)</b>				
Ore Processed (tonnes)	502,216	275,740	777,956	-
Grade (%Cu)	1.30	1.40	1.34	-
Cu Production (tonnes)	5,651	3,355	9,006	-
Cu Production (lbs)	12,459,108	7,395,876	19,854,984	-
Concentrate Grade (%Cu)	35.4	35.3	35.3	-
Recovery (%)	86.4	86.9	86.6	-
Concentrate Sales (tonnes)	17,799	6,847	24,646	-
Cu Sold in Concentrate (tonnes)	6,233	2,145	8,378	-
Cu Sold in Concentrate (lbs)	13,741,396	4,728,910	18,470,306	-
C1 cash cost of copper produced per pound <sup>(2)</sup>	US\$1.25	US\$1.79	US\$1.45	-
<b>Financial Information (US\$ millions, except per share amounts)</b>				
Revenues	US\$ 32.5	12.1	44.7	-
Gross profit (loss)	US\$ 5.4	(2.5)	2.8	-
Net income (loss) attributable to the owners of the Company	US\$ 4.1	(19.6)	(15.4)	(0.1)
Net income (loss) per share attributable to the owners of the Company – Basic	US\$ 0.07	(0.49)	(0.32)	(53,500)
– Diluted	US\$ 0.06	(0.49)	(0.32)	(53,500)
Cash and Cash Equivalents	US\$ 24.8	32.4	24.8	0.0
Working Capital (Deficit) <sup>(2),(3)</sup>	US\$ (23.1)	(117.0)	(23.1)	(0.1)

#### **Notes:**

- (1) The Company acquired MCSA on December 12, 2016. MCSA's operations did not re-commence until the first quarter of 2017.
- (2) C1 cash cost of copper produced per pound and working capital have been identified by the Company as a non-IFRS measures. Please see "*Non-IFRS Measures*" for a definition of C1 cash cost of copper produced per pound and working capital, and a reconciliation against their most directly comparable measure specified, defined or determined under IFRS.
- (3) Working capital improved in the second quarter from the first quarter of 2017 due to reclassification of loans and borrowing from current to long-term.

- MCSA successfully restarted mining operations and re-commissioned production of copper concentrate at its Vale do Curaçá Property during January 2017, with copper concentrate sales commencing in February 2017.

- During the three-month period ended March 31, 2017, MCSA produced 307,925 tonnes of ore (157,132 tonnes from open pit at a copper grade of 0.60% and 150,793 tonnes from underground at a 2.07% copper grade), of which MCSA processed 275,740 tonnes of copper at a combined grade of approximately 1.40% with an average recovery rate of 86.9%. During the three-month period ended June 30, 2017, MCSA produced 513,372 tonnes of ore (311,991 tonnes from open pit at a copper grade of 0.55% and 201,381 tonnes from underground at a 2.47% copper grade). During such period, MCSA processed 502,216 tonnes of copper with a combined grade of approximately 1.30% with an average recovery rate of 86.4%.
- C1 cash cost of copper produced per pound of copper for the three-month period ended March 31, 2017 was US\$1.79 per pound. C1 cash cost of copper produced per pound of copper for the three-month period ended June 30, 2017 improved to US\$1.25 per pound.
- Revenue for the three months ended March 31, 2017 was US\$12.1 million, based on 4.7 million pounds of copper sold. Revenue for the three months ended June 30, 2017 was US\$32.5 million, based on 13.7 million pounds of copper sold.
- Gross profit was US\$5.4 million for the three-month period ended June 30, 2017.
- Operating cash flow for the three-month period ended June 30, 2017 was US\$4.7 million.
- Net income for the three-month period ended June 30, 2017 was US\$3.6 million (net income per share attributable to owners of the Company of US\$0.07).
- In January 2017, the Company issued an aggregate principal amount of US\$2.75 million of General Debentures. See “*Prior Sales*”.
- In March 2017, the Company issued 18,423,593 Common Shares in connection with a private placement offering at a price of US\$1.50 per Common Share for gross proceeds of US\$27,635,390. See “*Prior Sales*”.
- As at June 30, 2017, the Company had US\$24.8 million in cash and cash equivalents and US\$23.1 million in working capital deficiency. The working capital deficit was reduced by US\$104.2 million from December 31, 2016 as a result of re-classification of loans and borrowings from current to non-current due to the restructuring of MCSA’s and NX Gold’s debts in connection with the Company’s acquisition thereof.

### ***Business Acquisitions***

In June 2017, the Company purchased an additional 10,952,276,044 common shares of MCSA from treasury for US\$34.3 million in connection with capital call transactions, increasing its ownership interest in MCSA to approximately 99.5%.

See also “– *Annual MD&A – Business Acquisitions*”.

## Review of Operations

### MCSA

#### Vale do Curaçá Property

See “– Annual MD&A – Review of Operations – MCSA – Vale do Curaçá Property” and “Vale do Curaçá Property”.

	Three Months Ended June 30, 2017	Three Months Ended March 31, 2017	Six Months Ended June 30, 2017	Three Months Ended June 30, 2016 <sup>(1)</sup>
<b>Operating Information</b>				
<b>Copper (MCSA Operations)</b>				
Ore Processed (tonnes)	502,216	275,740	777,956	-
Grade (%Cu)	1.30	1.40	1.34	-
Cu Production (tonnes)	5,651	3,355	9,006	-
Cu Production (lbs)	12,459,108	7,395,876	19,854,984	-
Concentrate Grade (%Cu)	35.4	35.3	35.3	-
Recovery (%)	86.4	86.9	86.6	-
Concentrate Sales (tonnes)	17,799	6,847	24,646	-
Cu Sold in Concentrate (tonnes)	6,233	2,145	8,378	-
Cu Sold in Concentrate (lbs)	13,741,396	4,728,910	18,470,306	-
C1 cash cost of copper produced per pound <sup>(2)</sup>	US\$1.25	US\$1.79	US\$1.45	-

**Note:**

- (1) The Company acquired MCSA on December 12, 2016. MCSA’s operations did not re-commence until the first quarter of 2017.
- (2) C1 cash cost of copper produced per pound has been identified by the Company as a non-IFRS measure. Please see “Non-IFRS Measures” for a definition of C1 cash cost of copper produced per pound and a reconciliation against its most directly comparable measure specified, defined or determined under IFRS.

At the Vale do Curaçá Property, in the Pilar District, the Pilar Mine has performed ahead of budget for the three months ended June 30, 2017 and year-to-date. Copper production from the Pilar Mine was 5,651 tonnes for the three month period ended June 30, 2017 and 9,006 tonnes for the six month period ended June 30, 2017. The C1 cash cost of copper produced per pound of copper for the three months ended June 30, 2017 was US\$1.25/lb, which reflects the first full quarter of production as the Pilar Mine was re-commissioned during the first quarter of 2017 and only recorded production in late February 2017.

Also at the Vale do Curaçá Property, in the Vermelhos District, the actual development rate of the Vermelhos Mine continues to outpace the planned metres per month average. Total development for the three month period ended June 30, 2017 was 243 m consisting of 219 m of primary ramp development (97 m during the month of May and 122 m during the month of June) and 24 m of secondary development. The powerline for the Vermelhos Mine received approval from the Brazilian environmental agency and is currently being reviewed by the local power authority regional team alongside MCSA personnel to determine the exact construction schedule.

Exploration drilling has been focused primarily on extensions within the Pilar Mine and further infill drilling with respect to the Vermelhos Mine.

The Pilar Mine operations are expected to continue to perform at or ahead of budget through the remainder of 2017. The development of the Vermelhos Mine has exceeded expectations and continued performance at current development rates may result in production from the Vermelhos Mine commencing earlier than planned, which is currently slated for late 2018. Further infill drilling at the Vermelhos Mine is also planned following completion of the initial program. Additionally, re-processing of the historic electromagnetic data at the Vermelhos Mine has identified several high-quality conductors (potential areas of mineralization) that will be drill tested in the coming months.

#### Boa Esperança Property

See “– Annual MD&A – Review of Operations – MCSA – Boa Esperança Property” and “Boa Esperança Property”.

See “– Annual MD&A – Review of Operations – NX Gold”.

**Review of Financial Results**

The following table provides a summary of the financial results of the Company for the three month period ended June 30, 2017 and the period from incorporation on May 16, 2016 to June 30, 2016. Tabular amounts are in thousands of US dollars, except share and per share amounts.

	Three Months Ended June 30, 2017			Period Ended June 30, 2016 <sup>(1)</sup>	
Revenue	US\$	32,548	(2)	US\$	-
Cost of goods sold		(27,167)	(3)		-
<b>Gross Profit</b>		<b>5,381</b>			-
General and administrative		(3,537)	(4)		(108)
<b>Income (loss) before the understated</b>		<b>1,844</b>			<b>(108)</b>
<b>Other Income (expenses)</b>					
Finance income		641			-
Finance expense		(6,676)	(5)		-
Foreign exchange		8,346	(6)		1
Other income		259			-
<b>Income (loss) before income taxes</b>		<b>4,414</b>			<b>(107)</b>
Deferred income tax recovery		795	(7)		-
Net income (loss) from continuing operations		5,209			(107)
(Loss) from discontinued operations		(1,640)	(8)		-
<b>Net Income (loss) for the period</b>	<b>US\$</b>	<b>3,569</b>		<b>US\$</b>	<b>(107)</b>
<b>Net Income (loss) attributable:</b>					
Owners of the Company		4,124			(107)
Non-controlling interests		(555)			-
	<b>US\$</b>	<b>3,569</b>		<b>US\$</b>	<b>(107)</b>
<b>Loss per share attributable to owners of the Company</b>					
<b>Income (loss) per share from continuing operations</b>					
Basic	US\$	0.08		US\$	(53,500)
Diluted	US\$	0.07		US\$	(53,500)
<b>Income (loss) per share from discontinued operations</b>					
Basic and diluted	US\$	(0.01)		US\$	-
<b>Income (loss) per share (basic and diluted)</b>					
Basic	US\$	0.07		US\$	(53,500)
Diluted	US\$	0.06		US\$	(53,500)
<b>Weighted average number of common shares outstanding</b>					
Diluted		56,772,684			2
Basic		63,112,617			-
<b>Cash and cash equivalents</b>	<b>US\$</b>	<b>24,767</b>		<b>US\$</b>	<b>3</b>
<b>Total assets</b>	<b>US\$</b>	<b>329,864</b>		<b>US\$</b>	<b>3</b>
<b>Non-current liabilities</b>	<b>US\$</b>	<b>207,109</b>		<b>US\$</b>	<b>-</b>

Notes:

- (1) Period ended June 30, 2016 covers May 16, 2016, the Company’s date of inception, to June 30, 2016.
- (2) Revenues for the quarter ended June 30, 2017 include the sale of 6,233 tonnes of copper concentrate.
- (3) Costs of goods sold for the quarter ended June 30, 2017 include US\$8.3 million in depreciation and depletion, US\$8.3 million in salaries and benefits, US\$5.3 million in materials and consumables, and US\$5.2 million in contracted services to third parties.

- (4) General and administrative expenses for the quarter ended June 30, 2017 include US\$2.4 million in salaries, professional fees, office and sundry costs with respect to MCSA, and US\$1.1 million with respect to the corporate head office in Vancouver. Corporate head office costs are primarily comprised of US\$0.6 million in salaries and share based compensation, US\$0.2 million in professional fees and US\$0.2 million in travel-related costs. During the period from May 16, 2016 to June 30, 2016, general and administrative expenses were primarily comprised of legal fees associated with incorporation and potential acquisitions.
- (5) Finance expense for the quarter ended June 30, 2017 was US\$6.7 million and is comprised of interest on loans and borrowings of US\$3.5 million, interest on taxes and amounts owing to suppliers of US\$0.6 million, accretion of purchase price adjustments of US\$1.3 million, finance fee of US\$0.4 million and US\$0.9 million of other finance costs.
- (6) The foreign exchange gain is primarily on certain US dollar denominated loans and borrowings in MCSA where the functional currency is the Brazilian Real. For the three months ended June 30, 2017, the gain was US\$8.3 million.
- (7) Deferred income tax recovery in the quarter ended June 30, 2017 was US\$0.8 million, primarily attributable to changes in the temporary taxable differences associated with the US dollar denominated debt of MCSA.
- (8) Loss from discontinued operations is the loss due to NX Gold for the period.

The following table provides a summary of the financial results of the Company for the six months ended June 30, 2017 and the period from incorporation on May 16, 2016 to June 30, 2016. Tabular amounts are in thousands of US dollars, except share and per share amounts.

	Six Months Ended June 30, 2017			Period Ended June 30, 2016 <sup>(1)</sup>	
Revenue	US\$	44,667	(2)	US\$	-
Cost of goods sold		(41,827)	(3)		-
<b>Gross Profit</b>		<b>2,840</b>			<b>-</b>
General and administrative		(8,167)	(4)		(108)
<b>Loss from operations</b>		<b>(5,327)</b>			<b>(108)</b>
<b>Other Income (expenses)</b>					
Finance income		825			-
Finance expense		(13,424)	(5)		-
Foreign exchange		(2,092)	(6)		1
Other income		2,659	(7)		-
<b>Loss before income taxes</b>		<b>(17,359)</b>			<b>(107)</b>
Deferred income tax recovery		796	(8)		-
Loss from continuing operations		(16,563)			(107)
Loss from discontinued operations		(3,247)			-
<b>Net loss for the period</b>	US\$	<b>(19,810)</b>		US\$	<b>(107)</b>
<b>Net Loss attributable:</b>					
<b>Owners of the Company</b>		<b>(15,440)</b>			<b>(107)</b>
<b>Non-controlling interests</b>		<b>(4,370)</b>			<b>-</b>
	US\$	<b>(19,810)</b>		US\$	<b>(107)</b>
<b>Loss per share attributable to owners of the Company</b>					
<b>Loss per share from continuing operations</b>					
Basic and diluted	US\$	<b>(0.30)</b>		US\$	(53,500)
<b>Loss per share from discontinued operations</b>					
Basic and diluted	US\$	<b>(0.02)</b>		US\$	-
<b>Net Income (loss) per share</b>					
Basic and diluted	US\$	<b>(0.32)</b>		US\$	(53,500)
<b>Weighted average number of common shares outstanding</b>					
Basic		<b>48,527,872</b>			2
Diluted		<b>48,527,872</b>			<b>2</b>
<b>Cash and cash equivalents</b>	US\$	<b>24,767</b>		US\$	3
<b>Total assets</b>	US\$	<b>329,864</b>		US\$	3
<b>Non-current liabilities</b>	US\$	<b>207,109</b>		US\$	-

**Notes:**

- (1) Period ended June 30, 2016 covers May 16, 2016, the Company's date of inception, to June 30, 2016.
- (2) Revenues for the six-month period ended June 30, 2017 included sales of copper concentrate, which commenced in February 2017. During such period, the Company sold a total of 8,378 tonnes of copper concentrate.
- (3) Cost of goods sold for the six months ended June 30, 2017 include US\$12.9 million in depreciation and depletion, US\$13.1 million in salaries and benefits, US\$8.1 million in materials and consumables, and US\$7.6 million in contracted services to third parties.
- (4) General and administrative expenses for the six months ended June 30, 2017 include US\$6.3 million in salaries, professional fees, office and sundry costs with respect to MCSA, and US\$1.8 million with respect to the corporate head office in Vancouver. Corporate head office costs are primarily comprised of US\$1.0 million in salaries and share based compensation, US\$0.3 million in professional fees and US\$0.4 million in travel.
- (5) Finance expense for the six months ended June 30, 2017 was US\$13.4 million and is comprised of interest on loans and borrowings of US\$7.0 million, accretion of purchase price adjustments to the fair value of certain liabilities of US\$2.6 million, interest on taxes and suppliers of US\$1.3 million, financing fees of US\$0.7 million, and US\$1.8 million of other finance costs.
- (6) The foreign exchange loss is primarily on certain US dollar denominated loans and borrowings in MCSA where the functional currency is the Brazilian Real. For the six months ended June 30, 2017, the loss was US\$2.1 million.
- (7) Other income during the six months ended June 30, 2017 consisted primarily of insurance proceeds received in connection with the flood of, and resulting cessation of operations at, the Pilar Mine that occurred in 2016.
- (8) Deferred income tax recovery in the six months ended June 30, 2017 was US\$0.8 million, primarily attributable to changes in the temporary taxable differences associated with the US dollar-denominated debt of MCSA.

**Summary of Quarterly Results**

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

Selected Financial Information	2017				2016		2015	
	June 30 <sup>(1)</sup>	Mar 31 <sup>(2)</sup>	Dec 31 <sup>(3)</sup>	Sept 30 <sup>(3)</sup>	June 30 <sup>(3)</sup>	Mar 31 <sup>(4)</sup>	Dec 31 <sup>(4)</sup>	Sept 30 <sup>(4)</sup>
Revenue	US\$ 32.5	12.1	-	-	-	-	-	-
Cost of sales	US\$ (27.2)	(14.7)	-	-	-	-	-	-
Gross profit (loss)	US\$ 5.4	(2.5)	-	-	-	-	-	-
Net income (loss) from continuing operations	US\$ 5.2	(21.8)	(3.0)	(0.2)	(0.1)	-	-	-
Net loss from discontinued operations	US\$ (1.6)	(1.6)	(0.1)	-	-	-	-	-
Net income (loss) for period	US\$ 3.6	(23.4)	(3.1)	(0.2)	(0.1)	-	-	-
Income (loss) per share from continuing operations attributable to the owners of the Company								
Basic	US\$ 0.08	(0.48)	(0.19)	(0.08)	(53,500)	-	-	-
Diluted	US\$ 0.07	(0.48)	(0.19)	(0.08)	(53,500)	-	-	-
Income (loss) per share attributable to the owners of the Company								
Basic	US\$ 0.07	(0.49)	(0.19)	(0.08)	(53,500)	-	-	-
Diluted	US\$ 0.06	(0.49)	(0.19)	(0.08)	(53,500)	-	-	-
Weighted average number of common shares outstanding								
	56,772,684	40,191,450	14,211,385	3,043,480	2	-	-	-

**Notes:**

- (1) During the three-month period ended June 30, 2017, the Company experienced gross profit from mining operations of approximately US\$5.4 million. MCSA experienced a full quarter of concentrate sales as operations continue to ramp up. Net income from continuing operations for the period was US\$5.2 million, which included gross profit of US\$5.4 million and US\$8.3 million in foreign exchange gains on US denominated debt as the US dollar weakened compared to the Brazilian Real, and a US\$0.8 million deferred income tax recovery partially offset by US\$6.7 million of finance expense and US\$3.5 million in general and administrative expenses.

- (2) During the three-month period ended March 31, 2017, the Company experienced a loss of approximately US\$2.5 million from mining operations. MCSA's operations at its Vale do Curaçá Property resumed in January 2017 but sales of copper concentrate did not commence until the latter portion of February 2017. Net loss from continuing operations for the period was US\$21.8 million, which included the US\$2.5 million loss from mining operations, US\$6.7 million of finance expense, US\$10.4 million foreign exchange loss on US denominated debt as the US dollar strengthened compared to the Brazilian Real, and US\$4.6 million in general and administrative expenses, partially offset by US\$2.6 million in finance and other income.
- (3) On December 12, 2016, the Company acquired an approximate 85% interest in MCSA and an approximate 28% interest in NX Gold. In connection with such acquisitions, MCSA and NX Gold withdrew from Judicial Reorganization proceedings. The loss for the quarter ended December 31, 2016 includes US\$2.4 million associated with MCSA from the date of acquisition.
- (4) The Company was incorporated on May 16, 2016, and consequently, did not have any operations prior to such time.

### ***Liquidity, Capital Resources and Contractual Obligations***

#### *Liquidity*

As at June 30, 2017, the Company held cash and cash equivalents of US\$24.8 million compared to US\$18.3 million at December 31, 2016. 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 increased by US\$6.4 million during the six months ended June 30, 2017. The Company's cash flows from operating, investing and financing activities during the period are summarized as follows:

- Cash used in investing activities of US\$19.6 million, primarily related to:
  - US\$16.7 million spent on additions to mineral property, plant and equipment; and
  - US\$3.2 million in advances to NX Gold;
- Cash from financing activities of US\$23.6 million, including primarily:
  - US\$27.0 million net proceeds of Common Share issuances; and
  - US\$2.8 million net proceeds of issuance of the General Debentures,net of:
  - US\$5.1 million on repayment on loans and borrowings and associated interest, and US1.0 million of other finance related costs.
- Cash provided from operating activities of US\$3.2 million.

As at June 30, 2017, the Company had a working capital deficit of US\$23.1 million, due to various debt facilities and liabilities assumed as part of the Acquisitions. In connection with the MCSA Acquisition, MCSA restructured its pre-existing debt obligations and negotiated new terms for service and repayment. In Brazil, until the amounts of the restructured debt were registered in each province of Brazil, the debt classification for accounting purposes was required to be kept as current obligations. By May 2017, all the revised bank loans of MCSA were officially registered in each province of Brazil and the new debt repayment terms are now recognized and have been reclassified to long-term liabilities. During the six-month period ended June 30, 2017, the Company raised gross proceeds of approximately US\$30.4 million in gross proceeds by way of a private placement offering of an aggregate principal amount of US\$2.75 million of General Debentures and a private placement offering of Common Shares for gross proceeds of approximately US\$27.6 million. The Company also secured a convertible debenture facility for up to US\$5.0 million which remains undrawn. Working capital has been identified by the Company as a non-IFRS measure. Please see "*Non-IFRS Measures*" for a definition of working capital and additional information.

The Company has restructured its core debt such that there are no significant principal repayments in the next 18 to 24 months, at which time the Company anticipates that the Vermelhos Mine will have reached commercial production. The debt repayment obligations are repayable over an eight-year period commencing at the earliest of the date of commercial production at the Vermelhos Mine or, at the latest, 29 months following the signing of its restructured loan agreements (May 2019). The Company expects based on estimated cash flows, 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 and certain other factors that may cause a delay with respect to the commencement of commercial production at the Vermelhos Mine.

With the net proceeds from the Treasury Offering added to the estimated cash flows, the Company will have adequate ability to service its ongoing obligations and cover anticipated corporate, exploration, and development costs associated with its existing operations for the next twelve months, save for the factors as noted above, that could hinder the Company's ability to service its debt obligations. See "Use of Proceeds".

#### *Capital Resources*

See "– Annual MD&A - Liquidity, Capital Resources and Contractual Obligations – Capital Resources", "Use of Proceeds" and "General Development and Business of the Company – The Acquisitions".

#### *Contractual Obligations and Commitments*

As at June 30, 2017, the Company's contractual obligations and commitments are summarized as follows:

2017	US\$	25
2018		50
2019		52
2020		52
2021		52
2022		22
<b>Total Commitments</b>	<b>US\$</b>	<b>253</b>

#### ***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.

#### *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 the Company incurring losses from a financial instrument arising from a counterparty's failure to comply with its contractual obligations.

With regards to the financial investments, the Company aims to invest cash and cash equivalents with financial institutions that are financially sound based on their credit ratings.

The carrying value of the financial assets set out in the below table represents the maximum credit risk exposure as at June 30, 2017:

		<b>June 30, 2017</b>
Cash and equivalents	US\$	24,767
Accounts receivable		2,051
Deposits		2,438
Financial investments		621
<b>Total</b>	<b>US\$</b>	<b>29,877</b>

### *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 risk management is to ensure as much as possible that sufficient liquidity exists to meet its maturity obligations on the expiration dates, under normal and stressful conditions, without causing unacceptable losses or with the risk of undermining the normal operation of the Company.

The table below shows the Company's maturity of financial liabilities as at June 30, 2017:

<b>Non-derivative Financial Liabilities</b>	<b>Carrying value</b>	<b>Contractual cash flows</b>	<b>Up to 12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>
Loans and borrowings	US\$ 163,407	US\$ 172,163	US\$ 3,787	US\$ 10,578	US\$ 71,070	US\$ 86,728
Interest on loans and borrowings	-	65,072	3,980	14,702	29,945	16,445
Accounts payable and accrued liabilities	41,334	41,334	41,334	-	-	-
Taxes payable	14,757	14,757	14,757	-	-	-
Other non-current liabilities	4,950	11,485	653	611	1,253	8,968
<b>Total</b>	<b>US\$ 224,448</b>	<b>US\$ 304,811</b>	<b>US\$ 65,063</b>	<b>US\$ 25,891</b>	<b>US\$ 102,268</b>	<b>US\$ 112,141</b>

### *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. However, as at June 30, 2017, the Company has not entered into any such derivatives.

### Foreign Exchange Currency Risk

The Company is exposed to exchange risks related to the sale of products that are quoted in US dollars and loans and borrowings that are denominated in a currency other than the functional currency of the Company or its subsidiaries. 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 as at June 30, 2017 relates to US\$145.6 million in loans and borrowings of MCSA denominated in US dollars. Strengthening (weakening) in the Brazilian Real against the US dollar by 10% and 20%, would have reduced (increased) net loss by US\$14.6 million and US\$29.1 million, respectively. 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, including interest rates, are held constant.

### Interest Rate Risk

The Company is exposed to the variation in interest rates on loans and borrowings with variable rates of interest. Management manages 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.

As a majority of the Company's loans and borrowings are fixed rate, the Company does not believe interest rate risk is significant.

### 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 is 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 June 30, 2017, 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*".

### ***Other Financial Information***

#### *Off-Balance Sheet Arrangements*

At June 30, 2017, the Company had no material off-balance sheet arrangements.

#### *Related Party Disclosures*

For the three and six month periods ended June 30, 2017, 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.

As at June 30, 2017, key management personnel consisted of the Company's directors and officers, including the Company's Executive Chairman, President and Chief Executive Officer, Chief Financial Officer, Chief Geological Officer, Vice President, Corporate Development, Vice President, Evaluations and Planning, and Vice President, Finance, and related costs include management and consulting fees paid to these individuals, or companies controlled by these individuals. The aggregate value of compensation paid to key management personnel for the six month period ended June 30, 2017 was US\$0.9 million (three month period ended June 30, 2017 - US\$0.5 million). In addition, 890,000 options were issued to key management personnel with US\$50,000 recognized in share-based compensation for the three and six month periods ended June 30, 2017.

Two directors of the Company as well as the Chief Financial Officer and the Vice President, Finance participated in certain financing activities by purchasing an aggregate of 283,333 Common Shares for total proceeds of US\$0.4 million and a director of the Company as well as the President and Chief Executive Officer participated in certain financing activities by subscribing to US\$1.0 million of General Debentures (see Note 10(b) of the June 30, 2017 condensed consolidated interim financial statements) during the six month period ended June 30, 2017.

As at June 30, 2017, included in accounts payable and accrued liabilities are amounts payable to the Vice President, Corporate Development of the Company as reimbursement for expenses, totaling US\$2,000. Such amounts are unsecured, non-interest bearing and are expected to be repaid under normal trade terms. As at June 30, 2017, included in convertible debentures are amounts payable to a director of the Company and to the President and Chief Executive Officer of the Company, with a carrying value of US\$0.9 million. The terms of the convertible debentures are disclosed in Note 10 of the June 30, 2017 condensed consolidated interim financial statements.

### ***Accounting Policies, Judgments and Estimates***

#### *Critical Accounting Judgments and Estimates*

See "*Annual MD&A – Accounting Policies, Judgments and Estimates – Critical Accounting Judgments and Estimates*" and the corresponding consolidated financial statements of the Company included in this prospectus.

#### *Future Changes in Accounting Policies not Effective as at June 30, 2017*

See "*Annual MD&A – Accounting Policies, Judgments and Estimates – Future Changes in Accounting Policies not Effective as at December 31, 2016*" and the corresponding consolidated financial statements of the Company included in this prospectus.

## **DESCRIPTION OF SECURITIES BEING DISTRIBUTED**

The Company's authorized share capital consists of an unlimited number of Common Shares without par value. As at October 11, 2017, there were 56,772,684 Common Shares issued and outstanding, 1,715,000 Common Shares issuable pursuant to outstanding Options, 3,333,328 Common Shares issuable pursuant to the Founder Warrants, 9,116,338 Common Shares issuable pursuant to the General Warrants, and 4,917,351 Common Shares issuable upon the optional conversion of the General Debentures and in payment of all accrued interest payable pursuant thereto, as at the date hereof.

## **Common Shares**

All of the Common Shares rank equally as to voting rights, participation in a distribution of the assets of the Company on a liquidation, dissolution or winding-up of the Company and entitlement to any dividends declared by the Company. The holders of the Common Shares are entitled to receive notice of, and to attend and vote at, all meetings of shareholders (other than meetings at which only holders of another class or series of shares are entitled to vote). Each Common Share carries the right to one vote. In the event of the liquidation, dissolution or winding-up of the Company, or any other distribution of the assets of the Company among its shareholders for the purpose of winding-up its affairs, the holders of the Common Shares will be entitled to receive, on a pro rata basis, all of the assets remaining after the payment by the Company of all of its liabilities. The holders of Common Shares are entitled to receive dividends as and when declared by the Board in respect of the Common Shares on a pro rata basis.

Any alteration of the rights, privileges, restrictions and conditions attaching to the Common Shares under the Company's Articles must be approved by at least two-thirds of the Common Shares voted at a meeting of the Company's shareholders.

### **DIVIDEND POLICY**

The Company has not, since the date of its incorporation, declared or paid any dividends or other distributions on its Common Shares, and does not currently have a policy with respect to the payment of dividends or other distributions. The Company does not currently pay dividends and does not intend to pay dividends in the foreseeable future. The declaration and payment of any dividends in the future is at the discretion of the Board and will depend on numerous factors, including compliance with applicable laws, financial performance, working capital requirements of the Company and its subsidiaries and such other factors as its directors consider appropriate. There can be no assurance that the Company will pay dividends under any circumstances. See *"Risk Factors – Risks Related to the Common Shares – The Common Shares do not pay dividends"*.

While the Company does not have any restrictions on paying dividends itself, pursuant to the restructured loan agreements with the Club Deal Banks, MCSA is prohibited from distributing dividends and interest on net equity or any other resource to its shareholders, including the Company. See *"General Development and Business of the Company – General Development of the Company – The Acquisitions"*.

### **CONSOLIDATED CAPITALIZATION**

There have been no material changes in the Company's share and loan capital since June 30, 2017, the date of its most recently completed financial period. The Company anticipates issuing 10,000,000 Common Shares pursuant to the Treasury Offering (13,492,317 Common Shares if the Over-Allotment Option is exercised in full). In addition, the Company anticipates that immediately prior to the Offering, an aggregate of 4,333,027 General Warrants will be exercised at an exercise price of US\$1.20 per Common Share, with the underlying Common Shares to be sold under the Secondary Offering. On completion of the Offering, the Company will have 71,105,711 Common Shares issued and outstanding (74,598,028 Common Shares issued and outstanding if the Over-Allotment Option is exercised in full). There will be no material change to the Company's loan capital that will result from the completion of the Offering.

The following table sets forth the consolidated share capitalization of the Company as at June 30, 2017 on an actual basis and on a pro forma basis as adjusted to give effect to the completion of the Offering. Investors should read the following information in conjunction with the Company's audited and unaudited consolidated financial statements and related notes thereto, along with the associated MD&A, included in this prospectus.

<u>Designation</u>	<u>Authorized</u>	<u>As at June 30, 2017 (unaudited)</u>	<u>As at June 30, 2017 after giving effect to the Offering<sup>(1)(2)</sup></u>
Common Shares <sup>(3)</sup>	Unlimited	56,772,684	71,105,711
<i>Warrants</i>			
Founder Warrants <sup>(4)</sup>	3,333,328	3,333,328	3,333,328
General Warrants <sup>(5)</sup>	10,133,309	9,116,338	4,783,311
<i>Convertible Debentures</i>			
General Debentures <sup>(6)</sup>	US\$2,750,000 <sup>(7)</sup>	US\$2,750,000	US\$2,750,000
Tembo Debenture <sup>(8)</sup>	US\$5,000,000 <sup>(9)</sup>	-	-

**Notes:**

- (1) Amounts assume that the Over-Allotment Option is not exercised. If the Over-Allotment Option is exercised in full, 74,598,028 Common Shares will be issued and outstanding.
- (2) Pursuant to the Brasil Plural Subscription Agreement, the Spectra II Subscription Agreement, the Spectra III Subscription Agreement, the Tembo Investor Rights Agreement and the General Debenture Subscription Agreements, each of Brasil Plural, Spectra II, Spectra III, Ndovu and each subscriber of the General Debentures, respectively, have participation rights to subscribe for Common Shares, securities convertible into or exchangeable for Common Shares, or any other securities of the Company, as applicable, in order to preserve their proportionate interest (in the case of Brasil Plural, Spectra II and Spectra III, their collective proportionate interest) in the total issued and outstanding Common Shares, in connection with any equity financings and certain other non-cash transactions involving the issuance of equity securities by the Company. The Offering is subject to the participation rights granted to Brasil Plural, Spectra II, Spectra III, Ndovu and each subscriber of the General Debentures and, as at the date of this prospectus, Ndovu has indicated that it will exercise its participation rights to purchase 1,497,199 Offered Shares, assuming that the Over-Allotment Option is not exercised (if the Underwriters exercise the Over-Allotment Option in full, Ndovu has indicated that it will exercise its participation rights to purchase an additional 376,485 Offered Shares for an aggregate of 1,873,684 Offered Shares), and no other holder of a participation right has indicated that it will exercise such right in connection with the Offering. See “*Material Contracts*”. Assuming that the Secondary Offering is completed as currently contemplated, the participation rights of Brasil Plural, Spectra II and Spectra III will automatically terminate upon completion of the Offering.
- (3) As at October 11, 2017, 1,715,000 Options were issued and outstanding and held by employees and officers of Ero and its subsidiaries, none of which have vested or are yet exercisable. The Options have an exercise price of US\$1.50 per Common Share, vest over a period of three years, and 1,615,000 Options expire on May 15, 2022 and 100,000 Options expire on July 10, 2022. See “*Options to Purchase Securities – Stock Option Plan*” and “*Prior Sales*”.
- (4) The Founder Warrants were issued by the Company on September 2, 2016. See “*Options to Purchase Securities – Warrants*” and “*Prior Sales*”.
- (5) The General Warrants were issued by the Company on December 12, 2016 and December 28, 2016. See “*Options to Purchase Securities – Warrants*” and “*Prior Sales*”. The Company anticipates that immediately prior to the Offering, an aggregate of 4,333,027 General Warrants will be exercised at an exercise price of US\$1.20 per Common Share, with the underlying Common Shares to be sold under the Secondary Offering.
- (6) The General Debentures were issued by the Company on January 18, 2017. See “*Options to Purchase Securities – Convertible Debentures*” and “*Prior Sales*”.
- (7) In connection with the private placement offering of General Debentures, the Board authorized the issuance of an aggregate principal amount of US\$4,000,000 of the General Debentures; however, an aggregate principal amount of US\$2,750,000 of the General Debentures were issued by the Company.
- (8) The Tembo Debenture was established on March 22, 2017. See “*Options to Purchase Securities – Convertible Debentures*” and “*Prior Sales*”.
- (9) Authorized per the resolutions of the Board.

## OPTIONS TO PURCHASE SECURITIES

### Stock Option Plan

As at October 11, 2017, there were 1,715,000 Options issued and outstanding under the Stock Option Plan. The Board adopted the Stock Option Plan on May 15, 2017. The purpose of the Stock Option Plan is to provide an incentive to the directors, officers, employees, consultants and other personnel of the Company or any of its subsidiaries to achieve the longer-term objectives of the Company; to give suitable recognition to the ability and industry of such persons who contribute materially to the success of the Company; and to attract to and retain in the employ of the Company or any of its subsidiaries, persons of experience and ability, by providing them with the opportunity to acquire an increased proprietary interest in the Company. The Stock Option Plan is summarized in the table below.

<b>Key Terms</b>	<b>Summary</b>
<b>Administration</b>	The Board has the authority in its sole and absolute discretion to administer the Stock Option Plan and to exercise (or delegate to the Compensation Committee or such other persons as designated by the Board) all the powers and authorities either specifically granted to it under the Stock Option Plan or necessary or advisable in the administration of the Stock Option Plan, acting reasonably and in accordance with the Stock Option Plan.
<b>Securities</b>	Each Option entitles the holder thereof (an “ <b>Optionee</b> ”) to purchase one Common Share at an exercise price set at the time of the grant.
<b>Eligibility</b>	Any director, officer, employee, consultant or other personnel of the Company (including any subsidiary of the Company), as the Board may determine.
<b>Exercise Price</b>	The exercise price of an Option will be determined by the Board at the time of the grant, but will be no lower than the volume weighted average trading price of the Common Shares on the TSX for the five trading days immediately preceding the relevant date (or on any such other stock exchange, inter-dealer quotation network or other organized trading facility on which the Common Shares trade or are quoted from time to time). If the Common Shares are suspended from trading or have not traded on the TSX or another stock exchange, inter-dealer quotation network or other organized trading facility for an extended period, the exercise price will be no lower than the fair market value of the Common Shares at the time of the grant as determined by the Board in its sole discretion acting in good faith.
<b>Vesting and Exercise Period</b>	The vesting and exercise period of an Option will be determined by the Board at the time of grant; however, the expiry date of an Option shall be no later than five years from the date of grant.
<b>Cessation of Employment</b>	<p>Subject to certain limitations, in the event that an Optionee’s employment is terminated for any reason other than death, retirement, long-term disability or for cause, the Options held by such Optionee may be exercised within 60 days of termination, provided such Options have vested and not expired.</p> <p>Subject to certain limitations, in the event that an Optionee’s employment is terminated due to retirement or as a result of long-term disability, unless the Board determines otherwise, the Options held by such Optionee may be exercised within one year of retirement or termination as a result of long-term disability, provided such Options have vested and not expired. In addition, such Optionee’s unvested Options shall continue to vest in accordance with their terms until the earlier of the date which is one year following the date of retirement or termination as a result of long-term disability and the expiry date.</p> <p>Subject to certain limitations, in the event that an Optionee’s employment is terminated by reason of death, unless the Board determines otherwise, the Options held by such Optionee shall become fully vested and may be exercised by the legal personal representative(s) of such Optionee’s estate within one year following the death of the Optionee or prior to the expiry date, whichever is earlier.</p> <p>In the event an Optionee’s employment is terminated for cause, the Options held by such Optionee shall expire and terminate immediately upon such Optionee ceasing to actively provided services to the Company in his or her capacity as a director, officer, employee or consultant, as the case may be.</p>
<b>Change of Control</b>	Subject to the Board’s ability to accelerate the vesting of Options at any time in its sole discretion, if the Company completes a transaction which results in a “Change of Control” (as defined in the Stock Option Plan), all unvested Options will vest, and if within 90 days (or such other period as the Board determines) following the completion of such transaction an event(s) that would constitute “constructive dismissal” (as defined pursuant to common law) occurs, and if within 90 days (or such other period as the Board determines) following the date of such “constructive dismissal” an Optionee’s employment is terminated (whether at the Optionee’s discretion or otherwise) then all

Options held by such Optionee will remain exercisable until the earlier of 90 days (or such other period as the Board determines) from the date of termination and the expiry date thereof.

Notwithstanding the foregoing, with respect to any performance-based Options granted under the Stock Option Plan, vesting of an Option will be dependent on achievement of the applicable performance criteria as of the date of the completion of the above-mentioned transaction and/or be prorated to the date of the completion of such transaction, as applicable.

## **Limitations**

The total number of Common Shares issuable pursuant to the Stock Option Plan (subject to adjustments under the Stock Option Plan) together with all other security based compensation arrangements of the Company (including the Share Unit Plan) shall not exceed 10% of the Company's issued and outstanding Common Shares, on a non-diluted basis, at the relevant time. Provided that such maximum number of Common Shares is not exceeded, following the exercise, expiration, cancellation or other termination of any Options under the Stock Option Plan, a number of Common Shares equal to the number of Options or rights so exercised, expired, cancelled or terminated shall automatically become available for issuance in respect of Options that may subsequently be granted under the Stock Option Plan.

Subject to certain limitations, the total number of Common Shares that may be issued to any individual Optionee under the Stock Option Plan together with all other security based compensation arrangements of the Company (including the Share Unit Plan) in any one-year period, shall not exceed 5% of the number of issued and outstanding Common Shares at the date of grant (the "**Individual Limit**").

Subject to certain exceptions, the total number of Common Shares issuable to insiders of the Company as a group at any time and the total number of Common Shares issued to insiders of the Company within any one-year period, under the Stock Option Plan together with all other security based compensation arrangements of the Company (including the Share Unit Plan) shall not exceed 10% of the issued and outstanding Common Shares, on a non-diluted basis, at the date of grant. The total number of Common Shares that may be issued to any one insider of the Company under the Stock Option Plan together with all other security based compensation arrangements of the Company (including the Share Unit Plan) shall not exceed the Individual Limit.

The fair market value of Options that may be granted to each non-employee director of the Company within any one-year period under the Stock Option Plan shall not exceed \$100,000, and under the Stock Option Plan together with all other security based compensation arrangements of the Company (including the Share Unit Plan) shall not exceed \$150,000.

## **Net Settlement of Options**

The Stock Option Plan provides for the net settlement of Options, subject to certain limitations.

## **Amendments**

The Board has the right to suspend, discontinue or amend the Stock Option Plan or any Option granted thereunder, provided that it obtain shareholder and necessary regulatory approval prior to certain amendments.

Subject to certain exceptions approval from a majority of holders of Common Shares (and other voting securities of the Company) is required to effect the following amendments to the Stock Option Plan: (i) increasing the maximum number of Common Shares issuable, as a fixed percentage of the issued and outstanding Common Shares pursuant to the Stock Option Plan; (ii) amendments that would reduce the exercise price of an outstanding Option; (iii) extending the expiry date of any Option beyond its expiry date determined at the date of grant, except with respect to an expiry date that occurs during a blackout period; (iv) expanding the categories of individuals who are eligible to participate in the Stock Option Plan; (v) amendments to permit the transfer or assignment of Options, except to permit a transfer to a family member, to an entity controlled by the Optionee or a family member, to a charity or for estate planning or estate settlement purposes; and (vi) amendments to the amendment provisions of the Stock Option Plan.

The following table sets forth the aggregate number of Options which are anticipated, as at the date of this prospectus, to be outstanding on completion of the Offering.

<b>Holder of Options</b>	<b>Common Shares Under Options Granted</b>	<b>Exercise Price (US\$ per Common Share)</b>	<b>Grant Date</b>	<b>Vesting Conditions</b>	<b>Market Value of Common Shares Under Option<sup>(4)</sup></b>	<b>Expiry Date</b>
Executive and other officers of Ero, as a group <sup>(1)</sup>	890,000	1.50	May 15, 2017	1/3 on May 15, 2018 1/3 on May 15, 2019 1/3 on May 15, 2020	N/A	May 15, 2022
	100,000	1.50	July 10, 2017	1/3 on July 10, 2018 1/3 on July 10, 2019 1/3 on July 10, 2020	N/A	July 10, 2022
Executive and other officers of all subsidiaries of Ero, as a group <sup>(2)</sup>	700,000	1.50	May 15, 2017	1/3 on May 15, 2018 1/3 on May 15, 2019 1/3 on May 15, 2020	N/A	May 15, 2022
Other employees of Ero and all subsidiaries of Ero, as a group <sup>(3)</sup>	25,000	1.50	May 15, 2017	1/3 on May 15, 2018 1/3 on May 15, 2019 1/3 on May 15, 2020	N/A	May 15, 2022
<b>TOTAL</b>	<b>1,715,000</b>					

**Notes:**

- (1) Total of four persons, being the Chief Financial Officer, Vice President, Corporate Development, Vice President, Finance and Vice President, General Counsel and Corporate Secretary. The Executive Chairman and the President and Chief Executive Officer of the Company have not been granted any Options as at the date hereof.
- (2) Total of three persons, being executives or other officers of the Company's subsidiary, MCSA.
- (3) Total of one person, being an employee of the Company.
- (4) Market value of the Common Shares under option is not reasonably ascertainable on the grant date or another date given that the Common Shares are not and have never been publicly traded or listed.

**Share Unit Plan**

The Board adopted the Share Unit Plan on September 7, 2017. The Share Unit Plan was established as a vehicle by which equity-based incentives may be awarded to the directors, officers, employees and consultants of the Company, to recognize and reward their significant contributions to the long-term success of the Company and to align the interests of the directors, officers, employees and consultants more closely with the shareholders of the Company. The Share Unit Plan is summarized in the table below.

**Key Terms**

**Summary**

**Administration**

The Board, in its sole and absolute discretion, but subject to applicable securities and tax law requirements: (i) interprets and administers the Share Unit Plan; (ii) may establish, amend and rescind any rules and regulations relating to the Share Unit Plan; and (iii) makes other determinations that the Board deems necessary or desirable for the administration and operation of the Share Unit Plan. In carrying out its duties and powers under the Share Unit Plan, the Board may rely on recommendations of the Compensation Committee with respect to such matters, and may delegate to the Compensation Committee the power to exercise all the powers and authorities either specifically granted to it under the Share Unit Plan or necessary or advisable in the administration of the Share Unit Plan.

**Eligibility**

Any director, officer, employee, or consultant of the Company or of any of its subsidiaries, as the Board may determine.

<b>Securities</b>	Each vested Share Unit entitles the holder thereof (a “ <b>Share Unit Participant</b> ”) 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 (the “ <b>Cash Consideration</b> ”) as at the applicable date of vesting; or (iii) a combination of (i) and (ii), as determined by the Board in its sole discretion.
<b>Performance Conditions</b>	<p>At the time of grant of a Share Unit, the Board may, in its sole discretion, establish performance conditions for the vesting of such Share Unit, which may include terms or conditions relating to: (i) the market price of the Common Shares; (ii) the return to holders of Common 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.</p> <p>The performance conditions may be graduated such that different percentages (which may be greater or lesser than 100%) of the Share Units in a grant become vested depending on the extent of satisfaction of one or more performance conditions. 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 for which vesting is subject to performance conditions is herein referred to as a “<b>PSU</b>”. Each Share Unit for which vesting is not subject to performance conditions is herein referred to as an “<b>RSU</b>”.</p>
<b>Vesting</b>	<p>Each RSU shall vest at such time as determined by the Board at the time of grant. Each PSU shall vest at such time as determined by the Board at the time of grant, subject to satisfaction of applicable Performance Conditions.</p> <p>The vesting date of a Share Unit is subject to compliance with the requirements pertaining to the exception to the application of the salary deferral arrangement rules in paragraph (k) of the definition of “salary deferral arrangement” in subsection 248(1) of the Tax Act, as such subsection may be amended or enacted from time to time.</p>
<b>Redemption</b>	<p>Each Share Unit will be redeemed on the date (the “<b>Redemption Date</b>”) 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 exceptions and restrictions.</p> <p>The Redemption Date for a Share Unit is subject to compliance with the requirements pertaining to the exception to the application of the salary deferral arrangement rules in paragraph (k) of the definition of “salary deferral arrangement” in subsection 248(1) of the Tax Act, as such subsection may be amended or enacted from time to time.</p>
<b>Deferral Date</b>	Non-Canadian Share Unit Participants may elect to defer the receipt of all or any part of their entitlement to Common Shares and/or Cash Consideration, as applicable, until a date following the Redemption Date but no later than such individual’s date of retirement (the “ <b>Deferred Payment Date</b> ”). Non-Canadian Share Unit Participants who elect to set a Deferred Payment Date must provide prior notice to the Company and, subject to certain restrictions, may change a Deferred Payment Date by providing prior notice to the Company.
<b>Dividends</b>	When dividends are paid on Common Shares, each Share Unit Participant shall be credited with dividend equivalents in respect of the Share Units credited to his or her account as of the record date for payment of dividends. Such dividend equivalents shall be converted into additional Share Units (including fractional Share Units) based on the fair market value of the Common Share on the date credited and redeemed on the Redemption Date or a later deferred date, as applicable, of the Share Unit with respect to which the dividend equivalent was granted.
<b>Cessation of Employment</b>	Subject to certain restrictions, if a Share Unit Participant is terminated by the Company for cause or if a Share Unit Participant voluntarily terminates his or her employment for

any reasons or resigns as a director, as applicable, all of his or her Share Units that have not reached their respective Redemption Dates as at the date of termination will be cancelled, and all of his or her Share Units that have reached their respective Redemption Dates as at the date of termination but redemption thereof has been deferred by the Share Unit Participant will be redeemed as soon as possible for Common Shares, Cash Consideration in lieu thereof or a combination of both, as determined by the Board in its sole discretion.

Subject to certain restrictions, in the event that a non-director Share Unit Participant's employment is involuntarily terminated for reasons other than cause, his or her Share Units will be redeemed on the date of termination for Common Shares, Cash Consideration in lieu thereof or a combination of both, as determined by the Board in its sole discretion, provided such Share Units have vested at such time.

Subject to certain restrictions, in the event that a director Share Unit Participant is not re-elected at an annual or special meeting of shareholders of the Company, his or her Share Units will be redeemed on the date of the annual or special meeting of shareholders for Common Shares, Cash Consideration in lieu thereof or a combination of both, as determined by the Board in its sole discretion, provided such Share Units have vested at such time.

Subject to certain restrictions, in the event that a Share Unit Participant dies, his or her Share Units will be redeemed upon the date of death for Common Shares, Cash Consideration in lieu thereof or a combination of both, as determined by the Board in its sole discretion.

#### **Change of Control**

In the event that a Share Unit Participant is terminated for reasons other than cause within 12 months following a "Change of Control" (as defined in the Share Unit Plan), all Share Units held by such Share Unit Participant will be redeemed as soon as reasonably practical following such termination for Common Shares, Cash Consideration in lieu thereof or a combination of both, as determined by the Board in its sole discretion; provided that in the event that any Share Units are subject to satisfaction of any performance conditions, the Board shall consider the extent of satisfaction of such performance conditions in determining the number of Share Units to be redeemed.

#### **Limitations**

The number of Common Shares reserved for issuance under the Share Unit Plan: (i) together with the Common Shares issuable under all other security based compensation arrangements of the Company (including the Stock Option Plan), shall not exceed 10% of the total number of issued and outstanding Common Shares, on a non-diluted basis, subject to certain limited exceptions; and (ii) to any one Share Unit Participant within a 12 month period shall not exceed 2% of the total number of issued and outstanding Common Shares.

The number of Common Shares issuable to insiders of the Company as a group at any time and the number of Common Shares issued to insiders of the Company as a group within any one-year period, under the Share Unit Plan together with all other security based compensation arrangements of the Company shall not exceed 10% of the total number of issued and outstanding Common Shares, on a non-diluted basis.

The number of Common Shares issuable to non-employee directors of the Company as a group, under the Share Unit Plan, shall not exceed 1% of the total number of issued and outstanding Common Shares, on a non-diluted basis. The fair market value of the Common Shares issuable to each non-employee director of the Company within any one-year period under the Share Unit Plan shall not exceed \$150,000. Notwithstanding the foregoing, the fair market value of the Common Shares issuable to each non-employee director of the Company within any one-year period under the Share Unit Plan together with all security based compensation arrangements of the Company shall not exceed \$150,000.

#### **Amendments**

The Board has the right to suspend, terminate or amend the Share Unit Plan or any portion thereof, subject to certain restrictions and provided that it obtain any necessary prior shareholder and/or regulatory approvals.

The following amendments to the Share Unit Plan may be effected without obtaining prior shareholder approval: (i) amendments to the terms and conditions necessary to ensure that the Share Unit Plan complies with applicable regulatory requirements; (ii) amendments respecting administration of the Share Unit Plan; (iii) amendments respecting the terms and conditions on which Share Units may be granted; and (iv) amendments of a “housekeeping” nature.

Prior shareholder approval is required to effect any amendment to the Share Unit Plan related to: (i) the number or percentage of Common Shares available for grant; (ii) removing or exceeding the number of Common Shares issuable or that may be issued to insiders as a group under the Share Unit Plan; (iii) permitting the transfer or assignment of Share Units other than for normal estate settlement purposes; (iv) expanding the categories of individuals eligible to participate in the Share Unit Plan; (v) changing the method of calculation of redemption of Share Units; (vi) extending the term for redemption of Share Units; and (vii) any amendments to the amendment provisions of the Share Unit Plan.

There are no Share Units anticipated, as at the date of this prospectus, to be outstanding on completion of the Offering.

### **Warrants**

As at October 11, 2017, there were 3,333,328 Founder Warrants issued and outstanding, and 9,116,338 General Warrants issued and outstanding. Each Founder Warrant and General Warrant entitles the holder thereof to acquire one Common Share at a price of US\$1.20 until December 12, 2021. In the event that the closing price of the Common Shares on a recognized stock exchange is US\$1.70 or higher for 20 consecutive days, the Company may accelerate the expiry date of the General Warrants by giving notice to the holders thereof and in such case the General Warrants will expire on the 30th day after the date on which such notice is given by the Company. For the purposes of determining the closing price of the Common Shares denominated in US dollars, any exchange rate calculation shall be based on the daily exchange rate as published by the Bank of Canada. Additional terms and conditions of the Founder Warrants and the General Warrants are set out in their respective certificates and in the Warrant Indenture. The Company anticipates that immediately prior to completion of the Offering, an aggregate of 4,333,027 General Warrants will be exercised at an exercise price of US\$1.20 per Common Share, with the underlying Common Shares to be sold under the Secondary Offering. See “*Principal and Selling Securityholders*”.

The following table sets forth the aggregate number of Founder Warrants and General Warrants, on a combined basis, which are anticipated, as at the date of this prospectus, to be outstanding immediately prior to, and upon completion of, the Offering.

<b>Holder of Warrants</b>	<b>Number of Warrants Prior to the Offering</b>	<b>Number of Warrants upon Completion of the Offering</b>	<b>Exercise Price (US\$ per Common Share)</b>	<b>Issue Date<sup>(12)</sup></b>	<b>Market Value of Common Shares Under Warrants<sup>(13)</sup></b>	<b>Expiry Date</b>
Executive and other officers of Ero, as a group <sup>(1)</sup>	3,119,997 <sup>(5)</sup>	3,119,997 <sup>(5)</sup>	1.20	September 2, 2016 December 12, 2016	N/A	December 12, 2021
Directors (who are not also executive officers) of Ero, as a group <sup>(2)</sup>	799,995 <sup>(6)</sup>	799,995 <sup>(6)</sup>	1.20	September 2, 2016 December 12, 2016	N/A	December 12, 2021
Directors (who are not also executive officers) of all subsidiaries of Ero, as a group <sup>(3)</sup>	166,666 <sup>(7)</sup>	166,666 <sup>(7)</sup>	1.20	September 2, 2016	N/A	December 12, 2021
Any other person or company, other than the Underwriters <sup>(4)</sup>	8,363,008 <sup>(8)</sup>	4,029,981 <sup>(10)</sup>	1.20	September 2, 2016 December 28, 2016	N/A	December 12, 2021
<b>TOTAL</b>	<b>12,449,666<sup>(9)</sup></b>	<b>8,116,639<sup>(11)</sup></b>				

**Notes:**

- (1) Total of six persons, two who hold both Founder Warrants and General Warrants, two who hold Founder Warrants only, and two who hold General Warrants only.
- (2) Total of four persons, all four who hold both Founder Warrants and General Warrants.
- (3) Total of one person, who holds Founder Warrants only.
- (4) Total of 55 persons, one who holds 166,666 Founder Warrants only and 54 who hold 8,196,342 General Warrants only.
- (5) Represents 2,733,332 Founder Warrants held by four persons and 386,665 General Warrants held by four persons.
- (6) Represents 266,664 Founder Warrants held by four persons and 533,331 General Warrants held by four persons.
- (7) Represents 166,666 Founder Warrants held by one person.
- (8) Represents 166,666 Founder Warrants held by one person and 8,196,342 General Warrants held by 54 persons.
- (9) Represents 3,333,328 Founder Warrants and 9,116,338 General Warrants.
- (10) Represents 166,666 Founder Warrants held by one person and 3,863,315 General Warrants held by 44 persons.
- (11) Represents 3,333,328 Founder Warrants and 4,783,311 General Warrants.
- (12) The Founder Warrants were issued on September 2, 2016 (10 persons) and the General Warrants were issued on December 12, 2016 (59 persons) and December 28, 2016 (3 persons). The Founder Warrants were issued on September 2, 2016 in connection with a private placement offering of Founder Units. The General Warrants were issued on December 12, 2016 upon the conversion of the Subscription Receipts previously issued by way of private placement on September 8, 2016, and on December 28, 2016 in connection with a private placement offering of Common Shares and units of the Company. See "Prior Sales".
- (13) Market value of the Common Shares under warrants is not reasonably ascertainable on the issue date or another date given that the Common Shares are not and have never been publicly traded or listed.

**Convertible Debentures**

As at October 11, 2017, there were an aggregate principal amount of US\$2,750,000 General Debentures issued and outstanding, which bear simple interest at an annual rate of 10% payable on the maturity date of January 18, 2019. The outstanding principal and accrued and unpaid interest on the General Debentures is convertible, subject to certain limitations and conditions, at the option of the holders thereof and until the maturity date of the General Debentures into General Debenture Units at a price of US\$0.75 per General Debenture Unit (subject to adjustment pursuant to the terms of the certificates representing the General Debentures). Each General Debenture Unit is comprised of one Common Share and one-quarter of a General Warrant. On maturity of the General Debentures, the Company shall repay the principal amount of the General Debentures and the accrued and unpaid interest thereon by way of cash, issuance of General Debenture Units at a price of US\$0.75 per General Debenture Unit, or a combination thereof, such determination being at the discretion of the Company unless otherwise determined in accordance with the terms of the General Debentures. The Company also has an option, subject to certain limitations, to prepay prior to the maturity date and without penalty any amount of the outstanding principal and accrued and unpaid interest on the General Debentures by way of cash.

The following table sets forth the aggregate principal amount of General Debentures which are anticipated, as at the date of this prospectus, to be outstanding on completion of the Offering.

<b>Holder of Convertible Debentures</b>	<b>Issue Date<sup>(4)</sup></b>	<b>Principal Amount (US\$)</b>	<b>Conversion Price per General Debenture Unit (US\$)</b>	<b>Number of General Debenture Units into which General Debentures may be Converted<sup>(5)</sup></b>	<b>Market Value of Common Shares Under Conversion Option<sup>(8)</sup></b>	<b>Maturity Date</b>
Executive and other officers of Ero, as a group <sup>(1)</sup>	January 18, 2017	500,000	0.75	715,251 <sup>(6)</sup>	N/A	January 18, 2019
Directors (who are not also executive officers) of Ero, as a group <sup>(2)</sup>	January 18, 2017	500,000	0.75	715,251 <sup>(6)</sup>	N/A	January 18, 2019
Any other person or company, other than the Underwriters <sup>(3)</sup>	January 18, 2017	1,750,000	0.75	2,503,379 <sup>(7)</sup>	N/A	January 18, 2019
<b>TOTAL</b>		<b>2,750,000</b>		<b>3,933,881</b>		

**Notes:**

- (1) Total of one person.
- (2) Total of one person.
- (3) Total of four persons.
- (4) The General Debentures were issued on January 18, 2017 pursuant to a private placement offering by the Company.
- (5) As at the date of this prospectus. Each General Debenture Unit is comprised of one Common Share and one-quarter of a General Warrant.
- (6) Represents approximately 715,251 Common Shares and approximately 178,812 General Warrants, and accounts for any General Debenture Units which may be issuable in connection with payment of accrued interest on the General Debentures.
- (7) Represents approximately 2,503,379 Common Shares and approximately 625,844 General Warrants, and accounts for any General Debenture Units which may be issuable in connection with payment of accrued interest on the General Debentures.
- (8) Market value of the Common Shares under General Debentures is not reasonably ascertainable on the issue date or another date given that the Common Shares are not and have never been publicly traded or listed.

On March 22, 2017, the Company established the Tembo Debenture pursuant to which, and subject to certain conditions, it may draw down US\$5,000,000 at any time until the earlier of (i) March 21, 2018, and (ii) the date of the consummation of an initial public offering of the Company or a combination transaction involving the Company following which shares of the resulting entity are listed for trading on a recognized stock exchange. If drawn down, the Tembo Debenture will bear simple interest at an annual rate of 10% payable on the maturity date, the maturity date being such date which is one year following the draw down date under the Tembo Debenture. Any outstanding principal and accrued and unpaid interest on the Tembo Debenture is convertible, subject to certain limitations and conditions, at the option of Tembo into Common Shares at a price of US\$1.75 per Common Share (subject to adjustment pursuant to the terms of the certificate representing the Tembo Debenture). In the event the Tembo Debenture is drawn down upon, then on maturity of the Tembo Debenture, the Company shall repay the principal amount of the Tembo Debenture and the accrued and unpaid interest thereon by way of cash, issuance of Common Shares at a price of US\$1.75 per Common Share, or a combination thereof, such determination being at the discretion of Tembo. The Company also has an option, subject to certain limitations, to prepay prior to the maturity date and without penalty any amount of the outstanding principal and accrued and unpaid interest on the Tembo Debenture by way of cash. As at the date hereof, the Company has not drawn down on the Tembo Debenture and does not intend to draw down on the Tembo Debenture prior to the Offering. Assuming that the Tembo Debenture remains undrawn on the Closing Date, the Tembo Debenture will effectively terminate on the Closing Date, as the Company will no longer be permitted to draw down any amount thereunder following such time.

## PRIOR SALES

The following table summarizes the issuances of Common Shares and securities that are convertible or exchangeable into Common Shares since the incorporation of the Company to the date of this prospectus.

Issue Date	Type of Security	Number Issued	Issue Price	Exercise Price	Description of Issuance
May 16, 2016	Common Shares	2	US\$0.01 per share	-	Founder shares
September 2, 2016	Units, with each unit consisting of: (i) one Common Share and (ii) one-third of a Founder Warrant <sup>(1)</sup>	10,000,000 Common Shares 3,333,328 Founder Warrants	US\$0.01 per unit	Founder Warrants exercisable at US\$1.20 per Common Share	Private placement offering of units
December 12, 2016	Units, with each unit consisting of: (i) one Common Share and (ii) one-third of a General Warrant <sup>(2)</sup>	18,400,000 Common Shares 6,133,309 General Warrants	US\$1.00 per unit <sup>(3)</sup>	General Warrants exercisable at US\$1.20 per Common Share	Conversion of subscription receipts of the Company issued pursuant to a private placement offering on September 8, 2016 <sup>(3)</sup>
	Common Shares	500,000	Services <sup>(4)</sup>	-	Issued in connection with the establishment of a convertible debenture with Ross J. Beaty <sup>(4)</sup>
December 28, 2016	Units, with each unit consisting of: (i) one Common Share and (ii) one-third of a General Warrant <sup>(2)</sup>	8,949,089 Common Shares 2,983,029 General Warrants	R\$3.29 per unit <sup>(5)</sup>	General Warrants exercisable at US\$1.20 per Common Share	Private placement offering of units <sup>(5)</sup>
	Common Shares	500,000	R\$0.0329 <sup>(5)</sup>	-	Private placement offering of Common Shares <sup>(5)</sup>
January 18, 2017	General Debentures	US\$2,750,000	US\$2,750,000	General Debentures convertible into, and payable on maturity at the discretion of the Company by way of issuance of, units at a price of US\$0.75 per unit	Private placement offering of General Debentures <sup>(6)</sup>
March 22, 2017	Common Shares	18,423,593	US\$1.50 per share	-	Private placement offering of Common Shares
	Tembo Debenture	-	-	Tembo Debenture convertible into, and payable on maturity at the discretion of Tembo by way of issuance of, Common Shares at a price of US\$1.75 per Common Share	Establishment of the Tembo Debenture <sup>(7)</sup>
May 15, 2017	Options	1,615,000	-	US\$1.50 per Common Share	Options granted to certain officers and employees
July 10, 2017	Options	100,000	-	US\$1.50 per Common Share	Options granted to an officer

**Notes:**

- (1) Each Founder Warrant entitles the holder thereof to acquire one Common Share at a price of US\$1.20 until December 12, 2021.
- (2) Each General Warrant entitles the holder thereof to acquire one Common Share at a price of US\$1.20 until December 12, 2021. In the event that the closing price of the Common Shares on a recognized stock exchange is US\$1.70 or higher for 20 consecutive days, the Company may accelerate the expiry date of the General Warrants by giving notice to the holders thereof and in such case the General Warrants will expire on the 30th day after the date on which such notice is given by the Company. For the purposes of determining the closing price of the Common Shares denominated in US dollars, any exchange rate calculation shall be based on the daily exchange rate as published by the Bank of Canada.
- (3) Issue price represents the price of each Subscription Receipt issued in connection with a private placement offering of 18,400,000 Subscription Receipts on September 8, 2016. Each one Subscription Receipt entitled the holder thereof to receive, upon conversion in accordance with its terms and the terms of the Subscription Receipt Agreement, without payment of additional consideration or further action on the part of the holder, one unit comprised of: (i) one Common Share; and (ii) one-third of a General Warrant. Upon completion of the Subscription Receipt offering, the gross proceeds of US\$18,400,000 raised in connection therewith were placed into escrow with Computershare Trust Company of Canada. In accordance with their terms and the terms of the Subscription Receipt Agreement, the Subscription Receipts converted into the corresponding units, and the gross proceeds from the offering were released to the Company on December 12, 2016, once all conditions, but for the payment of the purchase price for the acquisition by the Company, directly or indirectly, of shares in the capital of MCSA representing 82.92% of the issued and outstanding shares in the capital of MCSA and customary closing conditions of the MCSA Acquisition, were met or waived.
- (4) 500,000 Common Shares were issued to Ross J. Beaty in consideration for services performed by Mr. Beaty in favour, and for the benefit, of the Company and in connection with the establishment of an unsecured convertible debenture with Mr. Beaty pursuant to which, and subject to certain conditions, the Company had the option to draw down up to US\$15,000,000 (the “**Beaty Debenture**”). The Beaty Debenture carried certain prepayment privileges at the option of the Company and conversion and settlement privileges at the option of Mr. Beaty. On July 4, 2017, the Company and Mr. Beaty terminated the Beaty Debenture. No amount was ever drawn down or outstanding under the Beaty Debenture prior to its termination.
- (5) On December 28, 2016, the Company completed the Brasil Plural and Spectra Offering consisting of the issuance of 8,949,089 units at a price of R\$3.29 per unit and 500,000 Common Shares at a price of R\$0.0329 per Common Share to Brasil Plural, Spectra II and Spectra III. Each unit issued pursuant to the Brasil Plural and Spectra Offering consisted of one Common Share and one-third of a General Warrant.
- (6) See “*Options to Purchase Securities – Convertible Debentures*” for further details regarding the General Debentures.
- (7) In connection with the private placement offering of Common Shares on March 22, 2017, the Company established the Tembo Debenture. See “*Options to Purchase Securities – Convertible Debentures*” for further details regarding the Tembo Debenture.

**ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER**

The following table sets forth, as of the date of this prospectus, the number of securities of each class of securities of the Company held, to the knowledge of the Company, in escrow or that are subject to a contractual restriction on transfer and the percentage that number represents of the outstanding securities of that class.

<b>Designation of Class</b>	<b>Number of Securities Held in Escrow or that are Subject to a Contractual Restriction on Transfer</b>	<b>Percentage of Class</b>
Common Shares	11,520,002 <sup>(1)(2)(3)</sup>	20.29% <sup>(4)</sup>
Founder Warrants	3,333,328 <sup>(1)(3)</sup>	100%
General Warrants	339,999 <sup>(3)</sup>	3.73%

**Notes:**

- (1) 10,500,000 Common Shares and 3,333,328 Founder Warrants are subject to the terms of escrow agreements (the “**Escrow Agreements**”) entered into among the Company, Computershare Trust Company of Canada as escrow agent (the “**Escrow Agent**”) and each holder of subject securities. The securities subject to the Escrow Agreements will be released from escrow upon receipt by the Escrow Agent of a direction confirming the release date, delivered on behalf of the Company and the securityholders subject to the Escrow Agreements, on December 12, 2018. Certain of the securities subject to the Escrow Agreements are also subject to lock-ups and the co-sale agreements, as described in Notes (2) and (3), immediately below.
- (2) Pursuant to subscription agreements dated as of December 12, 2016 and entered into between the Company and each of Brasil Plural, Spectra II and Spectra III, commencing on December 28, 2016 and until the earlier of (i) December 28, 2018 and (ii) the date that the percentage of Common Shares held collectively by Brasil Plural, Spectra II and Spectra III is less than 5%, all Common Shares previously issued by the Company at US\$0.01 per Common Share held by Christopher Noel Dunn (3,000,001 Common Shares) and David Strang (3,000,001 Common Shares) are subject to lock-up. Such Common Shares subject to lock-up are also subject to Escrow Agreements and the co-sale agreements, as described in Notes (1) and (3), immediately above and below. Assuming that the Secondary Offering is completed as currently contemplated, such lock-ups will be automatically terminated upon completion of the Offering.
- (3) In connection with the Brasil Plural and Spectra Offering, the Company entered into co-sale agreements on December 9, 2016 with Brasil Plural, Spectra II, Spectra III and each of Christopher Noel Dunn (the “**Dunn Co-Sale Agreement**”) and David Strang (the “**Strang Co-Sale Agreement**”). 3,020,001 Common Shares, 1,000,000 Founder Warrants and 6,666 General Warrants held by Christopher Noel Dunn are subject to the Dunn Co-Sale Agreement and 4,000,001 Common Shares, 1,000,000 Founder Warrants and 333,333 General Warrants held by David Strang are subject to the Strang Co-Sale Agreement. Pursuant to the Dunn Co-Sale Agreement and the Strang Co-Sale Agreement, Christopher Noel Dunn and David Strang, respectively, are restricted from assigning, selling, pledging or otherwise transferring their respective Common Shares, Founder Warrants and General Warrants, without providing prior notice to the Company and causing the potential transferee to make an offer to each of Brasil Plural, Spectra II and Spectra III to purchase or acquire their proportionate share of the Common Shares or General Warrants, as applicable, on a pro rata basis between them and on the same terms as being offered to Mr. Dunn and/or Mr. Strang, as the case may be. Such rights are subject to certain exceptions as set out in the Dunn Co-Sale Agreement and the Strang Co-Sale Agreement, and terminate upon certain events, including immediately prior to the consummation of the Offering. Certain of the securities subject to such co-sale agreements are also subject to the Escrow Agreements and lock-ups, as described in Notes (2) and (3), immediately above.
- (4) Presented on a non-diluted basis.

Pursuant to the Underwriting Agreement, other than in connection with the Secondary Offering, each of the directors, officers and principal shareholders of the Company and certain other persons as mutually agreed to by the Company and Co-Lead Underwriters, will enter into lock-up agreements on or prior to the Closing Date pursuant to which, for a period of 180 days from the Closing Date, each such person will agree not to, among other things, directly or indirectly, offer, sell, contract to sell, grant any option to purchase, make any short sale, or otherwise dispose of, or transfer, or announce any intention to do so, any Common Shares (subject to certain exemptions provided to a limited number of shareholders of the Company party to such lock-up agreements). See “*Plan of Distribution*”.

## PRINCIPAL AND SELLING SECURITYHOLDERS

The following table sets forth information regarding ownership of the Common Shares as at the date of this prospectus by each person or company who, to the Company’s knowledge, beneficially owns, or controls or directs, directly or indirectly, Common Shares carrying 10% or more of the voting rights attaching to all issued and outstanding Common Shares.

Name	Prior to the Offering			Following the Offering		
	Number of Common Shares Owned, Controlled or Directed	% of Common Shares	Type of Ownership	Common Shares to be Sold Pursuant to the Secondary Offering	Number and Class of Securities Owned, Controlled or Directed	% of Class of Securities
Brasil Plural <sup>(1)</sup>	7,844,829	13.8%	Registered <sup>(2)</sup>	9,906,292 <sup>(3)</sup>	415,110 Common Shares  nil General Warrants	0.6% <sup>(4)</sup>  0%
Ndovu and Tembo <sup>(5)(6)</sup>	8,500,000 <sup>(7)</sup>	15.0%	Beneficial/ Beneficial and Registered <sup>(7)</sup>	nil	9,997,199 <sup>(7)</sup> Common Shares	14.1% <sup>(4)</sup>

**Notes:**

- (1) The figures in the table are calculated on a non-diluted basis, assuming that the Over-Allotment Option is not exercised. Assuming that (i) the Over-Allotment Option is not exercised, and (ii) all convertible securities of the Company are converted or exercised in full (including the General Debentures on the date hereof and the General Warrants issued in connection with such conversion of General Debentures on the date hereof), then on a fully-diluted basis, Brasil Plural would as at the date of this prospectus hold 10,321,402 Common Shares representing 13.6% of the outstanding Common Shares, and would after giving effect to the Offering hold 415,110 Common Shares representing 0.5% of the outstanding Common Shares.
- (2) Brasil Plural holds the Common Shares on behalf of numerous beneficial holders, including Brasil Plural S.A. Banco Múltiplo.
- (3) Represents 7,429,719 Common Shares currently held by Brasil Plural and 2,476,573 Common Shares to be issued to Brasil Plural upon the exercise of an equal number of General Warrants prior to Closing.
- (4) Assuming that the Over-Allotment Option is not exercised.
- (5) Ndovu and Tembo are affiliated entities.
- (6) The figures in the table are calculated on a non-diluted basis, assuming that the Over-Allotment Option is not exercised. Assuming that (i) the Over-Allotment Option is not exercised, (ii) Ndovu successfully exercises its participation right and acquires 1,497,199 Offered Shares pursuant to the Offering, and (iii) all convertible securities of the Company are converted or exercised in full (including the General Debentures on the date hereof and the General Warrants issued in connection with such conversion of General Debentures on the date hereof), then on a fully-diluted basis, Ndovu would as at the date of this prospectus hold 8,500,000 Common Shares representing 11.2% of the outstanding Common Shares, and would after giving effect to the Offering hold 9,997,199 Common Shares representing 11.6% of the outstanding Common Shares.
- (7) Represents 8,333,333 Common Shares beneficially owned by Ndovu, 166,667 Common Shares registered in the name of Tembo, and 1,497,199 Common Shares to be acquired by Ndovu under the Offering, assuming that the Over-Allotment Option is not exercised (if the Underwriters exercise the Over-Allotment Option in full, Ndovu has indicated that it will exercise its participation rights to purchase an additional 376,485 Offered Shares for an aggregate of 1,873,684 Offered Shares), pursuant to the exercise of its participation right. See “*Plan of Distribution*”.

## Voting Agreement

As at the date hereof, 19,019,091 Common Shares are subject to the Voting Agreement, pursuant to which, each shareholder party thereto has agreed to, among other things, vote or cause to be voted, all Common Shares owned by such shareholder, or over which such shareholder has voting control or direction, to ensure that at each shareholder meeting at which an election of directors is held or pursuant to any written shareholder consent resolution for such purpose, one individual designated by Brasil Plural is elected to the Board. Please see “*Material Contracts*” for a detailed description of the Voting Agreement. Assuming that the Secondary Offering is completed as currently contemplated, the Voting Agreement will be automatically terminated upon completion of the Offering.

## Selling Securityholders and Secondary Offering

The following table shows, for each Selling Securityholder, the number of Common Shares and General Warrants owned or controlled, directly or indirectly, prior to the Offering and the exercise of the General Warrants in connection with the Secondary Offering, the number of Common Shares and General Warrants owned or controlled, directly or indirectly, prior to the Offering and immediately after the exercise of General Warrants in connection with the Secondary Offering, the number of Common Shares to be sold pursuant to the Secondary Offering, the gross proceeds to be received in connection with the Secondary Offering, and the number of Common Shares held immediately following the Offering.

Selling Securityholder	# of Common Shares Prior to Offering and Exercise	# of General Warrants Prior to Offering and Exercise	# of Common Shares Prior to Offering and Following Exercise	# of General Warrants Prior to Offering and Following Exercise	# of Common Shares Sold Pursuant to the Secondary Offering	Aggregate Gross Proceeds (\$)	# of Common Shares After the Offering
Brasil Plural	7,844,829 <sup>(1)</sup>	2,476,573 <sup>(1)</sup>	10,321,402 <sup>(2)</sup>	nil <sup>(2)</sup>	9,906,292	47,054,887	415,110
Spectra II	320,852 <sup>(3)</sup>	101,291 <sup>(3)</sup>	422,143 <sup>(4)</sup>	nil <sup>(4)</sup>	405,165	1,924,533.75	16,978
Spectra III	1,283,408 <sup>(5)</sup>	405,165 <sup>(5)</sup>	1,688,573 <sup>(6)</sup>	nil <sup>(6)</sup>	1,620,661	7,698,139.75	67,912
Ross Beaty	4,000,000 <sup>(7)</sup>	1,000,000 <sup>(7)</sup>	5,000,000 <sup>(8)</sup>	nil <sup>(8)</sup>	1,000,000	4,750,000	4,000,000
Taylor International Fund Ltd.	3,800,000 <sup>(9)</sup>	1,166,666 <sup>(9)</sup>	4,000,000 <sup>(10)</sup>	966,666 <sup>(10)</sup>	200,000	950,000	3,800,000
Heritage Investments Trust	150,000 <sup>(11)</sup>	50,000 <sup>(11)</sup>	200,000 <sup>(12)</sup>	nil <sup>(12)</sup>	50,000	237,500	150,000
Randal Cowell	100,000 <sup>(13)</sup>	33,333 <sup>(13)</sup>	133,333 <sup>(14)</sup>	nil <sup>(14)</sup>	33,333	158,331.75	100,000
1045373 BC Ltd.	100,000 <sup>(15)</sup>	33,333 <sup>(15)</sup>	133,333 <sup>(16)</sup>	nil <sup>(16)</sup>	33,333	158,331.75	100,000
1040350 BC Ltd.	50,000 <sup>(17)</sup>	16,666 <sup>(17)</sup>	66,666 <sup>(18)</sup>	nil <sup>(18)</sup>	16,666	79,163.50	50,000
Geoff Burns	50,000 <sup>(19)</sup>	16,666 <sup>(19)</sup>	66,666 <sup>(20)</sup>	nil <sup>(20)</sup>	16,666	79,163.50	50,000

### Notes:

- (1) The Common Shares and General Warrants were acquired by Brasil Plural on December 28, 2016 in connection with the Brasil Plural and Spectra Offering, whereby Brasil Plural acquired (i) 7,429,719 units, with each unit representing one Common Share and one-third of a General Warrant, at a cost of R\$3.29 per unit for an aggregate cost of R\$24,436,347, and (ii) 415,110 Common Shares at a cost per Common Share of R\$0.0329 for an aggregate cost of R\$13,652.97. See “*Prior Sales*” for further details.
- (2) 2,476,573 General Warrants will be exercised prior to Closing at the price of US\$1.20 per Common Share to acquire 2,476,573 Common Shares.
- (3) The Common Shares and General Warrants were acquired by Spectra II on December 28, 2016 in connection with the Brasil Plural and Spectra Offering, whereby Spectra II acquired (i) 303,874 units, with each unit representing one Common Share and one-third of a General Warrant, at a cost of R\$3.29 per unit for an aggregate cost of R\$999,441.59, and (ii) 16,978 Common Shares at a cost per Common Share of R\$0.0329 for an aggregate cost of R\$558.41. See “*Prior Sales*” for further details.
- (4) 101,291 General Warrants will be exercised prior to Closing at the price of US\$1.20 per Common Share to acquire 101,291 Common Shares.
- (5) The Common Shares and General Warrants were acquired by Spectra III on December 28, 2016 in connection with the Brasil Plural and Spectra Offering, whereby Spectra III acquired (i) 1,215,496 units, with each unit representing one Common Share and one-third of a General Warrant, at a cost of R\$3.29 per unit for an aggregate cost of R\$3,997,766.37, and (ii) 67,912 Common Shares at a cost per Common Share of R\$0.0329 for an aggregate cost of R\$2,233.63. See “*Prior Sales*” for further details.
- (6) 405,165 General Warrants will be exercised prior to Closing at the price of US\$1.20 per Common Share to acquire 405,165 Common Shares.

- (7) The Common Shares and General Warrants were acquired by Ross Beaty on September 2, 2016 in connection with a private placement offering of Founder Units, whereby Ross Beaty acquired 500,000 Founders Units at a cost of US\$0.01 per Founder Unit for an aggregate cost of US\$5,000; on December 12, 2016 in connection with the conversion of 3,000,000 Subscription Receipts issued pursuant to a private placement offering by the Company on September 8, 2016, whereby Ross Beaty acquired such Subscription Receipts at a cost of US\$1.00 per Subscription Receipt for an aggregate cost of US\$3,000,000, each Subscription Receipt being converted into one unit comprised of one Common Share and one-third of a General Warrant; and on December 12, 2016 whereby 500,000 Common Shares were issued to Ross Beaty in consideration for services performed in connection with the establishment of the Beaty Debenture. See “*Prior Sales*” for further details.
- (8) 1,000,000 General Warrants will be exercised prior to Closing at the price of US\$1.20 per Common Share to acquire 1,000,000 Common Shares.
- (9) The Common Shares and General Warrants were acquired by Taylor International Fund Ltd. on December 12, 2016 in connection with the conversion of 3,500,000 Subscription Receipts issued pursuant to a private placement offering by the Company on September 8, 2016, whereby Taylor International Fund Ltd. acquired 3,500,000 Subscription Receipts at a cost of US\$1.00 per Subscription Receipt for an aggregate cost of US\$3,500,000, each Subscription Receipt being converted into one unit comprised of one Common Share and one-third of a General Warrant; and on March 22, 2017 in connection with the private placement offering by the Company, whereby Taylor International Fund Ltd. acquired 300,000 Common Shares at a cost of US\$1.50 per Common Share for an aggregate cost of US\$450,000. See “*Prior Sales*” for further details.
- (10) 200,000 General Warrants will be exercised prior to Closing at the price of US\$1.20 per Common Share to acquire 200,000 Common Shares.
- (11) The Common Shares and General Warrants were acquired by Heritage Investments Trust on December 12, 2016 in connection with the conversion of 150,000 Subscription Receipts issued pursuant to a private placement offering by the Company on September 8, 2016, whereby Heritage Investments Trust acquired 150,000 Subscription Receipts at a cost of US\$1.00 per Subscription Receipt for an aggregate cost of US\$150,000, each Subscription Receipt being converted into one unit comprised of one Common Share and one-third of a General Warrant. See “*Prior Sales*” for further details.
- (12) 50,000 General Warrants will be exercised prior to Closing at the price of US\$1.20 per Common Share to acquire 50,000 Common Shares.
- (13) The Common Shares and General Warrants were acquired by Randal Cowell on December 12, 2016 in connection with the conversion of 100,000 Subscription Receipts issued pursuant to a private placement offering by the Company on September 8, 2016, whereby Randal Cowell acquired 100,000 Subscription Receipts at a cost of US\$1.00 per Subscription Receipt for an aggregate cost of US\$100,000, each Subscription Receipt being converted into one unit comprised of one Common Share and one-third of a General Warrant. See “*Prior Sales*” for further details.
- (14) 33,333 General Warrants will be exercised prior to Closing at the price of US\$1.20 per Common Share to acquire 33,333 Common Shares.
- (15) The Common Shares and General Warrants were acquired by 1045373 BC Ltd. on December 12, 2016 in connection with the conversion of 100,000 Subscription Receipts issued pursuant to a private placement offering by the Company on September 8, 2016, whereby 1045373 BC Ltd. acquired 100,000 Subscription Receipts at a cost of US\$1.00 per Subscription Receipt for an aggregate cost of US\$100,000, each Subscription Receipt being converted into one unit comprised of one Common Share and one-third of a General Warrant. See “*Prior Sales*” for further details.
- (16) 33,333 General Warrants will be exercised prior to Closing at the price of US\$1.20 per Common Share to acquire 33,333 Common Shares.
- (17) The Common Shares and General Warrants were acquired by 1040350 BC Ltd. on December 12, 2016 in connection with the conversion of 50,000 Subscription Receipts issued pursuant to a private placement offering by the Company on September 8, 2016, whereby 1040350 BC Ltd. acquired 50,000 Subscription Receipts at a cost of US\$1.00 per Subscription Receipt for an aggregate cost of US\$50,000, each Subscription Receipt being converted into one unit comprised of one Common Share and one-third of a General Warrant. See “*Prior Sales*” for further details.
- (18) 16,666 General Warrants will be exercised prior to Closing at the price of US\$1.20 per Common Share to acquire 16,666 Common Shares.
- (19) The Common Shares and General Warrants were acquired by Geoff Burns on December 12, 2016 in connection with the conversion of 50,000 Subscription Receipts issued pursuant to a private placement offering by the Company on September 8, 2016, whereby Geoff Burns acquired 50,000 Subscription Receipts at a cost of US\$1.00 per Subscription Receipt for an aggregate cost of US\$50,000, each Subscription Receipt being converted into one unit comprised of one Common Share and one-third of a General Warrant. See “*Prior Sales*” for further details.
- (20) 16,666 General Warrants will be exercised prior to Closing at the price of US\$1.20 per Common Share to acquire 16,666 Common Shares.

## DIRECTORS AND EXECUTIVE OFFICERS

To the Company’s knowledge as at the date of this prospectus, following completion of the Offering, its directors and executive officers as a group (excluding the purchase of any Offered Shares by any directors and executive officers under the Offering) will beneficially own, or control or direct, directly or indirectly, 11,993,335 Common Shares, representing approximately 17% of the outstanding Common Shares on a non-diluted basis following the completion of the Offering (or approximately 16% on a non-diluted basis, assuming the Over-Allotment Option is exercised in full).

### Director and Executive Officer Profiles

The following table sets forth the name of each director and executive officer of the Company as at the date of this prospectus, their province or state and country of residence, their position(s) and office(s) held with the Company, their principal occupation(s) during the preceding five years, the date they became a director of the Company, if applicable, and the number and percentage of Common Shares they beneficially own, or control or direct, directly or indirectly. Each director’s term will expire immediately prior to the first annual meeting of shareholders of the Company.

Name and Residence	Position(s) and Office(s) with Ero	Principal Occupation(s) During Past Five Years	Director Since	Number and Percentage of Common Shares Held <sup>(1)</sup>
Christopher Noel Dunn <sup>(16)(17)</sup> Massachusetts, USA	Executive Chairman Director	Executive Chairman, Ero Copper Corp. since May 16, 2016; Co-Managing Partner of Ero Resource Partners LLC since February 2014 (currently inactive); Managing Director of Liberty Metals & Mining LLC from 2011 to until 2013.	May 16, 2016	3,020,001 <sup>(2)</sup> (5.32%)

<b>Name and Residence</b>	<b>Position(s) and Office(s) with Ero</b>	<b>Principal Occupation(s) During Past Five Years</b>	<b>Director Since</b>	<b>Number and Percentage of Common Shares Held<sup>(1)</sup></b>
David Strang <sup>(17)</sup> British Columbia, Canada	President and Chief Executive Officer Director	Director, President and Chief Executive Officer, Ero Copper Corp. since May 16, 2016; Co-Managing Partner of Ero Resource Partners LLC since February 2014 (currently inactive); CEO and Director, Lumina Copper Corp. from August 2008 until August 2014.	May 16, 2016	4,000,001 <sup>(3)</sup> (7.05%)
Wayne Drier British Columbia, Canada	Chief Financial Officer	Chief Financial Officer, Ero Copper Corp. since March 2017; Executive, Corporate Development, Asanko Gold Inc. from July 2014 until March 2017; Vice President: Strategy & Development, Coalspur Mines Ltd. from July 2011 until June 2014.	-	133,333 <sup>(4)</sup> (0.24%)
Michel (Mike) Richard Santiago, Chile	Chief Geological Officer	Chief Geological Officer (previously, Senior Vice President Exploration), Ero Copper Corp. since January 2017; Director New Business Development South America, Lundin Mining Corporation from April 2012 to January 2016; General Manager TEMCL, Teck Resources Limited from May 1994 to March 2012.	-	2,000,000 <sup>(5)</sup> (3.52%)
Makko DeFilippo Arizona, USA	Vice President, Corporate Development	Vice President, Corporate Development, Ero Copper Corp. since February 2017; Director Corporate Finance, Global Mining Advisory Practice from January 2016 to January 2017; Partner, Ero Resource Partners, January 2014 to January 2016; Investment Analyst, Liberty Metals & Mining, LLC from October 2011 to December 2013.	-	nil <sup>(6)</sup> (0%)
Michal Romanowski Arizona, USA	Vice President, Evaluations and Planning	Vice President, Evaluations and Planning, Ero Copper Corp. since January 2017; Partner, Ero Resource Partners LLC from May 2014 to December 2016; Investment Analyst, Liberty Metals & Mining LLC from January 2013 to April 2014; Principal Consultant, Romanowski & Company from January 2011 to December 2013.	-	200,000 <sup>(7)</sup> (0.35%)
Jonathan Singh British Columbia, Canada	Vice President, Finance	Vice President, Finance, Ero Copper Corp. since February 2017; Chief Financial Officer of: Aurora Mineral Resources Group from September 2011 until January 2016, Kaminak Gold Corporation, from October 2011 until January 2016, Kivalliq Energy Corporation, from October 2011 until January 2016, West Melville Metals Inc., from September 2011 until September 2015, and Bluestone Resources Inc., September 2011 until February 2014.	-	90,000 <sup>(8)</sup> (0.16%)
Deepk Hundal British Columbia, Canada	Vice President, General Counsel and Corporate Secretary	Vice President, General Counsel & Corporate Secretary, Ero Copper Corp. since July 2017; General Counsel, Retirement Concepts Senior Services Ltd. & Pacific Reach Properties Ltd., from July 2014 until July 2017; Vice President, Legal, Elgin Mining from May 2012 until July 2013; Vice President, Legal and Corporate Secretary Aura Minerals Inc. from June 2007 until April 2012.	-	nil <sup>(9)</sup> (0%)

<u>Name and Residence</u>	<u>Position(s) and Office(s) with Ero</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u>Director Since</u>	<u>Number and Percentage of Common Shares Held<sup>(1)</sup></u>
Matthew Wubs <sup>(14)(15)</sup> British Columbia, Canada	Director	Co-Chief Executive Officer, Westland Insurance Group Ltd. Since January 2016; Chief Financial Officer, Westland Insurance Group Ltd. from January 2002 until December 2015.	July 27, 2016	1,200,000 <sup>(10)</sup> (2.11%)
John Wright <sup>(14)(15)</sup> British Columbia, Canada	Director	Assisting Capstone Mining Corp. in a Business Development role since December 2006.	July 27, 2016	700,000 <sup>(11)</sup> (1.23%)
Lyle Braaten <sup>(14)(16)</sup> British Columbia, Canada	Director	President and Chief Executive Officer, Miedzi Copper Corp. since March 2012; Vice President, Legal, Lumina Gold Corp. since June 2014; Vice President, Legal, Anfield Gold Corp. since May 2016; Legal Counsel, Alterra Power Corp. since June 2008.	July 27, 2016	300,000 <sup>(12)</sup> (0.53%)
Steven Busby <sup>(15)(16)(17)</sup> British Columbia, Canada	Director	Chief Operating Officer of Pan American Silver Corp. since 2008.	July 27, 2016	350,000 <sup>(13)</sup> (0.62%)

**Notes:**

- (1) On a non-diluted basis.
- (2) Mr. Dunn also holds 1,000,000 Founder Warrants and 6,666 General Warrants, entitling him to acquire an additional 1,006,666 Common Shares.
- (3) Mr. Strang also holds 1,000,000 Founder Warrants, 333,333 General Warrants, and General Debentures in the aggregate principle amount of US\$500,000, entitling him to acquire in the aggregate an additional 2,227,396 Common Shares as at the date of this prospectus.
- (4) Mr. Drier also holds 33,333 General Warrants and 590,000 Options, entitling him to acquire in the aggregate an additional 623,333 Common Shares.
- (5) Mr. Richard also holds 666,666 Founder Warrants, entitling him to acquire in the aggregate an additional 666,666 Common Shares.
- (6) Mr. DeFilippo also holds 200,000 Options, entitling him to acquire in the aggregate an additional 200,000 Common Shares.
- (7) Mr. Romanowski also holds 66,666 Founder Warrants, entitling him acquire in the aggregate an additional 66,666 Common Shares.
- (8) Mr. Singh also holds 13,333 General Warrants and 100,000 Options, entitling him to acquire in the aggregate an additional 113,333 Common Shares.
- (9) Mr. Hundal also holds 100,000 Options, entitling him to acquire in the aggregate an additional 100,000 Common Shares.
- (10) Mr. Wubs also holds 66,666 Founder Warrants, 333,333 General Warrants, and General Debentures in the aggregate principal amount of US\$500,000, entitling him to acquire in the aggregate an additional 1,294,062 Common Shares as at the date of this prospectus.
- (11) Mr. Wright also holds 66,666 Founder Warrants and 166,666 General Warrants, entitling him to acquire in the aggregate an additional 233,332 Common Shares.
- (12) Mr. Braaten also holds 66,666 Founder Warrants and 16,666 General Warrants, entitling him to acquire in the aggregate an additional 83,332 Common Shares.
- (13) Mr. Busby also holds 66,666 Founder Warrants and 16,666 General Warrants, entitling him to acquire in the aggregate an additional 83,332 Common Shares.
- (14) Member of the Audit Committee.
- (15) Member of the Compensation Committee.
- (16) Member of the Nominating and Corporate Governance Committee.
- (17) Member of the Environmental, Health, Safety and Sustainability Committee.

**Executive Officer Biographies**

*Christopher Noel Dunn, Executive Chairman and Director*

Mr. Dunn and Mr. Strang formed the Company in May 2016. Mr. Dunn serves as the Executive Chairman and as a director of the Company. Mr. Dunn is also currently a director of Pan American Silver Corporation and Pretium Resources Inc. Mr. Dunn has 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. Prior to forming Ero Resource Partners LLC, he was a Managing Director of Liberty Mining & Metals LLC, a subsidiary of Liberty Mutual Investments, focused on investing in early stage mining companies. 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 and Chief Executive Officer 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 Director, Chief Executive Officer and President of Lumina

Copper Corp. which was sold to First Quantum Minerals Limited in August 2014. Mr. Strang also served as Director, Chief Executive Officer and President 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 20 years of corporate finance experience, particularly in the areas of corporate and asset valuation, and has approximately nine years of experience as an officer and director. Mr. Strang has been a past board member of five other public companies, and is currently a director of Almaden Minerals Ltd. Mr. Strang holds a Bachelor of Science in Applied Earth Sciences from Stanford University.

*Wayne Drier, Chief Financial Officer*

Mr. Drier is the Chief Financial Officer of the Company. 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.

*Michel (Mike) Richard, Chief Geological Officer*

Mr. Richard is the Chief Geological Officer of the Company. He 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 with Lundin Mining Corporation as Director of Exploration and New Business, Latin America. 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 serves as Vice President, Corporate Development of the Company. He 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 a M.Sc. in Metallurgical Engineering from the Colorado School of Mines and a B.Sc. in Geological Engineering from the University of Arizona.

*Deepk Hundal, Vice President, General Counsel and Corporate Secretary*

Mr. Hundal serves as Vice President, General Counsel and Corporate Secretary of the Company. He 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.

*Michal Romanowski, Vice President, Evaluations and Planning*

Mr. Romanowski serves as Vice President, Evaluations and Planning of the Company. He 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 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.

*Jonathan Singh, Vice President, Finance*

Mr. Singh serves as Vice President, Finance of the Company. He 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 10 years in public practice with the 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.

**Director Biographies**

*Christopher Noel Dunn, Executive Chairman and Director*

Please see Mr. Dunn's biography under "– Executive Officer Biographies" above.

*David Strang, President and Chief Executive Officer and Director*

Please see Mr. Strang's biography under "– Executive Officer Biographies" above.

*Matthew Wubs, Director*

Mr. Wubs is the Co-CEO 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 M&A. He joined Westland in the role of Controller in 1997. 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.

*John Wright, Director*

Mr. Wright is a Metallurgical Engineer and Honours graduate of Queen's University in Ontario. He currently assists Capstone Mining Corp. in a Business Development role. 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 has been a director of both Bitterroot Resources Ltd. and SilverCrest Metals Inc. since January 17, 2017. 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.

*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 green energy company focused on international geothermal energy development. In 2011, Magma and Plutonic Power merged to create Alterra Power 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 holds a Bachelor of Science degree in Mineral Processing Engineering and is a member of the Montana Tech Metallurgical Engineering Department Advisory Board. Mr. Busby is a director of Anfield Gold Corp.

## **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

None of the Company's directors or executive officers is, as at the date hereof, or was within 10 years before the date hereof, a director, chief executive officer or chief financial officer of any company (including the Company) that (a) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant issuer access to any exemption under securities legislation, that was in effect for a period or more than 30 consecutive days (an "Order") that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer of such issuer, or (b) was subject to an Order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

None of the Company's directors or executive officers, nor, to its knowledge, any shareholder holding a sufficient number of its securities to affect materially the control of the Company (a) is, as at the date hereof, or has been within the 10 years before the date hereof, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or (b) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such director, executive officer or shareholder.

None of the Company's directors or executive officers, nor, to its knowledge, any shareholder holding a sufficient number of its securities to affect materially the control of the Company, has been subject to (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

## **Conflicts of Interest**

To the best of the Company's knowledge, there are no existing or potential material conflicts of interest between the Company and any of its directors or officers as of the date hereof. However, certain of the Company's directors and officers are, or may become, directors or officers of other companies with businesses which may conflict with its business. Accordingly, conflicts of interest may arise which could influence these individuals in evaluating possible acquisitions or in generally acting on the Company's behalf. See also "*Risk Factors – Risks Related to the Company – The directors and officers may have conflicts of interest with the Company*".

Pursuant to the BCBCA, directors and officers of the Company are required to act honestly and in good faith with a view to the best interests of the Company. As required under the BCBCA and the Company's Articles:

- a director or senior officer who holds any office or possesses any property, right or interest that could result, directly or indirectly, in the creation of a duty or interest that materially conflicts with that individual's duty or interest as a director or senior officer of the Company, must promptly disclose the nature and extent of that conflict; and
- a director who holds a disclosable interest (as such term is defined under the BCBCA) in a contract or transaction into which the Company has entered or proposes to enter may generally not vote on any directors' resolution to approve such contract or transaction.

Generally, as a matter of practice, directors who have disclosed a material interest in any contract or transaction that the Board is considering will not take part in any board discussion respecting that contract or transaction. If on occasion such directors do participate in the discussions, they will refrain from voting on any matters relating to matters in which they have disclosed a material interest. In appropriate cases, the Company will establish a special committee of independent directors to review a matter in which directors or officers may have a conflict.

See "*Statement on Corporate Governance – Ethical Business Conduct*" for the steps taken by the Company in monitoring compliance with the Code. See also "*Risk Factors – Risks Related to the Company – The directors and officers may have conflicts of interest with the Company*".

## **Directors' and Officers' Liability Insurance and Indemnification**

The Articles provide for the indemnification of each director and officer against all costs, charges and expenses reasonably incurred by him or her in respect of any action or proceeding to which he or she is made a party by reason of being a director or officer of the Company, subject to the limitations contained in the Articles and in the BCBCA.

On August 9, 2017, the Company obtained directors' and officers' liability insurance policies for the period from August 9, 2017 to August 9, 2018, with coverage in the amount of up to US\$30 million, and US\$10 million as an excess policy with limits reserved for insured directors and officers when the Company is unable to indemnify the same, at an annual premium of US\$89,750, the full amount of which was paid by the Company. There is no deductible in the case of directors and officers but a deductible of US\$25,000 for the Company. The policies contain standard industry exclusions and no claims have been made to date. The policies currently reflect the Company's risk profile as a private entity and will be revised accordingly following the Offering. Such revisions will involve a review of limits to ensure adequacy for the Company's risk profile as a public entity, and may involve increases in premium and retention amounts, with such increases yet to be determined as at the date of this prospectus.

## **DIRECTOR AND EXECUTIVE COMPENSATION**

The following section describes the significant elements of the Company's executive and director compensation programs, with particular emphasis on the compensation payable to the Executive Chairman, the President and Chief Executive Officer and other officers that were determined to be "Named Executive Officers" or "NEOs" within the meaning of NI 51-102. During the financial year ended December 31, 2016, the Company had the following two NEOs: Christopher Noel Dunn, Executive Chairman of the Company and David Strang, President and Chief Executive Officer of the Company. The Company did not have a Chief Financial Officer during the financial year ended December 31, 2016.

### **Compensation Governance**

#### *Responsibilities of the Compensation Committee*

The Board has established the Compensation Committee to assist it in fulfilling its responsibilities pertaining to compensation matters including the Company's compensation policies and practices. Among other things, the Compensation Committee is responsible for:

- reviewing and approving corporate goals and objectives relevant to the Chief Executive Officer's and Executive Chairman's compensation;
- periodically reviewing the terms of the Company's executive compensation programs to determine if they are properly coordinated and achieving their desired purpose;
- reviewing and approving corporate goals and objectives relevant to compensation of the Chief Executive Officer and the Executive Chairman, evaluating their performance in light of such corporate goals and objectives, and making recommendations to the Board with respect to their compensation levels based on such evaluation;
- reviewing recommendations from the Chief Executive Officer regarding the appointment, compensation and other terms of employment of the Chief Financial Officer, and other officers, and making recommendations to the Board regarding the same; and
- administering and interpreting the Company's security based compensation arrangements and its policies respecting the grant of Options and Share Units or sale of shares thereunder, and reviewing and recommending to the Board grants of Options and Share Units and terms thereof.

The Compensation Committee is comprised of John Wright (Chair), Steven Busby and Matthew Wubs, all of whom are independent directors within the meaning of NI 52-110. Each of the members of the Compensation Committee has business and other experience which is relevant to their work on the Compensation Committee and, in the case of Steven Busby, serves on a compensation committee of another public Canadian company. By virtue of their differing professional backgrounds, business experience, knowledge of the Company's industry, knowledge of corporate governance practices and, where appropriate, service on compensation committees of other reporting issuers and experience interacting with external consultants and advisors, the members of the Compensation Committee are able to make decisions on the suitability of the Company's compensation policies and practices.

### *Compensation Consultant*

Pursuant to its mandate, the Compensation Committee has the authority to retain external legal counsel, consultants or other advisors to assist it in fulfilling its responsibilities, including a compensation consultant, at the expense of the Company. Any other work or services performed by such compensation consultant at the request of management must, however, be pre-approved by the Compensation Committee.

The Compensation Committee has retained Lane Caputo on August 8, 2017 to assist the Compensation Committee with the development of a go-forward compensation program for the Company's directors and executive officers. As at the date of this prospectus, Lane Caputo has provided its preliminary recommendations, with work to continue subsequent to Closing.

### *Executive Compensation-Related Fees*

From the date of incorporation of the Company until the financial year ended December 31, 2016, no fees were billed to the Company by any consultant or advisor, or any of its affiliates, for services related to determining compensation for any of the Company's directors and executive officers or for any other services.

## **Executive Compensation Discussion and Analysis**

### *Compensation Philosophy*

The Company's approach to executive compensation will be to "pay for performance". Accordingly, salary will generally be targeted near market median levels, while variable compensation opportunities (short and long-term incentives) will be structured to provide above-market total compensation for high levels of corporate performance. Compensation elements will be designed to balance the following compensation objectives:

- total compensation realization will be aligned with the overall performance of the Company;
- compensation programs will encourage a long-term view to shareholder value creation as a significant portion of each executive's variable pay will be equity-based and executives will be required to have a significant personal financial interest in the Company; and
- compensation programs will facilitate the attraction, retention and motivation of experienced and talented executives who will, in turn, drive shareholder value creation.

### *Elements of Executive Compensation*

During the financial year ended December 31, 2016, no compensation was awarded to, earned by, paid to, or payable to the Company's NEOs. Subsequent to the financial year ended December 31, 2016 the Company entered into employment agreements (the "**Employment Agreements**") with, among others, each of its Executive Chairman, President and Chief Executive Officer, Chief Financial Officer, Chief Geological Officer and Vice President, Corporate Development that set out the terms and conditions of their employment as well as entitlements should the Company terminate their employment other than for cause. Pursuant to the Employment Agreements, compensation awarded to, earned by, paid to, or payable to the Company's NEOs since the financial year ended December 31, 2016 has been comprised of a base salary, which is designed to reward the executive officers for fulfilling their day-to-day responsibilities, as set out in the table below:

<u>Name</u>	<u>Position(s) and Office(s) with Ero</u>	<u>Annual Base Salary (US\$)</u>
Christopher Noel Dunn	Executive Chairman Director	400,000
David Strang	President and Chief Executive Officer Director	400,000
Wayne Drier	Chief Financial Officer	300,000
Michel (Mike) Richard	Chief Geological Officer	300,000
Makko DeFilippo	Vice President, Corporate Development	220,000

Base salaries will generally be reviewed annually to ensure they reflect the individual's expertise and performance in fulfilling their role and responsibilities, internal equity and market competitiveness. An executive officer's base salary may be below or above the median for the position depending on a number of factors including experience, market competitiveness, performance, retention and the recommendation of the Chief Executive Officer.

A second component of the executive officers' compensation is the (cash-based) API. The API will recognize short-term (typically annual) efforts and milestone achievement that are aligned to the long-term success of the Company. Prior to the formalization and implementation of the Company's go-forward compensation program, performance incentive payments will be determined by the Compensation Committee based upon a discretionary assessment of individual and corporate performance. Once the Company's go-forward compensation program is established, a more formal target-setting and performance assessment process will be implemented to assess performance and award incentive payments.

#### *New Elements of Executive Compensation*

Since the financial year ended December 31, 2016, the Board has adopted the Stock Option Plan and the Share Unit Plan and begun to provide other benefits to certain of its executive officers in the form of payment of premium costs for employee life insurance, medical and dental benefits, parking and cellular phones. Such other benefits are designed to provide market-competitive benefits to the executive officers of the Company. See "*Share-based and Option-based Awards*".

The Company, together with Lane Caputo, will also conduct a review of the compensation arrangements for its directors and executive officers following the Offering, and additional changes to compensation arrangements may result from such review.

#### *Compensation Benchmarking*

The Company does not yet have a compensation peer group against which to benchmark market-competitive levels of executive and director compensation. The development of a peer group for compensation benchmarking purposes is part of Lane Caputo's mandate following Closing.

#### *Managing Compensation Risk*

At this time, the Company does not use any specific practices to identify and mitigate compensation policies and practices that could encourage an NEO or individual at a principal business unit or division to take inappropriate or excessive risks. Going forward, however, the Company's compensation program will be designed to provide executive incentives for the achievement of near-term and long-term objectives, without motivating such individuals to take inappropriate or excessive risk. The Board will provide regular oversight of the Company's risk management practices, and may delegate to the Compensation Committee the responsibility to provide risk oversight of compensation policies and practices and to identify and mitigate compensation policies and practices that could encourage inappropriate or excessive risk taking by the executive team. As part of its review and discussion regarding compensation risk, the Board is currently considering the following approaches to mitigate compensation risk:

- executive officers and directors will be required to hold a minimum amount of Common Shares under the Company's share ownership guidelines;
- Board discretion with respect to incentive awards and payouts will be applied positively, or negatively, in the event performance results are understated or overstated due to extraordinary circumstances or market conditions outside of the control of executive officers and directors;
- a commitment to a periodic evaluation and stress-testing by the Compensation Committee in terms of various corporate performance achievement possibilities and the associated payout levels under variable pay plans;
- a formal clawback policy specifying the recoupment of incentive compensation applicable to the executive officers upon material financial restatements and misconduct;
- a formal anti-hedging prohibition whereby neither the Company's directors nor its NEOs are permitted to purchase financial instruments (which, for greater certainty, include prepaid variable forward contracts, equity swaps, collars, or units of exchange funds) that are designed to hedge or offset a decrease in market value of equity securities granted by the Company to such individuals as compensation or Common Shares held, directly or indirectly, by the director or NEO under any established share ownership requirements; and
- the Board has retained a compensation consultant, Lane Caputo, that is independent of Management to assist the Board and the Compensation Committee in their review of the aforementioned approaches to mitigate compensation risk.

### Share-based and Option-based Awards

Since the financial year ended December 31, 2016, the Board has adopted the Stock Option Plan and the Share Unit Plan. The Board has delegated to the Compensation Committee the responsibility for administering and interpreting the Company's security based compensation arrangements and the policies respecting the grant of Options or Share Units, whether PSUs or RSUs, or the sale or issuance, as applicable, of Common Shares thereunder, and reviewing and recommending to the Board grants of Options and Share Units, whether PSUs or RSUs, and the terms thereof. Awards of Options and Share Units, whether PSUs or RSUs, under the Stock Option Plan and Share Unit Plan are subject to certain limitations set out in each plan as well as the approval of the Board and the Compensation Committee, as applicable. Such awards are generally based on the executive officer's total target compensation relative to his or her peers and their level within the organization. Options and Share Units are not granted to reward past performance, but rather as forward-looking incentive. As such, previous grants of Options or Share Units, as applicable, are not taken into account when considering additional grants of Options or Share Units, as applicable. For additional information regarding the Stock Option Plan and the Share Unit Plan, please see "*Options to Purchase Securities – Stock Option Plan*" and "*Options to Purchase Securities – Share Unit Plan*", respectively.

### Summary Compensation Table

The following table contains information about the compensation to, or earned by, individuals who were, as at the end of the financial year ended December 31, 2016 "Named Executive Officers" or "NEOs" within the meaning of NI 51-102. No compensation was awarded to, earned by, paid to, or payable to the Company's officers during the financial year ended December 31, 2016. The NEOs of the Company as at December 31, 2016 were Christopher Noel Dunn, Executive Chairman of the Company and David Strang, President and Chief Executive Officer of the Company. The Company did not have a Chief Financial Officer during the financial year ended December 31, 2016.

Name and Principal Position	Year	Salary (US\$)	Share-based Awards (US\$)	Option-based Awards (US\$)	Non-equity Incentive Plan Compensation (US\$)		Pension Value (US\$)	All Other Compensation (US\$)	Total Compensation (US\$)
					Annual Incentive Plans	Long-term Incentive Plans			
Christopher Noel Dunn <sup>(1)</sup> <i>Executive Chairman</i>	2016	nil	-	-	nil	-	-	-	nil
	2015	N/A	-	-	N/A	-	-	-	N/A
	2014	N/A	-	-	N/A	-	-	-	N/A
David Strang <sup>(2)</sup> <i>President and Chief Executive Officer</i>	2016	nil	-	-	nil	-	-	-	nil
	2015	N/A	-	-	N/A	-	-	-	N/A
	2014	N/A	-	-	N/A	-	-	-	N/A

#### Notes:

- (1) Mr. Dunn is also a director of the Company. He does not receive any additional remuneration from the Company pertaining specifically to his role as a director.
- (2) Mr. Strang is also a director of the Company. He does not receive any additional remuneration from the Company pertaining specifically to his role as a director.

### Incentive Plan Awards

As at the end of the financial year ended December 31, 2016, there were no outstanding option-based or share-based awards of the Company. For additional information regarding the Stock Option Plan and the Share Unit Plan, please see "*Options to Purchase Securities – Stock Option Plan*" and "*Options to Purchase Securities – Share Unit Plan*", respectively.

### Pension Plan Benefits

The Company does not have a defined benefit or a defined contribution pension plan.

## Deferred Compensation Plans

The Company does not have a deferred compensation plan.

## Termination and Change of Control Benefits

As at December 31, 2016, the Company had not entered into any employment agreements with any of its officers. Subsequent to the financial year ended December 31, 2016 the Company entered into the Employment Agreements. Such Employment Agreements include termination provisions for several scenarios, including a “Change of Control” (as defined in each respective Employment Agreement). The following table summarizes the compensation that would be payable to each such individual should their employment with the Company be terminated.

Termination Type	Severance	Bonus	Share Awards	Benefits
<b>Termination For Cause</b>	None	None	All share-based awards expire on the termination date	None
<b>Death</b>	None	None	Invested Options vest with an exercise period of 1 year from termination date  Vested Share Units on the termination date have 30 days to be redeemed	None
<b>Disability</b>	None	None	Options vest in normal course and are exercisable for 1 year. Vested Share Units have 30 days to be redeemed	None
<b>Termination Without Cause</b>	Payment equal to 12 months' salary + 1 month of salary per year of service to an aggregate maximum of 24 months' salary (pro rated for partial years) <sup>(1)</sup>	None	Invested Options or Share Units expire on termination date  Executives have 60 days to exercise vested Options  Vested Share Units will be redeemed on the date of termination	Extension of executive benefits for 12 months following termination (to the extent permitted by the applicable benefit plan)
<b>Termination Subsequent to Change of Control or Resignation for Good Reason Within 12 Months of a Change in Control</b>	Payment equal to 24 months' salary	Lump sum payment equal to the most recent 3-year's average bonus paid	Invested Options and Share Units vest immediately  Executives have 90 days to exercise vested options; 30 days to redeem Share Units	Extension of executive benefits for 12 months following termination (to the extent permitted by the applicable benefit plan)

**Note:**

(1) Payments are equal to 12 months' salary for all Employment Agreements up to a maximum of 24 months' salary, except for Makko DeFilippo's Employment Agreement, which contemplates 6 months' salary up to a maximum of 12 months' salary.

The Employment Agreements also contain non-solicitation, non-competition and confidentiality provisions which will apply on a termination of employment with the Company. Non-competition and non-solicitation restrictions apply for a period of one year from the date the executive's employment with the Company ceases, and the confidentiality provisions apply, subject to certain exceptions, for an indefinite period of time following the termination of employment of an executive.

### *Estimated Incremental Payments*

The estimated amounts payable under various termination scenarios are outlined in the table below, which estimates assume: (i) a termination date of December 31, 2016; and (ii) that the relevant Employment Agreements were entered into on May 16, 2016, the date of incorporation of the Company. The Company did not grant any Options or Share Unit awards during the fiscal year ended December 31, 2016.

<u>Name</u>	<u>Disability/Death (US\$)</u>	<u>Resignation (US\$)</u>	<u>Termination with Cause (US\$)</u>	<u>Termination without Cause (US\$)</u>	<u>Change of Control with Termination (US\$)</u>
Christopher Noel Dunn	nil	nil	nil	400,000	800,000
David Strang	nil	nil	nil	400,000	800,000
Wayne Drier	nil	nil	nil	300,000	600,000
Michel (Mike) Richard	nil	nil	nil	300,000	600,000
Makko DeFilippo	nil	nil	nil	110,000	220,000

**Note:**

- (1) Pursuant to the terms of the Employment Agreements, assuming a termination date of December 31, 2017, that the relevant Employment Agreements were entered into on May 16, 2016, the date of incorporation of the Company, and that the Company does not grant any Options or Share Unit awards during the fiscal year ended December 31, 2017, the estimated amounts payable would be as follows: US\$452,777.78 to each of Messrs. Dunn and Strang; US\$339,583.33 to each of Messrs. Drier and Richard; and US\$139,027.78 to Mr. DeFilippo.

**Director Compensation**

During the financial year ended December 31, 2016, no base annual retainer or fees for attendance at Board and Board committee meetings were awarded to, earned by, paid to, or payable to the directors. As part of its mandate, Lane Caputo will be reviewing and making recommendations with respect to director compensation arrangements following the Offering.

As senior officers of the Company, Messrs. Dunn and Strang did not and will not receive compensation for their service as directors and their compensation information is presented in the section relating to executive compensation above.

**INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

None of the directors, executive officers or employees of the Company or former directors, executive officers or employees of the Company or its subsidiaries had any indebtedness outstanding to the Company or any of the subsidiaries as at the date hereof and no indebtedness of these individuals to another entity is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company or any of the subsidiaries as at the date hereof. Additionally, no individual who is, or at any time during the Company's last financial year was, a director or executive officer of the Company, proposed management nominee for director of the Company or associate of any such director, executive officer or proposed nominee is as at the date hereof, or at any time since the beginning of the Company's last financial year has been, indebted to the Company or any of its subsidiaries or to another entity where the indebtedness to such other entity is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company or any of its subsidiaries, including indebtedness for security purchase or any other programs.

**AUDIT COMMITTEE**

The Audit Committee provides assistance to the Board in fulfilling its obligations relating to the integrity of the internal financial controls and financial reporting of the Company. The external auditors of the Company report directly to the Audit Committee. The Audit Committee's primary duties and responsibilities include: (i) reviewing and reporting to the Board on the annual audited financial statements (including the auditor's report thereon) and unaudited interim financial statements and any related management's discussion and analysis, if any, and other financial disclosure related thereto that may be required to be reviewed by the Audit Committee pursuant to applicable legal and regulatory requirements; (ii) reviewing material changes in accounting policies and significant changes in accounting practices and their impact on the financial statements; (iii) overseeing the audit function, including engaging in required discussions with the Company's external auditor and reviewing a summary of the annual audit plan at least annually, overseeing the independence of the Company's external auditor, overseeing the Company's internal auditor, and pre-approving any non-audit services to the Company; (iv) reviewing and discussing with management the appointment of key financial executives and recommending qualified candidates to the Board; (v) reviewing with management and the Company's external auditors, at least annually, the integrity of the internal controls over financial reporting and disclosure; (vi) reviewing management reports related to legal or compliance matters that may have a material impact on the Company and the effectiveness of the Company's compliance policies; and (vii) establishing whistleblowing procedures and investigating any complaints or concerns it deems necessary. The full text of the Audit Committee mandate is attached to this prospectus as Appendix "A".

**Composition of the Audit Committee**

The Audit Committee is composed of Messrs. Matthew Wubs (Chair), Lyle Braaten and John Wright, all of whom are independent directors and all of whom are financially literate, in each case within the meaning of NI 52-110.

## **Relevant Education and Experience**

Each of the members of the Audit Committee has extensive education and experience relevant to the performance of their responsibilities as members of the Audit Committee.

Matthew Wubs graduated with a B.A. from the University of British Columbia in 1992 and has been a Chartered Professional Accountant since 1996. 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 M&A. He joined Westland in the role of Controller in 1997. In 2001 he was promoted to Chief Financial Officer, a position he held until 2015 when he was promoted to Co-Chief Executive Officer. Previous to Westland, he held a consulting role in Management Information Systems at International Forest Products Ltd. and obtained his Chartered Professional Accountant designation while working at Deloitte LLP. Mr. Wubs is also a director of Westland Insurance Company Limited, a provincially licensed property and casualty insurer and has been on the board's audit committee for 10 years.

Lyle Braaten graduated with a B.Sc. from the University of Calgary in 1986 and an LL.B. from the University of British Columbia in 1989. He was the General Counsel of Magma Energy Corp. from June 2008 to May 2011 when it acquired Plutonic Power Corp. and changed its name to Alterra Power Corp. Prior to joining Magma, he was involved in the management of a mid-sized law firm and served as its Managing Director from 2001 to 2008 with overall responsibility for the oversight of the firm's financial results and reporting. He has been an audit committee member of Lumina Gold Corp. since July 2014 and has at least three years' experience in audit committee positions.

John 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 Corp., Global Copper Corp. and Regalito Copper Corp. Mr. Wright has been involved in multiple asset purchases and sales and the accounting associated therewith. Mr. Wright was an audit committee member of Northern Peru Copper Corp. and Regalito Copper Corp. and has at least six years' experience in audit committee positions.

## **Pre-Approval Policies and Procedures**

The Audit Committee mandate requires that the Audit Committee pre-approve any retainer of the auditor of the Company to perform any non-audit services to the Company that it deems advisable in accordance with applicable legal and regulatory requirements and policies and procedures of the Board. The Audit Committee is permitted to delegate pre-approval authority to one of its members; however, the decision of any member of the Audit Committee to whom such authority has been delegated must be presented to the full Audit Committee at its next scheduled meeting.

## **External Auditor Service Fees**

For the fiscal year ended December 31, 2016, audit fees of \$85,000 were billed by, paid to or became payable to, KPMG, the Company's external auditor. There were no audit-related fees, tax fees or any other fees billed by, paid to or became payable to, KPMG, the Company's external auditor during the fiscal year ended December 31, 2016.

For the fiscal year ended December 31, 2016, audit fees of \$212,800 were billed by, paid to or became payable to, KPMG Brazil with respect to services provided to MCSA and NX Gold. There were no audit-related fees, tax fees or any other fees billed by, paid to or became payable to, KPMG Brazil with respect to services provided to MCSA and NX Gold during the fiscal year ended December 31, 2016.

## **STATEMENT ON CORPORATE GOVERNANCE**

The Company and the Board recognize the importance of corporate governance to the effective management of the Company and to the protection of its employees and shareholders. The Company's approach to significant issues of corporate governance is designed with a view to ensuring that the business and affairs of the Company are effectively managed so as to enhance shareholder value. The Board fulfills its mandate directly and through its committees at regularly scheduled meetings or at meetings held as required. Frequency of meetings may be increased and the nature of the agenda items may be changed depending upon the state of the Company's affairs and in light of opportunities or risks which the Company faces. The

directors are kept informed of the Company's business and affairs at these meetings as well as through reports and discussions with management on matters within their particular areas of expertise.

## **The Board**

The Board currently consists of six directors, four of whom are independent based upon the test for director independence set out in NI 52-110. As such, the majority of Ero's directors are independent. Matthew Wubs, John Wright, Lyle Braaten and Steven Busby are the independent directors of the Company. Christopher Noel Dunn is the Executive Chairman of the Company and engages in the management of day-to-day operations of the Company. As such Mr. Dunn is not an independent director. David Strang is the President and Chief Executive Officer of the Company, and is not independent as a result.

Christopher Noel Dunn is the Executive Chairman of the Board and is primarily responsible for the following functions in connection with the affairs of the Board: (i) providing leadership to foster the effectiveness of the Board; (ii) ensuring an effective relationship exists between the Board and senior management of the Company, that the appropriate committee structure is in place with regards to making recommendations for appointment to such committees, and that the directors receive the information required for the proper performance of their duties; (iii) chairing Board meetings, including stimulating debate, providing adequate time for discussion of issues, encouraging full participation and discussions and confirming that clarity regarding decision-making is reached and accurately recorded; (iv) chairing general meetings of shareholders; (v) together with the Nominating and Corporate Governance Committee, ensuring that an appropriate system is in place to evaluate the performance of the Board as a whole, the Board's committees and individual directors; (vi) consulting with the Nominating and Corporate Governance Committee on candidates for nomination or appointment to the Board; (vii) working with the Chief Executive Officer of the Company to ensure that the Board is provided with the resources to permit it to carry out its responsibilities and raising any issues that are preventing the Board from being able to carry out its responsibilities; and (viii) assisting the Chief Executive Officer in fulfilling his responsibilities, as necessary.

As the Executive Chairman is not an independent director, the Board has appointed John Wright as the Lead Director. The Lead Director facilitates the functioning of the Board independently of the Company's management and provides independent leadership to the Board by: (i) ensuring that the Board functions independently of management and other non-independent directors; (ii) fostering the effectiveness of the Board; (iii) working with the Executive Chairman to ensure that the appropriate committee structure is in place with regards to making recommendations for appointment to such committees; (iv) suggesting items of importance for consideration on the agenda for each Board meeting; (v) in the absence of the Executive Chairman, chairing Board meetings, including stimulating debate, providing adequate time for discussion of issues, encouraging full participation and discussions and confirming that clarity regarding decision-making is reached and accurately recorded; (vi) chairing each Board meeting at which only non-management directors are present; as may be required, consulting and meeting with any or all independent directors and representing such directors in discussions with management of the Company; (vii) providing recommendations and advice to the Nominating and Corporate Governance Committee on candidates for nomination or appointment to the Board; (viii) recommending, where necessary, the holding of special meetings of the Board; and (ix) working with the Executive Chairman and the Chief Executive Officer to ensure that the Board is provided with the resources to permit it to carry out its responsibilities and raising any issues that are preventing the Board from being able to do so.

Pursuant to the Brasil Plural Subscription Agreement, the Company has granted to Brasil Plural a right to designate one individual to be nominated to serve as a member of the Board for so long as Brasil Plural, Spectra II and Spectra III collectively hold at least 5% of the issued and outstanding Common Shares. Pursuant to such right, Brasil Plural designated, and the shareholders of the Company appointed, Fabio Vassel as a director of the Company in December 2016. Mr. Vassel resigned from the Board on June 14, 2017, and Brasil Plural did not at such time wish to designate another individual to be nominated to serve as a member of the Board to fill the vacancy resulting from Mr. Vassel's resignation. See "*Material Contracts*". Assuming that the Secondary Offering is completed as currently contemplated, Brasil Plural's nomination right will automatically terminate upon completion of the Offering.

### *Inter-locking Directorships*

Some of the directors of the Company serve on the same boards of directors of other reporting issuers (or the equivalent) in Canada or foreign jurisdictions. The following table lists the directors of the Company who serve on boards of directors of other reporting issuers (or the equivalent) and the identities of such reporting issuers (or the equivalent).

<u>Name of Director</u>	<u>Reporting Issuers (or the Equivalent)</u>
Christopher Noel Dunn	Pan American Silver Corp. Pretium Resources Inc.
David Strang	Almaden Minerals Ltd.
John Wright	Bitterroot Resources Ltd. SilverCrest Metals Inc.
Lyle Braaten	Lumina Gold Corp.
Steven Busby	Anfield Gold Corp.

The Board has determined that these inter-locking directorships do not adversely impact the effectiveness of these directors on the Board or create any potential for conflicts of interest.

#### *Board Meetings*

The Executive Chairman is primarily responsible for the agenda and for supervising the conduct of each meeting of the Board. Any director may propose the inclusion of items on the agenda, request the presence of or a report by any member of senior management, or at any Board meeting raise subjects that are not on the agenda for the meeting. Materials for each meeting are distributed to the Board in advance of the meeting.

The following table sets out the summary of the attendance record of each director for all Board meetings held in the financial year ended December 31, 2016. During the fiscal year ended December 31, 2016, the Board did not establish any committees.

<u>Name of Director</u>	<u>Board Meetings Attended</u>
Christopher Noel Dunn	1 of 1
David Strang	1 of 1
Matthew Wubs	1 of 1
Lyle Braaten	1 of 1
John Wright	1 of 1
Steven Busby	1 of 1
Fabio Vassel <sup>(1)</sup>	0 of 1

**Note:**

(1) Mr. Vassel resigned from the Board on June 14, 2017.

#### *Meetings of Independent Directors*

Since the Company's incorporation in May 2016, the Board held four meetings, all of which involved an in-camera session without non-independent directors and members of management. Going forward, Board meetings will continue to include in-camera sessions at which members of management are not in attendance, following which the independent directors will hold in-camera sessions at which non-independent directors and members of management are not in attendance, in order to facilitate open and candid discussions among its independent directors.

#### *Majority Voting Policy*

The Company has adopted a majority voting policy (the "**Majority Voting Policy**"). Pursuant to the provisions of the Majority Voting Policy, a nominee for election as a director of the Company who does not receive a greater number of votes "for" than votes "withheld" with respect to the election of directors by shareholders shall offer to tender his or her resignation to the Chairman of the Board promptly following the meeting of shareholders at which the director was elected. The Nominating and Corporate Governance Committee will promptly consider such offer and make a recommendation to the Board whether to accept it or not. The Board will promptly accept the resignation unless it determines that there are exceptional circumstances. The Board shall act on the Nominating and Corporate Governance Committee's recommendation in respect of a resignation tendered pursuant to the Majority Voting Policy within 90 days following the date of the applicable election and shall promptly disclose, via press release, its decision whether to accept the director's resignation offer including

the reasons for rejecting the resignation offer, if applicable. A director who tenders a resignation pursuant to the Majority Voting Policy will not participate in any meeting of the Board or the Nominating and Corporate Governance Committee at which the resignation is considered. The Majority Voting Policy will not apply to contested meetings at which the number of directors nominated for election is greater than the number of seats available on the Board.

### **Board Mandate**

The Board is responsible for the supervision of the management of the business and affairs of the Company. In discharging its mandate, the Board is primarily responsible, either directly or through committees of the Board and the Chairman of the Board, for the oversight of, among other things, the following matters:

- the strategic planning process of the Company;
- the identification of the principal risks of the Company's business and ensuring the implementation of appropriate systems to manage these risks;
- succession planning, including appointing, training and monitoring the Company's executive officers;
- a culture of integrity of the Company and its executive officers;
- a disclosure policy for the Company to facilitate communications with investors and other interested parties;
- the Company's approach to corporate governance and director independence standards and, where appropriate, the appointment of a Lead Director;
- ethical behavior of the directors, officers and employees of the Company; and
- the composition and organization of the Board, including the number, qualifications and remuneration of directors.

The Board may at any time retain and terminate external legal counsel, consultants or other advisors at the expense of the Company to assist it in fulfilling its responsibilities and to set and pay the respective reasonable compensation of these advisors.

The Board discharges its responsibilities directly and through its committees, currently consisting of the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee, and the Environmental, Health, Safety and Sustainability Committee.

The full text of the Board Mandate setting out the Board's mandate and responsibilities and the duties of its members is attached to this prospectus as Appendix "B".

### **Position Descriptions**

The Board has developed written position descriptions for the Executive Chairman, the Chair of each committee of the Board, the Lead Director of the Board and the Chief Executive Officer.

### **Orientation and Continuing Education**

New members of the Board are provided with: (i) information respecting the functioning of the Board and its committees and a copy of the Company's corporate governance documents; (ii) access to all documents of the Company, including those that are confidential; and (iii) access to management.

Each new director participates in the Company's initial orientation program and each director participates in the Company's continuing director development programs, both of which are reviewed annually by the Board.

Board members are encouraged to: (i) communicate with management and auditors; (ii) keep themselves current with industry trends and developments and changes in legislation with management's assistance; (iii) attend related industry seminars; and (iv) visit the Company's operations. Since the Acquisitions, each of the Company's directors during such time (other than Fabio Vassel, who resigned from the Board on June 14, 2017) visited the Vale do Curaçá Property, and attended corporate presentations outlining the Company's local activities, operations and applicable laws, among other matters.

### **Director Assessment**

The Nominating and Corporate Governance Committee is responsible for ensuring that an appropriate system is in place to evaluate the effectiveness of the Board as a whole, the individual committees of the Board, and the individual members of the

Board and such committees with a view of ensuring that they are fulfilling their respective responsibilities and duties. In connection with such evaluations, each director is required to provide his or her assessment of the effectiveness of the Board and each committee as well as the performance of the individual directors, annually. Such evaluations take into account the competencies and skills each director is expected to bring to his or her particular role on the Board or on a committee, as well as any other relevant facts.

### **Director Term Limits and Other Mechanisms for Board Renewal**

The Company has not adopted term limits for the directors on its Board or other formal mechanisms for Board renewal. The Company believes that the Board has the appropriate level of continuity and renewal without imposing formal mechanisms, particularly term limits or director retirement requirements. In addition, the Company believes that the imposition of director term limits or director retirement requirements may discount the value of experience and continuity amongst Board members and runs the risk of excluding experienced and valuable candidates for Board membership.

The Nominating and Corporate Governance Committee is responsible for developing and updating the long-term plan for the composition of the Board that takes into consideration the current strengths, competencies, skills and experience of the Board members, retirement dates and the strategic direction of the Company. In addition, the Nominating and Corporate Governance Committee, annually or as required, recruits and identifies individuals qualified to become new Board members and makes recommendations to the Board regarding new director nominees. In making such recommendations, the Nominating and Corporate Governance Committee will consider the competencies and skills that the Board considers to be necessary for the Board as a whole to possess, for each existing director to possess, and for a new nominee to bring to the boardroom. In this respect, through the Nominating and Corporate Governance Committee and the annual Board assessment process, the Board is able to consider the contribution of current Board members and the skills and experience necessary for an effective and efficient Board, and recommends changes to best meet those needs.

### **Diversity**

The Board and the Nominating and Corporate Governance Committee consider diversity as one of the important criteria relative to the composition of the Board. The Nominating and Corporate Governance Committee periodically reviews the composition of the Board and recommends, if necessary, measures to be taken so that the Board reflects the appropriate balance of diversity, competencies, skills and expertise required by the Board as a whole. Accordingly, while the Board has not adopted a written policy or targets relating to the identification and nomination of women directors or executive officer candidates with other specific diversity characteristics, the Board does take into consideration various criteria including a nominee's potential to contribute to diversity within the Board. The Company does not believe that it is in the best interests of the Company or its shareholders to set any specific targets or quotas for recruiting Board members based on diversity criteria as such targets or quotas may have the effect of unduly restricting the Company's commitment to the selection of the most capable nominee. Diversity criteria should be considered as one important aspect of the identification and selection process but should not be considered paramount to other important criteria.

Currently, the Board is comprised of male directors; however, the Board will seek out female nominees for future Board vacancies, provided that any such nominee meets the needs of the Company in relation to her attributes and skills.

Consistent with the Company's approach to diversity at the Board level, the Company's hiring practices include consideration of diversity across a number of areas, including gender. Currently, none of the executive officer positions of the Company and its subsidiaries are held by women. The Company does not have a target number of women executive officers. Given the small size of its executive team, the Company believes that implementing targets would not be appropriate. However, in its hiring practices, the Company considers the number of women in executive officer positions and the desirability of achieving an appropriate level of representation.

### **Ethical Business Conduct**

The Board has adopted the Code for the directors, officers, employees and consultants of the Company and its subsidiaries. All new employees must read the Code when hired and acknowledge that they will abide by the Code.

The Nominating and Corporate Governance Committee, together with the Board, are responsible for monitoring compliance with the Code. In accordance with the Code, directors, officers, employees and consultants of the Company and its subsidiaries should raise questions regarding the application of any requirement under the Code, and report a possible violation of a law or the Code, promptly to their superior or manager. If reporting a concern or complaint to a superior or

manager is not possible or advisable, or if reporting it to such person does not resolve the matter, the matter should be addressed with the Chief Financial Officer of the Company.

The Nominating and Corporate Governance Committee monitors compliance with the Code by, among other things, obtaining reports from the Chief Executive Officer regarding breaches of the Code and reporting such breaches to the Board. The Nominating and Corporate Governance Committee also reviews investigations and any resolutions of complaints received under the Code, and reports annually to the Board thereon. In turn, the Board reviews such reports from the Nominating and Corporate Governance Committee as well as reports relating to compliance with, or material deficiencies from, the Code and approves changes it considers appropriate, at least annually. The Code will be available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

The Board takes steps to ensure that directors, officers and other employees exercise independent judgment in considering transactions and agreements in respect of which a director, officer or other employee of the Company has a material interest, which include ensuring that directors, officers and other employees are thoroughly familiar with the Code and, in particular, the rules concerning reporting conflicts of interest and obtaining direction from their superior or manager or the Chief Financial Officer regarding any potential conflicts of interest.

The Board encourages and promotes an overall culture of ethical business conduct by promoting compliance with applicable laws, rules and regulations; providing guidance to directors, officers and other employees to help them recognize and deal with ethical issues; promoting a culture of open communication, honesty and accountability; and ensuring awareness of disciplinary action for violations of ethical business conduct.

The Board has also adopted a Whistleblowing Policy for individuals to report complaints and concerns regarding, among other things, violations of the Code. As well, the Company has an Anti-Corruption Policy which requires that directors, officers, other employees and contractors of the Company conduct business in a manner that does not contravene anti-bribery and anti-corruption laws that apply to the Company, including the *Criminal Code* (Canada) and *Corruption of Foreign Public Officials Act* (Canada). The Lead Director and the Audit Committee or a designated member thereof are responsible for monitoring compliance with this policy, although employees may approach the Company's external legal counsel if preferred for concerns under the Anti-Corruption Policy.

### **Audit Committee**

See "*Audit Committee*" for further details.

### **Nominating and Corporate Governance Committee**

The Board has established the Nominating and Corporate Governance Committee, comprised of Lyle Braaten (Chair), Steven Busby, each of who are independent directors within the meaning of NI 52-110, and Christopher Noel Dunn. While Mr. Dunn is not independent within the meaning of NI 52-110, the Board views his experience with public companies and his extensive network of finance and mining industry contacts to be a positive contribution to the Nominating and Corporate Governance Committee. The Board considers the presence of two senior and experienced independent directors to be sufficient to encourage an objective nominating process.

The Nominating and Corporate Governance Committee, in consultation with the Chief Executive Officer, is responsible for recruiting and identifying individuals qualified to become new Board members and making recommendations to the Board regarding new director nominees, annually or as required. Further, the Nominating and Corporate Governance Committee is responsible for recommending to the Board the individual director appointments to each Board committee, annually or as required. In making such recommendations, the Nominating and Corporate Governance Committee will consider the competencies and skills that the Board considers to be necessary for the Board as a whole to possess, for each existing director to possess, and for a new nominee to bring to the boardroom. The Nominating and Corporate Governance Committee may also recommend for approval by the Board the removal of a director from the Board or a committee thereof if he or she is no longer qualified to serve as a director under applicable requirement or any other appropriate reason.

In addition, the Nominating and Corporate Governance Committee has been delegated the responsibility of, among other things: (i) making recommendations to the Board regarding director remuneration; (ii) establishing an appropriate system to evaluate the effectiveness of the Board as a whole as well as its committees; (iii) monitoring conflicts of interest of both the Board and management; (iv) conducting periodic reviews of the Company's corporate governance policies and making policy recommendations aimed at enhancing Board and committee effectiveness; (v) annually reviewing the Board and committee

mandates and position descriptions of the Executive Chairman, the Chief Executive Officer, the Lead Director and each committee Chair, and recommending to the Board that necessary changes be made; (vi) reviewing and recommending to the Board the appropriate structure, size, composition, mandate and members for Board committees, and the procedures to ensure that the Board and its committees function independently of management; (vii) providing the Board with updates on developments in corporate governance; (viii) conducting periodic reviews of the relationship between management and the Board; (ix) reviewing monitoring and making recommendations regarding new director orientation and ongoing development of existing directors; and (x) reviewing reports from the Chief Executive Officer regarding breaches of the Code, and investigations and resolutions of complaints received under the Code, and reporting to the Board thereon. See “– *Director Assessment*” above.

### **Compensation Committee**

The Board has established the Compensation Committee, comprised of John Wright (Chair), Steven Busby and Matthew Wubs, all of whom are independent directors within the meaning of NI 52-110.

The Compensation Committee is responsible for determining and making recommendations with respect to all forms of compensation to be granted to the Chief Executive Officer and the Executive Chairman, and reviewing the Chief Executive Officer’s recommendations respecting compensation of the other senior executive offices of the Company. In particular, the Compensation Committee is responsible for, among other things: (i) reviewing and approving corporate goals and objectives relevant to compensation of the Chief Executive Officer and the Executive Chairman, evaluating their performance in light of such corporate goals and objectives, and making recommendations to the Board with respect to their compensation levels based on such evaluation; (ii) reviewing recommendations from the Chief Executive Officer regarding the appointment, compensation and other terms of employment of the Chief Financial Officer, and other officers, and making recommendations to the Board regarding the same; (iii) preparing and submitting to the Board at least annually a report on human resource matters of the Company; (iv) administering and interpreting the Company’s security based compensation arrangements and its policies respecting the grant of options or sale of shares thereunder, and reviewing and recommending to the Board grants of options and terms thereof; (v) periodically reviewing the terms of the Company’s executive compensation programs to determine if they are properly coordinated and achieving their desired purpose; (vi) overseeing the Company’s compliance with any rules promulgated by a regulatory body prohibiting loans to officers and directors of the Company; and (vii) reviewing and assessing the adequacy of the its mandate at least annual.

Please see “*Director and Executive Compensation*” above, which summarizes, among other things, the process by which the Board determines the compensation for the Company’s directors and officers.

The Compensation Committee has the authority to retain external legal counsel, consultants or other advisors to assist it in fulfilling its responsibilities, including a compensation consultant, at the expense of the Company. Any other work or services performed by such compensation consultant at the request of management must, however, be pre-approved by the Compensation Committee.

### **Environmental, Health, Safety and Sustainability Committee**

The Board has established the Environmental, Health, Safety and Sustainability Committee, comprised of Steven Busby (Chair), Christopher Noel Dunn and David Strang.

The Environmental, Health, Safety and Sustainability Committee assists the Board in fulfilling its oversight responsibilities in respect of development, implementation and monitoring of the Company’s health, safety, environment and sustainability policies. In particular, the Environmental, Health, Safety and Sustainability Committee is responsible for, among other things: (i) developing policies and maintaining standards of performance that meet or exceed legal and regulatory requirements and industry standards in the areas of health, safety, and environmental stewardship; (ii) identifying risks related to the environment, health and safety and recommending the adoption of appropriate programs and procedures to reduce such risks; (iii) periodically reviewing the Company’s loss prevention policies, emergency response plans and recovery programs; (iv) periodically reviewing and monitoring the Company’s policies, procedures and practices related to the reporting of health, safety and environmental incidents; (v) reviewing with management and legal counsel, any legal actions by or against the Company related to environmental, health and safety issues; (vi) reviewing reports regarding significant health, safety and environmental incidents, emerging issues, inspection and audit summaries and corrective actions taken in response to deficiencies; (vii) requiring management to take steps to ensure that employees receive necessary training to meet health, safety and environmental standards; (viii) facilitating information sharing with other Board committees to address matters of

mutual interest or concern regarding health, safety, environmental and sustainability issues; and (ix) reporting regularly to the Board on its activities.

The Environmental, Health, Safety and Sustainability Committee has the authority to retain external legal counsel, consultants or other advisors to assist it in fulfilling its responsibilities, at the expense of the Company.

### **Disclosure Committee**

The Company has established a Disclosure Committee comprised of the Executive Chairman, the President and Chief Executive Officer and the Chief Financial Officer of the Company, to ensure the provision of accurate and timely communication of important information to shareholders of the Company, including with respect to the Company's continuous disclosure requirements under applicable securities laws that will commence in connection with the Offering. The Board has adopted a Disclosure Policy to provide guidance to the Disclosure Committee.

## **RISK FACTORS**

*Investing in the Offered Shares is speculative and involves a high degree of risk due to the nature of the Company's business. An investment in the Offered Shares should only be made by persons who can afford the total loss of their investment. The following risks, as well as risks currently unknown to the Company, could adversely affect the Company's current or future business, properties, operations, results, cash flows, financial condition and prospects and could cause future results, cash flows, financial condition, prospects, events or circumstances to differ materially from those currently expected, including the estimates and projections contained in this prospectus. Investors should carefully consider the risks described below and elsewhere in this prospectus. The risks described below and elsewhere in this prospectus do not purport to be an exhaustive summary of the risks affecting the Company and additional risks and uncertainties not currently known to the Company or not currently perceived as being material may have an adverse effect on the Company. Please see "Management's Discussion and Analysis" for a description of additional risks affecting the Company.*

### **Risks Related to the Company**

#### ***Copper prices are volatile and may be lower than expected***

The Company's business and its ability to sustain operations are dependent on, amongst other things, the market price of copper. The prices of copper realized by the Company will affect future development decisions, production levels, earnings, cash flows, the financial condition and prospects of the Company. If the world market prices of copper were to drop and the prices realized by the Company on copper sales were to decrease significantly and remain at such level for any substantial period, the Company's business, financial condition, results of operations, cash flows and prospects would be negatively affected.

Some factors that affect the price of copper include: industrial demand; forward or short sales of copper by producers and speculators; future levels of copper production; and rapid short-term changes in supply and demand due to speculative or hedging activities by producers, individuals or funds. Copper prices are also affected by macroeconomic factors including: confidence in the global economy; expectations of the future rate of inflation; the availability and attractiveness of alternative investment vehicles; the strength of, and confidence in, the US dollar, the currency in which the price of copper is generally quoted, and other major currencies; global political or economic events; and costs of production of other copper producing companies. All of the above factors can, through their interaction, affect the price of copper by increasing or decreasing the demand for or supply of copper.

The price of copper has fluctuated widely in recent years, and future material price declines could cause commercial production from the Vale do Curaçá Property or the development of, and commercial production from, the Boa Esperança Property to be less profitable than expected and could render such properties uneconomic. Continuing to conduct mining in a low copper price environment would have a material adverse effect on the Company's business, financial condition, results of operations, cash flows and prospects. Depending on the current and expected price of copper, projected cash flows from planned or current mining operations may not be sufficient to warrant commencing or continuing mining, and the Company could be forced to discontinue development or commercial production. The Company may be forced to sell one or more portions of the Vale do Curaçá Property or the Boa Esperança Property to generate cash. Future production from the Vale do Curaçá Property and the Boa Esperança Property will be dependent on a price of copper that is adequate to make a deposit economically viable. Furthermore, future mine plans using significantly lower copper prices could result in material write-downs of the Company's investment in the Vale do Curaçá Property and the Boa Esperança Property, and in reductions in

Mineral Reserve and Mineral Resource estimates. The occurrence of any of the foregoing could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows and prospects.

A declining or sustained low price of copper could negatively impact the profitability of the Vale do Curaçá Property, and could affect the Company's ability to finance the exploration and development of other properties in the future. In addition, a declining or sustained low price of copper could require a reassessment of the feasibility of the Boa Esperança Property. Although the price of copper is only one of the several factors that the Company will consider in making a development and production decision on the Boa Esperança Property, if the Company determines from a reassessment that the Boa Esperança Property is not economically viable in whole or in part, then operations may cease or be curtailed and the Boa Esperança Property may never be fully developed or developed at all. The occurrence of any of the foregoing could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows and prospects.

### ***Mining operations are risky***

The Company's current business, and any future development or mining operations, involve various types of risks and hazards typical of companies engaged in the mining industry. Such risks include, but are not limited to: (i) industrial accidents; (ii) unusual or unexpected rock formations; (iii) structural cave-ins or slides and pitfall, ground or slope failures and accidental release of water from surface storage facilities; (iv) fire, flooding and earthquakes; (v) rock bursts; (vi) metal losses in handling and transport; (vii) periodic interruptions due to inclement or hazardous weather conditions; (viii) environmental hazards; (ix) discharge of pollutants or hazardous materials; (x) failure of processing and mechanical equipment and other performance problems; (xi) geotechnical risks, including the stability of the underground hanging walls and unusual and unexpected geological conditions; (xii) unanticipated variations in grade and other geological problems, water, surface or underground conditions; (xiii) labour disputes or slowdowns; (xiv) work force health issues as a result of working conditions; and (xv) force majeure events, or other unfavourable operating conditions.

These risks, conditions and events could result in: (i) damage to, or destruction of, the value of, the Vale do Curaçá Property, the Boa Esperança Property, the NX Gold Property or their facilities; (ii) personal injury or death; (iii) environmental damage to the Vale do Curaçá Property, the Boa Esperança Property, the NX Gold Property, surrounding lands and waters, or the properties of others; (iv) delays or prohibitions on mining or the transportation of minerals; (v) monetary losses; and (vi) potential legal liability and any of the foregoing could have a material adverse effect on the Company's business, financial condition, results of operation, cash flows or prospects. In particular, underground refurbishment and exploration activities present inherent risks of injury to people and damage to equipment. Significant mine accidents could occur, potentially resulting in a complete shutdown of the Company's operations at the Vale do Curaçá Property or the NX Gold Property which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

There are also risks related to the reliance on the reliability of current and new or developing technology; the reliance on the work performance of outside consultants, contractors, and manufacturers; changes to project parameters over which the Company does not have complete control such as the copper, gold and silver prices or labour or material costs; unknown or unanticipated or underestimated costs or expenses; unknown or unanticipated or underestimated additions to the scope of work due to changing or adverse conditions encountered as a mine is refurbished and redeveloped; unexpected variances in the geometry or quality of ore zones; unexpected reclamation requirements or expenses; permitting time lines; unexpected or unknown ground conditions; unexpected changes to estimated parameters utilized to estimate past timelines, projections, or costs; and liquidity risks. An adverse change in any one of such factors, hazards and risks may result in a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

### ***Mining operations require geologic, metallurgic, engineering, title, environmental, economic and financial assessments that may be materially incorrect and thus the Company may not produce as expected***

The operations of mining properties or mining companies are based in large part on geologic, metallurgic, engineering, title, environmental, economic and financial assessments, which involve uncertainty. Such assessments may differ materially from actual results, which may result in a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects. These assessments include a series of assumptions regarding such factors as the ore body geometries, grades, recoverability, regulatory and environmental restrictions, future prices of metals and operating costs, future capital expenditures and royalties and government levies which will be imposed over the producing life of the Mineral Reserves. There are numerous uncertainties inherent in estimating quantities of Mineral Resources and Mineral Reserves and estimates in projecting potential future rates of mineral production, including factors subject to change and beyond the Company's control. Mineral Reserves and Mineral Resources estimates are based on limited samples and interpretations,

which may not be representative of actual Mineral Reserves and Mineral Resources. In addition, title and rights of access to the Company's properties can never be guaranteed. Although select title and environmental reviews were conducted in connection with the Acquisitions, this review cannot guarantee that any unforeseen defects in the chain of title will not arise to defeat the Company's title to certain assets or that environmental defects, liabilities or deficiencies do not exist or are not greater than anticipated.

The Company's calculations of Mineral Resources and Mineral Reserves are estimates and depend upon geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be inaccurate. Actual recoveries of copper from mineralized material may be lower than those indicated by test work. Any material change in the quantity of mineralization, grade or stripping ratio, may affect the economic viability of Ero's properties. In addition, there can be no assurance that metal recoveries in small-scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production. Notwithstanding pilot plant tests for metallurgical recovery and other factors, there remains the possibility that the mineralized material may not perform in commercial production in the same manner as it did in testing. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. Mining and metallurgy are inexact sciences and, accordingly, there always remains an element of risk that a mine may not prove to be commercially viable.

Until a deposit is actually mined and processed, the quantity of Mineral Resources and Mineral Reserves and grades must be considered as estimates only. In addition, the quantity of Mineral Resources and Mineral Reserves may vary depending on, amongst other things, metal prices, cut-off grades and operating costs. Any material change in quantity of Mineral Reserves, Mineral Resources, grade, percent extraction of those Mineral Reserves recoverable by underground mining techniques or the stripping ratio for those Mineral Reserves recoverable by open pit mining techniques may affect the economic viability of Ero's mining projects and could have a material adverse effect on its future revenues, cash flows, profitability, results of operations, financial condition and prospects and result in write-downs of the Company's investment in mining properties and increased amortization charges.

Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. Inferred Mineral Resources are also considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as Mineral Reserves. Due to the uncertainty which may attach to Inferred Mineral Resources, there is no assurance that Inferred Mineral Resources will be upgraded to Proven Mineral Reserves or Probable Mineral Reserves as a result of continued exploration or as a result of economic considerations being applied to them.

In addition, market fluctuations in the price of copper, gold and silver, as well as increased production costs, reduced recovery rates or increased operating and capital costs due to inflation or other factors, may render the exploitation of certain Mineral Reserves and Mineral Resources uneconomic and may ultimately result in a restatement of Mineral Reserves, Mineral Resources or both. Such a restatement could affect depreciation and amortization rates, and have an adverse effect on the Company's financial performance.

### ***Geological, hydrological and climatic events could suspend mining operations or increase costs***

All mining operations face geotechnical, hydrological and climate challenges. Unanticipated adverse geotechnical and hydrological conditions, such as landslides, subsidence and uplift, embankment failures and rock fragility may occur in the future and such events may not be detected in advance. Geotechnical instabilities and adverse climatic conditions can be difficult to predict and are often affected by risks and hazards outside of the Company's control, such as severe weather and seismic activity.

Geotechnical failures could result in limited or restricted access to mines, suspension of operations, environmental damage, government investigations, increased monitoring costs, remediation costs, loss of ore and other impacts, which could result in loss of revenue or increased costs, and could result in a material adverse effect on the Company's business, financial condition, results of operations, cash flows and prospects.

On January 22, 2016, MCSA's Pilar Mine flooded. The flooding event was an anomalous occurrence caused by a series of unique and unusual events and circumstances, stemming from MCSA's ongoing construction of a ventilation raise to surface at the Pilar Mine in late 2015. During this period, and as part of the above-mentioned resolution negotiated by MCSA and the Club Deal Banks, MCSA was required to obtain the Club Deal Banks' consent before removing cash from its bank accounts to fund capital expenditures at the Vale do Curaçá Property. While MCSA awaited approval for the release of such cash to fund the completion of civil works to cap the unfinished ventilation raise at surface, an unseasonably high amount of rainfall was experienced in the region over a 24-hour period resulting in a flash flood which broke through the protective berm

surrounding the uncapped ventilation raise and resulting in water flowing into the ventilation raise and flooding certain parts of the underground Pilar Mine, including the main work areas, underground crushers and equipment. Had the civic works been completed at surface and a cap been placed on the opening of the ventilation raise, flood waters would not have entered the underground of the Pilar Mine during the flash flood. As at the date of this prospectus, the civic works at surface have been completed and a cap has been installed on the ventilation raise.

Although such flooding was an anomalous event in respect of the Company's operations, flooding at the Company's properties may nonetheless occur in the future. Once on the Company's properties, this water must be treated as any other water which the Company seeks to discharge from its properties and must meet environmental standards. This means that, provided there is no regulatory relief, the Company may be required to store and potentially treat the water, and to limit discharge to the approved limits under the Company's permits. If the amount of such water flowing onto the properties exceeds the capacity of the Company's storage ponds, the Company may be required to store water in underground areas of its mines, limiting its ability to operate in those areas. Production and capital development could be delayed if the Company cannot operate in necessary areas as a result of such flooding, which could cause the Company to miss production targets and to lose revenue. The Company may also incur additional costs as a result of such flooding, both in dealing with the excess water and in remediating any damage resulting from flooding.

***Actual production, capital and operating costs may be different than those anticipated***

Ero prepares estimates of future productions, capital costs and operating costs of production for operations at the Vale do Curaçá Property. In addition, as a result of the substantial expenditures involved in the development of a mineral project such as the Boa Esperança Property, the need to project years into the future, the need to make assumptions and use models that may not adequately approximate reality, and the fluctuation of costs over time, a development project is prone to material cost overruns. The Vale do Curaçá Technical Report and the Boa Esperança Technical Report estimate capital costs and cash operating costs based upon, among other things:

- anticipated tonnage, grades and metallurgical characteristics of the ore to be mined and processed;
- anticipated recovery rates of copper and other metals from the ore;
- cash operating costs of comparable facilities and equipment;
- anticipated availability of labour and equipment; and
- anticipated foreign exchange rates.

Capital costs, operating costs, production and economic returns, and other estimates may differ significantly from those anticipated by the Vale do Curaçá Technical Report and the Boa Esperança Technical Report, and there can be no assurance that the Company's actual capital or operating costs will not be higher than currently anticipated or that returns will not be lower than anticipated. The Company's actual costs may vary from estimates for a variety of reasons, including: limitations inherent in modelling; changes to assumed third party costs; short term operating factors; operational decisions made by the Company; revisions to mine plans; risks and hazards associated with development and mining described elsewhere in this prospectus; natural phenomena, such as inclement weather conditions, water availability, floods, and earthquakes; and unexpected labour shortages or strikes. Operating costs may also be affected by a variety of factors, including: changing strip ratios, ore metallurgical grade-recovery curves, the availability of processing operations, the availability of storage capacity, the availability of equipment and facilities necessary to continue operations at the Vale do Curaçá Property and to complete development work at the Boa Esperança Property, the cost of consumables and mining and processing equipment, labour costs, the availability and productivity of skilled labour, the cost of commodities, general inflationary pressures, currency exchange rates, technological and engineering problems, accidents or acts of sabotage or terrorism, the regulation of the mining industry by various levels of government and quasi-governmental organizations and political factors. Many of these factors are beyond the Company's control. Furthermore, significant cost overruns could make the Boa Esperança Property uneconomical. Failure to achieve estimates or material increases in costs could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows and prospects.

Furthermore, unforeseen delays in the construction and commissioning of mining projects or other technical difficulties may result in even further capital expenditures being required. Any delay in the development of a project or cost overruns or operational difficulties with regards to the Vale do Curaçá Property or the Boa Esperança Property may have a material adverse effect on the Company's business, financial condition, results of operations, cash flows and prospects.

***The construction and start-up of new mines is subject to a number of factors and the Company may not be able to successfully complete new construction projects***

The success of construction projects and the start-up of new mines by the Company is subject to a number of factors including the availability and performance of engineering and construction contractors, mining contractors, suppliers and consultants, the receipt of required governmental approvals and permits in connection with the construction of mining facilities and the conduct of mining operations (including environmental and regulatory permits), the successful completion and operation of mining stopes, processing plants and conveyors to move ore, among other operational elements. Any delay in the performance of any one or more of the contractors, suppliers, consultants or other persons on which the Company is dependent in connection with its construction activities, a delay in or failure to receive the required governmental approvals and permits in a timely manner or on reasonable terms, or a delay in or failure in connection with the completion and successful operation of the operational elements in connection with new mines could delay or prevent the construction and start-up of new mines as planned. There can be no assurance that current or future construction and start-up plans implemented by the Company will be successful, that the Company will be able to obtain sufficient funds to finance construction and start-up activities, that personnel and equipment will be available in a timely manner or on reasonable terms to successfully complete construction projects, that the Company will be able to obtain all necessary governmental approvals and permits or that the completion of the construction, the start-up costs and the ongoing operating costs associated with the development of new mines will not be significantly higher than anticipated by the Company. Any of the foregoing factors could adversely impact the Company's business, financial condition, results of operations, cash flows and prospects.

The capital expenditures and time required to develop new mines or other projects are considerable and changes in costs or construction schedules can affect project economics. Thus, it is possible that actual costs may change significantly and economic returns may differ materially from the Company's estimates.

Commercial viability of a new mine or development project is predicated on many factors. Mineral Reserves and Mineral Resources projected by Feasibility Studies and technical assessments performed on the Company's projects may not be realized, and the level of future metal prices needed to ensure commercial viability may not materialize. Consequently, there is a risk that startup of new mine and development projects may be subject to write-down and/or closure as they may not be commercially viable.

Any uncertainty and inability in the estimation, recalculation or replacement of Mineral Reserves and Mineral Resources could materially affect the Company's results of operations, cash flows and financial position.

To ensure the continued operation of the business and realize the Company's growth strategy, it is essential that the Company continues to realize its existing identified Mineral Reserves, convert Mineral Resources into Mineral Reserves, increase the Company's Mineral Resource base by adding new Mineral Resources from areas of identified mineralized potential and otherwise successfully undertaking exploration, and/or acquire new Mineral Reserves and Mineral Resources. The LOM estimates included herein may not be correct.

***Currency fluctuations can result in unanticipated losses***

Currency fluctuations may affect the Company's capital costs and the costs that the Company incurs at its operations. Copper is sold throughout the world based principally on a US dollar price, but a portion of the Company's operating and capital expenses are incurred in Brazilian Reals and Canadian dollars. The appreciation of foreign currencies, particularly the Brazilian Real against the US dollar would increase the costs of copper production at such mining operations, which could materially and adversely affect the Company's earnings and financial condition. As at the date of this prospectus, the Company has not hedged its exposure to Brazilian Real/US dollar exchange rate fluctuations, or any other exchange rate fluctuations applicable to its business, and is therefore exposed to currency fluctuation risks.

***The successful operation of the Vale do Curaçá Property and the successful development and operation of the Boa Esperança Property depend on the skills of the Company's management and teams***

The Company's business is dependent on retaining the services of its key management personnel with a variety of skills and experience, including in relation to the development and operation of mineral projects. The success of the Company is, and will continue to be, dependent to a significant extent on the expertise and experience of its directors and senior management. Failure to retain, or loss of, one or more of these people could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects. The Company's success will also depend to a significant degree upon the contributions of qualified technical personnel and the Company's ability to attract and retain highly skilled

personnel. Competition for such personnel is intense, and the Company may not be successful in attracting and retaining qualified personnel, or in obtaining the necessary work permits to hire qualified expatriates. The Company's inability to attract and retain these people could have a material adverse effect on its business, financial condition, results of operations, cash flows or prospects.

#### ***Operations during mining cycle peaks are more expensive***

During times of increased demand for metals and minerals, price increases may encourage expanded mining exploration, development and construction activities. These increased activities may result in escalating demand for and cost of contract exploration, development and construction services and equipment. Increased demand for and cost of services and equipment could cause exploration, development and construction costs to increase materially, resulting in delays if services or equipment cannot be obtained in a timely manner due to inadequate availability, and increased potential for scheduling difficulties and cost increases due to the need to coordinate the availability of services or equipment, any of which could materially increase project exploration, development or construction costs, result in project delays, or increase operating costs.

#### ***Title to the Vale do Curaçá Property and/or the Boa Esperança Property may be disputed***

Although the Company has received title opinions for the Vale do Curaçá Property and the Boa Esperança Property there is no guarantee that title to such properties will not be challenged or impugned. The Company's claims may be subject to prior unregistered agreements or transfers and title may be affected by unidentified or unknown defects. The Company has conducted an investigation on the title of properties that it has acquired to confirm that there are no claims or agreements that could affect its title to its mineral tenure or surface rights. There is no guarantee that such title will not be challenged or impaired. If title to the Company's properties is disputed, it may result in the Company paying substantial costs to settle the dispute or clear title and could result in the loss of the property, which events may affect the economic viability of the Company. Title insurance generally is not available for mineral tenure or surface rights and the Company's ability to ensure that it has obtained secure claim to title may be constrained.

#### ***The Company may fail to comply with the law or may fail to obtain or renew necessary permits and licenses***

The Company's operations are subject to extensive laws and regulations governing, among other things, such matters as environmental protection, management and use of toxic substances and explosives, health, exploration and development of mines, commercial production and sale of by-products, ongoing and post-closure reclamation, construction and operation of tailings dams, safety and labour, taxation and royalties, maintenance of mineral tenure, and expropriation of property. The activities of the Company require licenses and permits from various governmental authorities.

The costs associated with compliance with these laws and regulations and of obtaining licenses and permits are substantial, and possible future laws and regulations, changes to existing laws and regulations and more stringent enforcement of current laws and regulations by governmental authorities, could cause additional expenses, capital expenditures, restrictions on or suspensions of the Company's operations and delays in the development of its properties. There is no assurance that future changes in such laws and regulations, if any, will not adversely affect the Company's operations. Moreover, these laws and regulations may allow governmental authorities and private parties to bring lawsuits based upon damages to property and injury to persons resulting from the environmental, health and safety practices of the Company's past and current operations, or possibly even the actions of former property owners, and could lead to the imposition of substantial fines, penalties or other civil or criminal sanctions. The Company may fail to comply with current or future laws and regulations. Such non-compliance can lead to financial restatements, civil or criminal fines, penalties, and other material negative impacts on the Company.

The Company is required to obtain or renew further government permits and licenses for its current and contemplated operations, including a new Environmental License and the issuance of an Operation License with respect to the Vermelhos Mine, and an Installation License and Operation License with respect to the Boa Esperança Property. Obtaining, amending or renewing the necessary governmental permits and licenses can be a time-consuming process potentially involving numerous regulatory agencies, involving public hearings and costly undertakings on the Company's part. The duration and success of the Company's efforts to obtain, amend and renew permits and licenses are contingent upon many variables not within its control, including the interpretation of applicable requirements implemented by the relevant permitting or licensing authority. The Company may not be able to obtain, amend or renew permits or licenses that are necessary to its operations, or the cost to obtain, amend or renew permits or licenses may exceed what the Company believes it can ultimately recover from a given property once in production. Any unexpected delays or costs associated with the permitting and licensing process could

impede the ongoing operation of the Vale do Curaçá Property, and could delay the development or impede the operation of the Boa Esperança Property. To the extent necessary permits or licenses are not obtained, amended or renewed, or are subsequently suspended or revoked, the Company may be curtailed or prohibited from proceeding with planned development, commercialization, operation and exploration activities. Such curtailment or prohibition may result in a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

***Compliance with environmental regulations can be costly***

The Company's mining operations at the Vale do Curaçá Property and the NX Gold Property, the Company's development of the Boa Esperança Property, and the exploration of these properties are all subject to environmental regulation. Regulations cover, among other things, water quality standards, land reclamation, the generation, transportation, storage and disposal of hazardous waste, the construction and operation of tailings dams, and general health and safety matters. There is no assurance that the Company has been or will at all times be in full compliance with all environmental laws and regulations or hold, and be in full compliance with, all required environmental and health and safety approvals and permits. The potential costs and delays associated with compliance with such laws, regulations, approvals and permits could prevent the Company from economically operating or proceeding with the further development and exploration of the Vale do Curaçá Property, the Boa Esperança Property and/or the NX Gold Property, and any non-compliance with such laws, regulations, approvals and permits at the Vale do Curaçá Property, the Boa Esperança Property and the NX Gold Property could result in a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

Environmental approvals and permits are currently, and may in the future be, required in connection with the Company's current and planned operations. Please see "*Vale Do Curaçá Property – Environmental, Permitting, and Social or Community Impact – Status of MCSA Environmental Permits and Licenses*" and "*Boa Esperança Property – Infrastructure, Permitting and Compliance Activities – Mining Rights Status, Permitting and Environmental Management*". To the extent such environmental approvals and permits are required and not obtained, the Company's plans and the operation of mines may be curtailed or it may be prohibited from proceeding with planned exploration or development of additional mineral properties. Failure to comply with applicable environmental laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions.

There is no assurance that any future changes in environmental regulation will not adversely affect the Company's operations. Changes in government regulations have the potential to significantly increase compliance costs and thus reduce the profitability of current or future operations.

Environmental hazards may also exist on the properties on which the Company holds interests that are unknown to the Company at present and that have been caused by previous or existing owners or operators of the properties and for which the Company may be liable for remediation. Parties engaged in mining operations, including the Company, may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable environmental laws or regulations, regardless of whether the Company actually caused the loss or damage. The costs of such compensation, fines or penalties could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

***Social and environmental activism can negatively impact exploration, development and mining activities***

There is an increasing level of public concern relating to the effects of mining on the natural landscape, on communities and on the environment. Certain non-governmental organizations, public interest groups and reporting organizations ("NGOs") who oppose resource development can be vocal critics of the mining industry. In addition, there have been many instances in which local community groups have opposed resource extraction activities, which have resulted in disruption and delays to the relevant operation. While the Company seeks to operate in a socially responsible manner and believes it has good relationships with local communities in the regions in which it operates, NGOs or local community organizations could direct adverse publicity against and/or disrupt the operations of the Company in respect of one or more of its properties, regardless of its successful compliance with social and environmental best practices, due to political factors, activities of unrelated third parties on lands in which the Company has an interest or the Company's operations specifically. Any such actions and the resulting media coverage could have an adverse effect on the reputation and financial condition of the Company or its relationships with the communities in which it operates, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

### ***The mining industry is intensely competitive***

The mining industry is intensely competitive. The Company competes with other mining companies, many of which have greater resources and experience. Competition in the mining industry is primarily for: (i) properties which can be developed and can produce economically; (ii) the technical expertise to find, develop, and operate such properties; (iii) labour to operate such properties; and (iv) capital to fund such properties. Such competition may result in the Company being unable to acquire desired properties, to recruit or retain qualified employees and consultants or to acquire the capital necessary to fund its operations and develop its properties. The Company's inability to compete with other mining companies for these resources could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

Many competitors not only explore for and mine minerals, but conduct refining and marketing operations on a worldwide basis. In the future, the Company may also compete with such mining companies in refining and marketing its products to international markets. Any inability to compete with established competitors could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

### ***Inadequate infrastructure may constrain mining operations***

Continued production at the Vale do Curaçá Property and any potential commercial production at the Boa Esperança Property, each depend on adequate infrastructure. In particular, reliable power sources, water supply, transportation and surface facilities are all necessary to develop and operate mines. Failure to adequately meet these infrastructure requirements or changes in the cost of such requirements could affect the Company's ability to continue production at the Vale do Curaçá Property or to develop or commence production at the Boa Esperança Property and could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

### ***The Company may incur losses and experience negative operating cash flow for the foreseeable future***

For the financial year ended December 31, 2016, the Company had a net loss of approximately US\$3.45 million and at December 31, 2016, had an accumulated deficit of approximately US\$3.05 million. The Company has incurred various expenses in recent periods and plans to incur further expenses as cash flows allow. The planned increases in expenses may result in larger losses in future periods.

The exploration, development and operation of the Company's mineral properties will require the commitment of substantial financial resources that may not be available. The amount and timing of expenditures will depend on a number of factors, including the progress of ongoing exploration and development, success of the Company's ongoing operations, the results of consultants' analyses and recommendations, the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic partners and the acquisition of additional property interests, some of which are beyond the Company's control. The Company's business strategies may not be successful and it may not be profitable in any future period. The Company's operating results have varied in the past and they may continue to fluctuate in the future. In addition, the Company's operating results may not follow any past trends.

The Company had negative operating cash flow for the financial year ended December 31, 2016 and positive operating cash flow for the three months ended June 30, 2017. To the extent that the Company has negative operating cash flow in future periods, the Company may need to allocate a portion of its cash reserves to fund such negative operating cash flow. The Company may also be required to raise additional funds through the issuance of equity or debt securities. There can be no assurance that additional capital or other types of financing will be available when needed or that these financings will be on terms favourable to the Company.

### ***Although regularly maintained, MCSA's aging infrastructure could lead to increased costs or reduced production***

MCSA's infrastructure has been in use since 1979. Although such infrastructure has been regularly maintained and refurbished, the Company is exposed to a number of risks, including the potential for higher maintenance and operating costs and the potential for decreases or delays in, or interruption of, copper concentrate production. These risks could have a material and adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

***Fluctuations in the market prices and availability of commodities and equipment affect the Company's business***

The cash flows and profitability of the Company's business will also be affected by the market prices and availability of commodities and equipment that are consumed or otherwise used in connection with the Company's operations and development projects. Prices of such commodities and resources are also subject to volatile price movements, which can be material and can occur over short periods of time due to factors beyond the Company's control.

If there is a significant and sustained increase in the cost of certain commodities, the Company may decide that it is not economically feasible to continue certain or all of the Company's commercial production, development and exploration activities and this could have an adverse effect on profitability. Higher worldwide demand for critical resources like input commodities, drilling equipment, mobile mining equipment, tires and skilled labour could affect the Company's ability to acquire them and lead to delays in delivery and unanticipated cost increases, which could have an effect on the Company's operating costs, capital expenditures and production schedules. The occurrences of one or more of these events may result in a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

***A failure to maintain satisfactory labour relations can adversely impact the Company***

The Company's operations and further development of the Vale do Curaçá Property and the Boa Esperança Property are dependent upon the efforts of its employees and the Company's relations with its unionized and non-unionized employees, and the Company's operations would be adversely affected if it failed to maintain satisfactory labour relations. Some of MCSA's and NX Gold's employees are represented by labour unions under various collective bargaining agreements. Collective bargaining agreements of MCSA must be renewed annually, in September of each year, while NX Gold's collective bargaining agreements must be renewed in May 2018, and every two years thereafter. The Company may not be able to satisfactorily renegotiate its collective bargaining agreements when they expire and may face tougher negotiations or higher compensation demands than would be the case for non-unionized labour. In addition, the existing collective bargaining agreements may not prevent a strike or work stoppage at the Company's facilities in the future. Further, relations between the Company and its employees may be affected by changes in the scheme of labour relations that may be introduced by the relevant governmental authorities who have jurisdiction over the various aspects of the Company's business. Changes in such legislation or in the relationship between the Company and its employees may have a material adverse effect on the Company's business, results of operations and financial condition.

***The Company's insurance coverage may be inadequate to cover potential losses***

The Company's business is subject to a number of risks and hazards (as further described in this prospectus). Although the Company maintains insurance and intends, upon completion of the Offering, to obtain certain additional insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its activities, including current and any future mining operations. The Company may also be unable to obtain or maintain insurance to cover its risks at economically feasible premiums, or at all. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration, development or production may not be available to the Company on acceptable terms. The Company might also become subject to liability for pollution or other hazards which it is not currently insured against and/or in the future may not insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

***It may be difficult to enforce judgments and effect service of process on directors and officers***

Some of the directors and officers of the Company reside outside of Canada, some of the Selling Securityholders reside outside of Canada or are incorporated, continued or otherwise organized under the laws of a foreign jurisdiction and each of SRK Brazil, GE21 and KPMG Brazil is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction. Some or all of the assets of those persons may be located outside of Canada. Therefore, it may not be possible for investors to collect or to enforce judgments obtained in Canadian courts predicated upon the civil liability provisions of applicable Canadian securities laws against such persons. Moreover, it may not be possible for investors to effect service of process within Canada upon such persons.

### ***The directors and officers may have conflicts of interest with the Company***

Certain directors and officers of the Company are or may become associated with other mining and/or mineral exploration and development companies which may give rise to conflicts of interest. Directors who have a material interest in any person who is a party to a material contract or a proposed material contract with the Company are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve such a contract. In addition, directors and officers are required to act honestly and in good faith with a view to the best interests of the Company. Some of the directors and officers of the Company have either other full-time employment or other business or time restrictions placed on them and accordingly, the Company will not be the only business enterprise of these directors and officers. Further, any failure of the directors or officers of the Company to address these conflicts in an appropriate manner or to allocate opportunities that they become aware of to the Company could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

### ***The Acquisitions and future acquisitions may require significant expenditures and may result in inadequate returns***

The Company may seek to expand through future acquisitions; however, there can be no assurance that the Company will locate attractive acquisition candidates, or that the Company will be able to acquire such candidates on economically acceptable terms, if at all, or that the Company will not be restricted from completing acquisitions pursuant to the terms and conditions from time to time of arrangements with third parties, such as the Company's creditors. Future acquisitions may require the Company to expend significant amounts of cash, resulting in the Company's inability to use these funds for other business or may involve significant issuances of equity or debt. Future acquisitions may also require substantial management time commitments, and the negotiation of potential acquisitions and the integration of acquired operations could disrupt the Company's business by diverting management and employees' attention away from day-to-day operations. The difficulties of integration may be increased by the necessity of coordinating geographically diverse organizations, integrating personnel with disparate backgrounds and combining different corporate cultures.

The Acquisitions and any future acquisition involve potential risks, including, among other things: (i) mistaken assumptions and incorrect expectations about mineral properties, Mineral Resources, Mineral Reserves and costs; (ii) an inability to successfully integrate any operation the Company acquired or acquires, as applicable; (iii) an inability to recruit, hire, train or retain qualified personnel to manage and operate the operations acquired; (iv) the assumption of unknown liabilities; (v) mistaken assumptions about the overall cost of equity or debt; (vi) unforeseen difficulties operating acquired projects, which may be in geographic areas new to the Company; and (vii) the loss of key employees and/or key relationships at the acquired project. In addition, Ero's acquisitions of MCSA and NX Gold were completed with certain of the prior shareholders thereof on an "as is where is" basis, and therefore the Company has no rights of recourse and indemnities against the sellers. Future acquisitions may be subject to similar or other limitations as to rights of recourse and indemnities against the sellers.

MCSA and NX Gold, and future acquisition candidates may have liabilities or adverse operating issues that the Company failed or fails to discover through due diligence prior to the acquisition. If the Acquisitions prove to have, or if the Company consummates any future acquisitions with, unanticipated liabilities or adverse operating issues or if acquisition-related expectations are not met, the Company's business, results of operations, cash flows, financial condition or prospects may be materially adversely affected. The potential impairment or complete write-off of goodwill and other intangible assets related to any such acquisition may reduce the Company's overall earnings and could negatively affect the Company's balance sheet.

### ***Failures of information systems or information security threats can be costly***

The Company has entered into agreements with third parties for hardware, software, telecommunications and other information technology ("IT") services in connection with its operations. Such operations depend, in part, on how well the Company and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, terrorism, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Company's reputation, results of operations, cash flows and financial condition.

Although to date the Company has not experienced any material losses relating to cyber-attacks or other information security breaches, there can be no assurance that it will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber

security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Any of these factors could have a material adverse effect on the Company's results of operations, cash flows and financial position.

***The Company may be subject to costly legal proceedings***

The Company may be subject to regulatory investigations, civil claims, lawsuits and other proceedings in the ordinary course of its business. The results of these legal proceedings cannot be predicted with certainty due to the uncertainty inherent in regulatory actions and litigation, the difficulty of predicting decisions of regulators, judges and juries and the possibility that decisions may be reversed on appeal. Defense and settlement costs of legal disputes can be substantial, even with claims that have no merit. Management is committed to conducting business in an ethical and responsible manner, which it believes will reduce the risk of legal disputes. However, if the Company is subject to legal disputes, there can be no assurances that these matters will not have a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

Moreover, pursuant to the Acquisitions the Company acquired operations that have been ongoing for a significant period of time. The Company inherited certain liabilities as a result and 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 its 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 R\$75.5 million, which could have an adverse impact on the Company's business, financial condition, results of operations, cash flows or prospects.

Additionally, the legal system in Brazil has inherent uncertainties that could limit the legal protections available to the Company, which include: (i) inconsistencies between and within laws; (ii) limited judicial and administrative guidance on interpreting Brazilian legislation, particularly that relating to business, corporate and securities laws; (iii) substantial gaps in the regulatory structure due to a delay or absence of enabling regulations; (iv) a lack of judicial independence from political, social and commercial forces; (v) corruption; and (vi) bankruptcy procedures that are subject to abuse, any of which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects. Furthermore, it may be difficult to obtain swift and equitable enforcement of a Brazilian judgement, or to obtain enforcement of a judgement by a court of another jurisdiction, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

***The Company will incur increased costs as a result of complying with the reporting requirements, rules and regulations affecting public issuers***

As a public issuer, the Company will be subject to the reporting requirements and rules and regulations under the applicable Canadian securities laws and rules of any stock exchange on which the Company's securities may be listed from time to time. Additional or new regulatory requirements may be adopted in the future. The requirements of existing and potential future rules and regulations will increase the Company's legal, accounting and financial compliance costs, make some activities more difficult, time-consuming or costly and may also place undue strain on its personnel, systems and resources, which could adversely affect its business and financial condition.

In particular, as a result of the Offering, the Company will become subject to reporting and other obligations under applicable Canadian securities laws, including National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, which requires annual management assessment of the effectiveness of the Company's internal controls over financial reporting. Effective internal controls, including financial reporting and disclosure controls and procedures, are necessary for the Company to provide reliable financial reports, to effectively reduce the risk of fraud and to operate successfully as a public company. These reporting and other obligations will place significant demands on the Company as well as on the Company's management, administrative, operational and accounting resources.

***The Boa Esperança Property is located in an underdeveloped rural area***

The Boa Esperança Property is located in an underdeveloped rural area, resulting in technical challenges for conducting mineral exploration and development and any potential mining activities at the property. The Company benefits from modern mining transportation skills and technologies for exploring and operating in such areas. Nevertheless, the Company may sometimes be unable to overcome problems related to underdevelopment or unseasonable weather at a commercially reasonable cost, which could negatively affect the Company's mineral exploration and development and any potential mining activities at the property and have a material adverse effect on the Company. The rural location of the Boa Esperança Property also results in increased costs associated with land access and infrastructure, including powerlines, water pipelines and transportation.

***Product alternatives may reduce demand for the Company's products***

Copper has a number of different applications, including being used in wiring and cable products, copper tubing and the transportation industry. Alternative technologies are continually being investigated and developed with a view to reducing production costs or for other reasons, such as minimizing environmental or social impact. If competitive technologies emerge that use other materials in place of copper, demand and price for copper might fall, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

***Changes in climate conditions may affect the Company's operations***

A number of governments have introduced or are moving to introduce climate change legislation and treaties at the international, national, state/provincial and local levels. Regulation relating to emission levels (such as carbon taxes) and energy efficiency is becoming more stringent. If the current regulatory trend continues, this may result in increased costs at the Company's operations. In addition, the physical risks of climate change may also have an adverse effect on the Company's operations. These risks include the following:

- changes in sea levels could affect ocean transportation and shipping facilities that are used to transport supplies, equipment and workforce and products from the Company's operations to world markets;
- extreme weather events (such as prolonged drought) have the potential to disrupt operations at the Company's mines and may require the Company to make additional expenditures to mitigate the impact of such events; and
- the Company's facilities depend on regular supplies of consumables (diesel, tires, reagents, etc.) to operate efficiently. In the event that the effects of climate change or extreme weather events cause prolonged disruption to the delivery of essential commodities, production levels at the Company's operations may be reduced.

There can be no assurance that efforts to mitigate the risks of climate change will be effective and that the physical risks of climate change will not have an adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

***The Company may not use the proceeds from the Treasury Offering as described in this prospectus***

The Company currently intends to use the net proceeds received from the Treasury Offering as described under "Use of Proceeds". However, the Board and/or management will have discretion in the actual application of the net proceeds, and may elect to allocate net proceeds differently from that described under "Use of Proceeds" if they believe it would be in the Company's best interests to do so. Shareholders may not agree with the manner in which the Board and/or management chooses to allocate and spend the net proceeds. The failure by the Board and/or management to apply these funds effectively could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

***The Company is subject to restrictive covenants that limit its ability to operate its business***

The Company's subsidiaries are subject to certain affirmative and restrictive covenants contained in the loan agreements entered into with the Club Deal Banks and Other Institutional Lenders. The loan agreements contain operating and financial covenants that could restrict the Company's subsidiaries' ability to, among other things: incur additional indebtedness needed to fund its respective operations; pay dividends or make certain other distributions; make investments; create liens; sell or transfer assets; or enter into transactions with affiliates. In addition, the Company's subsidiaries must maintain certain financial ratios and satisfy non-financial maintenance and other covenants. Compliance with the covenants and financial ratios may impair the Company's subsidiaries' and thereby the Company's, ability to finance future operations or capital

needs or to take advantage of other favourable corporate opportunities. The restrictions on the Company's subsidiaries ability to manage their business in management's sole discretion could adversely affect the Company's subsidiaries' and the Company's business by, among other things, limiting its ability to take advantage of business opportunities that management believes would be beneficial to the shareholders and limiting their ability to adjust to changing market conditions. The Company's subsidiaries' ability to comply with such covenants and financial ratios will depend on their future performance and may be affected by events beyond the Company's or such subsidiaries' control, including economic, financial and industry conditions.

***The Company may not be able to continue on a going concern basis***

The Company's primary sources of capital resources are comprised of cash and cash equivalents, debt facilities and the issuance of securities. The Company will continuously monitor its capital structure and, based on changes in operations and economic conditions, may adjust the structure by issuing new shares or new debt as necessary. The Company's ability to continue as a going concern in the short-term is dependent on the continued support of its creditors and obtaining additional financing to settle its current liabilities. In the long-term the Company's ability to continue as a going concern is dependent on maintaining profitable operations. The recoverability of the carrying values of the Company's assets is dependent upon the ability of the Company to obtain the necessary financing to meet its debt obligations, complete the development of activities at the Vale do Curaçá Property, including the Vermelhos Mine, and achieve profitable production. 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. This could, in turn have a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

**Risks Related to the Company's Foreign Operations**

***The Company's Brazilian operations are subject to political and other risks associated with operating in a foreign jurisdiction***

The Vale do Curaçá Property, the Boa Esperança Property and the NX Gold Property are located in Brazil, exposing the Company to the socioeconomic conditions as well as the laws governing the mining industry in the country. Inherent risks with conducting foreign operations include, but are not limited to: high rates of inflation; extreme fluctuations in currency exchange rates, military repression; war or civil war; social and labour unrest; organized crime; hostage taking; terrorism; violent crime; expropriation and nationalization; renegotiation or nullification of existing concessions, licenses, approvals, permits and contracts; illegal mining; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political norms, currency controls and governmental regulations that favour or require the Company to award contracts in, employ citizens of, or purchase supplies from, the jurisdiction.

The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes significant changes in policies and regulations. Changes, if any, in mining or investment policies or shifts in political attitude in Brazil may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, importation of parts and supplies, income and other taxes, royalties, the repatriation of profits, expropriation of property, foreign investment, maintenance of concessions, licenses, approvals and permits, environmental matters, land use, land claims of local people, water use and mine safety. Failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

In addition, uncertainty over whether the Brazilian government will implement changes in policy or regulation may contribute to economic uncertainty in Brazil. Historically, Brazilian politics have affected the performance of the Brazilian economy. Past political crises have affected the confidence of investors and the public, generally resulting in an economic slowdown.

Global economic crises could negatively affect investor confidence in emerging markets or the economies of the principal countries in Latin America, including Brazil. Such events could materially and adversely affect the Company's business, financial condition, results of operations, cash flows or prospects.

The Company continues to monitor developments and policies in Brazil and the impact thereof to its operations; however they cannot be accurately predicted and could have an adverse effect on the Company's operations or profitability.

### ***The Company may be negatively impacted by changes to mining laws and regulations***

The Company's activities are subject to various laws governing prospecting, exploration, development, production, taxes, labour standards and occupational health, mine safety, toxic substances and other matters. Mining, exploration and development activities are also subject to various laws and regulations relating to the protection of the environment. Although the Company believes that its activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail production or development of the Company's properties. Amendments to current laws and regulations governing the Company's operations and activities or more stringent implementation of such laws and regulations could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

On July 26, 2017 three Provisional Measures entered into force in the form of three orders issued by the President of the Republic of Brazil with immediate effect. Provisional Measures are executive orders with immediate effect, but that need to be reviewed by the Brazilian Congress within 120 days. Congress can approve, amend or reject each of the Provisional Measures. An amendment of the Provisional Measures by the Brazilian Congress could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects. See "*General Development and Business of the Company – Business of the Company – Regulations*" for further details.

New regulations are also being issued in Brazil with regards to the commercial production and sale of by-products. It is uncertain how the current and past operations of the Company will be affected by such legal changes or more stringent enforcement of past and current laws and regulations by governmental authorities. The Company may be subject to administrative, civil and criminal sanctions should a more conservative interpretation of past and current laws and regulations be adopted by governmental authorities.

### ***Corruption and fraud in Brazil relating to ownership of real property may adversely affect the Company's business***

Under Brazilian law, real property ownership is normally transferred by means of a transfer deed, and subsequently registered at the appropriate real property registry office under the corresponding real property record. There are uncertainties, corruption and fraud relating to title ownership of real property in Brazil, mostly in rural areas. In certain cases, a real property registry office may register deeds with errors, including duplicate and/or fraudulent entries, and, therefore, deed challenges frequently occur, leading to judicial actions. Property disputes over title ownership are frequent in Brazil, and, as a result, there is a risk that errors, fraud or challenges could adversely affect the Company's ability to operate, although ownership of mining rights are separate from ownership of land.

### ***The Company is exposed to the possibility that applicable taxing authorities could take actions that result in increased tax or other costs that might reduce the Company's cash flow***

The Company pays a variety of taxes, fees and other governmental charges in connection with the operation of the Company's business, including income taxes, mining royalties, ad valorem property taxes, sales and use taxes, inventory taxes, social security contributions and various assessments. These taxes, fees and other charges are assessed by a variety of taxing authorities pursuant to applicable laws, regulations and rules. The Brazilian tax regime is complex and subject to a variety of interpretations by government authorities. Such complexity may expose the Company to unpredicted challenges to day to day practices in bookkeeping, accounting and payment of taxes. From time to time, the Company may enter into specific agreements with such taxing authorities that provide for the reduction, abatement or deferral of such taxes, fees or charges in exchange for certain payments or undertakings on the Company's part. If the Company enters into any such arrangements, the Company can give no assurance that any such reduction, abatement or deferral arrangements will be honored or that the applicable taxing authorities will not take actions that materially increase the amount of such taxes, fees or other governmental charges that the Company is required to pay. In addition, the Company may incur additional and unanticipated costs and expenses in connection with the Company's efforts to resist any proposed increases in such taxes, fees or other charges or in connection with the Company's efforts to enforce any reduction, abatement or deferral arrangements that the Company has previously put in place.

The Brazilian government may implement changes to the Brazilian tax regime that may affect the Company. These changes could include changes in prevailing tax rates and the imposition of new or temporary taxes, the proceeds of which are earmarked for designated government purposes. Some of these changes may result in increases in the Company's tax payments, which could have an adverse effect on the Company's operations or profitability. The Company cannot provide

assurance that it will be able to be profitable following any increases in Brazilian taxes applicable to the Company and the Company's operations.

The Company is subject to a number of ongoing proceedings in Brazil related to tax matters that have not been accounted for in its financial statements, given the Company's assessment of the probability of adverse judgment against it. If all such tax matters were decided against it, the Company could be exposed to liability of up to approximately R\$50.1 million, which could have an adverse impact on the Company's business, financial condition, results of operations, cash flows or prospects.

***Inflation in Brazil, along with Brazilian governmental measures to combat inflation, may have a significant negative effect on the Brazilian economy and also on the Company's financial condition and results of operations***

In the past, high levels of inflation have adversely affected the economies and financial markets of Brazil, and the ability of its government to create conditions that stimulate or maintain economic growth. Moreover, governmental measures to curb inflation and speculation about possible future governmental measures have contributed to the negative economic impact of inflation in Brazil and have created general economic uncertainty. As part of these measures, the Brazilian government has at times maintained a restrictive monetary policy and high interest rates that have limited the availability of credit and economic growth. Brazil may experience high levels of inflation in the future. Inflationary pressures may weaken investor confidence in Brazil and lead to further government intervention in the economy, including interest rate increases, restrictions on tariff adjustments to offset inflation, intervention in foreign exchange markets and actions to adjust or fix currency values, which may trigger or exacerbate increases in inflation, and consequently have an adverse impact on the Company. In an inflationary environment, the value of uncollected accounts receivable, as well as of unpaid accounts payable, declines rapidly. If Brazil experiences high levels of inflation in the future and price controls are imposed, the Company may not be able to adjust the rates the Company charges the Company's customers to fully offset the impact of inflation on the Company's cost structures, which could adversely affect the Company's results of operations or financial condition.

***Exchange rate instability may have a material adverse effect on the Brazilian economy***

The Brazilian Real has experienced frequent and substantial variations in relation to the US dollar and other foreign currencies during the last decades. Depreciation of the Brazilian Real against the US dollar could create inflationary pressures in Brazil and cause increases in interest rates, which could negatively affect the growth of the Brazilian economy as a whole and harm the Company's financial condition and results of operations. On the other hand, appreciation of the Brazilian Real relative to the US dollar and other foreign currencies could lead to a deterioration of the Brazilian foreign exchange current accounts, as well as dampen export-driven growth. Depending on the circumstances, either depreciation or appreciation of the Brazilian Real could have a material adverse effect on the Brazilian economy.

***The Company's operations may be impaired as a result of restrictions to the acquisition or use of rural properties by foreign investors or Brazilian companies under foreign control***

Non-resident individuals and non-domiciled foreign legal entities are subject to restrictions for the acquisition or lease for agricultural purpose, or arrendamento, of rural properties in Brazil. Limitations also apply to legal entities domiciled in Brazil controlled by foreign investors, such as the Company's subsidiaries through which the Company operates in Brazil. See "General Development and Business of the Company – Business of the Company – Regulations - Acquisition or Use of Rural Properties by Foreign Investors or Brazilian Companies under Foreign Control" for further details.

Accordingly, the Company's current and future operations may be impaired as a result of such restrictions on the acquisition or use of rural properties, and the Company's ownership or access rights in respect of any rural properties in Brazil may be subject to legal challenges, all of which could result in a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

***The Company has not obtained INCRA's approval for the Acquisitions***

The Acquisitions may be challenged due to the non-obtainment of INCRA's prior approval. In that event, the Company's subsidiaries can resort to courts to defend themselves and claim that, in the worst case scenario, the Acquisitions would not be null in their entirety, but only with respect of the rural properties indirectly acquired. However, there is a risk that the courts may determine that the Acquisitions in their entirety be cancelled.

***The Company relies on international advisors and consultants***

The Company holds mining properties in Brazil. The legal and regulatory requirements in this country with respect to conducting mineral exploration and mining activities, banking system and controls, as well as local business culture and practices are different from those in Canada and the United States. The officers and directors of the Company must rely, to a great extent, on the Company's local legal counsel and local consultants retained by the Company in order to keep abreast of material legal, regulatory and governmental developments as they pertain to and affect the Company's business operations, and to assist the Company with its governmental relations. The Company must rely, to some extent, on those members of management and the Company's board of directors who have previous experience working and conducting business in these countries in order to enhance its understanding of and appreciation for the local business culture and practices. The Company also relies on the advice of local experts and professionals in connection with current and new regulations that develop in respect of banking, financing, labour, litigation and tax matters in this jurisdiction. Any developments or changes in such legal, regulatory or governmental requirements or in local business practices are beyond the control of the Company. The impact of any such changes may adversely affect the business of the Company.

***Recent disruptions in international and domestic capital markets may lead to reduced liquidity and credit availability for the Company***

The disruptions recently experienced in the international and domestic capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in countries in the emerging markets may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs, which could result in them experiencing financial difficulty. In addition, the availability of credit to entities operating within the emerging and developing markets is significantly influenced by levels of investor confidence in such markets as a whole and as such any factors that impact market confidence (for example, a decrease in credit ratings, state or central bank intervention in one market or terrorist activity and conflict) could affect the price or availability of funding for entities within any of these markets.

***The Company may expand into other geographic areas, which could increase the Company's operational, regulatory and other risks***

While currently all of the Company's mining and exploration activities are in Brazil, the Company may in the future expand into other geographic areas, which could increase the Company's operational, regulatory, compliance, reputational and foreign exchange rate risks. The failure of the Company's operating infrastructure to support such expansion could result in operational failures and regulatory fines or sanctions. Future international expansion could require the Company to incur a number of up-front expenses, including those associated with obtaining regulatory approvals, as well as additional ongoing expenses, including those associated with infrastructure, staff and regulatory compliance. The Company may not be able to successfully identify suitable acquisition and expansion opportunities, or integrate such operations successfully with the Company's existing operations.

***The Company may be responsible for corruption and anti-bribery law violations***

The Company's business is subject to the FCPA and the CFPOA, which generally prohibit companies and company employees from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. The FCPA also requires companies to maintain accurate books and records and internal controls, including at foreign-controlled subsidiaries. Since all of the Company's presently held interests are located in Brazil, there is a risk of potential FCPA violations. In addition, the Company is subject to the anti-bribery laws of Brazil and of any other countries in which it conducts business in the future. The Company's employees or other agents may, without its knowledge and despite its efforts, engage in prohibited conduct under the Company's policies and procedures and the FCPA, the CFPOA or other anti-bribery laws for which the Company may be held responsible. The Code and the Anti-Corruption Policy mandate compliance with these anti-corruption and anti-bribery laws and the Company has implemented training programs, internal monitoring and controls, and reviews and audits to ensure compliance with such laws. However, there can be no assurance

that the Company's internal control policies and procedures will always protect it from recklessness, fraudulent behavior, dishonesty or other inappropriate acts committed by its affiliates, employees, contractors or agents. If the Company's employees or other agents are found to have engaged in such practices, the Company could suffer severe penalties and other consequences that may have a material adverse effect on its business, financial condition and results of operations.

## **Risks Related to the Common Shares**

### ***Investors may lose their entire investment***

An investment in the Common Shares is speculative and may result in the loss of an investor's entire investment. Only potential investors who are experienced in high risk investments and who can afford to lose their entire investment should consider an investment in the Company.

### ***There is no existing public market for the Common Shares***

There is currently no existing public market for the Common Shares. The Common Shares are not currently listed or quoted on any stock exchange or market in Canada or elsewhere. If an active trading market does not develop, the trading price of the Common Shares may decline, and investors may have difficulty selling any of the Offered Shares that they purchase or acquire by way of the Offering.

Prior to the Offering, there has been no public trading market for the Common Shares, and the Company cannot offer assurances that one will develop or be sustained after the Offering. The Company cannot predict the prices at which the Common Shares will trade. The Offering Price will be determined by arm's length negotiation between the Company and the Underwriters and may not bear any relationship to the market price at which the Common Shares will trade after the Offering, or to any other established criteria of the Company's value. Shares of companies often trade at a discount to the initial offering price due to sales loads, underwriting discounts and related offering expenses.

### ***Dilution from equity financing could negatively impact holders of Common Shares***

The Company may from time to time raise funds through the issuance of Common Shares or the issuance of debt instruments or other securities convertible into Common Shares. The Company cannot predict the size or price of future issuances of Common Shares or the size or terms of future issuances of debt instruments or other securities convertible into Common Shares, or the effect, if any, that future issuances and sales of the Company's securities will have on the market price of the Common Shares. Sales or issuances of substantial numbers of Common Shares, or the perception that such sales or issuances could occur, may adversely affect prevailing market prices of the Common Shares. With any additional sale or issuance of Common Shares, or securities convertible into Common Shares, investors will suffer dilution to their voting power and the Company may experience dilution in its earnings per share.

### ***A purchaser of the Offered Shares under the Offering will purchase such shares at a substantial premium to the current book value per Common Share***

The Offering Price of \$4.75 per Common Share is substantially higher than the current book value per share of the Common Shares issued prior to the Closing. As a result, purchasers of Offered Shares pursuant to the Offering will experience immediate dilution.

### ***The stock exchange on which the Company proposes to be listed may delist the Company's securities from its exchange, which could limit investors' ability to make transactions in the Company's securities and subject the Company to additional trading restrictions***

The TSX has conditionally approved the listing of the Common Shares under the symbol "ERO", subject to the Company fulfilling all of the listing requirements of the TSX on or before January 4, 2018, including the distribution of the Offered Shares to a minimum number of public securityholders. If the Company fails to list the Common Shares on the TSX, the liquidity for its Common Shares would be significantly impaired, which may substantially decrease the trading price of the Common Shares.

In addition, in the future, Ero's securities may fail to meet the continued listing requirements to be listed on the TSX. If the TSX delists the Common Shares from trading on its exchange, the Company could face significant material adverse consequences, including:

- a limited availability of market quotations for the Common Shares;
- a determination that the Common Shares is a “penny stock” which will require brokers trading in the Common Shares to adhere to more stringent rules and possibly resulting in a reduced level of trading activity in the secondary trading market for the Common Shares;
- a limited amount of news and analyst coverage for the Company; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

***Equity securities are subject to trading and volatility risks***

The securities of publicly traded companies can experience a high level of price and volume volatility and the value of the Company’s securities can be expected to fluctuate depending on various factors, not all of which are directly related to the success of the Company and its operating performance, underlying asset values or prospects. These include the risks described elsewhere in this prospectus. Factors which may influence the price of the Company’s securities, including the Common Shares, include, but are not limited to:

- worldwide economic conditions;
- changes in government policies;
- investor perceptions;
- movements in global interest rates and global stock markets;
- variations in operating costs;
- the cost of capital that the Company may require in the future;
- metals prices;
- the price of commodities necessary for the Company’s operations;
- recommendations by securities research analysts;
- issuances of equity securities or debt securities by the Company;
- operating performance and, if applicable, the share price performance of the Company’s competitors;
- the addition or departure of key management and other personnel;
- the expiration of lock-up or other transfer restrictions on outstanding Common Shares;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related industry and market issues affecting the mining sector;
- litigation;
- publicity about the Company, the Company’s personnel or others operating in the industry;
- loss of a major funding source; and
- all market conditions that are specific to the mining industry.

There can be no assurance that such fluctuations will not affect the price of the Company’s securities, and consequently purchasers of Common Shares may not be able to sell Common Shares at prices equal to or greater than the price or value at which they purchased the Common Shares or acquired them by way of the secondary market.

In addition, the Company has a number of shareholders who have held the Company’s securities since September 2016, during which time there has not been a public market for the Company’s securities. There is a risk that future sales of Common Shares held by such holders will have an adverse impact on the market price of the Common Shares prevailing from time to time. The Underwriters have attempted to mitigate this risk through certain of the resale restrictions described under “*Plan of Distribution*” and “*Escrowed Securities and Securities Subject to Contractual Restriction on Transfer*”; however, the future sale of a substantial number of Common Shares by such shareholders or the perception that such sales could occur, could have a material adverse effect on the market price of the Common Shares.

***Sales by existing shareholders can reduce share prices***

Sales of a substantial number of Common Shares in the public market could occur at any time. These sales, or the market perception that the holders of a large number of Common Shares intend to sell Common Shares, could reduce the market price of the Common Shares. If this occurs and continues, it could impair the Company’s ability to raise additional capital through the sale of securities.

It is anticipated that a majority of the Common Shares issued and outstanding prior to completion of the Offering will be subject to post-Closing resale restrictions. See “*Plan of Distribution*” and “*Escrowed Securities and Securities Subject to Contractual Restriction on Transfer*” for descriptions of these resale restrictions. Upon expiration of the resale restrictions to which they are subject, such Common Shares will be freely tradable in the public market, subject to the provisions of applicable securities laws.

***The Company does not intend to pay dividends***

The Company has not, since the date of its incorporation, declared or paid any dividends or other distributions on its Common Shares. The Company anticipates that, for the foreseeable future, it will retain its cash resources for the operation and development of its business. The declaration and payment of any dividends in the future is at the discretion of the Board and will depend on numerous factors, including compliance with applicable laws, financial performance, working capital requirements of the Company and such other factors as its directors consider appropriate, and the Company may never pay dividends.

While the Company does not have any restrictions on paying dividends itself, pursuant to the restructured loan agreements with the Club Deal Banks, MCSA is prohibited from distributing dividends and interest on net equity or any other resource to its shareholders, including the Company. This may impede the Company’s ability to declare or pay any dividends or other distributions on its Common Shares. See “*General Development and Business of the Company – General Development of the Company – The Acquisitions*”.

***Public companies are subject to securities class action litigation risk***

In the past, securities class action litigation has often been brought against a company following a decline in the market price of its securities. If the Company faces such litigation, it could result in substantial costs and a diversion of management’s attention and resources, which could materially harm its business.

***If securities or industry analysts do not publish research or publish inaccurate or unfavourable research about the Company’s business, the price and trading volume of the Common Shares could decline***

The trading market for the Common Shares will depend on the research and reports that securities or industry analysts publish about the Company and its business. The Company does not have any control over these analysts. The Company cannot assure that analysts will cover it or provide favourable coverage. If one or more of the analysts who cover the Company downgrade its stock or change their opinion of the Common Shares, price of Common Shares would likely decline. If one or more of these analysts cease coverage of the Company or fail to regularly publish reports, the Company could lose visibility in the financial markets, which could cause the price and trading volume of the Common Shares to decline.

***Global financial conditions can reduce the price of the Common Shares***

Following the onset of the credit crisis in 2008, global financial conditions were characterized by extreme volatility and several major financial institutions either went into bankruptcy or were rescued by governmental authorities. While global financial conditions subsequently stabilized, there remains considerable risk in the system given the extraordinary measures adopted by government authorities to achieve that stability. Global financial conditions could suddenly and rapidly destabilize in response to future economic shocks, as government authorities may have limited resources to respond to future crises. Future economic shocks may be precipitated by a number of causes, including a rise in the price of oil, geopolitical instability and natural disasters. Any sudden or rapid destabilization of global economic conditions could impact the Company’s ability to obtain equity or debt financing in the future on terms favourable to the Company. Additionally, any such occurrence could cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. Further, in such an event, the Company’s operations and financial condition could be adversely impacted.

Furthermore, general market, political and economic conditions, including, for example, inflation, interest and currency exchange rates, structural changes in the global mining industry, global supply and demand for commodities, political developments, legislative or regulatory changes, social or labour unrest and stock market trends will affect the Company’s operating environment and its operating costs, profit margins and share price. Any negative events in the global economy could have a material adverse effect on the Company’s business, financial condition, results of operations, cash flows or prospects.

## PROMOTERS

Christopher Noel Dunn, the Executive Chairman and a director of Ero, may be considered to be a promoter of the Company in that he took the initiative in organizing the business of the Company. The following table sets out the number and percentage of each class of voting securities and equity securities of Ero beneficially owned, or controlled or directed, directly or indirectly by Mr. Dunn.

<b>Designation of Class</b>	<b>Number of Securities</b>	<b>Percentage of Class</b>
Common Shares	3,020,001	5.32% <sup>(1)</sup>
Options	-	-
Founder Warrants	1,000,000	30.00%
General Warrants	6,666	0.07%
General Debentures	-	-

**Notes:**

(1) Calculated on a non-diluted basis.

Additional information about Mr. Dunn is disclosed elsewhere in this prospectus in connection with his capacity as a director and officer of the Company. See “*Directors and Executive Officers*” and “*Director and Executive Compensation*” for further details.

David Strang, the President and Chief Executive Officer and a director of Ero, may be considered to be a promoter of the Company in that he took the initiative in organizing the business of the Company. The following table sets out the number and percentage of each class of voting securities and equity securities of Ero beneficially owned, or controlled or directed, directly or indirectly by Mr. Strang.

<b>Designation of Class</b>	<b>Number of Securities</b>	<b>Percentage of Class</b>
Common Shares	4,000,001	7.05% <sup>(1)</sup>
Options	-	-
Founder Warrants	1,000,000	30.00%
General Warrants	333,333	3.66%
General Debentures	US\$500,000 <sup>(2)</sup>	18.18%

**Notes:**

(1) Calculated on a non-diluted basis.

(2) Aggregate principal amount of General Debentures.

Additional information about Mr. Strang is disclosed elsewhere in this prospectus in connection with his capacity as a director and officer of the Company. See “*Directors and Executive Officers*” and “*Director and Executive Compensation*” for further details.

Other than as disclosed in this prospectus, neither Mr. Dunn nor Mr. Strang have received, directly or indirectly, anything of value, including money, property, contracts, options or rights of any kind from Ero or its subsidiaries, and neither Ero nor its subsidiaries have received any assets, services or other consideration from Mr. Dunn or Mr. Strang in return.

## LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Other than as described herein, to the Company’s knowledge, there are no legal proceedings or regulatory actions material to the Company to which it is a party, or has been a party to, or of which any of its property is the subject matter of, or was the subject matter of, since the beginning of the financial year ended December 31, 2016, and no such proceedings or actions are known by the Company to be contemplated.

There have been no penalties or sanctions imposed against the Company by a court or regulatory authority, and the Company has not entered into any settlement agreements before any court relating to provincial or territorial securities legislation or with any securities regulatory authority, since its incorporation.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as disclosed elsewhere in this prospectus, no director, executive officer or shareholder that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the issued Common Shares, or any of their respective associates or affiliates, has any material interest, direct or indirect, in any transaction within the three years before the date of this prospectus which has materially affected or is reasonably expected to materially affect the Company or a subsidiary of the Company.

## **AUDITORS, TRANSFER AGENT AND REGISTRAR**

The Company's auditors are KPMG LLP, Chartered Professional Accountants, having an address at 777 Dunsmuir Street, 11<sup>th</sup> Floor, Vancouver, British Columbia, Canada, V7Y 1K3.

The transfer agent and registrar for the Common Shares is Computershare Investor Services Inc., at its principal office in Vancouver, British Columbia. The warrant agent for the Founder Warrants and the General Warrants is Computershare Trust Company of Canada, at its principal office in Vancouver, British Columbia.

## MATERIAL CONTRACTS

Except for material contracts entered into in the ordinary course of business, set out below are material contracts to which the Company or any of its subsidiaries are a party entered into prior to or since the date of incorporation of the Company and which still remain in effect and material to the Company. Copies of such material contracts will be filed with the Canadian securities regulatory authorities and will be available for review under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

- Brasil Plural Subscription Agreement;
- Voting Agreement;
- Spectra II Subscription Agreement;
- Spectra III Subscription Agreement;
- Tembo Investor Rights Agreement;
- the Private Deed of the 5th Issue of Simple Debentures, Nonconvertible into Shares, in Two Series, of the Unsecured Type with Additional Personal Guarantee, to be Converted Into in Rem and Personal Guarantee, for Public Distribution with Restricted Placement Efforts of Mineração Caraíba S.A. dated December 15, 2016 among MCSA, Pentágono S.A. Distribuidora de Títulos e Valores Mobiliários and NX Gold, please see "*General Development and Business of the Company – The Acquisitions*" for further information;
- the First Amendment of the Public Deed of Rectification and Ratification to the Public Deed of Credit Opening Registered in Book 006/2011 on Sheets 61 to 83V Both sides, on February 23, 2011, at the Notary Office for the District of Jaguarari, Bahia, Signed Between the Northeast Bank of Brazil S.A. and the Credited Signed at the End, with Mortgage Guarantee, Registered in Book 2-A of the General Registry under Number R-10/151 on February 23, 2011 dated December 29, 2016 between Banco do Nordeste do Brasil S.A. and MCSA, please see "*General Development and Business of the Company – The Acquisitions*" for further information;
- the Budget Attachment to Public Deed for Credit Opening dated February 23, 2011 between Banco do Nordeste do Brasil S.A. and MCSA, please see "*General Development and Business of the Company – The Acquisitions*" for further information;
- the General Provisions of Public Deed for Credit Opening dated February 23, 2011 between Banco do Nordeste do Brasil S.A. and MCSA, please see "*General Development and Business of the Company – The Acquisitions*" for further information;
- the Public Deed for Credit Opening dated February 23, 2011 between Banco do Nordeste do Brasil S.A. and MCSA, please see "*General Development and Business of the Company – The Acquisitions*" for further information;
- the Bank Credit Certificate by Transfer of Foreign Resources No. 100016120015100 dated December 2, 2016 among Itaú Unibanco S.A., MCSA and NX Gold, please see "*General Development and Business of the Company – The Acquisitions*" for further information;
- the First Amendment and Restatement of International Loan Agreement No. AGE876768/1 dated December 2, 2016 among Itaú Unibanco S.A., Nassau Branch, MCSA and NX Gold, please see "*General Development and Business of the Company – The Acquisitions*" for further information;
- the Private Instrument of Acknowledgement and Payment of Debt dated December 2, 2016 among Banco Santander (Brasil) S.A., MCSA and NX Gold, please see "*General Development and Business of the Company – The Acquisitions*" for further information;
- the Fourth Amendment and Restatement of Bank Credit Certificate – No. 4050555 (Current 4058762) (Import Financing) dated December 2, 2016 among Banco Santander (Brasil) S.A., Banco Santander (Brasil) S.A., Grand Cayman Branch, MCSA and NX Gold, please see "*General Development and Business of the Company – The Acquisitions*" for further information;
- the Third Amendment and Restatement of Bank Credit Certificate – No. 4051233 dated December 2, 2016 among Banco Santander (Brasil) S.A., Banco Santander (Brasil) S.A., Grand Cayman Branch, MCSA and NX Gold, please see "*General Development and Business of the Company – The Acquisitions*" for further information;
- Export Credit Certificate No. 120602-2 dated December 2, 2016 between Banco Votorantim S.A. and MCSA, please see "*General Development and Business of the Company – The Acquisitions*" for further information; and
- Underwriting Agreement referred to under "*Plan of Distribution*".

In connection with the Brasil Plural and Spectra Offering on December 28, 2016, the Company entered into the Brasil Plural Subscription Agreement and the Spectra Subscription Agreements. The Brasil Plural Subscription Agreement and the Spectra Subscription Agreements require that certain Common Shares held by Christopher Noel Dunn, Executive Chairman of the Company, and David Strang, President and Chief Executive Officer of the Company, be subject to lock-up. See "*Escrowed Securities and Securities Subject to Contractual Restriction on Transfer*" for a detailed discussion of such lock-ups. The Brasil Plural Subscription Agreement and the Spectra Subscription Agreements also provide Brasil Plural, Spectra II and

Spectra III with participation rights to subscribe for Common Shares or equity securities of the Company, as applicable, in order to preserve their collective proportionate interest in the total Common Shares issued and outstanding, with respect to equity financings and certain other non-cash transactions involving issuance of equity securities by the Company. Please see “*Plan of Distribution*” for a detailed discussion of such participation rights. In addition, pursuant to the Brasil Plural Subscription Agreement, the Company has granted to Brasil Plural a right to designate one individual to be nominated to serve as a member of the Board, and the right to appoint a chief restructuring officer of the Company, for so long as Brasil Plural, Spectra II and Spectra III collectively hold at least 5% of the issued and outstanding Common Shares. Pursuant to such right, Brasil Plural designated, and the shareholders of the Company appointed, Fabio Vassel as a director of the Company in December 2016. Mr. Vassel resigned from the Board on June 14, 2017, and Brasil Plural did not at such time wish to designate another individual to be nominated to serve as a member of the Board to fill the vacancy resulting from Mr. Vassel’s resignation. The Brasil Plural Subscription Agreement also requires the Company to obtain written consent of Brasil Plural prior to conducting any equity financing or non-cash transaction involving the issuance of equity securities by the Company at a price per Common Share of less than US\$1.00, subject to certain exceptions. Such consent requirement is valid until the earlier of December 28, 2018 and the date that the percentage of Common Shares held collectively by Brasil Plural, Spectra II and Spectra III is less than 5% of the issued and outstanding Common Shares. Assuming that the Secondary Offering is completed as currently contemplated, Brasil Plural’s, Spectra II’s and Spectra III’s respective rights described above will automatically terminate upon completion of the Offering.

Further, and in connection with the Brasil Plural and Spectra Offering, the Company also entered into the Voting Agreement. Pursuant to the Voting Agreement, each shareholder party thereto has agreed to vote, or cause to be voted, all Common Shares owned by such shareholder, or over which such shareholder has voting control or direction, to ensure that at each shareholder meeting at which an election of directors is held or pursuant to any written shareholder consent resolution for such purpose, one individual designated by Brasil Plural is elected to the Board. In addition, each shareholder party to the Voting Agreement has agreed to vote, or cause to be voted, all Common Shares owned by such shareholder, or over which such shareholder has voting control or direction, in whatever manner necessary to ensure that (i) a director nominated by Brasil Plural is not removed from the Board unless directed or approved by Brasil Plural or Brasil Plural is no longer entitled to designate or appoint such director; (ii) any vacancy created by the resignation, removal or death of a director nominated by Brasil Plural is filled by another director nominated by Brasil Plural; and (iii) upon the request of Brasil Plural to remove a director originally nominated by Brasil Plural, such director is removed from the Board. The Voting Agreement also applies to any transferees and assignees of those Common Shares which are subject to the Voting Agreement and, as a condition precedent to the Company’s recognizing such transfer, each transferee or assignee must agree in writing to be subject to each of the terms of the Voting Agreement by executing and delivering a confirmation to that effect. The Voting Agreement will remain in effect until the earlier of: (i) termination by way of written agreement between the Company and Brasil Plural; (ii) one shareholder of the Company becoming the beneficial owner of all of the issued and outstanding Common Shares; and (iii) Brasil Plural no longer being entitled to nominate a member of the Board pursuant to the terms of the Brasil Plural Subscription Agreement. Assuming that the Secondary Offering is completed as currently contemplated, the Voting Agreement will automatically terminate upon completion of the Offering.

In connection with the Company’s private placement offering of 18,423,593 Common Shares at a price of US\$1.50 per Common Share on March 22, 2017, the Company entered into the Tembo Investor Rights Agreement. Pursuant to the Tembo Investor Rights Agreement, until the earlier of: (i) Ndovu ceasing to hold at least 5% of the issued and outstanding Common Shares; and (ii) immediately prior to the Closing, Ndovu is entitled to certain information rights with regards to the Company, including monthly reports of financial and operational performance, and meetings with management of the Company. Following the Closing, and for so long as Ndovu holds at least 5% of the issued and outstanding Common Shares, Ndovu is entitled to request from the Company, among other things, monthly reports of financial and operation performance, and meetings with management of the Company. In addition, the Tembo Investor Rights Agreement provides Ndovu with a participation right, which is described in further detail under “*Plan of Distribution*”.

## **EXPERTS**

Information of a scientific or technical nature in respect of the Vale do Curaçá Property is included in this prospectus based upon the Vale do Curaçá Technical Report, dated September 7, 2017 with an effective date of June 1, 2017, prepared by Rubens Mendonça, MAusIMM, of SRK Brazil, and Porfirio Cabaleiro Rodrigues, MAIG, Mário Conrado Reinhardt, MAIG, Fábio Valério Xavier, MAIG and Bernardo H.C. Viana, MAIG, all of GE21, who are independent “qualified persons” under NI 43-101. In addition, information of a scientific or technical nature in respect of the work plans set out under the headings “*Prospectus Summary – The Offering – Use of Proceeds*” and “*Use of Proceeds*”, other than work plans included in the Vale do Curaçá Technical Report, was reviewed and approved by Rubens Mendonça, MAusIMM, who is an independent

“qualified person” under NI 43-101. To the best of the Company’s knowledge, after reasonable inquiry, as of the date hereof, the aforementioned individuals and their firms do not beneficially own, directly or indirectly, any Common Shares.

Information of a scientific or technical nature in respect of the Boa Esperança Property is included in this prospectus based upon the Boa Esperança Technical Report, dated September 7, 2017 with an effective date of June 1, 2017, prepared by Carlos Barbosa, MAIG, Rubens Mendonça, MAusIMM and Girogio di Tomi, MAusIMM, all of SRK Brazil, who are independent “qualified persons” under NI 43-101. To the best of the Company’s knowledge, after reasonable inquiry, as of the date hereof, the aforementioned individuals and their firms do not beneficially own, directly or indirectly, any Common Shares.

KPMG has advised the Company that it is independent of the Company in accordance with the Rules of Professional Conduct of the Chartered Professional Accountants of British Columbia. KPMG Brazil, the auditors of the financial statements of MCSA included in this prospectus, has advised the Company that it is independent of the Company and MCSA in accordance with applicable auditing standards issued by the Brazilian Federal Accounting Council (*Conselho Federal de Contabilidade*) in Brazil.

Certain legal matters related to the Offering will be passed upon on the Company’s behalf by Blake, Cassels & Graydon LLP and on behalf of the Underwriters by Cassels Brock & Blackwell LLP. To the best of the Company’s knowledge, after reasonable inquiry, as of the date hereof, the aforementioned partnerships (and their partners and associates) each beneficially own, directly or indirectly, in the aggregate, less than 1% of the outstanding Common Shares.

### EXEMPTIONS

The Company has applied for relief from the requirements in Section 35.3 of Form 41-101F1 – *Information Required in a Prospectus* to include certain financial statements with respect to NX Gold in this prospectus (the “**NX Gold Financial Statement Relief**”) from: (i) the British Columbia Securities Commission, as the principal regulator of the Company; and (ii) the Ontario Securities Commission. The Company does not consider NX Gold to be a material part of its ongoing business and currently intends to dispose of its interest in NX Gold.

The Company anticipates that the net cash flows derived from the NX Gold assets from the date of this prospectus to the date of its disposition (assuming such proposed disposition occurs within the next 12 months) will be immaterial relative to the net cash flows derived from the MCSA assets during this same period. The Company’s internal valuations indicate a notional future net cash flow derived from NX Gold in the next 12 months of negative US\$0.2 million, as compared to the discounted cash flows of the Company’s primary business of MCSA, which has a combined after-tax net present value of US\$555 million based on the economic analyses contained in the Vale do Curaça Technical Report and the Boa Esperança Technical Report.

NX Gold is considered to be “discontinued operations” under IFRS 5 and is disclosed as such in each of the Company’s annual consolidated financial statements for the financial year ended December 31, 2016 and interim consolidated financial statements for the six month period ended June 30, 2017, which are included in this prospectus.

In accordance with National Policy 11-202 – *Process for Prospectus Reviews in Multiple Jurisdictions*, the issuance of a receipt of the British Columbia Securities Commission, as principal regulator of the Company, for this prospectus will constitute evidence that the NX Gold Financial Statement Relief has been granted by the securities regulatory authorities in each of the provinces and territories of Canada, other than Québec.

### PURCHASERS’ STATUTORY RIGHTS OF RESCISSION

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for the particulars of these rights or consult with a legal advisor.

**APPENDIX “A”  
ERO COPPER CORP.  
AUDIT COMMITTEE MANDATE**

**1. Introduction**

The Audit Committee (the “**Committee**” or the “**Audit Committee**”) of Ero Copper Corp. (“**Ero**” or the “**Company**”) is a committee of the Board of Directors (the “**Board**”) of the Company. The Committee shall oversee the accounting and financial reporting practices of the Company and the audits of the Company’s financial statements and exercise the responsibilities and duties set out in this Mandate.

**2. Membership**

*Number of Members*

The Committee shall be composed of three or more members of the Board.

*Independence of Members*

Each member of the Committee must be independent, subject to any exemptions or relief that may be granted from such requirement. “Independent” shall have the meaning, as the context requires, given to it in National Instrument 52-110 Audit Committees, as may be amended from time to time.

*Chair*

At the time of the annual appointment of the members of the Audit Committee, the Board shall appoint a Chair of the Audit Committee. The Chair shall be a member of the Audit Committee, preside over all Audit Committee meetings, coordinate the Audit Committee’s compliance with this Mandate, work with management to develop the Audit Committee’s annual work-plan and provide reports of the Audit Committee to the Board.

*Financial Literacy of Members*

At the time of his or her appointment to the Committee, each member of the Committee shall have, or shall acquire within a reasonable time following appointment to the Committee, the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s financial statements.

*Term of Members*

The members of the Committee shall be appointed annually by the Board. Each member of the Committee shall serve at the pleasure of the Board until the member resigns, is removed, or ceases to be a member of the Board. Unless a Chair is elected by the Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership.

**3. Meetings**

*Number of Meetings*

The Committee may meet as many times per year as necessary to carry out its responsibilities.

*Quorum*

No business may be transacted by the Committee at a meeting unless a quorum of the Committee is present. A majority of members of the Committee shall constitute a quorum.

*Calling of Meetings*

The Chair, any member of the Audit Committee, the external auditors, the Chairman of the Board, the Chief Executive Officer or the Chief Financial Officer may call a meeting of the Audit Committee by notifying the Company’s Corporate

Secretary who will notify the members of the Audit Committee. The Chair shall chair all Audit Committee meetings that he or she attends, and in the absence of the Chair, the members of the Audit Committee present may appoint a chair from their number for a meeting.

#### ***Minutes; Reporting to the Board***

The Committee shall maintain minutes or other records of meetings and activities of the Committee in sufficient detail to convey the substance of all discussions held. Upon approval of the minutes by the Committee, the minutes shall be circulated to the members of the Board. However, the Chair may report orally to the Board on any matter in his or her view requiring the immediate attention of the Board.

#### ***Attendance of Non-Members***

The external auditors are entitled to attend and be heard at each Audit Committee meeting. In addition, the Committee may invite to a meeting any officers or employees of the Company, legal counsel, advisors and other persons whose attendance it considers necessary or desirable in order to carry out its responsibilities. At least once per year, the Committee shall meet with the internal auditor and management in separate sessions to discuss any matters that the Committee or such individuals consider appropriate.

#### ***Meetings without Management***

The Committee shall hold unscheduled or regularly scheduled meetings, or portions of meetings, at which management is not present.

#### ***Procedure***

The procedures for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those applicable to meetings of the Board.

#### ***Access to Management***

The Committee shall have unrestricted access to the Company's management and employees and the books and records of the Company.

### **4. Duties and Responsibilities**

The Committee shall have the functions and responsibilities set out below as well as any other functions that are specifically delegated to the Committee by the Board and that the Board is authorized to delegate by applicable laws and regulations. In addition to these functions and responsibilities, the Committee shall perform the duties required of an audit committee by any exchange upon which securities of the Company are traded, or any governmental or regulatory body exercising authority over the Company, as are in effect from time to time (collectively, the "**Applicable Requirements**").

#### ***Financial Reports***

##### **(a) General**

The Audit Committee is responsible for overseeing the Company's financial statements and financial disclosures. Management is responsible for the preparation, presentation and integrity of the Company's financial statements and financial disclosures and for the appropriateness of the accounting principles and the reporting policies used by the Company. The auditors are responsible for auditing the Company's annual consolidated financial statements and for reviewing the Company's unaudited interim financial statements.

**(b) Review of Annual Financial Reports**

The Audit Committee shall review the annual consolidated audited financial statements of the Company, the auditors' report thereon and the related management's discussion and analysis of the Company's financial condition and results of operation ("MD&A"). After completing its review, if advisable, the Audit Committee shall approve and recommend for Board approval the annual financial statements and the related MD&A.

**(c) Review of Interim Financial Reports**

The Audit Committee shall review the interim consolidated financial statements of the Company, the auditors' review report thereon and the related MD&A. After completing its review, if advisable, the Audit Committee shall approve and recommend for Board approval the interim financial statements and the related MD&A.

**(d) Review Considerations**

In conducting its review of the annual financial statements or the interim financial statements, the Audit Committee shall:

- (i) meet with management and the auditors to discuss the financial statements and MD&A;
- (ii) review the disclosures in the financial statements;
- (iii) review the audit report or review report prepared by the auditors;
- (iv) discuss with management, the auditors, and internal legal counsel (if any), as requested, any litigation claim or other contingency that could have a material effect on the financial statements;
- (v) review the accounting policies followed and critical accounting and other significant estimates and judgements underlying the financial statements as presented by management;
- (vi) review any material effects of regulatory accounting initiatives or off-balance sheet structures on the financial statements as presented by management, including requirements relating to complex or unusual transactions, significant changes to accounting principles and alternative treatments under Canadian GAAP;
- (vii) review any material changes in accounting policies and any significant changes in accounting practices and their impact on the financial statements as presented by management;
- (viii) review management's report on the effectiveness of internal controls over financial reporting;
- (ix) review the factors identified by management as factors that may affect future financial results;
- (x) review results of the Company's audit committee whistleblower hotline program; and
- (xi) review any other matters, related to the financial statements, that are brought forward by the auditors, management or which are required to be communicated to the Audit Committee under accounting policies, auditing standards or Applicable Requirements.

**(e) Approval of Other Financial Disclosures**

The Audit Committee shall review and, if advisable, approve and recommend for Board approval financial disclosure in a prospectus or other securities offering document of the Company, press releases disclosing, or based upon, financial results of the Company and any other material financial disclosure, including financial guidance provided to analysts, rating agencies or otherwise publicly disseminated.

## *Auditors*

### **(a) General**

The Audit Committee shall be responsible for oversight of the work of the auditors, including the auditors' work in preparing or issuing an audit report, performing other audit, review or attest services or any other related work.

### **(b) Nomination and Compensation**

The Audit Committee shall review and, if advisable, select and recommend for Board approval the external auditors to be nominated and the compensation of such external auditor. The Audit Committee shall have ultimate authority to approve all audit engagement terms and fees, including the auditors' audit plan.

### **(c) Resolution of Disagreements**

The Audit Committee shall resolve any disagreements between management and the auditors as to financial reporting matters brought to its attention.

### **(d) Discussions with Auditors**

At least annually, the Audit Committee shall discuss with the auditors such matters as are required by applicable auditing standards to be discussed by the auditors with the Audit Committee.

### **(e) Audit Plan**

At least annually, the Audit Committee shall review a summary of the auditors' annual audit plan. The Audit Committee shall consider and review with the auditors any material changes to the scope of the plan.

### **(f) Quarterly Review Report**

The Audit Committee shall review a report prepared by the auditors in respect of each of the interim financial statements of the Company.

### **(g) Independence of Auditors**

At least annually, and before the auditors issue their report on the annual financial statements, the Audit Committee shall obtain from the auditors a formal written statement describing all relationships between the auditors and the Company; discuss with the auditors any disclosed relationships or services that may affect the objectivity and independence of the auditors; and obtain written confirmation from the auditors that they are objective and independent within the meaning of the applicable Rules of Professional Conduct/Code of Ethics adopted by the provincial institute or order of chartered professional accountants to which the auditors belong and other Applicable Requirements. The Audit Committee shall take appropriate action to oversee the independence of the auditors.

### **(h) Evaluation and Rotation of Lead Partner**

At least annually, the Audit Committee shall review the qualifications and performance of the lead partner(s) of the auditors and determine whether it is appropriate to adopt or continue a policy of rotating lead partners of the external auditors.

### **(i) Requirement for Pre-Approval of Non-Audit Services**

The Audit Committee shall approve in advance any retainer of the auditors to perform any non-audit service to the Company that it deems advisable in accordance with Applicable Requirements and Board approved policies and procedures. The Audit Committee may delegate pre-approval authority to a member of the Audit Committee. The decisions of any member of the Audit Committee to whom this authority has been delegated must be presented to the full Audit Committee at its next scheduled Audit Committee meeting.

**(j) Approval of Hiring Policies**

The Audit Committee shall review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Company.

**(k) Communication with Internal Auditor**

The internal auditor shall report regularly to the Committee. The Committee shall review with the internal auditor any problem or difficulty the internal auditor may have encountered including, without limitation, any restrictions on the scope of activities or access to required information, and any significant reports to management prepared by the internal auditing department and management's responses thereto.

The Committee shall periodically review and approve the mandate, plan, budget and staffing of the internal audit department. The Committee shall direct management to make changes it deems advisable in respect of the internal audit function.

The Committee shall review the appointment, performance and replacement of the senior internal auditing executive and the activities, organization structure and qualifications of the persons responsible for the internal audit function.

**(l) Financial Executives**

The Committee shall review and discuss with management the appointment of key financial executives and recommend qualified candidates to the Board, as appropriate.

***Internal Controls***

**(a) General**

The Audit Committee shall review the Company's system of internal controls.

**(b) Establishment, Review and Approval**

The Audit Committee shall require management to implement and maintain appropriate systems of internal controls in accordance with Applicable Requirements, including internal controls over financial reporting and disclosure and to review, evaluate and approve these procedures. At least annually, the Audit Committee shall consider and review with management and the auditors:

- (i) the effectiveness of, or weaknesses or deficiencies in: the design or operation of the Company's internal controls (including computerized information system controls and security); the overall control environment for managing business risks; and accounting, financial and disclosure controls (including, without limitation, controls over financial reporting), non-financial controls, and legal and regulatory controls and the impact of any identified weaknesses in internal controls on management's conclusions;
- (ii) any significant changes in internal controls over financial reporting that are disclosed, or considered for disclosure, including those in the Company's periodic regulatory filings;
- (iii) any material issues raised by any inquiry or investigation by the Company's regulators;
- (iv) the Company's fraud prevention and detection program, including deficiencies in internal controls that may impact the integrity of financial information, or may expose the Company to other significant internal or external fraud losses and the extent of those losses and any disciplinary action in respect of fraud taken against management or other employees who have a significant role in financial reporting; and
- (v) any related significant issues and recommendations of the auditors together with management's responses thereto, including the timetable for implementation of recommendations to correct weaknesses in internal controls over financial reporting and disclosure controls.

### ***Compliance with Legal and Regulatory Requirements***

The Audit Committee shall review reports from the Company's management members on: legal or compliance matters that may have a material impact on the Company; the effectiveness of the Company's compliance policies; and any material communications received from regulators. The Audit Committee shall review management's evaluation of and representations relating to compliance with specific applicable law and guidance, and management's plans to remediate any deficiencies identified.

### ***Audit Committee Hotline Whistleblower Procedures***

The Audit Committee shall establish procedures for (a) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters. Any such complaints or concerns that are received shall be reviewed by the Audit Committee and, if the Audit Committee determines that the matter requires further investigation, it will direct the Chair of the Audit Committee to engage outside advisors, as necessary or appropriate, to investigate the matter and will work with management and the general counsel to reach a satisfactory conclusion.

### ***Audit Committee Disclosure***

The Audit Committee shall prepare, review and approve any audit committee disclosures required by Applicable Requirements in the Company's disclosure documents.

### ***Delegation***

The Audit Committee may, to the extent permissible by Applicable Requirements, designate a sub-committee to review any matter within this mandate as the Audit Committee deems appropriate.

## **5. Independent Advisors**

The Audit Committee shall have the authority to retain external legal counsel, consultants or other advisors to assist it in fulfilling its responsibilities and to set and pay the respective compensation for these advisors without consulting or obtaining the approval of the Board or any Company officer. The Company shall provide appropriate funding, as determined by the Audit Committee, for the services of these advisors.

## **6. No Rights Created**

This Mandate is a statement of broad policies and is intended as a component of the flexible governance framework within which the Audit Committee, functions. While it should be interpreted in the context of all applicable laws, regulations and listing requirements, as well as in the context of the Company's Notice of Articles and Articles, it is not intended to establish any legally binding obligations.

## **7. Mandate Review**

The Committee shall review and update this Mandate annually and present it to the Board for approval.

Adopted: May 15, 2017

**APPENDIX “B”  
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BOARD OF DIRECTORS MANDATE**

**1. Purpose**

The members of the Board of Directors (the “**Board**”) have the duty to supervise the management of the business and affairs of Ero Copper Corp. (“**Ero**” or the “**Company**”). The Board, directly and through its committees and the chair of the Board (the “**Chair**”), shall provide direction to senior management, generally through the Chief Executive Officer, to pursue the best interests of the Company.

**2. Duties and Responsibilities**

The Board shall have the specific duties and responsibilities outlined below.

***Strategic Planning***

**(a) Strategic Plans**

The Board will adopt a strategic plan for the Company. At least annually, the Board shall review and, if advisable, approve the Company’s strategic planning process and the Company’s annual strategic plan. In discharging this responsibility, the Board shall review the plan in light of management’s assessment of emerging trends, the competitive environment, the opportunities for the business of the Company, risk issues, and significant business practices and products.

**(b) Business and Capital Plans**

At least annually, the Board shall review and, if advisable, approve the Company’s annual business and capital plans as well as policies and processes generated by management relating to the authorization of major investments and significant allocation of capital.

**(c) Monitoring**

At least annually, the Board shall review management’s implementation of the Company’s strategic, business and capital plans. The Board shall review and, if advisable, approve any material amendments to, or variances from, these plans.

***Risk Management***

**(a) General**

At least annually, the Board shall review reports provided by management of principal risks associated with the Company’s business and operations, review the implementation by management of appropriate systems to manage these risks, and review reports by management relating to the operation of, and any material deficiencies in, these systems.

**(b) Verification of Controls**

The Board shall verify that internal, financial, non-financial and business control and management information systems have been established by management.

***Human Resource Management***

**(a) General**

At least annually, the Board shall review a report of the Compensation Committee concerning the Company’s approach to human resource management and executive compensation.

**(b) Succession Review**

At least annually, the Board shall review the succession plans of the Company for the Chair, the Lead Director, the Chief Executive Officer and other executive officers, including the appointment, training and monitoring of such persons.

**(c) Integrity of Senior Management**

The Board shall, to the extent feasible, satisfy itself as to the integrity of the Chief Executive Officer and other executive officers of the Company and that the Chief Executive Officer and other senior officers strive to create a culture of integrity throughout the Company.

*Corporate Governance*

**(a) General**

At least annually, the Board shall review a report of the Nominating and Corporate Governance Committee concerning the Company's approach to corporate governance.

**(b) Director Independence**

At least annually, the Board shall review a report of the Nominating and Corporate Governance Committee that evaluates the director independence standards established by the Board and the Board's ability to act independently from management in fulfilling its duties.

**(c) Ethics Reporting**

The Board has adopted a written Code of Business Conduct and Ethics (the "Code") applicable to directors, officers and employees of the Company. At least annually, the Board shall review the report of the Nominating and Corporate Governance Committee relating to compliance with, or material deficiencies from, the Code and approve changes it considers appropriate. The Board shall review reports from the Nominating and Corporate Governance Committee concerning investigations and any resolutions of complaints received under the Code.

**(d) Board of Directors Mandate Review**

At least annually, the Board shall review and assess the adequacy of its Mandate to ensure compliance with any rules of regulations promulgated by any regulatory body and approve any modifications to this Mandate as considered advisable.

*Communications*

**(a) General**

The Board has adopted a Disclosure Policy for the Company. At least annually, the Board, in conjunction with the Chief Executive Officer, shall review the Company's overall Disclosure Policy, including measures for receiving feedback from the Company's stakeholders, and management's compliance with such policy. The Board shall, if advisable, approve material changes to the Company's Disclosure Policy.

**(b) Shareholders**

The Company endeavors to keep its shareholders informed of its progress through an annual report, annual information form, quarterly interim reports and periodic press releases. Directors and management meet with the Company's shareholders at the annual meeting and are available to respond to questions at that time.

**3. Composition**

*General*

The composition and organization of the Board, including: the number, qualifications and remuneration of directors; the number of Board meetings; any Canadian residency requirements; quorum requirements; meeting procedures and notices of

meetings are required by the Business Corporations Act (British Columbia), the Securities Act (British Columbia) and the notice of articles and articles of the Company, subject to any exemptions or relief that may be granted from such requirements.

Each director must have an understanding of the Company's principal operational and financial objectives, plans and strategies, and financial position and performance. Directors must have sufficient time to carry out their duties and not assume responsibilities that would materially interfere with, or be incompatible with, Board membership. Directors who experience a significant change in their personal circumstances, including a change in their principal occupation, are expected to advise the chair of the Nominating and Corporate Governance Committee.

### ***Independence***

A majority of the Board must be independent, subject to any exemptions or relief that may be granted from such requirement. "Independent" shall have the meaning, as the context requires, given to it in National Policy 58-201 Corporate Governance Guidelines, as may be amended from time to time.

### ***Chair of the Board***

The Chair of the Board shall be an independent director, unless the Board determines that it is inappropriate to require the Chair to be independent. If the Board determines that it would be inappropriate to require the Chair of the Board to be independent, then the independent directors shall, from the time that the Company obtains a listing of its securities on a public market or stock exchange, select from among their number a director who will act as "Lead Director" and who will assume responsibility for providing leadership to enhance the effectiveness and independence of the Board. The Chair, if independent, or the Lead Director if the Chair is not independent, shall act as the effective leader of the Board and ensure that the Board's agenda will enable it to successfully carry out its duties.

## **4. Committees of the Board**

The Board has established the following committees: the Compensation Committee, the Audit Committee, and the Nominating and Corporate Governance Committee. Subject to applicable law, the Board may establish other Board committees or merge or dispose of any Board committee.

### ***Committee Mandates***

The Board has approved mandates for each Board committee and shall approve mandates for each new Board committee. At least annually, each mandate shall be reviewed by the Nominating and Corporate Governance Committee and any suggested amendments brought to the Board for consideration and approval.

### ***Delegation to Committees***

The Board has delegated to the applicable committee those duties and responsibilities set out in each Board committee's mandate.

### ***Consideration of Committee Recommendations***

As required by applicable law, by applicable committee Mandate or as the Board may consider advisable, the Board shall consider for approval the specific matters delegated for review to Board committees.

### ***Board/Committee Communication***

To facilitate communication between the Board and each Board committee, each committee chair shall provide a report to the Board on material matters considered by the committee at the first Board meeting after the committee's meeting.

## **5. Meetings**

The Board will meet at least once in each quarter, with additional meeting held as deemed advisable. The Chair is primarily responsible for the agenda and for supervising the conduct of the meeting. Any director may propose the inclusion of items

on the agenda, request the presence of, or a report by any member of senior management, or at any Board meeting raise subjects that are not on the agenda for that meeting.

Meetings of the Board shall be conducted in accordance with the Company's articles.

### ***Secretary and Minutes***

The Corporate Secretary, his or her designate or any other person the Board requests shall act as secretary of Board meetings. Minutes of Board meetings shall be recorded and maintained by the Corporate Secretary and subsequently presented to the Board for approval.

### ***Meetings Without Management***

The independent members of the Board shall hold regularly scheduled meetings, or portions of regularly scheduled meetings, at which non-independent directors and members of management are not present.

### ***Directors' Responsibilities***

Each director is expected to attend all meetings of the Board and any committee of which he or she is a member. Directors will be expected to have read and considered the materials sent to them in advance of each meeting and to actively participate in the meetings.

### ***Access to Management and Outside Advisors***

The Board shall have unrestricted access to management and employees of the Company. The Board shall have the authority to retain and terminate external legal counsel, consultants or other advisors to assist it in fulfilling its responsibilities and to set and pay the respective reasonable compensation of these advisors without consulting or obtaining the approval of any officer of the Company. The Company shall provide appropriate funding, as determined by the Board, for the services of these advisors.

### ***Service on Other Boards and Audit Committee***

Directors may serve on the boards of other public companies so long as these commitments do not materially interfere and are compatible with their ability to fulfill their duties as a member of the Board. Directors must advise the Chair in advance of accepting an invitation to serve on the board of another public company.

## **6. Management**

### ***Position Descriptions for Directors***

The Board has approved position descriptions for the Chair, the Lead Director and the chair of each Board committee. At least annually, the Board shall review such position descriptions.

### ***Position Description for CEO***

The Board has approved a position description for the Chief Executive Officer, which includes delineating management's responsibilities. The Board has also approved the corporate goals and objectives that the Chief Executive Officer has responsibility for meeting. At least annually, the Board shall review a report of the Compensation Committee reviewing this position description and such corporate goals and objectives.

## **7. Director development and evaluation**

Each new director shall participate in the Company's initial orientation program and each director shall participate in the Company's continuing director development programs. At least annually, the Board shall review the Company's initial orientation program and continuing director development programs.

## **8. No Rights Created**

This Mandate is a statement of broad policies and is intended as a component of the flexible governance framework within which the Board, assisted by its committees, directs the affairs of the Company. While it should be interpreted in the context of all applicable laws, regulations and listing requirements, as well as in the context of the Company's Notice of Articles and Articles, it is not intended to establish any legally binding obligations.

Adopted: May 15, 2017

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## **CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE FISCAL PERIOD ENDED DECEMBER 31, 2016**  
(PERIOD FROM INCORPORATION ON MAY 16, 2016 TO DECEMBER 31, 2016)



KPMG LLP  
PO Box 10426 777  
Dunsmuir Street  
Vancouver BC V7Y 1K3  
Canada  
Telephone (604) 691-3000  
Fax (604) 691-3031

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Ero Copper Corp.

We have audited the accompanying consolidated financial statements of Ero Copper Corp., which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the period from May 16, 2016 to December 31, 2016, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent Member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. logoKPMG Canada provides services to KPMG LLP.



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ero Copper Corp. as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the period from May 16, 2016 to December 31, 2016 in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to note 1 to the consolidated financial statements which describes that Ero Copper Corp. has a significant working capital deficiency and will be required to raise additional capital in order to meet its obligations and continue as a going concern. These conditions, along with other matters as set forth in note 1, indicate the existence of a material uncertainty that may cast significant doubt about Ero Copper Corp.'s ability to continue as a going concern.

**KPMG LLP (Signed)**

Chartered Professional Accountants

October 11, 2017  
Vancouver, Canada

## Ero Copper Corp.

### Consolidated Statement of Financial Position

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

ASSETS	Notes	As at December 31, 2016
<b>Current</b>		
Cash and cash equivalents		\$ 18,318
Accounts receivable		76
Inventories	4	5,181
Other current assets	5	5,987
Assets held for sale	6	24,846
		<b>54,408</b>
<b>Non-Current</b>		
Mineral property, plant and equipment	7	216,296
Exploration and evaluation assets	8	26,351
Deposits	12(b)	2,021
Other non-current assets		1,111
Goodwill	3	17,768
		<b>263,547</b>
<b>Total Assets</b>		<b>\$ 317,955</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	9	\$ 33,819
Current portion of loans and borrowings	10	108,137
Taxes payable	11	18,323
Liabilities related to assets held for sale	6	24,846
		<b>185,125</b>
<b>Non-Current</b>		
Loans and borrowings	10	53,987
Provisions	12	28,805
Other non-current liabilities	13	8,020
Deferred income tax liabilities	17	17,645
		<b>108,457</b>
<b>Total Liabilities</b>		<b>293,582</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	14	27,817
Equity reserves		7
Accumulated deficit		(3,046)
<b>Equity attributable to owners of the Company</b>		<b>24,778</b>
<b>Non-controlling interests</b>		<b>(405)</b>
		<b>24,373</b>
<b>Total Liabilities and Equity</b>		<b>\$ 317,955</b>

Nature of operations and going concern (Note 1); Commitments (Note 21); Subsequent events (Notes 10, 14(a) and 23)

#### 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

## Ero Copper Corp.

### Consolidated Statements of Operations and Comprehensive Loss

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

	Notes	
<b>Expenses</b>		
General and administrative	15	
Care and maintenance	16	
<b>Other income (expenses)</b>		
Finance income		37
Finance expense		(1,409)
Foreign exchange		3,258
Other income		137
<b>Loss before income taxes</b>		<b>(3,508)</b>
<b>Income tax recovery</b>		
Deferred income tax recovery	17	121
<b>Net loss from continuing operations</b>		<b>(3,387)</b>
Net loss from discontinued operations	6	(65)
<b>Net loss for the period</b>		<b>(3,452)</b>
<b>Other comprehensive income</b>		
Foreign currency translation gain		8
<b>Comprehensive loss</b>		<b>\$ (3,444)</b>
<b>Net loss attributable to:</b>		
Owners of the Company		(3,046)
Non-controlling interests		(406)
		<b>\$ (3,452)</b>
<b>Comprehensive loss attributable to:</b>		
Owners of the Company		(3,039)
Non-controlling interests		(405)
		<b>\$ (3,444)</b>
<b>Loss per share attributable to owners of the Company</b>		
Loss per share from continuing operations	\$	(0.44)
Loss per share from discontinued operations	\$	(0.00)
Net loss per share - basic and diluted	\$	(0.44)
<b>Weighted average number of common shares outstanding</b>		<b>6,932,086</b>

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

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		Total	Non-controlling interest	Total Equity
	Number of shares	Amount	Foreign Exchange	Accumulated Deficit			
<b>Balance, May 16, 2016</b>	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loss for the period	-	-	-	(3,046)	(3,046)	(406)	(3,452)
Other comprehensive income for the period	-	-	7	-	7	1	8
<b>Total comprehensive loss for the period</b>	-	-	7	<b>(3,046)</b>	<b>(3,039)</b>	<b>(405)</b>	<b>(3,444)</b>
<b>Shares issued for:</b>							
Private placements	37,849,091	27,949	-	-	27,949	-	27,949
Convertible debenture fee (note 10)	500,000	500	-	-	500	-	500
Share issuance costs	-	(632)	-	-	(632)	-	(632)
<b>Balance, December 31, 2016<sup>(1)</sup></b>	<b>38,349,091</b>	<b>\$ 27,817</b>	<b>\$ 7</b>	<b>\$ (3,046)</b>	<b>\$ 24,778</b>	<b>\$ (405)</b>	<b>\$ 24,373</b>

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

**Consolidated Statement of Cash Flows**

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

	Period Ended December 31, 2016 <sup>(1)</sup>
<b>Cash Flows used in Operating Activities</b>	
Net loss from continuing operations	\$ (3,387)
Adjustments for:	
Amortization and depreciation	816
Finance income	(37)
Finance expenses	1,409
Unrealized foreign exchange	(3,258)
Deferred income tax recovery	(121)
Other	29
Changes in:	
Accounts receivable	15
Inventories	(124)
Other current assets	291
Accounts payable and accrued liabilities	(4,416)
Taxes payable	338
Other liabilities	(275)
	<b>(8,720)</b>
<b>Cash Flows used in Investing Activities</b>	
Additions to mineral property, plant and equipment	(202)
Cash acquired on acquisition	131
	<b>(71)</b>
<b>Cash Flows from Financing Activities</b>	
Loans and borrowings	325
Interest paid on loans and borrowings	(472)
Issuance of share capital, net of issuance costs	27,317
	<b>27,170</b>
Effect of exchange rate changes on cash and cash equivalents	(61)
Net Increase in cash and cash equivalents	<b>18,318</b>
Cash and cash equivalents - beginning of period	-
<b>Cash and cash equivalents - end of period</b>	<b>18,318</b>

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

### Notes to Consolidated Financial Statements

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

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#### 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.

The Company's principal asset is its 85% ownership interest in Mineração Caraíba S.A. ("MCSA"). The Company also currently owns a 28% ownership interest in NX Gold S.A. ("NX Gold"). Both of these assets were acquired on December 12, 2016 (Note 3).

MCSA is a Brazilian company which holds a 100% interest in the Vale do Curaçá Property and the Boa Esperança Property (Note 8). The Vale do Curaçá Property is located in the Curaçá Valley, municipality of Jaguarai, northeast of the Bahai state, Brazil, and includes fully integrated processing operations, three active mines (including one under construction), one nearing the end of its mine life and two past producing mines located within the Curaçá Valley. 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"), currently under construction. The past producing operations include the historic open pit mines of R22W ("R22W Mine") and the Angicos ("Angicos Mine"). The Suçuarana Mine ("Suçuarana Mine") is nearing the end of its mine life. The Boa Esperança Property is located within the municipality of Tucumã, southeastern Pará State, Brazil, approximately 40 kilometres southwest of the town of Tucumã and consists of a single mineral concession covering an area of 4,033.81 hectares.

MCSA's predominant activity is the production and sale of copper from the Vale do Curaçá Property, with gold and silver produced and sold as by-products from the same property. The persistence of lower London Metal Exchange benchmark copper prices in 2016, coupled with the flooding of MCSA's Pilar UG Mine on January 22, 2016, led MCSA to commence the new Judicial Reorganization process on February 3, 2016. During most of 2016, MCSA operated at a reduced capacity and, unable to obtain the necessary funds from its shareholders and creditors, initiated negotiations with potential investors to obtain the funds necessary to resume its operations. On December 12, 2016, Ero acquired an 85% interest in MCSA and has since contributed capital resources that enabled MCSA to resume the production of copper concentrate at its Vale do Curaçá Property in February 2017. The Company has consolidated MCSA from the acquisition date and net loss of the Company includes the net loss of MCSA from the acquisition date.

NX Gold originated from a partial spin-off from MCSA on April 2, 2013. NX Gold is a Brazilian company located in the city of Nova Xavantina, Mato Grosso. NX Gold's main operational activity is the mining, processing and sale of gold and, as a by-product, silver. The assets of NX Gold are pledged as a guarantee of the debts of MCSA. Accordingly, NX Gold was also part of the court-supervised reorganization granted on February 3, 2016. On December 12, 2016, Ero acquired a 28% economic interest in NX Gold in conjunction with the acquisition of MCSA. However, pursuant to a shareholders' agreement among the Company and the significant shareholders of NX Gold, the Articles of Incorporation of NX Gold and the composition of the Board of Directors, the Company has control over all key operating, financing and investing activities of NX Gold. Accordingly, the Company has consolidated the accounts of NX Gold and net loss of the Company include the net loss of NX Gold from the acquisition date. The Company intends to dispose of NX Gold in the next year as it is not within its core copper business. Accordingly, the assets and liabilities of NX Gold are classified as assets and liabilities held for sale. NX Gold continues to guarantee some of the debts of MCSA, but an agreement is in place with the bank which allows NX Gold to be sold. The agreement stipulates that should NX Gold be sold, 50% of the sales price will be applied toward the payment of MCSA's debts.

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. As at December 31, 2016, the Company has a working capital deficiency totaling \$130.7 million, including \$104.2 million of debt facilities for which payment terms were extended pursuant to a restructuring agreement (Note 10(a)) completed in May 2017 and reclassified to long term liabilities at that time.

## Notes to Consolidated Financial Statements

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

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The Company's ability to continue as a going concern in the short term is dependent on the continued support of its creditors and obtaining additional financing to settle its current liabilities. In the long-term, the Company's ability to continue as a going concern is dependent upon achieving profitable operations at MCSA. The recoverability of the carrying values of the Company's assets is dependent upon the ability of the Company to obtain the necessary financing to meet its debt obligations, complete the development of MCSA, and achieve profitable production.

Subsequent to year end, the Company received financing of \$30.4 million in the form of convertible debentures and the issuance of common shares (Note 23) and secured a convertible debenture facility for up to \$5.0 million (Note 23). However, the Company may require additional financing in the next year in order to bring the MCSA operations to full capacity such that it is able to generate positive cash flows. 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. Accordingly, there are material risks and uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary if the Company was not considered to be a going concern. These adjustments could be material.

### 2. Significant Accounting Policies

#### 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 October 11, 2017.

#### 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, available-for-sale 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.

## Notes to Consolidated Financial Statements

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

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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 and 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 the statement of operations and comprehensive 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 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.

## **Notes to Consolidated Financial Statements**

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

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### *Control of NX Gold*

The Company has concluded that it controls NX Gold and has consolidated NX Gold. The assessment of control requires judgement about the key activities of NX Gold and the Company's power to control them.

### **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:

#### *Business Combinations*

Accounting for business combinations requires estimates with respect to the fair value of the assets and liabilities acquired. Such estimates require valuation methods including discounted cash flows, depreciated replacement costs and other methods. These models use forecasted cash flows, discount rates, current replacement costs and other assumptions. Changes in these assumptions changes the value assigned to the acquired assets and liabilities and goodwill, if any.

Significant assumptions related to the acquisition of MCSA and NX Gold are disclosed in Note 3.

#### *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 the statement of operations and comprehensive income (loss).

#### *Mineral reserve 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

## Notes to Consolidated Financial Statements

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

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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 based on recoverable mineral reserve tonnes processed, depending on the use of the asset. Changes to estimates of recoverable quantities of base 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 that are also impacted by changes in 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 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 concentrate inventory is an estimate based on initial weights and assay results.

### *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.

### *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).

## Notes to Consolidated Financial Statements

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

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- **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.

### e) Revenue

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, there is no continuing management involvement with the goods and the amount of revenue to be recognized can be measured reliably.

The sales amount is based on quoted market prices which may be fixed at the time the shipment is received at the customers' premises or may be determined in a period subsequent to the date of sale (provisionally priced sales) based on the terms of specific copper concentrate contracts. Revenues for sales are recorded at the time the shipment is received at the customers' premises, which is also when the risks and rewards of ownership transfer to the customer. 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 four months. This provisional pricing mechanism represents an embedded derivative. The embedded derivative 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.

### f) 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.

### g) Finance Income and Finance Expense

Finance income includes interest on cash and cash equivalents 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.

### h) 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 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.

## Notes to Consolidated Financial Statements

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

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### i) **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 by 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.

### j) **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 products in progress 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 is the estimated selling price in the ordinary course of business, less estimated completion costs and selling expenses.

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

### k) **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.

#### ***i) 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 place 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

## Notes to Consolidated Financial Statements

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

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on the statement of operations and comprehensive income (loss).

### **ii) 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 expensed.

### **iii) 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.

### **iv) 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.

### **v) 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.

## Notes to Consolidated Financial Statements

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

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### ***vi) 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 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.

### ***vii) 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:

	<b>Years</b>
Buildings	Up to 25
Equipment	4
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 between process plant throughout production 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.

### ***l) 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. 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.

## Notes to Consolidated Financial Statements

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

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### m) Financial Instruments

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

The Company classifies non-derivative financial liabilities into the following categories: financial liabilities at fair value through profit or loss and other financial liabilities.

#### ***i) Non-derivative financial assets and liabilities – recognition and derecognition***

The Company initially recognizes loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligations are discharged, or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

#### ***ii) Non-derivative financial assets – measurement***

##### *Financial assets at fair value through profit or loss*

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch; the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy or the financial asset contains one or more embedded derivatives. Upon initial recognition, these financial assets are recognized at fair value and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

The Company does not currently have financial assets designated as at fair value through profit or loss.

##### *Held-to-maturity financial assets*

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

Financial investments have been classified as held to maturity as they are directly related to loan agreements

## Notes to Consolidated Financial Statements

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

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with a Brazilian financial institution, which requires the establishment of a reserve fund. Redemptions of financial investment are conditional on the Company making the scheduled loan repayments.

### *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables include cash and cash equivalents, deposits and accounts receivable.

Cash is comprised of cash on hand and demand deposits. Cash equivalents 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.

### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. They are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented within equity in accumulated other comprehensive income. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

The Company does not currently have any financial assets classified as available for sale.

### **iii) Non-derivative financial liabilities - measurement**

#### *Financial liabilities at fair value through profit or loss*

A financial liability is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, including any interest expense, are recognized in profit or loss. The Company does not currently have any liabilities classified as fair value through profit or loss.

#### *Other financial liabilities*

Other non-derivative financial liabilities are recognized initially at fair value less any directly attributable transaction costs on the trade date on which the Company becomes a party to the contractual provisions of the instrument. Subsequent to initial recognition, the Company's financial liabilities are measured at amortized cost using the effective interest method.

The Company's non-derivative financial liabilities include accounts payable and accrued liabilities, other non-current liabilities, and loans and borrowings.

### **iv) Derivative financial instruments**

From time to time, the Company holds derivative financial instruments to mitigate risks related to changes in commodity prices or to change the interest rates of its loans and borrowings. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

## Notes to Consolidated Financial Statements

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

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Derivatives are initially recognized at their fair value and the attributable transaction costs are recognized in profit or loss when incurred. After initial recognition, derivatives are measured at fair value and their changes are recorded in profit or loss.

Trade receivables include embedded derivatives which are provisionally priced and are measured at fair value with changes recognized in profit or loss.

### **v) 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.

### **vi) 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.

## **n) Impairment**

### **i) Financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

### **ii) Non-Financial assets**

At each reporting date the carrying amounts of the Company's mineral property, 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

## Notes to Consolidated Financial Statements

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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.

### o) 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.

### p) 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 subsequent 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.

### q) 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

## Notes to Consolidated Financial Statements

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

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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.

r) **Loss per Share**

Basic 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 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 recognized in profit or loss for the period.

The effect of dilutive share equivalents would be anti-dilutive for the period presented and, accordingly, basic and diluted loss per share are the same.

s) **Changes in Current and Future Accounting Standards**

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017. The standards that may have a significant impact on the consolidated financial statements are as follows:

*i) Disclosure Initiatives (Amendments to IAS 7)*

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

To satisfy the new disclosure requirements, the Company intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

*ii) Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)*

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company does not expect any significant impact of these amendments on the consolidated financial statements as it does not account for any debt instruments at fair value.

*iii) IFRS 15 Revenue from Contracts with Customers*

On May 28, 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). The new standard is effective for the Company on January 1, 2018. Earlier application is permitted. IFRS 15 will replace 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

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*Revenue – Barter Transactions Involving Advertising Services.* On April 12, 2016, the IASB issued *Clarifications to IFRS 15, Revenue from Contracts with Customers*, which is effective at the same time as IFRS 15.

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.

The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property.

The Company is currently evaluating the impact that IFRS 15 will have on the consolidated financial statements.

### **iv) IFRS 9 Financial Instruments**

On July 24, 2014, the IASB issued the complete IFRS 9, *Financial Instruments* (“IFRS 9”). IFRS 9 is effective for the Company on January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 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 and amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model.

The extent of the impact of adoption of the standard has not yet been determined.

### **v) 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.

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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.

The extent of the impact of adoption of the standard has not yet been determined.

**3. Business Combination**

On December 12, 2016, the Company obtained control of MCSA and NX Gold by acquiring an approximately 85% and a 28% interest in each entity, respectively. Although the Company only acquired an approximately 28% economic interest in NX Gold, by virtue of a shareholders' agreement with the shareholder vendors of NX Gold, the Articles of Incorporation of NX Gold and the composition of the Board of Directors of NX Gold, the Company has control over all key operating, financing and investing activities. Accordingly, the Company has consolidated the accounts of NX Gold. As the Company's 28% interest in NX Gold was acquired from one of the same shareholders as MCSA and was contemplated as part of the MCSA acquisition, for accounting purposes the acquisitions are considered as a single acquisition. The acquisition of MCSA is in line with the Company's strategy to become a leading mid-tier copper producer through organic growth and disciplined acquisitions. The acquisition has been accounted for as a business combination. The cash consideration paid was nominal and the Company agreed to assume all of the loans and borrowing and other obligations of MCSA and NX Gold.

The preliminary purchase price allocation, which is subject to final adjustments, based on estimated fair value of the identifiable assets acquired and liabilities assumed on December 12, 2016 are as follows:

Cash and cash equivalents	\$	131
Accounts receivable		90
Inventories		4,939
Other current assets		6,145
Mineral property, plant and equipment		212,067
Exploration and evaluation assets		25,745
Deposits		1,975
Other non-current assets		592
Goodwill		17,369
Assets held for sale		24,711
Accounts payable and accrued liabilities		(35,839)
Taxes payable		(17,566)
Loans and borrowings		(160,632)
Provisions		(28,135)
Other non-current liabilities		(9,512)
Deferred income tax liabilities		(17,369)
Liabilities related to assets held for sale		(24,711)
<b>Net</b>	<b>\$</b>	<b>-</b>

The above purchase price allocation is preliminary as the Company is still in the process of determining the fair value of certain assets and liabilities. Specifically, the Company is in the process of determining the fair value of mineral property, plant and equipment, exploration and evaluation assets, deferred income tax liabilities and amounts allocated to goodwill. Such amounts may change once the purchase price allocation is finalized.

The majority of the fair value of identifiable assets acquired in respect of NX Gold relate to mineral property, plant and equipment and inventory. The majority of the fair value of identifiable liabilities assumed in respect of NX Gold relate to accounts payable and accruals, loans, borrowings and provisions.

**Notes to Consolidated Financial Statements**

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The Company intends to dispose of its interest in NX Gold in the next year as it is not within its core copper business. Accordingly, the assets and liabilities of NX Gold acquired by the Company are presented as assets held for sale and liabilities related to assets held for sale, and subsequent results of operations as discontinued operations.

Mineral properties were valued using a discounted cash flow model using expected future cash flows to be generated by the mine over its remaining life, based on proven and probable mineral reserves. Copper prices used to estimate revenues ranged from US\$2.35 per pound to US\$2.90 per pound for the forecast period. The cash flows were discounted using a discount rate of 13.5%.

The fair value of the majority of the plant and equipment was determined using the depreciated replacement cost method which estimates the current replacement costs and adjust this amount for physical depreciation and functional and technological obsolescence. Where an active market was available for certain of these assets, the fair market value of these assets in active markets was used.

The fair value of the exploration and evaluation assets acquired was determined based on the identified mineral resources and a price per pound of copper identified in precedent transactions for similar properties.

The fair value of debt facilities and certain other long term liabilities was estimated using the expected cash flows discounted at market rates of interest for comparable instruments adjusted for the estimated credit risk of MCSA. Such discount rates ranged from 7% – 20% depending on the instrument, the term of the debt, security and other factors. Certain of the creditors of MCSA agreed to split amounts outstanding into Class A and B notes (Note 10) with the Class B notes 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 fair value of the Class B notes was determined to be Nil.

Goodwill arose primarily as a result of the recognition of a deferred tax liability on temporary differences between the fair value of the assets and liabilities acquired and the tax values of these assets and liabilities. Goodwill is not deductible for tax purposes.

As the fair value of the net assets and liabilities acquired was Nil, no non-controlling interest results on acquisition.

The net loss of MCSA and NX Gold included in these consolidated financial statements from the acquisition date to December 31, 2016 totals \$2.5 million. Had the Company completed the acquisition on May 16, 2016, the date on which the Company was incorporated, the consolidated revenues and net loss for the period from May 16, 2016 to December 31, 2016 would have been approximately \$4.5 million and \$49.2 million, respectively.

**4. Inventories**

	<b>December 31, 2016</b>	
Supplies and consumables	\$	<b>5,071</b>
Work in progress		<b>110</b>
	\$	<b>5,181</b>

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## Ero Copper Corp.

### Notes to Consolidated Financial Statements

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#### 5. Other Current Assets

	<b>December 31, 2016</b>	
Advance to suppliers	\$	<b>2,657</b>
Prepaid expenses		<b>1,525</b>
Advances to employees (a)		<b>723</b>
Value added federal taxes recoverable		<b>410</b>
Other		<b>672</b>
	\$	<b>5,987</b>

- (a) Advances to employees include short term advances of salary, vacation and other benefits granted to Company's employees.

#### 6. Assets and Liabilities Held for Sale

As part of the acquisition discussed in Note 3, the Company acquired a 28% interest in NX Gold. The Company intends to dispose of its interest in NX Gold in the next year as it is not within its core copper business. For the purpose of these audited consolidated financial statements, the Company's interest in NX Gold has been measured at fair value less costs to sell at the acquisition date and was immediately classified as a disposal group held for sale. Therefore, all its assets are grouped together in assets held for sale and all its liabilities are grouped together in liabilities related to assets held for sale.

NX Gold is classified as a discontinued operation as at December 31, 2016, given that it is a subsidiary that was classified as a disposal group and acquired exclusively for resale purposes.

## Ero Copper Corp.

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#### 7. Mineral Property, Plant and Equipment

	Buildings	Equipment	Mineral Properties	Projects in Progress	Other	Mine Closure Costs	Total
<b>Cost</b>							
<b>Balance at May 16, 2016</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Acquisition (note 3)	15,802	38,492	119,628	15,680	10,009	12,456	212,067
Additions	-	-	-	192	10	-	202
Disposals	-	-	-	(417)	(63)	-	(480)
Transfers	82	3,139	5,122	(8,464)	121	-	-
Foreign exchange	374	946	3,252	222	236	293	5,323
<b>Balance at December 31, 2016</b>	<b>16,258</b>	<b>42,577</b>	<b>128,002</b>	<b>7,213</b>	<b>10,313</b>	<b>12,749</b>	<b>217,112</b>
<b>Accumulated depreciation:</b>							
<b>Balance at May 16, 2016</b>	-	-	-	-	-	-	-
Depreciation expense	(13)	(745)	-	-	(11)	(47)	(816)
<b>Balance at December 31, 2016</b>	<b>(13)</b>	<b>(745)</b>	<b>-</b>	<b>-</b>	<b>(11)</b>	<b>(47)</b>	<b>(816)</b>
<b>Net book value May 16, 2016</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Net book value December 31, 2016</b>	<b>\$ 16,245</b>	<b>\$ 41,832</b>	<b>\$ 128,002</b>	<b>\$ 7,213</b>	<b>\$ 10,302</b>	<b>\$ 12,702</b>	<b>\$ 216,296</b>

Buildings, equipment and mining rights for the Pilar UG Mine, the R22W Mine and the Vermelhos UG Mine, which comprise mineral properties in the table above, have been pledged as security for loans and borrowings (Note 10).

## Ero Copper Corp.

### Notes to Consolidated Financial Statements

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#### 8. Exploration and Evaluation Assets

On October 26, 2007, MCSA acquired the copper/gold Boa Esperança Property located in the Municipality of Tucumã, State of Pará which consists of a single mineral concession. This property is in the early stages with various geological mineral resource studies and a completed feasibility study.

The mining rights of the Boa Esperança Property were pledged as security for certain of the Company's loans (Note 10).

#### 9. Accounts Payable and Accrued Liabilities

	December 31, 2016
Suppliers	\$ 14,705
Payroll and related charges	16,776
Other accrued liabilities	2,338
	<u>\$ 33,819</u>

#### 10. Loans and Borrowings

Description	Denomination	Security	Time to Maturity	Coupon rate	Carrying value	Principal to be repaid
Bank loans and debentures	USD	Secured	120 months	8.83%	\$ 89,438	\$ 94,190
Bank loan	USD	Secured	120 months	7.50%	31,950	35,192
Bank loans	USD	Unsecured	28-120 months	7.50%	20,720	20,059
Bank loan	BRL R\$	Secured	120 months	7.50%	9,457	12,501
Bank loan	BRL R\$	Unsecured	120 months	11.50%	8,036	9,638
Equipment finance loans	BRL R\$	Secured	36 months	6.00%	1,005	1,055
Other	BRL R\$	Unsecured	2 months	0.00%	1,103	1,103
Other	USD	Unsecured	3.5-9 months	0%-5.19%	415	415
<b>Total</b>					<b>\$ 162,124</b>	<b>\$ 174,153</b>
<b>Current portion:</b>					<b>\$ 108,137</b>	
<b>Non-current portion</b>					<b>\$ 53,987</b>	

The above loans were recognized at the acquisition date at fair value and are subsequently recognized at amortized cost. Interest is being recognized using the effective interest rate method at interest rates ranging from 7% - 20%.

The secured bank loans are secured by buildings and equipment, deposits, and the mining rights of the Pilar UG Mine, the R22W Mine, the Vermelhos UG Mine (Note 7) and the Boa Esperança Property (Note 8). In addition, some of the loans are endorsed by NX Gold, which means that in the event that MCSA defaults on the loan, the bank is legally able to request payment from NX Gold (Note 1).

In addition to the above loans, in December 2016, the Company issued 500,000 common shares as a facility fee in order to secure a convertible debenture facility of up to \$15 million at an interest rate of 10% over a period of two years. The conversion price of any debentures drawn was \$0.75 per Unit, with each unit consisting of one common share and one-quarter of one common share purchase warrant. This convertible debenture facility was not drawn on as at December 31, 2016 and subsequent to year-end, in July 2017, the convertible debenture facility was terminated with no amounts having been drawn.

**Notes to Consolidated Financial Statements***(Tabular amounts in thousands of US Dollars, except share and per share amounts)*

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**(a) Breach of covenants and debt restructuring**

At the acquisition date (Note 3), MCSA had loans and borrowings totaling \$211.8 million which, in accordance with the terms of the original loan agreements, were due in installments over a four-year period. However, the agreements contained covenants regarding financial ratios and MCSA was not in compliance with such covenants related to certain of the debt agreements during 2016 and on the acquisition date nor had waivers been obtained from the lenders.

On December 2, 2016, MCSA restructured these arrangements. 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 are 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, at the latest, 29 months following signing of the restructured loan agreements (May 2019). The principal amount of the Class B notes total \$83.9 million and are repayable only if, among other things, the Class A notes are not repaid in accordance with the restructured agreements. On the acquisition date and at December 31, 2016, the Company expects 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 and these amounts are not included in the loans and borrowings as at December 31, 2016. The fair value of the Class A notes was determined to be \$120.9 million at the date of acquisition.

Although the debt restructuring agreements were signed on December 2, 2016, they came into effect in May 2017 following the satisfaction of certain conditions precedent by the Company and MCSA. As the conditions precedent were not satisfied by December 31, 2016, the fair value of those loans totaling \$104.2 million, was classified as a current liability in these consolidated financial statements. Upon satisfaction of the conditions in May 2017, the restructured agreements became effective and the fair value of the loans, totaling \$104.2 million, was classified to long-term liabilities.

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.

**(b) Debt repayments**

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

2017	\$	3,891
2018		5,257
2019		25,757
2020		24,019
2021		19,194
2022 and beyond		<u>96,035</u>
	\$	<u>174,153</u>

The debt repayments are based on the restructured agreements which came into effect in May, 2017 (Note 10(a) above) including the extension of the repayment periods of certain loans classified as short term as at December 31, 2016.

## Ero Copper Corp.

### Notes to Consolidated Financial Statements

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

#### 11. Taxes Payable

	December 31, 2016
Value-added taxes payable (a)	\$ 11,350
Tax based on net sales of copper, silver and gold	1,235
Federal sales tax	4,036
Other taxes	1,702
	\$ 18,323

(a) Pursuant to the Tax Incentive Program of the State of Bahia, the Company is able to defer payment of these taxes for a period of 12 months.

#### 12. Provisions and Contingent Liabilities

	Mine Closure and Rehabilitation	Legal Claims	Total
<b>Balance at May 16, 2016</b>	\$ -	\$ -	\$ -
Provisions acquired (note 3)	22,463	5,672	28,135
Additions due to estimated change in cash flows	-	8	8
Foreign exchange	529	133	662
<b>Balance at December 31, 2016</b>	\$ 22,992	\$ 5,813	\$ 28,805

##### (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 9% and an inflation factor of 4.5% 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, 2016, the undiscounted inflation-adjusted liability for provision for mine closure and rehabilitation is estimated to be approximately \$52.1 million. The cash expenditures are expected to occur over a period of time extending several years after the projected closure, which for the Vale do Curaçá Property mine is currently 2022.

##### (b) Legal claims

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

	December 31, 2016
Labour claims (i)	\$ 4,088
Tax claims (ii)	1,435
Other claims	290
	\$ 5,813

**Notes to Consolidated Financial Statements**

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

**(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, MCSA has assessed, with the assistance of its legal counsel, that the probable loss on such claims is \$4.1 million and such amount has been accrued. No amount has been accrued for \$4.4 million in additional labour claims for which a loss is not considered probable (Note 12 (c)).

**(ii) Tax claims**

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

In relation to the above-mentioned claims and those discussed in Note 12(c) below, MCSA was required to place a total of \$2.0 million in trust as of December 31, 2016, which is included in non-current assets on the statement of financial position.

**(c) Contingent liabilities**

As of December 31, 2016, the Company, based on the opinion of its legal advisers, has not recognized a provision for the following claims in MCSA as it is not probable that a cash outflow will occur.

	<b>December 31, 2016</b>	
Social security tax (i)	\$	<b>4,019</b>
Taxes (ii)		<b>9,242</b>
Labour and other (refer to note 12(b)(i))		<b>6,441</b>
	\$	<b>19,702</b>

**(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 Company has accrued its best estimate of the probable loss (included in Note 12(b)(ii)) and the estimated portion of the claim expected to be cancelled of \$4.0 million is included in the table above. This understanding is based on court case rulings.

**(ii) Tax**

There are 54 tax claims against the Company 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.

## Ero Copper Corp.

### Notes to Consolidated Financial Statements

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

#### 13. Other Non-Current Liabilities

	December 31, 2016
Social security installments (a)	\$ 4,293
Profit sharing (b)	2,750
Other	2,413
	<u>9,456</u>
Less: current portion recognized in accounts payable and accrued liabilities	(1,436)
<b>Other non-current liabilities</b>	<b>\$ 8,020</b>

##### (a) Social security installments

The Company 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.

##### (b) Profit sharing

MCSA had a profit sharing plan pursuant to which certain employees of MCSA were to receive specified payments upon achievement of pre-established goals defined during strategic planning. The Company is not expected to settle the obligation in the next 12 months. Accordingly, the liability has been classified as non-current.

#### 14. Share Capital

As at December 31, 2016, the Company's authorized share capital consists of an unlimited number of common shares without par value. As at December 31, 2016, 38,349,091 common shares were outstanding.

##### (a) Private placements

In September 2016, the Company issued 10,000,000 founder units at a price of \$0.01 per founder unit, for gross proceeds of \$100,000. Each founder unit consisted of one common share of the Company and one-third of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price equal to \$1.20 per common share until December 12, 2021.

In September 2016, the Company issued 18,400,000 subscription receipts at a price of \$1.00 per subscription receipt, for gross proceeds of \$18,400,000. Each subscription receipt was converted into units in December 2016, with each unit consisting of one common share of the Company and one-third of one common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one common share at a price of \$1.20 per common share until December 12, 2021. The Company may accelerate the expiry of the warrants if the closing share price on a recognized exchange reaches or exceeds \$1.70 for 20 consecutive trading days.

In December 2016, the Company issued 500,000 common shares at a deemed price of \$1.00 per common share as a facility fee in order to secure a convertible debenture facility of up to \$15 million at an interest rate of 10% over a period of 2 years. The related cost was deferred and is being amortized over the two-year term that the debt facility is available to the Company. Subsequent to December 31, 2016, the convertible debenture facility was cancelled with no amounts having been drawn, and all remaining deferred fees were written off.

In December 2016, the Company issued 8,949,089 units at a price of \$1.00 per unit, for gross proceeds of \$8,949,089. Each unit consisted of one common share of the Company and one-third of one common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one common share at a price of \$1.20 per common share until December 12, 2021. In connection with the offering, the Company may accelerate the expiry of the Warrants if the closing share price on a recognized exchange reaches or exceeds \$1.70 for 20

## Ero Copper Corp.

### Notes to Consolidated Financial Statements

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

consecutive trading days. In addition, the Company issued 500,000 common shares at a price of \$0.01 per common share for gross proceeds of \$5,000. These shares have been recognized at their fair valued of \$1.00 per common share with the difference recognized as share issuance costs.

#### (b) Warrants

At December 31, 2016, the Company had 12,449,666 outstanding warrants exercisable into common shares at \$1.20 per share with a weighted average contractual life of 5.0 years.

#### 15. General and Administrative Expenses

	Period Ended December 31, 2016
Accounting and legal	\$ 774
Consulting	84
Office and sundry	804
Travel and conference	138
Other	44
	\$ 1,844

#### 16. Care and Maintenance Expenses

MCSA's mining operations (underground mine and open pit mine) were not operational for the period since acquisition to December 31, 2016. During this period, the following costs were incurred by MCSA to operate the mine on a care and maintenance basis:

	Period Ended December 31, 2016
Materials	\$ 132
Personnel	1,967
Amortization and depreciation	816
Services from third parties	565
Other	207
	\$ 3,687

Notes to Consolidated Financial Statements

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

17. Income Taxes

(a) Reconciliation of income taxes

A reconciliation of the income tax expense to the amount calculated using the Company's statutory tax rate of 26% is as follows:

	Period Ended December 31, 2016	
Net loss before income tax for the period	\$	(3,508)
Tax rate		26%
Income tax recovery computed at statutory rate	\$	(912)
Tax effect of:		
Difference in rate of foreign jurisdictions		271
Non-deductible items		(568)
Tax effect of unrecognized temporary differences		1,027
Other		61
<b>Deferred income tax recovery</b>	<b>\$</b>	<b>(121)</b>

(b) Deferred income tax liabilities

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

	December 31, 2016	
<b>Deferred tax assets:</b>		
Non-capital losses - Brazil	\$	7,313
<b>Deferred tax liabilities</b>		
Mineral property, plant and equipment		(6,461)
Loans and borrowings		(17,916)
Working capital		(581)
<b>Net deferred income tax liabilities</b>	<b>\$</b>	<b>(17,645)</b>

Deferred tax assets of \$29.7 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:

	Period Ended December 31, 2016			
	Brazil		Canada	
Exploration and evaluation assets	\$	59,358	\$	-
Reserves and fixed asset impairment		13,566		-
Share issuance/financing costs		-		545
Non-capital losses		116,051		242
Other		4,078		163
	<b>\$</b>	<b>193,053</b>	<b>\$</b>	<b>950</b>

The Company has loss carry forwards in Brazil totalling \$164.0 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 \$0.2 million which may be carried forward for 20 years to offset future taxable income.

**18. Related Party Transactions**

**(a) Key management compensation**

Key management personnel consist of the Company's directors and officers and includes management and consulting fees paid to these individuals, or companies controlled by these individuals. The aggregate value of compensation paid to key management personnel for the period from May 16, 2016 to December 31, 2016 was \$24,000, which was paid to one officer of the Company.

Key management personnel participated in certain financing activities by purchasing 11,760,000 units of the Company for total proceeds of \$2,850,000.

**(b) Related party balances**

As at December 31, 2016, included in accounts payable and accrued liabilities and loans and borrowings are amounts payable to related parties totalling \$60,000 and \$325,000, respectively. Such amounts are unsecured, non-interest bearing and are expected to be repaid under normal trade terms.

**19. Financial Instruments**

**(a) 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, 2016, no financial instruments have been recognized at fair value.

The carrying values of cash and cash equivalents, 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 loans and borrowings approximates fair value as the effective interest rate used to amortize these loans are a close approximation of market rates of interest at December 31, 2016 (level 2 of the fair value hierarchy).

**(b) 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 the Company incurring losses from a financial instrument arising from a counterparty's failure to comply with their contractual obligations.

**Notes to Consolidated Financial Statements**

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

With regards to the financial investments, the Company aims at to invest cash and cash equivalents with financial institutions that are financially sound based on their credit ratings.

The carrying value of the financial assets below represents the maximum credit risk exposure as at December 31, 2016:

	<b>December 31, 2016</b>	
Cash and cash equivalents	\$	<b>18,318</b>
Accounts receivable		<b>76</b>
Deposits		<b>2,021</b>
Financial investments		<b>598</b>
	<b>\$</b>	<b>21,013</b>

*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, 2016:

<b>Non-derivative Financial Liabilities</b>	<b>Carrying value</b>	<b>Contractual cash flows</b>	<b>Up to 12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>
Loans and borrowings	\$ 162,124	\$ 174,153	\$ 3,891	\$ 5,257	\$ 68,970	\$ 96,035
Interest on loans and borrowings	-	67,271	3,970	10,029	33,055	20,217
Accounts payable and accrued liabilities	33,819	33,819	33,819	-	-	-
Taxes payable	18,323	18,323	18,323	-	-	-
Other non-current liabilities	8,020	16,869	1,080	5,417	1,271	9,101
	<b>\$ 222,286</b>	<b>\$ 310,435</b>	<b>\$ 61,083</b>	<b>\$ 20,703</b>	<b>\$ 103,296</b>	<b>\$ 125,353</b>

*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. However, at December 31, 2016, the Company has not entered into any such derivatives.

(a) Foreign exchange currency risk

The Company is exposed to exchange risks related to the sale of products that are quoted in US dollars and loans and borrowings that are denominated in a currency other than the functional currency of the Company or its subsidiaries. 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, 2016 relates to \$142.5 million in loans and borrowings of MCSA denominated in US dollars. Strengthening (weakening) in the Brazilian Real

## Notes to Consolidated Financial Statements

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

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against the US dollar by 10% and 20%, would have reduced (increased) net loss by \$14.3 million and \$28.5 million respectively. 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.

(b) Interest rate risk

The Company is 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.

As a majority of the Company's loans and borrowings are fixed rate, the Company does not believe interest rate risk is significant.

(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, 2016, the Company had no sales or receivables subject to provisional pricing.

## 20. 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's 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.

## Ero Copper Corp.

### Notes to Consolidated Financial Statements

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

#### 21. Commitments

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

2017	\$ 25
2018	50
2019	52
2020	52
2021	52
2022	22
<b>Total Commitments</b>	<b>\$ 253</b>

#### 22. Segment Disclosure

The Company is currently organized into one reportable operating segment, being that of the exploration, development and mining of mineral properties in Brazil.

Information about geographic areas of operation is as follows:

<b>Cash and cash equivalents</b>	<b>December 31, 2016</b>
Brazil	\$ 8,515
Canada	9,803
	<b>\$ 18,318</b>

<b>Non-current assets</b>	<b>December 31, 2016</b>
Brazil	\$ 263,047
Canada	500
	<b>\$ 263,547</b>

#### 23. Subsequent Events

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. One unit consists of one common share and one-quarter of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$1.20 per common share until December 12, 2021. The Company may accelerate the expiry of any warrants issued in relation to these convertible debentures if the closing share price on a recognized exchange reaches or exceeds \$1.70 for 20 consecutive trading days. \$1.0 million of the convertible debentures were issued to key management personnel.

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 the share issuance by purchasing 283,333 common shares of the Company for total proceeds of \$0.4 million.

In March 2017, the Company paid \$250,000 as a facility fee in order to secure a convertible debenture of up to \$5 million at an interest rate of 10% available for draw down until the earlier of March 21, 2018 or the date of the Company's initial public offering. If during this period, the Company makes a drawdown on the debenture,

**Notes to Consolidated Financial Statements**

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

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the holder of the debenture may convert the outstanding amount into common shares at a conversion price of \$1.75 per common share, subject to certain adjustments. No amount has been drawn on the facility.

In May 2017, the Board adopted a stock option plan (the "Stock Option Plan"). Pursuant to the Stock Option Plan, the Board, at the recommendation of the compensation committee, may grant stock options to any director, officer, employee, consultant or other personnel of the Company (including any subsidiary of the Company). The vesting and exercise period of a stock option will be determined by the Board at the time of its grant; however, the expiry date of a stock option shall be no later than five years from the date of grant. The total number of common shares issuable pursuant to the Stock Option Plan (subject to adjustments under the Stock Option Plan) together with all other security based compensation arrangements of the Company (including the Share Unit Plan (defined below)) shall not exceed 10% of the Company's issued and outstanding common shares at the time of the grant.

Subsequent to year end, the Company granted 1,715,000 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.

In June 2017, the Company acquired an additional 10,952,276,044 shares of MCSA, increasing its ownership interest in MCSA to 99.5%, by subscribing for shares issued from treasury for \$34.3 million.

In September 2017, the Board 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 lesser than 100%) of the Share Units in a grant become vested depending on the satisfaction of one or more performance conditions. 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 is subject to approval by the shareholders at the next annual general meeting. No Share Units have been granted.

In August 2017, MCSA acquired 1,938,143,830 shares of NX Gold, increasing the Company's ownership interest in NX Gold to 97.6%, by converting intercompany loans of \$5.9 million into shares.

On October 11, 2017 the Company entered into an underwriting agreement under which the Company has agreed to issue and sell 10 million common shares from treasury at \$4.75 CAD per common share (the "Offering Price"). In accordance with the agreement, the underwriters have been granted an over-allotment option, exercisable in whole or in part, at the sole discretion of the underwriters at any time for a period of 30 days from the closing date, to purchase up to an additional 3,492,317 common shares at the Offering Price from the Company. A fee equal to 6% of the gross proceeds of the offering will be payable to underwriters.



**CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE  
30, 2017  
(UNAUDITED)**

## Ero Copper Corp.

### Condensed Consolidated Statements of Financial Position

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

(Unaudited)

ASSETS	Notes	As at June 30, 2017	As at December 31, 2016
<b>Current</b>			
Cash and cash equivalents		\$ 24,767	\$ 18,318
Accounts receivable		2,051	76
Inventories	4	7,229	5,181
Other current assets	5	6,540	5,987
Assets held for sale	6	25,072	24,846
		65,659	54,408
<b>Non-Current</b>			
Mineral property, plant and equipment	7	217,497	216,296
Exploration and evaluation assets	8	26,092	26,351
Deposits		2,438	2,021
Other non-current assets		671	1,111
Goodwill	3	17,507	17,768
		264,205	263,547
<b>Total Assets</b>		<b>\$ 329,864</b>	<b>\$ 317,955</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		\$ 41,334	\$ 33,819
Current portion of loans and borrowings	9	7,591	108,137
Taxes payable		14,757	18,323
Liabilities related to assets held for sale	6	25,072	24,846
		88,754	185,125
<b>Non-Current</b>			
Loans and borrowings	9	155,816	53,987
Provisions		29,722	28,805
Other non-current liabilities		4,950	8,020
Deferred income tax liabilities		16,621	17,645
		207,109	108,457
<b>Total Liabilities</b>		<b>295,863</b>	<b>293,582</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	11	54,819	27,817
Equity reserves		(246)	7
Convertible debentures	10(b)	2,750	-
Accumulated deficit		(20,896)	(3,046)
<b>Equity attributable to owners of the Company</b>		<b>36,427</b>	<b>24,778</b>
<b>Non-controlling interests</b>		<b>(2,426)</b>	<b>(405)</b>
		34,001	24,373
<b>Total Liabilities and Equity</b>		<b>\$ 329,864</b>	<b>\$ 317,955</b>

Nature of operations and going concern (Note 1); Subsequent events (Notes 11(b) and 17)

#### APPROVED ON BEHALF OF THE BOARD:

\_\_\_\_\_  
"David Strang", CEO & Director

\_\_\_\_\_  
"Matthew Wubs", Director

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

## Ero Copper Corp.

# Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

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

(Unaudited)

	Notes	Three Months ended June 30, 2017	Period ended June 30, 2016 <sup>(1)</sup>	Six Months ended June 30, 2017	Period ended June 30, 2016 <sup>(1)</sup>
Revenue		\$ 32,548	\$ -	\$ 44,667	\$ -
Cost of goods sold	12	( 27,167 )	-	( 41,827 )	-
<b>Gross profit</b>		<b>5,381</b>		<b>2,840</b>	
<b>Expenses</b>					
General and administrative	13	3,537	108	8,167	108
<b>Income (loss) before the understated</b>		<b>1,844</b>	(108)	<b>(5,327)</b>	(108)
<b>Other income (expenses)</b>					
Finance income		641	-	825	-
Finance expense		(6,676)	-	(13,424)	-
Foreign exchange		8,346	1	(2,092)	1
Other income		259	-	2,659	-
<b>Income (loss) before income taxes</b>		<b>4,414</b>	(107)	<b>(17,359)</b>	(107)
<b>Income tax recovery</b>					
Deferred income tax recovery		795	-	796	-
<b>Net income (loss) from continuing operations</b>		<b>5,209</b>	(107)	<b>(16,563)</b>	(107)
Net loss from discontinued operations	6	(1,640)	-	(3,247)	-
<b>Net income (loss) for the period</b>		<b>3,569</b>	(107)	<b>(19,810)</b>	(107)
<b>Other comprehensive income</b>					
Foreign currency translation loss		(988)	-	(405)	-
<b>Comprehensive income (loss)</b>		<b>\$ 2,581</b>	\$ (107)	<b>\$ (20,215)</b>	\$ (107)
<b>Net income (loss) attributable to:</b>					
Owners of the Company		4,124	(107)	(15,440)	(107)
Non-controlling interests		(555)	-	(4,370)	-
		<b>\$ 3,569</b>	\$ (107)	<b>\$ (19,810)</b>	\$ (107)
<b>Comprehensive income (loss) attributable to:</b>					
Owners of the Company		3,285	(107)	(15,784)	(107)
Non-controlling interests		(704)	-	(4,431)	-
		<b>\$ 2,581</b>	\$ (107)	<b>\$ (20,215)</b>	\$ (107)
<b>Income (loss) per share attributable to owners of the Company</b>					
<b>Income (loss) per share from continuing operations</b>					
Basic		\$ 0.08	\$ (53,500)	\$ (0.30)	\$ (53,500)
Diluted		\$ 0.07	\$ (53,500)	\$ (0.30)	\$ (53,500)
<b>Loss per share from discontinued operations</b>					
Basic and diluted		\$ (0.01)	\$ -	\$ (0.02)	\$ -
<b>Net income (loss) per share - basic and diluted</b>					
Basic		\$ 0.07	\$ (53,500)	\$ (0.32)	\$ (53,500)
Diluted		\$ 0.06	\$ (53,500)	\$ (0.32)	\$ (53,500)
<b>Weighted average number of common shares outstanding</b>					
Basic		56,772,684	2	48,527,872	2
Diluted		63,112,617	2	48,527,872	2

(1) Period ended June 30, 2016 covers May 16, 2016, the Company's date of inception, to June 30, 2016

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

## Ero Copper Corp.

### Condensed Consolidated Statement of Changes in Shareholders' Equity

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

(Unaudited)

	Share Capital		Equity Reserves				Total	Non-controlling interest	Total Equity
	Number of shares	Amount	Contributed surplus	Foreign exchange	Convertible Debentures	Accumulated Deficit			
Balance, May 16, 2016	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loss for the period	-	-	-	-	-	(107)	(107)	-	(107)
Shares issued for:									
Private placements	2	-	-	-	-	-	-	-	-
<b>Balance, June 30, 2016<sup>(1)</sup></b>	<b>2</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (107)</b>	<b>\$ (107)</b>	<b>\$ -</b>	<b>\$ (107)</b>
<b>Balance, December 31, 2016</b>	<b>38,349,091</b>	<b>\$ 27,817</b>	<b>\$ -</b>	<b>\$ 7</b>	<b>\$ -</b>	<b>\$ (3,046)</b>	<b>\$ 24,778</b>	<b>\$ (405)</b>	<b>\$ 24,373</b>
Loss for the period	-	-	-	-	-	(15,440)	(15,440)	(4,370)	(19,810)
Other comprehensive loss for the period	-	-	-	(344)	-	-	(344)	(61)	(405)
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(344)</b>	<b>-</b>	<b>(15,440)</b>	<b>(15,784)</b>	<b>(4,431)</b>	<b>(20,215)</b>
Shares issued for:									
Private placements	18,423,593	27,635	-	-	-	-	27,635	-	27,635
Share issuance costs	-	(633)	-	-	-	-	(633)	-	(633)
Stock-based compensation (note 11(b))	-	-	91	-	-	-	91	-	91
Convertible debentures (note 10(b))	-	-	-	-	2,750	-	2,750	-	2,750
Step-up acquisition of MCSA from 85% to 99.5%	-	-	-	-	-	(2,410)	(2,410)	2,410	-
<b>Balance, June 30, 2017</b>	<b>56,772,684</b>	<b>\$ 54,819</b>	<b>\$ 91</b>	<b>\$ (337)</b>	<b>\$ 2,750</b>	<b>\$ (20,896)</b>	<b>\$ 36,427</b>	<b>\$ (2,426)</b>	<b>\$ 34,001</b>

(1) Period ended June 30, 2016 covers May 16, 2016, the Company's date of inception, to June 30, 2016

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

## Condensed Consolidated Statement of Cash Flows

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

(Unaudited)

	Three Months ended June 30, 2017	Period ended June 30, 2016 <sup>(1)</sup>	Six Months ended June 30, 2017	Period ended June 30, 2016 <sup>(1)</sup>
<b>Cash Flows used in Operating Activities</b>				
Net loss from continuing operations	\$ 5,209	( 107 )	\$ (16,563)	( 107 )
Adjustments for:				
Amortization and depreciation	8,312	-	12,954	-
Deferred income tax recovery	(795)	-	(796)	-
Provisions	(61)	-	1,703	-
Share-based compensation	91	-	91	-
Finance income	(641)	-	(825)	-
Finance expenses	6,676	-	13,424	-
Unrealized foreign exchange	(8,346)	( 1 )	2,092	( 1 )
Changes in:				
Accounts receivable	(2,013)	-	(2,056)	-
Inventories	2,420	-	(1,562)	-
Other assets	(1,081)	-	(920)	-
Accounts payable and accrued liabilities	(9,690)	-	(9,656)	-
Taxes payable	(5,191)	-	(4,112)	-
Provisions	(209)	-	(308)	-
Other liabilities	10,013	-	9,713	-
	<b>4,694</b>	<b>( 108 )</b>	<b>3,179</b>	<b>( 108 )</b>
<b>Cash Flows used in Investing Activities</b>				
Additions to mineral property, plant and equipment	(7,875)	-	(16,661)	-
Additions of exploration and evaluation assets	(122)	-	(253)	-
Interest received	439	-	518	-
Advances to NX Gold	(1,641)	-	(3,213)	-
	<b>(9,199)</b>	<b>-</b>	<b>(19,609)</b>	<b>-</b>
<b>Cash Flows from (used in) Financing Activities</b>				
Convertible debentures	-	-	2,750	-
Convertible debentures - facility fee	-	-	(250)	-
Loans and borrowings	(633)	111	(2,608)	111
Interest paid on loans and borrowings	(1,737)	-	(2,494)	-
Other finance costs paid	(213)	-	(778)	-
Issuance of share capital, net of issuance costs	-	-	27,002	-
	<b>(2,583)</b>	<b>111</b>	<b>23,622</b>	<b>111</b>
Effect of exchange rate changes on cash and cash equivalents	(520)	-	(743)	-
Net Increase in cash and cash equivalents	(7,608)	3	6,449	3
Cash and cash equivalents - beginning of period	32,375	-	18,318	-
<b>Cash and cash equivalents - end of period</b>	<b>24,767</b>	<b>3</b>	<b>24,767</b>	<b>3</b>

(1) Period ended June 30, 2016 covers May 16, 2016, the Company's date of inception, to June 30, 2016

## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

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### 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.

The Company's principal asset is its 99.5% ownership interest in Mineração Caraíba S.A. ("MCSA"). The Company also currently owns a 28% ownership interest in NX Gold S.A. ("NX Gold"). Both of these assets were acquired on December 12, 2016 (Note 3), with a further equity interest in MCSA acquired in June 2017.

MCSA is a Brazilian company which holds a 100% interest in the Vale do Curaçá Property and the Boa Esperança Property (Note 8). The Vale do Curaçá Property is located in the Curaçá Valley, municipality of Jaguarai, northeast of the Bahai state, Brazil, and includes fully integrated processing operations, three active mines (including one under construction), one nearing the end of its mine life and two past producing mines located within the Curaçá Valley. 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"), currently under construction. The past producing operations include the historic open pit mines of R22W ("R22W Mine") and the Angicos ("Angicos Mine"). Suçuarana ("Suçuarana Mine") is nearing the end of its mine life. The Boa Esperança Property is located within the municipality of Tucumã, southeastern Pará State, Brazil, approximately 40 kilometres southwest of the town of Tucumã and consists of a single mineral concession covering an area of 4,033.81 hectares.

MCSA's predominant activity is the production and sale of copper from the Vale do Curaçá Property, with gold and silver produced and sold as by-products from the same property. The persistence of lower London Metal Exchange benchmark copper prices in 2016, coupled with the flooding of MCSA's Pilar UG Mine on January 22, 2016, led MCSA to commence the new Judicial Reorganization process on February 3, 2016. During most of 2016, MCSA operated at a reduced capacity and, unable to obtain the necessary funds from its shareholders and creditors, initiated negotiations with potential investors to obtain the funds necessary to resume its operations. On December 12, 2016, Ero acquired an 85% interest in MCSA and has since contributed capital resources that enabled MCSA to resume the production of copper concentrate at its Vale do Curaçá Property in February 2017. In June 2017, the Company acquired an additional 14.5% interest in MCSA by subscribing to shares issued from MCSA's treasury. The Company has consolidated MCSA from the acquisition date and net loss of the Company includes the net loss of MCSA from the acquisition date.

NX Gold originated from a partial spin-off from MCSA on April 2, 2013. NX Gold is a Brazilian company located in the city of Nova Xavantina, Mato Grosso. NX Gold's main operational activity is the mining, processing and sale of gold and, as a by-product, silver. The assets of NX Gold are pledged as a guarantee of the debts of MCSA. Accordingly, NX Gold was also part of the court-supervised reorganization granted on February 3, 2016. On December 12, 2016, Ero acquired a 28% economic interest in NX Gold in conjunction with the acquisition of MCSA. However, pursuant to a shareholders' agreement among the Company and the significant shareholders of NX Gold, the Articles of Incorporation of NX Gold and the composition of the Board of Directors, the Company has control over all key operating, financing and investing activities of NX Gold. Accordingly, the Company has consolidated the accounts of NX Gold and net loss of the Company include the net loss of NX Gold from the acquisition date. From the date of acquisition, the Company intended to sell its interest in NX Gold. Accordingly, the assets and liabilities of NX Gold are classified as assets and liabilities held for sale. NX Gold continues to guarantee some of the debts of MCSA, but an agreement is in place with the bank which allows NX Gold to be sold. The agreement stipulates that should NX Gold be sold, 50% of the sales price will be applied toward the payment of MCSA's debts.

These condensed consolidated interim 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. As at June 30, 2017, the Company has a working capital deficiency totaling \$23.1 million (December 31, 2016 - \$130.7 million). The Company's ability to continue as a going concern in the

## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

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short term is dependent on the continued support of its creditors and obtaining additional financing to settle its current liabilities. In the long-term, the Company's ability to continue as a going concern is dependent upon achieving profitable operations at MCSA. The recoverability of the carrying values of the Company's assets is dependent upon the ability of the Company to obtain the necessary financing to meet its debt obligations, complete the development of MCSA, and achieve profitable production.

During the six month period ended June 30, 2017, the Company received gross financing of \$30.4 million in the form of convertible debentures and the issuance of common shares (Notes 10 and 11) and secured a convertible debenture facility for up to \$5.0 million (Note 10(c)). However, the Company may require additional financing in the next year in order to bring the MCSA operations to full capacity such that it is able to generate positive cash flows. 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. Accordingly, there are material risks and uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

These condensed consolidated interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary if the Company was not considered to be a going concern. These adjustments could be material.

### 2. Significant Accounting Policies

#### a) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS ("International Accounting Standards") 34, *Interim Financial Reporting* and follow the same accounting policies and methods of application as the Company's most recent annual financial statements. These condensed consolidated interim financial statements do not include all of the information required for full consolidated annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the period ended December 31, 2016, 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 condensed consolidated interim financial statements were authorized for issue by the Board of Directors on October 11, 2017.

#### b) Changes in Current and Future Accounting Standards

The Company has not applied the following revised or new IFRS that have been issued but were not yet effective at June 30, 2017:

##### i) *IFRS 15 Revenue from Contracts with Customers*

On May 28, 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). The new standard is effective for the Company on January 1, 2018. Earlier application is permitted. IFRS 15 will replace 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*. On April 12, 2016, the IASB issued *Clarifications to IFRS 15, Revenue from Contracts with Customers*, which is effective at the same time as IFRS 15.

## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

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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.

The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property.

The Company is currently evaluating the impact that IFRS 15 will have on the consolidated financial statements.

### **ii) IFRS 9 Financial Instruments**

On July 24, 2014, the IASB issued the complete IFRS 9, *Financial Instruments* ("IFRS 9"). IFRS 9 is effective for the Company on January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 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 and amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model.

The extent of the impact of adoption of the standard has not yet been determined.

### **iii) 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.

**Notes to Condensed Consolidated Financial Statements**

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

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The extent of the impact of adoption of the standard has not yet been determined.

**3. Business Combination**

On December 12, 2016, the Company obtained control of MCSA and NX Gold by acquiring an 85% and a 28% interest in each entity, respectively. Although the Company only acquired a 28% economic interest in NX Gold, by virtue of a shareholders' agreement with the shareholder vendors of NX Gold, the Articles of Incorporation of NX Gold and the composition of the Board of Directors of NX Gold, the Company has control over all key operating, financing and investing activities. Accordingly, the Company has consolidated the accounts of NX Gold. As the Company's 28% interest in NX Gold was acquired from one of the same shareholders as MCSA and was contemplated as part of the MSCA acquisition, for accounting purposes the acquisitions are considered a single acquisition. The acquisition of MCSA is in line with the Company's strategy to become a leading mid-tier copper producer through organic growth and disciplined acquisitions. The acquisition has been accounted for as a business combination. The cash consideration paid was nominal and the Company agreed to assume all of the loans and borrowing and other obligations of MCSA and NX Gold.

The preliminary purchase price allocation, which is subject to final adjustments, based on estimated fair value of the identifiable assets acquired and liabilities assumed on December 12, 2016 are as follows:

Cash and cash equivalents	\$	131
Accounts receivable		90
Inventories		4,939
Other current assets		6,145
Mineral property, plant and equipment		212,067
Exploration and evaluation assets		25,745
Deposits		1,975
Other non-current assets		592
Goodwill		17,369
Assets held for sale		24,711
Accounts payable and accrued liabilities		(35,839)
Taxes payable		(17,566)
Loans and borrowings		(160,632)
Provisions		(28,135)
Other non-current liabilities		(9,512)
Deferred income tax liabilities		(17,369)
Liabilities related to assets held for sale		(24,711)
<b>Net</b>	<b>\$</b>	<b>-</b>

The above purchase price allocation is preliminary as the Company is still in the process of determining the fair value of certain assets and liabilities. Specifically, the Company is in the process of determining the fair value of mineral property, plant and equipment, exploration and evaluation assets, deferred income tax liabilities and amounts allocated to goodwill, and these amounts may change when the purchase price allocation is finalized.

The majority of the fair value of identifiable assets acquired in respect of NX Gold relate to mineral property, plant and equipment and inventory. The majority of the fair value of identifiable liabilities assumed in respect of NX Gold relate to accounts payable and accruals, loans, borrowings and provisions.

**Notes to Condensed Consolidated Financial Statements***(Tabular amounts in thousands of US Dollars, except share and per share amounts)**(Unaudited)*

The Company intends to dispose of its interest in NX Gold in the next year as it is not within its core copper business. Accordingly, the assets and liabilities of NX Gold acquired by the Company are presented as assets held for sale and liabilities related to assets held for sale, and subsequent results of operations as discontinued operations.

Mineral properties were valued using a discounted cash flow model using expected future cash flows to be generated by the mine over its remaining life, based on proven and probable mineral reserves. Copper prices used to estimate revenues ranged from US\$2.35 per pound to US\$2.90 per pound for the forecast period. The cash flows were discounted using a discount rate of 13.5%.

The fair value of the majority of the plant and equipment was determined using the depreciated replacement cost method which estimates the current replacement costs and adjust this amount for physical depreciation and functional and technological obsolescence. Where an active market was available for certain of these assets, the fair market value of these assets in active markets was used.

The fair value of the exploration and evaluation assets acquired was determined based on the identified mineral resources and a price per pound of copper identified in precedent transactions for similar properties.

The fair value of debt facilities and certain other long term liabilities was estimated using the expected cash flows discounted at market rates of interest for comparable instruments adjusted for the estimated credit risk of MCSA. Such discount rates ranged from 7% – 20% depending on the instrument, the term of the debt, security and other factors. Certain of the creditors agreed to split amounts outstanding into Class A and B notes (Note 9) with the Class B notes 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 fair value of the Class B notes was determined to be Nil.

Goodwill arose primarily as a result of the recognition of a deferred tax liability on temporary differences between the fair value of the assets and liabilities acquired and the tax values of these assets and liabilities. Goodwill is not deductible for tax purposes.

As the fair value of the net assets and liabilities acquired was Nil, no non-controlling interest results on acquisition.

In June 2017, the Company acquired an additional 10,952,276,044 shares of MCSA, increasing its ownership interest in MCSA to 99.5%, by subscribing to shares issued from treasury for \$34.3 million. The resulting reduction in the non-controlling interest has been recorded as a reclassification within equity between accumulated deficit and non-controlling interests.

**4. Inventories**

	<b>June 30, 2017</b>		<b>December 31, 2016</b>
Supplies and consumables	\$ 5,780	\$	5,071
Work in progress	559		110
Finished goods	890		-
	<b>\$ 7,229</b>	<b>\$</b>	<b>5,181</b>

## Ero Copper Corp.

### Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

#### 5. Other Current Assets

	June 30, 2017	December 31, 2016
Advance to suppliers	\$ 1,855	\$ 2,657
Prepaid expenses	1,352	1,525
Advances to employees (a)	1,038	723
Value added federal taxes recoverable	958	428
Other	1,337	654
	<b>\$ 6,540</b>	<b>\$ 5,987</b>

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

#### 6. Assets and Liabilities Held for Sale

As part of the acquisition discussed in Note 3, the Company acquired a 28% interest in NX Gold. The Company intends to dispose of its interest in NX Gold in the next year as it is not within its core copper business. For the purpose of these condensed consolidated interim financial statements, the Company's interest in NX Gold has been measured at fair value less costs to sell at the acquisition date and was immediately classified as a disposal group held for sale. Therefore, all its assets are grouped together in assets held for sale and all its liabilities are grouped together in liabilities related to assets held for sale.

NX Gold is classified as a discontinued operation as at June 30, 2017, given that it is a subsidiary that was classified as a disposal group and acquired exclusively for resale purposes.

#### 7. Mineral Property, Plant and Equipment

During the three month period ended June 30, 2017, the Company capitalized stripping costs of \$1.8 million. In addition, the Company capitalized costs related to projects in progress of \$6.5 million during this period.

During the six month period ended June 30, 2017, the Company capitalized stripping costs of \$2.4 million. In addition, the Company capitalized costs related to projects in progress of \$10.5 million during this period.

Buildings, equipment and mining rights for the Pilar UG Mine, the R22W Mine and the Vermelhos UG Mine, which comprise mineral properties, have been pledged as security for loans and borrowings (Note 9).

#### 8. Exploration and Evaluation Assets

On October 26, 2007, MCSA acquired the copper/gold Boa Esperança Property located in the Municipality of Tucumã, State of Pará which consists of a single mineral concession. This property is in the early stages with various geological mineral resource studies and a completed feasibility study.

The mining rights of the Boa Esperança Property were pledged as security for certain of the Company's loans (Note 9).

## Ero Copper Corp.

### Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

#### 9. Loans and Borrowings

Description	Denomination	Security	Time to Maturity	Coupon rate	Carrying value	Principal to be repaid
Bank loans	USD	Secured	114 months	8.83%	\$ 92,736	\$ 94,191
Bank loan	USD	Secured	114 months	7.50%	33,127	35,192
Bank loans	USD	Unsecured	22-114 months	7.50%	19,649	19,512
Bank loan	BRL R\$	Secured	114 months	7.50%	9,487	12,819
Bank loan	BRL R\$	Unsecured	114 months	11.50%	7,908	9,883
Equipment finance loans	BRL R\$	Secured	30 months	6.00%	410	477
Other	USD	Unsecured	6 months	0%-5.19%	90	90
<b>Total</b>					<b>\$ 163,407</b>	<b>\$ 172,164</b>
<b>Current portion:</b>					<b>\$ 7,591</b>	
<b>Non-current portion:</b>					<b>\$ 155,816</b>	

The above loans were recognized at the acquisition date at fair value and are subsequently recognized at amortized cost. Interest is being recognized using the effective interest rate method at interest rates ranging from 7% - 20%.

The secured bank loans are secured by buildings and equipment, deposits, and the mining rights of the Pilar UG Mine, the R22W Mine, the Vermelhos UG Mine (Note 7) and the Boa Esperança Property (Note 8). In addition, some of the loans are endorsed by NX Gold, which means that in the event that MCSA defaults on the loan, the bank is legally able to request payment from NX Gold (Note 1).

	Carrying value
<b>Balance at December 31, 2016</b>	<b>\$ 162,124</b>
Principal and interest payments	( 5,102 )
Interest accretion	7,011
Foreign exchange	( 626 )
<b>Balance at June 30, 2017</b>	<b>\$ 163,407</b>

At the acquisition date (Note 3), MCSA had loans and borrowings totaling \$211.8 million which, in accordance with the terms of the original loan agreements, were due in installments over a four-year period. However, the agreements contained covenants regarding financial ratios and MCSA was not in compliance with such covenants related to certain of the debt agreements during 2016 and on the acquisition date nor had waivers been obtained from the lenders.

On December 2, 2016, MCSA restructured these arrangements. 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 are 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, at the latest, 29 months following signing of the restructured loan agreements (May 2019). The principal amount of the Class B notes total \$83.9 million and are repayable only if, among other things, the Class A notes are not repaid in accordance with the restructured agreements. On the acquisition date and at June 30, 2017, the Company expects 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 and these amounts were not included in the loans and borrowings as at June 30, 2017.

Although the debt restructuring agreements were signed on December 2, 2016, they came into effect in May 2017 following the satisfaction of certain conditions precedent by the Company and MCSA. As the conditions precedent were not satisfied by December 31, 2016, the fair value of those loans, totaling \$104.2 million, was classified as a current liability in the December 31, 2016 consolidated financial statements. Upon satisfaction of the conditions in

## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

---

May 2017, the restructured agreements became effective and the carrying value of these loans are included in the long-term portion of loans and borrowings at June 30, 2017.

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 condensed consolidated interim financial statements, MCSA was in compliance with these covenants.

### 10. Convertible Debentures

- (a) In December 2016, the Company issued 500,000 common shares as a facility fee in order to secure a convertible debenture facility of up to \$15 million at an interest rate of 10% over a period of 2 years. The conversion price of any debentures drawn was \$0.75 per Unit, with each unit consisting of one common share and one-quarter of one common share purchase warrant. This convertible debenture facility was not drawn on as at June 30, 2017 and subsequent to period-end, in July 2017, the convertible debenture facility was terminated with no amounts having been drawn.
- (b) 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 entitles the holder to purchase one common share at a price of \$1.20 per common share until December 12, 2021. The Company may accelerate the expiry of any warrants issued in relation to these convertible debentures if the closing share price on a recognized exchange reaches or exceeds \$1.70 for 20 consecutive trading days. On maturity of the convertible debentures, the Company shall 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 debentures can be settled at the discretion of the Company in a fixed number of the Company's own equity instruments, the convertible debentures have been classified as equity instruments.
- (c) In March 2017, the Company paid \$250,000 as a facility fee in order to secure a convertible debenture of up to \$5 million at an interest rate of 10% available for draw down until the earlier of March 21, 2018 or the date of the Company's initial public offering. If during this period, the Company makes a drawdown on the debenture, the holder of the debenture may convert the outstanding amount into common shares at a conversion price of \$1.75 per common share, subject to certain adjustments. No amount has been drawn on this facility.

### 11. Share Capital

As at June 30, 2017, the Company's authorized share capital consists of an unlimited number of common shares without par value. As at June 30, 2017, 56,772,684 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 283,333 common shares of the Company for total proceeds of \$0.4 million.

**Notes to Condensed Consolidated Financial Statements**

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

**(b) Options**

In May 2017, the Board adopted a stock option plan (the “Stock Option Plan”). Pursuant to the Stock Option Plan, the Board, at the recommendation of the compensation committee, may grant stock options to any director, officer, employee, consultant or other personnel of the Company (including any subsidiary of the Company). The vesting and exercise period of a stock option will be determined by the Board at the time of its grant; however, the expiry date of a stock option shall be no later than five years from the date of grant. The total number of common shares issuable pursuant to the Stock Option Plan (subject to adjustments under the Stock Option Plan) together with all other security based compensation arrangements of the Company (including the Share Unit Plan (defined in Note 16)) shall not exceed 10% of the Company’s issued and outstanding common shares at the time of the grant.

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 was \$1.2 million with \$0.1 million recognized as an expense during the three and six month period ended June 30, 2017.

The fair value on the grant date is measured based on the Black-Scholes option pricing model. Expected volatility is estimated by considering historic average share price volatility of comparable companies. The inputs used in the measurement of fair values at grant date of the options are the following:

	<b>Six months ended June 30, 2017</b>
Expected term (years)	3.0
Forfeiture rate	0%
Volatility	74.5%
Dividend yield	0%
Risk-free interest rate	0.9%
Weighted-average fair value per option	\$ 0.73

Subsequent to June 30, 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.

**(c) Warrants**

At June 30, 2017, the Company had 12,449,666 outstanding warrants exercisable into common shares at \$1.20 per share with a weighted average contractual life of 4.5 years.

## Ero Copper Corp.

### Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

#### 12. Cost of Goods Sold

	Three Month Period Ended June 30, 2017	Period Ended June 30, 2016 <sup>(1)</sup>	Six Month Period Ended June 30, 2017	Period Ended June 30, 2016 <sup>(1)</sup>
Materials	\$ 5,298	\$ -	\$ 8,085	\$ -
Salaries and benefits	8,324	-	13,071	-
Depreciation and depletion	8,298	-	12,940	-
Services from third parties	5,159	-	7,599	-
Other costs	88	-	132	-
	\$ 27,167	\$ -	\$ 41,827	\$ -

(1) Period ended June 30, 2016 covers May 16, 2016, the Company's date of inception, to June 30, 2016

#### 13. General and Administrative Expenses

	Three Month Period Ended June 30, 2017	Period Ended June 30, 2016 <sup>(1)</sup>	Six Month Period Ended June 30, 2017	Period Ended June 30, 2016 <sup>(1)</sup>
Accounting and legal	\$ 1,229	\$ 100	\$ 1,969	\$ 100
Amortization and depreciation	14	-	14	-
Office and sundry	370	-	2,757	-
Salaries and consulting fees	1,632	-	2,957	-
Share-based compensation	91	-	91	-
Transfer agent and filing fees	3	-	12	-
Travel and conference	198	8	367	8
	\$ 3,537	\$ 108	\$ 8,167	\$ 108

(1) Period ended June 30, 2016 covers May 16, 2016, the Company's date of inception, to June 30, 2016

#### 14. Related Party Transactions

##### (a) Key management compensation

Key management personnel consist of the Company's directors and officers and includes management and consulting fees paid to these individuals, or companies controlled by these individuals. The aggregate value of compensation paid to key management personnel for the six month period ended June 30, 2017 was \$0.9 million (three month period ended June 30, 2017 - \$0.5 million). In addition, 890,000 options were issued to key management personnel with \$50,000 recognized in share-based compensation for the three and six month periods ended June 30, 2017.

Key management personnel participated in certain financing activities by purchasing 283,333 common shares of the Company for total proceeds of \$0.4 million and by subscribing to \$1.0 million of the convertible debentures (Note 10(b)) during the six month period ended June 30, 2017.

##### (b) Related party balances

As at June 30, 2017, included in accounts payable and accrued liabilities are amounts payable to related parties totalling \$2,000. Such amounts are unsecured, non-interest bearing and are expected to be repaid under normal trade terms. As at June 30, 2017, included in convertible debentures are amounts payable to key management personnel with a carrying value of \$0.9 million.

**Notes to Condensed Consolidated Financial Statements**

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

**15. 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 June 30, 2017, no financial instruments have been recognized at fair value and the Company has no sales or receivables subject to provisional pricing.

The carrying values of cash and cash equivalents, 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 loans and borrowings approximates fair value as the effective interest rate used to amortize these loans are a close approximation of market rates of interest at June 30, 2017 (level 2 of the fair value hierarchy).

**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 June 30, 2017:

	June 30, 2017	December 31, 2016
Cash and cash equivalents	\$ 24,767	\$ 18,318
Accounts receivable	2,051	76
Deposits	2,438	2,021
Financial investments	621	598
	<b>\$ 29,877</b>	<b>\$ 21,013</b>

The Company invests cash and cash equivalents 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 two customers, one of which is considered low risk as it is one of the largest independent commodity trading companies in the world. To limit its exposure to credit risk from the other customer, the Company established a credit term of payment due one day after delivery of goods. The Company has not incurred a significant credit loss during the period ended June 30, 2017 nor does it have an allowance for doubtful accounts.

**Foreign exchange currency risk**

The Company is exposed to exchange risks related to the sale of products that are quoted in US dollars and loans and borrowings that are denominated in a currency other than the functional currency of the Company or its subsidiaries. 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.

**Notes to Condensed Consolidated Financial Statements***(Tabular amounts in thousands of US Dollars, except share and per share amounts)**(Unaudited)*

The Company's exposure to foreign exchange currency risk at June 30, 2017 relates to \$145.6 million in loans and borrowings of MCSA denominated in US dollars. Strengthening (weakening) in the Brazilian Real against USD by 10% and 20%, would have reduced (increased) net loss by \$14.6 million and \$29.1 million respectively. 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.

**16. Segment Disclosure**

The Company is currently organized into one reportable operating segment, being that of the exploration, development and mining of mineral properties in Brazil.

Information about geographic areas of operation is as follows:

<b>Cash and cash equivalents</b>	<b>June 30, 2017</b>	
Brazil	\$	20,747
Canada		4,020
	\$	24,767

<b>Non-current assets</b>	<b>June 30, 2017</b>	
Brazil	\$	263,893
Canada		312
	\$	264,205

**17. Subsequent Events**

In September 2017, the Board 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 lesser than 100%) of the Share Units in a grant become vested depending on the satisfaction of one or more performance conditions. 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 is subject to approval by the shareholders at the next annual general meeting. No Share Units have been granted.

In August 2017, MCSA acquired 1,938,143,830 shares of NX Gold, increasing the Company's ownership interest in NX Gold to 97.6%, by converting their intercompany loans of \$5.9 million into shares.

On October 11, 2017 the Company entered into an underwriting agreement under which the Company has agreed to issue and sell 10 million common shares from treasury at \$4.75 CAD per common share (the "Offering Price"). In accordance with the agreement, the underwriters have been granted an over-allotment option, exercisable in whole or in part, at the sole discretion of the underwriters at any time for a period of 30 days from the closing date, to purchase up to an additional 3,492,317 common shares at the Offering Price from the Company. A fee equal to 6% of the gross proceeds of the offering will be payable to underwriters.

Mineração  
Caraíba S.A.

**Financial statements on  
December 31, 2016 and 2015**

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## Independent auditors' report

To the Board of Directors and Shareholders of  
**Mineração Caraíba S.A.**  
Jaguarari - BA

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Mineração Caraíba S.A. ("the Company") which comprise the statements of financial position as at December 31, 2016 and 2015, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the relevant ethical requirements included in the Accountant Professional Code of Ethics ("Código de Ética Profissional do Contador") and in the professional standards issued by the Brazilian Federal Accounting Council ("Conselho Federal de Contabilidade") 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.



### **Material Uncertainty Related to Going Concern**

We draw attention to Note 2(a) of the financial statements, which indicates that the Company incurred a net loss of R\$ 239,413 thousand during the year ended December 31, 2016, negative working capital of R\$ 673,179 thousand and negative equity of R\$ 361,650 thousand. As stated in Note 1, these events or conditions, along with other matters, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) 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.

### **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 Brazilian and international standards on auditing 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 these financial statements.

As part of an audit in accordance with international standards on auditing, 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 represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management 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.

Salvador, September 5, 2017

KPMG Auditores Independentes  
CRC SP-014428/F-7

Marcelo Nogueira de Andrade  
Accountant CRC RJ-086312/O-6

## Mineração Caralba S.A.

### Balance sheets for the years ended December 31, 2016 and 2015

(In thousands of Brazilian reais)

Assets	Notes	2016	2015	Liabilities	Notes	2016	2015
<b>Current</b>				<b>Current</b>			
Cash and cash equivalents	6	27,745	10,852	Suppliers	13	47,919	22,695
Trade accounts receivable	7	248	15,487	Loans and financing	14	548,714	48,100
Derivative financial instruments	32	-	2,992	Non-convertible debentures	15	7	125
Inventory	8	16,883	26,175	Payroll and related charges	16	54,664	18,234
Recoverable taxes		1,336	1,899	Taxes payable	17	59,704	48,868
Other receivables and prepaid expenses	9	20,242	16,100	Bonus to employee	18	-	10,412
<b>Total current assets</b>		<b>66,454</b>	<b>73,505</b>	Social security installments	19	4,678	2,478
				Advances from customers	20	-	21,917
<b>Noncurrent</b>				Accounts payable with related companies	30	22,769	-
Financial investments	10	1,947	13,906	Other accounts payable		1,178	867
Judicial deposits	22	6,586	6,372	<b>Total current liabilities</b>		<b>739,633</b>	<b>173,696</b>
Loans with related companies	30	34,251	34,031	<b>Noncurrent</b>			
Equity-accounted investees		45	1,372	Loans and financing	14	209,803	825,110
Property, plant and equipment	11	557,040	585,175	Non-convertible debentures	15	101,260	46,289
Intangible assets	12	149,850	277,914	Bonus to employee	18	13,409	2,998
<b>Total noncurrent assets</b>		<b>749,719</b>	<b>918,770</b>	Social security installments	19	17,640	18,798
				Asset retirement obligation	21	74,916	66,445
				Legal claims	22	18,941	19,176
				Other accounts payable		2,221	2,566
				<b>Total noncurrent liabilities</b>		<b>438,190</b>	<b>981,382</b>
				<b>Stockholders' equity</b>	23		
				Share capital		129,710	129,710
				Capital reserve		367	367
				Accumulated loss		(532,293)	(292,880)
				Advance for future capital increase		40,566	-
				<b>Total stockholders' equity</b>		<b>(361,650)</b>	<b>(162,803)</b>
<b>Total assets</b>		<b>816,173</b>	<b>992,275</b>	<b>Total liabilities and stockholders' equity</b>		<b>816,173</b>	<b>992,275</b>

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

# Mineração Caraíba S.A.

## Statements of income

For the years ended December 31, 2016 and 2015

(In thousands of Brazilian reais)

	Notes	2016	2015
Net operating revenue	24	93,954	406,186
Cost of sales	25	<u>(130,851)</u>	<u>(353,728)</u>
<b>Gross (loss) profit</b>		<u>(36,897)</u>	<u>52,458</u>
Other revenues	26	5,876	5,010
Sales expenses	27	(1,319)	(7,507)
General and administrative expenses	28	(20,127)	(36,556)
Other expenses	26	<u>(237,489)</u>	<u>(63,338)</u>
<b>Income before financial income (expenses)</b>		<u>(289,956)</u>	<u>(49,933)</u>
Financial revenues	29	182,618	104,086
Financial expenses	29	<u>(132,075)</u>	<u>(401,283)</u>
<b>Net financial income (expenses)</b>		<u>50,543</u>	<u>(297,197)</u>
<b>Net loss</b>		<u>(239,413)</u>	<u>(347,130)</u>
<b>Loss per share</b>			
Loss per share - basic and diluted (R\$)	31	<u>(3.3518)</u>	<u>(4.8599)</u>

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

# Mineração Caraíba S.A.

## Statement of comprehensive income

For the years ended December 31, 2016 and 2015

*(In thousands of Brazilian reais)*

	<b>2016</b>	<b>2015</b>
Net loss	(239,413)	(347,130)
Other comprehensive income	<u>-</u>	<u>-</u>
<b>Total comprehensive income</b>	<b><u>(239,413)</u></b>	<b><u>(347,130)</u></b>

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

## Mineração Carafba S.A.

### Statement of changes in stockholders' equity

For the years ended December 31, 2016 and 2015

(In thousands of Brazilian reais)

	Nota	Capital	Capital reserve	Profit reserves			Advance for future capital increase	Total
				Legal reserve	Tax incentives	Accumulated loss		
<b>Balance as at January 1, 2015</b>		129,710	367	23,648	30,602	-	184,327	
Net loss		-	-	-	-	(347,130)	(347,130)	
Tax incentive reserve	23(b)	-	-	-	30,244	(30,244)	-	
Absorption of accumulated loss with profit reserves	23(b)	-	-	(23,648)	(60,846)	84,494	-	
<b>Balance as at December 31, 2015</b>		129,710	367	-	-	(292,880)	(162,803)	
Share subscription for increase capital		-	-	-	-	-	40,566	
Net loss	24(a)	-	-	-	-	(239,413)	(239,413)	
Tax incentive reserve	23(b)	-	-	-	4,943	(4,943)	-	
Absorption of accumulated loss with profit reserves	23(b)	-	-	-	(4,943)	4,943	-	
<b>Balance as at December 31, 2016</b>		129,710	367	-	-	(532,293)	(361,650)	

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

## Mineração Caraíba S.A.

### Statement of cash flows

For the years ended December 31, 2016 and 2015

(In thousands of Brazilian reais)

	2016	2015
<b>Net loss</b>	(239,413)	(347,130)
<b>Adjustments for:</b>		
Depreciation, amortization and depletion	39,974	76,733
Write-off of property, plant and equipment	5,927	6,377
Write-off of intangible assets	15	-
Legal claims	(235)	3,449
Inventory impairment loss	-	2,216
Fixed asset impairment loss	-	25,261
Intangible asset impairment loss	129,947	21,368
Variation of financial instruments at fair value through profit or loss	10,328	(13,843)
Provision for asset retirement obligation	8,872	-
Interest, monetary and exchange variations - net	(60,913)	260,288
	<u>(105,499)</u>	<u>34,719</u>
<b>Variations in:</b>		
Trade accounts receivable	15,239	17,651
Inventory	9,292	21,074
Recoverable taxes	563	3,454
Advances, other accounts receivable and prepaid expenses	(4,142)	(13,072)
Judicial deposits	(214)	(3,149)
Suppliers	25,224	9,472
Payroll and related charges	36,430	552
Taxes payable	10,836	9,140
Bonus to employee	(1)	6,215
Social security installments	(643)	(2,372)
Advances from clients and other accounts payable with related companies	(21,951)	22,708
Payment of asset retirement obligation	(3,377)	(5,533)
	<u>(38,243)</u>	<u>100,859</u>
<b>Cash (used in) provided by operating activities</b>	(38,243)	100,859
Interest paid	(7,761)	(45,239)
	<u>(46,004)</u>	<u>55,620</u>
<b>Net cash (used in) provided by operating activities</b>	(46,004)	55,620
<b>Cash flows from investment activities</b>		
Financial investments	-	(503)
Additions to mineral property, plant and equipment	(16,648)	(107,113)
Additions to intangible assets	(39)	(2)
Equity-accounted investees	1,327	(410)
	<u>(15,360)</u>	<u>(108,028)</u>
<b>Net cash (used in) investment activities</b>	(15,360)	(108,028)
<b>Cash flows from financing activities</b>		
Loans with related company, net	22,769	14,836
Loans and financing	36,472	683,985
Repayment of loans and financing	(20,967)	(488,693)
Repayment of non-convertible debentures	-	(169,427)
Advance for future capital increase	40,566	-
	<u>78,840</u>	<u>40,701</u>
<b>Net cash provided by financing activities</b>	78,840	40,701
<b>Net increase (decrease) in cash and cash equivalents</b>	17,476	(11,707)
Cash and cash equivalents as at January 1	10,852	22,559
Effect of exchange rate variation on cash and cash equivalents	(583)	-
	<u>27,745</u>	<u>10,852</u>
<b>Cash and cash equivalents as at December 31</b>	27,745	10,852

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

## **Explanatory notes on the financial statements**

*(In thousands de Reais, except when indicated otherwise)*

### **1 Operating context**

Mineração Caraíba S.A. (“Company”) is a privately-held joint stock Company, domiciled in Brazil, with registered office at Fazenda Caraíba, District of Pilar, in the municipality of Jaguarari, state of Bahia. The Company’s predominant activity is prospection, production, transformation and marketing of mineral assets, copper and gold and silves as by products.

#### **Financial situation**

In 2015, due to Significant alterations in macro-economic factors, such as the devaluation of the Brazilian currency (R\$) against the U.S. dollar and reduction of the price of copper in international markets, the Company to faced severe financial difficulties to meet its obligations with creditors. After a long period of negotiation, the Company executed a contract with its main financial creditors, which granted a grace period of 18 months and payment term of 5 years. The renegotiated contracts represented more than 80% of its total financial debt at the end of 2015.

The Company initiated the strategic project ‘Vermelhos’ (See details at Note 12) in November 2015, aimed at ensuring its operational future. As an integral part of this project the company reviewed its capital investment plan and began a cost reduction initiative, with the objective of reducing outlays to reflect the new reality of the price of copper, which had returned to levels lower than USD 5,000 per ton.

On January 22, 2016, the region of Jaguarari in the state of Bahia, where the Company’s main source of ore is located and it’s underground mine, was affected by a volume of rainfall well beyond the region’s historic records. The excessive rain caused a breach in the dyke which directed the Sulapa river, located near the Company’s facilities and the underground mine was severely flooded. As a consequence, the Company was forced to suspend its operational activities in the underground mine, maintaining its operations only in its open-pit mine, causing a significant reduction in copper production and respective revenues.

Given this scenario, without the financial resources to meet commitments to suppliers, the government and creditors, the Company was forced to file for bankruptcy on February 3, 2016, which was granted by the Court on the February 26<sup>th</sup>, 2016.

In parallel to the formalization of the bankruptcy proceeding, the Company took action to recover the underground mine and related equipment, which was still submerged and consequent resumption of mine production. As a result of the failure of actions to obtain the necessary funds from shareholders and creditor banks, the Company initiated negotiations with several potential investors to obtain the funds necessary to resume operations.

During the period from February 26 to June 22, 2016, the Company reduced significantly its operations, only producing copper from its open-pit mine, which was not affected by the rainfall. This production volume, together with funds from the affiliated company NX Gold S.A., guaranteed operation by the Company at minimum volumes, as well as payment of employees. From June, the Company interrupted its production at the open-pit mine, due to exhaustion of mineral reserves and consequently began to accumulate liabilities with suppliers and employees.

At the end of almost 10 months of negotiation, the Company's management, together with a Canadian investment group, concluded negotiations with the former shareholders of the Company and with the creditor banks, which resulted in the following: (i) transfer of the shares of the former shareholders to the new investment group for a symbolic value; (ii) renegotiation of the term of loans to 10 years, with grace periods of up to 29 months and discounts on the value of the loans of up to 40%; and (iii) commitment by the new shareholders to invest the funds necessary to resume the Company's operating activities and resume the 'Vermelhos' project.

As a consequence of this negotiation, and as a precondition to making the investments agreed by the new shareholder, the bankruptcy proceedings were court-supervised reorganization cancelled on December 5, 2016. From the conclusion of the negotiations with the new shareholder, US\$ 50 million have already been contributed to the Company, as capital increases and convertible loans.

The funds injected by the new shareholder enabled the Company to resume its production of copper and, on February 22, 2017, almost one year afterwards, the Company began to restock materials and spare parts, as well as providing the working capital necessary for normal operations. The success of the aforementioned actions enabled the Company to:

- Liquidate all employee debts;
- Recover the equipment damaged in the accident, which are in the final phase of repair;
- Regularize all the commitments with suppliers and financial creditors, in accordance with the negotiated terms and conditions;
- Fully resume the 'Vermelhos' project, and
- Develop new geological surveys.

## **2 Basis of accounting**

The financial statements were prepared in accordance with IFRS. They were authorized for issue by the Company's board of directors on September 5, 2017.

### **a. Going concern basis for accounting**

These 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. As at December 31, 2016, the Company incurred a net loss of R\$ 239,413 thousand during the year ended December 31, 2016, negative equity of R\$ 361,650 thousand and negative working capital of R\$ 673,179 thousand, including R\$ 859.784 thousand of debt facilities for which payment terms were extended pursuant to a restructuring agreement (Note 14(b)) completed in May 2017 and reclassified to long term liabilities at that time. The Company's ability to continue as a going concern in the short term is dependent on the continued support of its stockholders and obtaining additional financing to settle its current liabilities. In the long-term, the Company's ability to continue as a going concern is dependent upon achieving profitable operations. The recoverability of the carrying values of the Company's assets is dependent upon the ability of the Company to obtain the necessary financing to meet its debt obligations, complete the development of projects new, and achieve profitable production.

If required, the Company has from its new controlling shareholders additional sources of funds to maintain its activities and operating support to ensure operational continuity.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary if the Company was not considered to be a going concern. These adjustments could be material.

### **3 Functional currency and currency of presentation**

These financial statements are presented in Brazilian Reais (R\$), which is the Company's functional currency. All the amounts have been rounded to the nearest thousand, unless otherwise indicated.

### **4 Use of judgements and estimates**

The preparation of financial statements requires the use of certain critical accounting estimates, assumptions and judgments by the management of the Company. These estimates are based on the best knowledge and information existing at the balance sheet date. Changes in facts and circumstances may lead to the revision of these estimates. Actual future results may differ from the estimates.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- **Notes 11 and 12** - impairment test: key assumptions underlying recoverable amounts of fixed assets and development costs recorded in intangible assets; and
- **Note 21** - recognition and measurement of provisions for environmental recovery and decommissioning: assumptions on the probability and magnitude of the outflow of resources; and
- **Note 22** - recognition and measurement of provision and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

#### ***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 far 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); and
- **Level 3:** inputs, for assets or liabilities, that are not based on observable market information (non-observable inputs).

Further information about assumptions made in measuring fair values is included in the following note 32 - Financial instruments.

### **5 Significant accounting policies**

The Company has consistently applied the following accounting policies to all periods presented in these financial statements.

**a. Revenue**

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, there is no continuing management involvement with the goods and the amount of revenue to be recognized can be measured reliably.

The final sales amount is based on quoted market prices which may be fixed at the time the shipment is received at the customers or may be determined in a period subsequent to the date of sale (provisionally priced sales) based on the terms of specific copper concentrate contracts. Revenues for sales are recorded at the time the shipment is received at the customers, which is also when the risks and rewards of ownership transfer to the customer. Provisionally priced sales are recognized based on an estimate of metal contained using forward market prices on the expected date that final sales prices will be fixed. The period between provisional pricing and final settlement can be up to four months. This provisional pricing mechanism represents an embedded derivative. The embedded derivative 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.

Revenues are subject to PIS, COFINS, ICMS and CFEM taxes, at the rates in effect under the specific legislation for each tax and are recorded as reduction of gross operating revenue. These taxes are included in gross operating revenue and shown as a separate deduction for disclosure purposes to reconcile to net revenue recognized in the statement of income.

**b. Government grant**

Tax incentives are recognized in the income statement in the period against the expense that they are intended to compensate, provided that the conditions of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance are met.

**(i) *DESENVOLVE Incentive***

The Company enjoys tax benefit existing in the state of Bahia referred to as “*DESENVOLVE*”, which consists in the deferment of the values due of ICMS [Tax on the Circulation of Goods and Services] for a term of 72 months. The Company has the option to pay in advance the sums due, without predetermined maturity, obtaining a reduction for the copper concentrate of up to 81% of the ICMS payable and, for copper cathode of up to 64% of the ICMS payable. The portion of the incentive is recorded in the accounts against the ICMS expense upon withholding of the sums due, which is demonstrated as reduction of the gross operating revenue.

The Company also benefits from a reduction in the ICMS tax basis, so that the exits of copper concentrate incur ICMS tax burden at 12%. Also, assumed credit is calculated on the ICM amount verified in sales of copper concentrate, equivalent to 33.33% of the total debit of said tax. The portion of the incentive is recorded in the accounts against ICMS expense, which is demonstrated as a reduction in gross operating revenue.

**(ii) *SUDENE Incentive - Profit from the exploration***

The Company enjoys benefit of reduction of 75% from income tax on profit from the exploration, for the period of 10 years, between fiscal years 2008 to 2017, calculated based on the profit from the exploration, in conformity with the Constitutive Report issued by the Northeast Development Superintendence [*Superintendência de Desenvolvimento do Nordeste*] - SUDENE.

**c. Financial income and expenses**

Financial income includes: exchange variation on loans, financing and debentures; derivative gains; gain from financial investments; exchange variation on importation and other and other income.

Financial expenses includes: exchange variation and interest on loan; financing and debentures; derivative losses; exchange variation on importation and other expenses.

Interest income and expenses are recognized in the income statement, through the effective interest rate method.

**d. Foreign currency**

Transactions in foreign currencies are translated into the functional currency at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in the income statement.

**e. Employee benefits**

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**f. Income tax expenses comprises current and deferred tax.**

Income tax is calculated at the rate of 15% plus an additional 10% on annual taxable income exceeding R\$ 240 thousand and social contribution at the rate of 9% of taxable income. Income tax and social contribution losses can be offset for an indefinite period of time subject to a limit of 30% of taxable income annually.

**(i) Current tax**

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current tax assets and liabilities are offset only if certain criteria are met.

**(ii) Deferred tax**

Deferred tax is recognised 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 tax is not recognized for:

- Temporary differences on the initial recognition of assets or liabilities that is not a business combination, and that affect neither accounting nor taxable profit or loss;

- Temporary differences related to investments subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future, and
- Taxable temporary differences arising on the initial recognition of goodwill.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Company has not rebutted this presumption.

Deferred tax assets and liabilities are offset only if certain criteria are met.

**g. Inventory**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the average acquisition or production cost and includes costs incurred in the acquisition of consumables, production and processing costs and other costs incurred to bring inventory to their existing location and condition. In the case of production inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated completion costs and selling expenses.

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

**h. Property, plant and equipment**

**(i) Recognition and measurement**

Items of mineral property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and depletion and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of an asset. The cost of assets constructed by the Company includes the cost of materials and direct labor, any other costs to bring the asset to the location and condition required to be operated in the manner intended by management, costs of disassembly and restoration of the site where the assets are installed and borrowing costs on qualifying assets.

**(ii) Subsequent costs**

Subsequent expenses are capitalized only if it is probable that future economic benefits associated with the expenditure will flow to the Company.

**(iii) *Environmental recovery and decommissioning costs***

Expected mine environmental recovery and decommissioning costs are capitalized, based on the present value of expected cash flows.

**(iv) *Mineral properties***

Exploration and evaluation costs are transferred from Intangible assets (see note 5.i) to Fixed assets when the exploration and evaluation of a mineral property is deemed 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.

**(v) *Depreciation and depletion***

Items of mineral property, plant and equipment are depreciated by the straight-line method in income based on the estimated economic useful life of each component, except for environmental recovery and decommissioning costs and mineral properties. Land is not depreciated.

The useful lives estimated for current and comparative years are as follows:

	<b>Years</b>
Buildings	22
Facilities	2
Equipment	4
Mineral properties	Units of production
Environmental recovery and decommissioning	Units of production

The depletion of environmental recovery and decommissioning mineral properties is determined based on the ratio between production and total proven and probable mineral reserves.

**i. *Intangible assets***

**(i) *Exploration and evaluation assets***

Exploration and evaluation expenses are capitalized at cost in accordance with IFRS 6.

When the exploration and evaluation of a mineral property is deemed 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 Intangible assets (see note 5.i) to Fixed assets as mineral properties.

Exploration and evaluation assets are periodically tested for impairment.

**(ii) *Other intangible assets***

Other intangible assets that are acquired by Company and have finite useful lives are measured at cost, less accumulated amortization and any accumulated impairment losses. They are represented by programs and licenses with an approximate useful life of 4 years.

**j. *Financial instruments***

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

The Company classifies non-derivative financial liabilities into the following categories: financial liabilities at fair value through profit or loss and other financial liabilities.

**(i) *Non-derivative financial assets and liabilities - Recognition and derecognition***

The Company initially recognises loans and receivables and debt instruments issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

**(ii) *Non-derivative financial assets - Measurement***

***Financial assets recorded at fair value through profit or loss***

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest, are recognised in profit or loss.

***Held-to-maturity financial assets***

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

***Loans and receivables***

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

**(iii) *Non-derivative financial liabilities - Measurement***

A financial liability is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, including any interest expense, are recognised in profit or loss.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

**(iv) *Derivative financial instruments***

The Company can hold derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives are initially measured at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

**(v) *Share capital***

***Ordinary shares***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12.

**k. *Impairment loss***

**(i) *Financial assets (including receivables)***

Financial assets not classified as at fair value through the profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment, indicating that a loss event occurred after the initial recognition of the asset and that loss event had a negative effect on projected future cash flows that can be reliably estimated.

**(ii) *Non-financial assets***

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

In the case of assets under development (exploration and evaluation assets) that are not yet available for use, the recoverable amount is estimated every year close to the reporting date. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (CGUs)

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

**l. Provisions**

A provision is recognized, based on a past event, when the Company has a legal or other obligation that can be estimated reliably, and it is probable that an economic outflow will be required to settle the obligation.

**(i) Bonus to employee**

Recognized in the balance sheet by the estimated amount of the liability when the Company generates certain preestablished targets are met.

**(ii) Assset Retirement Obligation**

Liability recorded based on a technical report prepared by a 3<sup>rd</sup> party appraiser considering the present value of the costs to be incurred for decommissioning of the mine. The corresponding entry of this obligation is recorded in property, plant and equipment and amortized in accordance with the depletion of the existing mineral reserves.

**(iii) Legal claims**

A provision is recognized when the Company has a presumed or legal liability that can be reliably estimated as the result of a past event, and it is probable that an economic resource is required to settle the liability. Provisions are recorded based on the best estimates of risk involved and expected future cash flows. A provision for loss on legal claims is recorded by evaluating and quantifying lawsuits, whose probability of loss is deemed as probable, in the opinion of the Management and its legal counsels.

**m. Leases**

Firstly, the Company assesses the agreed arrangement in order to evaluate if it is or contains a lease. At the reporting date the Company has no arrangements leases that contains a finance lease. Payments made under operating leases are recognized in income by the straight-line method over the lease term.

**n. Standards issued but not yet effective**

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017 and earlier application is permitted; however, the Company has not early adopted the following new or amended standards in preparing these consolidated financial statements.

**(i) Disclosure Initiative (Amendments to IAS 7)**

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

To satisfy the new disclosure requirements, the Company intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

**(ii) Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)**

The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

The Company is assessing the potential impact on its consolidated financial statements resulting from the amendments. So far, the Company does not expect any significant impact.

**(iii) IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Company has not completed an initial assessment of the potential impact of the adoption of IFRS 15 on its financial statements.

**Sales of goods**

For the sale of copper, revenue is currently recognised when the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods. For some made-to-order paper product contracts, the customer controls all of the work in progress as the products are being manufactured. When this is the case, revenue will be recognised as the products are being manufactured. This will result in revenue, and some associated costs, for these contracts being recognised earlier than at present - i.e. before the goods are delivered to the customers' premises.

For certain contracts that permit the customer to return an item, revenue is currently recognized when a reasonable estimate of the returns can be made, provided that all other criteria for revenue recognition are met. If a reasonable estimate cannot be made, then revenue recognition is deferred until the return period lapses or a reasonable estimate of returns can be made.

Under IFRS 15, revenue will be recognised for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur. As a consequence, for those contracts for which the Company is unable to make a reasonable estimate of return, revenue is expected to be recognised sooner than when the return period lapses or a reasonable estimate can be made. A refund liability and an asset for recovery will be recognised for these contracts and presented separately in the statement of financial position.

**(iv) IFRS 9 Financial Instruments**

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company currently plans to apply IFRS 9 initially on 1 January 2018.

The actual impact of adopting IFRS 9 on the Company's financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Company holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Company to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete. However, the Company has performed a preliminary assessment of the potential impact of adoption of IFRS 9 based on its positions at 31 December 2015 and hedging relationships designated during 2015 under IAS 39.

## 6 Cash and cash equivalents

	<b>2016</b>	<b>2015</b>
Banks balances	27,414	1,555
Short-term investments (a)	331	9,297
	<b>27,745</b>	<b>10,852</b>

- (a) Refers to certificates of deposit which bear interest at rates between 92.5% and 102.5% of the Certificate of Interbank Deposit rate (CDI).

The Company's exposure to credit and interest rate risks is disclosed in note 32.

## 7 Trade accounts receivable

	<b>2016</b>	<b>2015</b>
Parapanema S.A.	-	15,154
Other	248	333
	<b>248</b>	<b>15,487</b>

As exposed in the table above, substantial part of Trade accounts receivable are due from Parapanema S.A.. Thereby, the Company is significantly subordinated to these customer's transactions.

The Company's exposure to credit risks related to trade and other receivables is disclosed in note 32. No provision for bad debts was recorded at December 31, 2016.

## 8 Inventory

	<b>2016</b>	<b>2015</b>
Consumables	17,925	22,374
Products in progress	357	3,884
Product inventory	-	2,970
Materials held by third parties	157	187
	18,439	29,415
(-) Impairment provision	(1,556)	(3,240)
	<b>16,883</b>	<b>26,175</b>

The breakdown of cost of goods sold is disclosed in Note 25.

The impairment provision relates to obsolete and/or slow moving consumables at the reporting date.

## 9 Other receivables and prepaid expenses

	<b>2016</b>	<b>2015</b>
Advance to suppliers	8,659	1,399
Prepaid expenses (a)	4,969	8,044
Advances to employees (b)	4,486	4,977
Insurance	299	325
Loan to related company (NX Gold S.A.) - Note 31	-	1,328
Other	<u>1,829</u>	<u>27</u>
	<b><u>20,242</u></b>	<b><u>16,100</u></b>

(a) Advance energy payments to CHESF (Bahia state energy distributor), in accordance with Provisional Executive Order 677 dated June 22, 2015, which is discounted subsequent electricity supply invoices.

(b) Refers substantially to advances to employees of salary, vacation and other benefits.

## 10 Financial investments

Financial investments are directly related to loan agreements with Banco do Nordeste do Brasil (BNB) and Banco do Brasil (BB), which required financial investments as guarantees. See Note 14 for additional disclosures.

	<b>2016</b>	<b>2015</b>
BNB - Juazeiro (a)	-	9,725
BNB - Reinvestment (b)	1,947	1,718
BB - Compulsory Investment (a)	<u>-</u>	<u>2,463</u>
	<b><u>1,947</u></b>	<b><u>13,906</u></b>

Financial investments are linked to loan agreements with guarantee clauses that require the establishment of a reserve fund. Subsequent redemption is conditioned on the settlement of the related agreements, scheduled for 2021. Interest is earned at 96% of CDI for BNB - Juazeiro, and 99% of CDI for BNB - Reinvestment, and CDI+5% for BB Mandatory investment. See note 14.

## 11 Property, plant and equipment

### a. Reconciliation of carrying amounts

	Land	Buildings	Equipment	Mineral property	Environmental recovery and decommissioning	Projects in progress	Other	Total
<b>Balance at January 1, 2015</b>	<b>269</b>	<b>9.337</b>	<b>192.569</b>	<b>292.402</b>	<b>25.445</b>	<b>10.529</b>	<b>9.710</b>	<b>540.261</b>
Additions	-	-	19.337	3.638	-	110.627	3.016	136.618
Disposals	-	-	(479)	-	-	(3.244)	(4.055)	(7.778)
Impairment	-	(1,266)	(17,249)	(5,497)	(1,111)	-	(138)	(25,261)
Transfers	-	-	5,247	61.006	-	(45.046)	2.423	-
Depreciation	-	(505)	(28,861)	(41,874)	(2,013)	-	(463)	(73,716)
<b>Balance at December 31, 2015</b>	<b>269</b>	<b>7.566</b>	<b>170.564</b>	<b>301.096</b>	<b>22.321</b>	<b>72.866</b>	<b>10.493</b>	<b>585.175</b>
Costs	269	12.569	328.687	532.860	28.972	72.866	13.619	989.842
Accumulated depreciation	-	(5.003)	(158.123)	(231.764)	(6.651)	-	(3.126)	(404.667)
<b>Balance at January 1, 2016</b>	<b>269</b>	<b>7.566</b>	<b>170.564</b>	<b>301.096</b>	<b>22.321</b>	<b>72.866</b>	<b>10.493</b>	<b>585.175</b>
Additions	-	-	1.448	-	23.902	14.148	1.052	40.550
Disposals	-	-	(851)	-	-	(2.715)	(2.363)	(5,929)
Transfers	-	271	10.403	26.733	-	(62.205)	401	(24,397)
Depreciation	-	(508)	(29,548)	(5,992)	(1.860)	-	(451)	(38,359)
<b>Balance at December 31, 2016</b>	<b>269</b>	<b>7.329</b>	<b>152.016</b>	<b>321.837</b>	<b>44.363</b>	<b>22.094</b>	<b>9.132</b>	<b>557.040</b>
Costs	269	12.840	339.687	559.593	52.874	22.094	12.709	1.000.066
Accumulated depreciation	-	(5.511)	(187.671)	(237.756)	(8.511)	-	(3.577)	(443.026)

Projects in progress consists of projects to improve operational and administrative processes. Upon conclusion, the balances are reclassified to the appropriate fixed assets accounts and are depreciated or amortized based on the expected useful life of each project.

Some properties of the fixed assets were given in guarantee for debts. Please, see explanatory Note 14.

**b. Revision of useful life**

In March 2017, the Company, through a specialized company, performed the revision of useful life and residual value of its fixed assets, which resulted in amendments in the machines and equipment groups (from 4 to 5 years); computers and peripheral equipment (from 3 to 5 years); furniture and appliances (from 2 to 7 years) and vehicles (from 2 to 3 years). In this way, the estimated useful life of these groups increased and the estimated residual value diminished. The effect of these amendments on costs and depreciation expenses were not applied in this financial year, since, in the assessment of the Management of the Company, the rates being used reflect the estimated useful life of properties and no material distortions are expected.

**c. Fixed asset impairment tests**

According with IAS 36, recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use.

The fair value minus the sales costs of items of the fixed assets and/or UGCs could not be determined in a reliable manner due to the features of the business and the present market volatility. Accordingly, in December 31, 2016 the recoverable value of these assets was calculated based on the value of the assets being used, estimated with basis on discounted cash flows.

The main assumptions used to assess the value of the fixed assets of the Company while being used, subject to recoverability tests, are defined hereinafter.

- The values assigned to the main assumptions represent the assessment of future trends by the Management and were based on historical data of internal and external sources;
- The discount rate of 10.5% was estimated according to the weighed historical average rate of the cost of capital in which the UGC operates; and
- The projections of cash flow included specific estimates for 11 years, equivalent to the useful life expectation of the sulfide reserves of its underground mine.
- The projected EBITDA was estimated considering past experience, adjusted by the following factors:
  - Increase in revenue was projected considering the mining plan of the Company.
  - Expenditures with production (remuneration, material, maintenance), amortization and depreciation and administrative expenses were considered;
  - Income tax was calculated with basis on the actual profit taxation system, considering the rates of 25% and 9% in force, respectively regarding income tax and social contribution. The Company, furthermore, has the benefit of SUDENE allowing reduction of 75% of the Income Tax paid until 2017; and
  - A capital variation of approximately R\$ 15,403 was projected.

At December 31, 2015, the Company acknowledged losses in the amount of R\$ 25,261, being represented by R\$ 24,150 of costs of fixed assets and R\$ 1,110 for considering it economically unfeasible, with basis on analyses carried out by geologists in the Oxidized unit. The activity at this unit was stopped in 2014 because of the unavailability of oxidized ore, its main raw material.

## 12 Intangible assets

Intangible assets relate, principally, to development costs of mineral exploration projects, which are comprised of the acquisition of mining rights, administrative, operational and financial expenses for projects considered feasible under the terms of IAS 36 as feasible. When the projects start commercial production, the related amount is transferred to fixed assets as Mineral Properties.

### a. Reconciliation of carrying amounts

	Exploration and evaluation assets	Program and licenses	Total
<b>Balance at January 1, 2015</b>	<b>317.589</b>	<b>6.937</b>	<b>324.526</b>
Additions	2	-	2
Transfer	(23.630)	-	(23.630)
Impairment	(21.368)	-	(21.368)
Amortization	-	(1.616)	(1.616)
<b>Balance at December 31, 2015</b>	<b>272.593</b>	<b>5.321</b>	<b>277.914</b>
Cost	272.593	8.361	280.954
Accumulated amortization	-	(3.040)	(3.040)
<b>Balance at January 1, 2016</b>	<b>272.593</b>	<b>5.321</b>	<b>277.914</b>
Additions	23	1	24
Transfer	3.005	466	3.471
Impairment	(129.947)	-	(129.947)
Amortization	-	(1.612)	(1.612)
<b>Balance at December 31, 2016</b>	<b>145.674</b>	<b>4.176</b>	<b>149.850</b>
Cost	152.747	8.828	161.575
Accumulated amortization	(7.073)	(4.652)	(11.725)

The mining rights of the “Boa Esperança” and “Vermelhos” Projects were pledged in guarantee of Company’s debts. See note 14.

We state below the description of each one of the ongoing Projects:

- (i) Project “MSB Deepening” is located in Jaguarari, in the state of Bahia, and this phase provides for extraction of sulfide ore between the elevations +220m and -965m below the surface. The Company desires to produce an average of 16,5 thousand tons/year (not audited) of recovered contained copper during the period from 2017 until 2022.
- (ii) Project Boa Esperança - An agreement with Codelco do Brasil Mineração Ltda., was entered into on October 26<sup>th</sup>, 2007, assigning and transferring the mineral rights of Project Boa Esperança to the Company, for the sum of R\$ 145,124. The project is related to the construction of a plant with processing capacity of 1,500,000 tons of ore / year, and average production of 23,500 tons of copper per year for 11 years.
- (iii) Project Vermelhos - The project relates to the acquisition of mining rights and expenses required for the future extraction of copper. The expectation regarding Project Vermelhos includes mining for a period of at least 4 years. The project scope includes an underground mine with primary crushing on site and processing at the Matriz plant. Currently, this project is in development phase of the access ramp and drilling for detailed geological survey, with a mining forecast to begin in 2019. Depending on the speed of ramp development, the mining process can be anticipate.

The mining rights of the “Boa Esperança” and “Vermelhos” Projects were pledged as guarantee of Company’s debts. See explanatory note nº 14.

**b. Impairment testing of mineral exploration projects**

Fair value less the costs of sale could not be determined in a reliable manner due to the features of the business and the present market volatility. Accordingly, the recoverable value of these UGCs was calculated with basis on the value of the assets while being used, estimated with basis on discounted cash flows, and a supplement in the net provision for devaluation of these assets in the amount of 129,947 ( R\$ 21,368 in 2015) was acknowledged regarding Boa Esperança Project.

The major assumptions used to estimate the value while being used of the intangible assets of the Company are defined below:

- The values assigned to the major assumptions represent an assessment of future trends by the Management and were based on historical records of internal and external sources;
- The discount rate of 12.0% was estimated by the weighted historical average rate of the cost of capital in which the UGC operates; and
- The cash flow projections included specific estimates for 11 and 7 years, equivalent to the useful life expectation of Boa Esperança and Vermelhos Projects, respectively.
- Projected EBITDA was estimated based on past experience, adjusted for the following factors:
  - Revenue growth was projected taking into account the Company's mining plan;
  - Expenses with the following were taken into account: production (compensation, materials, maintenance), amortization and depreciation and administrative expenses;
  - Income taxes were calculated based on the actual profit tax regime, considering the current rates of 25% and 9% for income tax and social contribution, respectively. The Company also has the benefit of SUDENE, which allows the reduction of 75% of the Income Tax paid until 2017; and
  - A capital change of approximately R\$ 124 is projected

**13 Suppliers**

	<b>2016</b>	<b>2015</b>
CHESF - Companhia Hidroelétrica São Francisco	5,884	-
Terra Fácil Serviço e Terrplanagem Ltda.	2,294	2,013
Sandvick do Brasil Ltda.	1,362	1,342
Graville & Bazan Ltda.	1,256	753
Petrobrás Distribuidora S.A.	1,238	958
NTL Veículos Ltda.	1,087	199
Others (*)	34,798	17,430
	<b>47,919</b>	<b>22,695</b>

(\*) Suppliers which balance represents amounts lower than R\$ 1,000.

## 14 Loans and financing

The terms and conditions of outstanding loans are as follows:

Description	Interest rate (year)	Guarantees	Currency	Date of signature	Maturity date	2016	2015
Santander - Renegotiation	4.68%	(iii)	Dollar	ago/15	ago/20	178.333	205.475
Votorantim - Renegotiation	4.35%	(iii)	Dollar	out/15	jul/20	174.084	184.753
Itaú - Renegotiation	4.73%	(iii)	Dollar	set/15	jul/20	172.946	207.676
Itaú	8.83%	(iii)	Dollar	dez/16	nov/26	44.437	-
PINE - Renegotiation	3%	(ii)	Dollar	set/15	mar/19	41.243	36.407
Banco BNB - FNE	0.1	(v)	Real	mar/11	fev/21	40.755	80.242
Banco do Brasil - Renegotiation	CDI + 5%	(vi)	Real	set/15	set/18	31.403	29.376
Fibra	7.5%	(i)	Dollar	dez/16	jan/20	19.843	-
Safra - Renegotiation	0.2055	(ii)	Real	set/15	mar/19	18.081	14.340
ERO - M141465624	0	(i)	Dollar	dez/16	dez/17	16.296	-
Santander Conf.	0	(iii)	Dollar	dez/16	nov/16	12.801	-
Santander Renegotiation Finim p	5%	(iii)	Real	ago/15	ago/20	4.159	4.740
Finame Safra Motiva Volvo	0.06	(iv)	Real	mai/19	mai/19	1.781	1.784
ABC Fin	4.5%	(i)	Real	dez/16	jan/17	670	-
Finam e ABC Movesa Scania	0.06	(ii) (iv)	Real	jul/14	mai/19	541	766
Finam e Banco Safra 729	0.025	(iv)	Real	abr/13	out/17	276	297
Tugalla 2	3.5%	(i)	Dollar	jul/16	fev/17	198	-
Finam e Safra 379 (*)	0.025	(iv)	Real	dez/13	out/17	144	155
Banco Safra FL Smidth (*)	0.087	(iv)	Real	nov/11	set/16	132	158
Finam e Banco Safra Bombeiro	0.055	(iv)	Real	nov/12	jun/17	112	120
Tugalla	3.5%	(i)	Dollar	jul/16	fev/17	99	-
Finame e Safra Metso (*)	0.087	(iv)	Real	jan/12	out/16	89	104
Banco Safra SCANIA (*)	0.1	(iv)	Real	nov/11	out/16	44	51
Finam e ABC 124	0.025	(ii) (iv)	Real	mar/13	out/17	23	51
Banco Safra M.Diesel (*)	0.1	(iv)	Real	set/11	ago/16	16	19
Banco Safra Hincol (*)	0.1	(iv)	Real	set/11	ago/16	11	13
ABC - Renegotiation	6.5%	(iii)	Dollar	ago/15	abr/20	-	51.878
Banco do Brasil - FCO	0.0353	(i)	Real	set/13	abr/21	-	36.384
2770 Fibra	10.5%	(i)	Dollar	dez/14	ago/16	-	15.177
2770 Fibra 600k	10.5%	(i)	Dollar	jan/05	ago/16	-	2.360
Finam e ABC - Sandvick	0.055	(ii) (iv)	Real	jul/11	abr/16	-	377
Banco Alfa Metso (*)	0.055	(ii) (iv)	Real	jun/11	mar/16	-	346
Banco Caterpillar 2	0.087	(iv)	Real	nov/11	out/16	-	142
Banco Alfa Maquesonda (*)	0.055	(ii) (iv)	Real	jun/11	mar/16	-	19
						<b>758.517</b>	<b>873.210</b>
Current						548.714	48.100
Non-current						209.803	825.110

### Type of guarantee

- (i) Unsecured;
- (ii) Promissory note;
- (iii) Receivables (R\$ 248 in December 31, 2016) and mining properties;
- (iv) Equipment;
- (v) Receivables (R\$ 248 in December 31, 2016); and
- (vi) Investment reserve fund required by financial institution (see note 10).

Information about the Company's exposure to interest rate, foreign currency and liquidity risk are included in note 32.

**a. Debt Scheduling**

The maturity dates of non-current loans and financing at December 31<sup>st</sup>, 2016 and 2015 are as follows:

	2016	2015
2017	-	62,594
2018	10,001	125,896
2019	72,983	586,202
From 2020 onwards	126,819	50,418
	<b>209,803</b>	<b>825,110</b>

**b. Breach of loan covenants**

The Company has loans with the financial institutions Santander, Itaú and Votorantim totalling R\$ 525,363 at December 31<sup>st</sup>, 2016, which, in accordance with the terms of the loan agreements, are due in installments over the next 4 years. However, the agreements contain covenants regarding financial ratios, establishing that the ratio between EBITDA for the year and net debt at December 31<sup>st</sup> (defined in the agreement as been the total amount of loans and borrowings, trade and other accounts payable) shall be less than or equal to 6.5 for 2016, 6 for 2017, 4.5 for 2018, and 3 for 2019, otherwise, the loans becomes repayable on demand.

Despite resuming copper concentrate production, as detailed in note 1, the Company did not comply with the above mentioned covenants at December 31<sup>st</sup>, 2016 nor obtain waivers from the financial institutions within the financial year, resulting in early maturity of the obligations of R\$ 525,363, of which R\$ 524,822 were classified in non-current liabilities.

These loans were renegotiated with the financial institutions and have to be repaid within 10 years, with a grace period of 29 months for principal repayments and a discount of 40% on the total amount of the debt, subject to the payment of the remaining 60% of the debt in accordance with the renegotiated terms.

The agreements with these new terms were signed on December 2<sup>nd</sup>, 2016, but they contain conditions that would cause termination that were only fully complied with in May 2017, when the agreements became effective. Consequently, at the reporting date the total of the loans were reclassified to current liabilities.

**15 Non-convertible Debentures**

On July 17<sup>th</sup>, 2013, the Company, with the purposes of investing in CAPEX, financing of operational activities and debt refinancing, performed the third issue of simple debentures, of the unsecured kind, for public distribution with restricted placement efforts, intended for qualified investors, in this case the financial institution Banco Votorantim S.A., having Banco Itaú S.A. as depositary. The total amount of the issues was R\$ 99,000, whereas 99 debentures, each one in the amount of R\$ 1,000, were issued. The debentures are updated by the variation factor of the market closing price of Reais per Dollar (PTAX 800 - Option 5). These debentures ceased existing in 2015 during the procedure concerning renegotiation of the indebtedness of the Company. They were converted in a banking debt instrument 4131. Nevertheless, we continue with the debentures subscribed by Banco ABC. The debentures of the 2<sup>nd</sup> Issue were converted, also during the renegotiation in September 2015, the debentures of the 4<sup>th</sup> Issue were converted into the 5<sup>th</sup> Debenture under the same set of rules indicated above, on December 21<sup>st</sup>, 2016. See below for more details of the contract:

	<b>Until December, 2015</b>	<b>After renegotiation in 2016</b>
Payment of principal	The payment of the debenture will be made in 36 monthly installments with past due from August 15, 2017 until July 15, 2020.	The payment of the debenture will be made in 91 monthly installments with past due from May 15, 2019 until November 15, 2026. In the event of the beginning of commercial production of the project 'Vermelhos' in underground mine start before May 15, 2019, the Company will begin amortization on the 15th day of the second month at the beginning of commercial production without alteration of the final date. To do so, Banco ABC will provide a new payment schedule.
Payment of interest	Pre-fixed interest rate of 6.5% per annum, due monthly from October 15, 2015 until July 15, 2020	Pre-fixed interest rate of 8.83% per annum, due monthly from May 15, 2018 until November 15, 2026
Guarantees	Mining rights of the 'Vermelhos' and 'Boa Esperança' projects; fiduciary assignment of the receivables from Parapanema to a related account; and fiduciary alienation of shares.	Mining rights of the 'Vermelhos' and 'Boa Esperança' projects; fiduciary assignment of the receivables from Parapanema to a related account; and fiduciary alienation of shares.

**a. Movement**

The next table shows the movement of the Balances during the financial years ending on December 31<sup>st</sup>, 2016 and 2015:

	<b>Current</b>	<b>Non-current</b>	<b>Total</b>
<b>Balances on January 1<sup>st</sup>, 2015</b>	42,068	115,862	157,930
Issues	32,522	35,362	67,884
Amortizations	(179,400)	-	(179,400)
Transfers	104,935	(104,935)	-
<b>Balances on December 31<sup>st</sup>, 2015</b>	<b>125</b>	<b>46,289</b>	<b>46,414</b>
Issues	-	55,312	55,312
Updates/Interest	140	2,129	2,269
Amortizations	(258)	(2,470)	(2,728)
<b>Balances on December 31<sup>st</sup>, 2016</b>	<b>7</b>	<b>101,260</b>	<b>101,267</b>

**b. Debt scheduling**

Maturity dates of long term non-convertible debentures on December 31<sup>st</sup>, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
2017	-	385
2018	-	4,545
2019	8,797	29,561
From 2020 on	92,463	11,798
	<b>101,260</b>	<b>46,289</b>

**c. Covenants**

Considering the debt restructuring occurred in December 2016, the main covenants (financial indexes) of the debentures issued by the Company became:

- During the term of effectiveness of the loan, the Company commits to observe the following financial parameters, that shall be calculated half-yearly (semesters closed in June and December of each calendar year), whereas (a) the semester ending in June shall consider the last 12 (twelve) months and the unaudited managerial half-yearly financial statements; and (b) the semester ending in December shall consider the financial statements of the previous financial year, duly audited, under penalty of the Creditor ordering early maturity of the loan: the ratio between (a.1) its Net Debt and (a.2) its EBITDA (i) shall not be determined in 2017 and 2018; and (ii) shall be less than or equal to (ii.1) 9x for the year of 2019; (ii.2) 5x for the year of 2020; (ii.3) 3x for the year of 2021; (ii.4) 2x for the year of 2022, up to the full compliance with the agreed obligation.

On December 31st, 2016, the Company had not caused non-compliance with any of the *covenants* related to the debentures.

## 16 Payroll and related charges

	2016	2015
Vacation pay	17,427	10,221
Payroll taxes	34,858	6,714
Others	<u>2,379</u>	<u>1,299</u>
	<b><u>54,664</u></b>	<b><u>18,234</u></b>

## 17 Taxes payable

	2016	2015
ICMS incentive (a)	36,984	32,928
IRRF on loans	-	447
IRRF employees	2,594	871
CFEM	4,023	1,990
PIS payable	2,336	1,520
COFINS payable	10,816	7,006
Others	<u>2,951</u>	<u>4,106</u>
	<b><u>59,704</u></b>	<b><u>48,868</u></b>

- (a) Relates to tax obligations deferred in accordance with the terms of the rules of the Tax Incentive Program of Bahia State, "DESENVOLVE". See explanatory note no. 6.b.i.

## 18 Bonus to employee

The Company has a bonus plan to employee, which is paid to managers upon achievement of pre-established goals defined during strategic planning. The table below demonstrates changes in the complementary benefit as at December 31, 2016 and 2015:

	2016	2015
Balance as of January 1st	13,410	7,195
Set up of the provision for the year	-	12,530
Amounts paid related to the previous year	<u>(1)</u>	<u>(6,315)</u>
Closing balance	<b><u>13,409</u></b>	<b><u>13,410</u></b>
Current	-	10,412
Non-current	13,409	2,998

In December 31, 2016, as the Company is not expected to settle the obligation in the next twelve months, the liability has been classified as non-current.

## 19 Social security installments

The Company has an agreement with the National Institute of Social Security - INSS, to pay outstanding social security contributions in installments.

	Current	Noncurrent	Total
<b>Balances as of January 1st 2014</b>	<u>2,288</u>	<u>20,023</u>	<u>22,311</u>
Interest	1,337	-	1,337
Amortization	(2,372)	-	(2,372)
Transfers	<u>1,225</u>	<u>(1,225)</u>	<u>-</u>
<b>Balances at December 31, 2015</b>	<u>2,478</u>	<u>18,798</u>	<u>21,276</u>
Interest	1,040	645	1,685
Amortization	(643)	-	(643)
Transfers	<u>1,803</u>	<u>(1,803)</u>	<u>-</u>
<b>Balances at December 31, 2016</b>	<u><u>4,678</u></u>	<u><u>17,640</u></u>	<u><u>22,318</u></u>

## 20 Advances from costumers

As of December 31, 2015, the balance was comprised of advances from Paranapanema S.A. for future delivery of 4,698 tons of copper concentrate and to fund working capital requirements. The balance was fully settled in 2016.

## 21 Asset retirement obligation

The Company records provisions for environmental recovery and decommissioning based on 3<sup>rd</sup> party appraisal reports. The last study was carried out in December 2016, which resulted in an increase in the provisions.

	Discount rate	Balance on 01/01/2015	Provision increase	Expenses with environmental recovery	Balance on 12/31/2015	Provision increase	Expenses with environmental recovery	Balance on 12/31/2016
Projects	9.0%	<u>51,052</u>	<u>20,926</u>	<u>(5,533)</u>	<u>66,445</u>	<u>11,848</u>	<u>(3,377)</u>	<u>74,916</u>
		<u><u>51,052</u></u>	<u><u>20,545</u></u>	<u><u>(5,152)</u></u>	<u><u>66,445</u></u>	<u><u>11,848</u></u>	<u><u>(3,377)</u></u>	<u><u>74,916</u></u>

The provision refers to costs related to mine closure and reclamation, with the completion of mining activities and decommissioning of assets related to mine. When the provision is recognized, the corresponding cost is capitalized as part of property plant and equipment and is depreciated on the same basis over the related asset and recorded in the income statement.

The long-term liability is subsequently measured using a long-term risk free discount rate applicable to the liability and recorded in the income statement as financial expenses until the Company makes payments related to mine closure and decommissioning of assets mining.

The accrued amounts of these obligations are not deducted from the potential costs covered by insurance or indemnities.

## 22 Legal claims

### a. Provison for legal claims

Based on an analysis of individual judicial and administrative legal claims against the Company, the following provsions for labor, civil and tax probable losses have been made:

	<b>2016</b>	<b>2015</b>
Labor claims (i)	13,320	13,941
Civil claims	944	901
Tax claims (ii)	<u>4,677</u>	<u>4,334</u>
	<b><u>18,941</u></b>	<b><u>19,176</u></b>

### (i) Labor claims

As of December 31, 2016, there are a number of labor claims filed against the Company, of which, approximately 136 claims are evaluated as probable losses by the Company's legal counsel (140 claims as of December 31, 2015).

	<b>2016</b>	<b>2015</b>
Balance as of January 1st	13,941	10,876
Additions	<u>(621)</u>	<u>3,065</u>
Closing balance	<b><u>13,320</u></b>	<b><u>13,941</u></b>

Provisions for loss were recognized for the processes where the possibility of loss was evaluated as probable, based on the opinion of the Company's legal counsel.

The understanding of the Company's management is that the unfavorable outcome in its lawsuits, individually or on the whole, shall have no significant adverse impact in the Company's financial conditions or business.

### (ii) Civil and Tax claims

	<b>2016</b>	<b>2015</b>
Balance as of January 1st	5,235	4,851
Additions	<u>386</u>	<u>384</u>
Closing balance	<b><u>5,621</u></b>	<b><u>5,235</u></b>

The provisions for losses relates, principally, to tax assessments issued by the Federal Revenue Service relating to alledged incorrect compensation of Income and Social Contribution Taxes credits, whose possibility of loss was evaluated as probable, based on the opinion of legal counsel.

**b. Legal claims not provisioned**

At December 31, 2016 and 2015, the Company evaluated the following claims as possible losses and no provision was accounted for.

<b>Nature</b>	<b>2016</b>	<b>2015</b>
Social security	13,094	452
Tax (i)	30,113	42,949
Civil	6,568	27,245
Mineral	-	6,229
Labor (ii)	14,420	9,620
	<u>64,195</u>	<u>86,495</u>

**(i) Tax claims**

As of December 31, 2016, there are proceedings of tax nature filed against the Company, among which, 54 claims are evaluated as possible loss by the Company's legal advisers, amounting to R\$ 30,113 (R\$ 42,949 as of December 31, 2015).

*Tax-deficiency notice - IRPJ, CSL, PIS and COFINS debits*

On January 12, 2011, the Internal Revenue Service issued a tax-deficiency notice against the Company referring to IRPJ, CSL, PIS and COFINS debits. Part of the tax-deficiency notice was deemed due and paid on February 7, 2011 in the amount of R\$ 3,619, for the remainder, a plea was made in the administrative sphere on February 9, 2011 (in time).

The inspection understood that the amounts registered under the item "revenue/expense adjustment on variation", based on the London Metal Exchange (LME), consisted of active or passive exchange variations and, therefore, should be considered, tax-wise, as financial revenues or expenses.

This way, considering that under the assumed profit regime no deductions from passive exchange variations of the gross revenue would be allowed and the amounts registered under this item could not deduct the calculation basis of the presumed profit when negative.

On the other hand, if the outcomes were positive, the amounts registered under this item would be offered to taxation by IRPJ as financial revenues, that is, by investment of the percentage of 100% and not of the percentage of presumed profitability of 8%, which would only be applicable on the revenues arising from the sale of goods.

The lower court ruling established that the effects of the amounts added by the inspection for exchange variation purposes should be cleared, giving assent to the Company.

**(ii) Labor claims**

There are a number of labor claims against the Company, of which 51 claims were evaluated as possible losses by legal counsel (46 claims at December 31, 2015) in the amount of R\$ 14,420 (R\$ 9,620 at December 31, 2015).

**c. Judicial deposits**

The Company has made judicial deposits in the amount of R\$ 6,586 (R\$ 6,372 at December 31, 2015), before monetary correction, as detailed below:

	<b>2016</b>	<b>2015</b>
Labor claims	6,120	5,939
Civil claims	57	24
Tax claims	409	409
	<b>6,586</b>	<b>6,372</b>

**23 Stockholders' equity**

**a. Share capital**

At December 31, 2016 and 2015, the subscribed and paid in share capital was R\$ 129,710, comprised of 71,427,931 ordinary shares with no par value, as shown below:

	<b>No. of ordinary shares</b>	<b>%</b>
Ero Cooper Corporation	60,606,599	84.85
Employees / others	10,821,332	15.15
	<b>71,427,931</b>	<b>100.00</b>

**(i) Ordinary shares**

The ordinary shareholders are entitled to receive dividends as established in the Company's articles of association. The common shares give to its owner the right to one vote per share in General Meetings.

On December 19, 2016, the Board of Directors approved a capital increase of the Company, from R\$ 100,000 to R\$ 200,000, in accordance with the Company's bylaws.

**(ii) Advance for future capital increase**

In December 2016, the Company's new shareholders subscribed 40,566,000 new shares, in the amount of R\$ 40,566, which was classified as a prepayment for future capital increase.

In this regard, it is important to stress that, on December 31, 2016, the period to exercise the right of first refusal by the Company's existing shareholders remained open. Furthermore, the amounts had not been formally incorporated to the Company's share capital on that date, as the required Board of Trade approval was still pending in December 31, 2016. In May the company finished the period for the capital increase process and all the Board of Trade approvals were get.

**b. Reserves**

**(i) Legal reserve**

Established at the rate of 5% of annual net profit in accordance with Brazilian Corporate Law (Art. 193 of the Law 6.404/76) up to the limit of 20% of the share capital. As of December 31, 2015, the balance of the legal reserve of R\$ 23,648 was used to compensate accumulated losses.

**(ii) Tax incentives**

The Company has a tax incentive reducing the income tax on exploration profit by 75%, for a period of 10 years from 2008 to 2017, calculated based on the exploration profit calculation rules as defined by the Northeast Development Board - SUDENE. Furthermore, the Company has a tax incentive in the state of Bahia in relation to the deferral and reduction of ICMS. These incentives are registered in a specific account in income and at year end are transferred to a tax incentive reserve, in accordance with Corporate Law.

The Company has used the tax incentive reserve to compensate accumulated losses, as follows:

Year	
2013	49,451
2014	107,432
2015	60,846
2016	4,943
	<u>222,672</u>

In the future, if the Company has accumulated profits, in accordance with Corporate Law, it must exclude from the calculation of mandatory dividends payable, tax incentive reserve amounts transferred to compensate losses.

**c. Dividends**

The Company's Bylaws establish a minimum mandatory dividend of 25%, calculated on the annual adjusted net profit in accordance with Corporate Law.

At December 31, 2016 and 2015, no dividends were payable because of losses in both years.

**24 Net operating revenue**

	2016	2015
Copper concentrate	90.061	438,739
Copper forwards	11.115	31,510
(-) Taxes on sales (a)	<u>(7,222)</u>	<u>(64,063)</u>
	<u>93,954</u>	<u>406,186</u>

- (a) On December 31, 2016, the amount of the Desenvolve incentive in the amount of R\$ 4,943 (R\$ 30,244 on December 31, 2015) was recorded as a reduction of taxes on sales.

**25 Cost of sales**

	2016	2015
Materials	(41,583)	(119,409)
Personnel	(41,074)	(78,958)
Depreciation, amortization and depletion	(20,645)	(67,536)
Services from third parties	(19,324)	(37,650)
Other costs	<u>(8,225)</u>	<u>(50,175)</u>
	<u>(130,851)</u>	<u>(353,728)</u>

Cost of sales was affected by the production reduction of the underground mine on January 22, 2016, from which date the Company started to operate only the open pit mine. See note 1.

## 26 Other revenue and expenses

	2016	2015
Sale of water	3,556	3,297
Sale of scrap	295	126
Sale of inventory item	25	56
Reimbursement of insurance claims	1,095	21
Recovered expenses	317	1,091
Reversal of provision for losses with legal claims	588	419
<b>Other revenues</b>	<b>5,876</b>	<b>8,042</b>
	<b>2016</b>	<b>2015</b>
Provision for losses in legal claims	(333)	(5,281)
Losses on asset disposals	(366)	(133)
Regional exploration	(1,417)	(6,235)
Plant and mine shutdown (a)	(83,351)	(354)
Write off of inventory of low quality product	-	(7,697)
Provision for impairment on fixed assets (b)	-	(24,151)
Provision for the impairment on intangible assets (c)	(129,947)	(21,368)
Write off of the environmental asset of the oxidizing plant (b)	-	(1,110)
Provision for environmental recovery and decommissioning	(8,872)	-
Other operating expenses	(1,467)	(41)
Interest on past-due taxes (d)	(11,736)	3,032
<b>Other expenses</b>	<b>(237,489)</b>	<b>(63,338)</b>

- (a) Taking into account the operational shutdown of the underground mine and open pit mine, the Company calculated related expenditure for the period from July to December 2016 of R\$ 83,351, as shown below:

	2016
Materials	(1,330)
Personnel	(43,970)
Depreciation, amortization and loss of value	(17,104)
Services from third parties	(12,727)
Other costs	(8,220)
	<b>(83,351)</b>

- (b) As described note 12, at December 31, 2015, the Company recorded an impairment provision in the amount of R\$ 24,151, in relation to the Oxidado UGC and R\$ 1,110 of environmental recovery and decommissioning assets. This unit has not operated since 2014, due to its failure to provide an adequate financial return to justify its continuity. In 2015 the Company evaluated that it was unlikely to resume operations and, consequently, an impairment provision was registered.
- (c) As described in note 13, at December 31, 2016, the Company recorded an impairment provision in the amount of R\$ 129,947 (R\$ 21,368 in 2015), resulting from impairment testing on the Boa Esperança project registered in intangible assets.
- (d) Interests calculated regarding taxes past due and unpaid due to the Company's financial status during the fiscal year ended on December 31, 2016. PIS/COFINS credit in the input of supplies in previous periods that were calculated and acknowledged in the fiscal year ended on December 31, 2015.

## 27 Selling expenses

	2016	2015
Transportation	1,137	7,092
Others	<u>182</u>	<u>415</u>
	<u><b>(1,319)</b></u>	<u><b>(7,507)</b></u>

## 28 General and administrative expenses

	2016	2015
Employee costs	(14,687)	(26,763)
3 <sup>rd</sup> party services	(4,119)	(5,388)
Other expenses	<u>(1,321)</u>	<u>(4,405)</u>
	<u><b>(20,127)</b></u>	<u><b>(36,556)</b></u>

## 29 Financial revenues and expenses

	2016	2015
Exchange gains on loans, borrowings and debentures	179,583	74,224
Operations with derivative instruments ( <i>Hedge and Swap</i> )	1,498	22,732
Income from financial investments	663	2,496
Exchange gains on imports	637	3,527
Other revenues	<u>237</u>	<u>1,107</u>
<b>Total financial revenues</b>	<u>182,618</u>	<u>104,086</u>
Exchange losses on loans, borrowings and debentures	(102,671)	(286,237)
Interest on loans, borrowings and debentures	(15,124)	(46,938)
Operations with derivative instruments ( <i>Hedge and Swap</i> )	(11,826)	(36,575)
Exchange losses on imports	(261)	(3,146)
Other expenses	<u>(2,193)</u>	<u>(28,386)</u>
<b>Total financial expenses</b>	<u>(132,075)</u>	<u>(401,283)</u>
<b>Net financial revenues (expenses)</b>	<u><b>50,543</b></u>	<u><b>(297,197)</b></u>

The profit or loss with derivative financial instruments all transactions of this nature conducted during the year, including mark-to-market (MTM) adjustments of non-settled operations.

## 30 Transactions with related parties

The Company considers shareholders, related companies, directors and officers and their families, as related parties.

**a. Transactions and balances**

	<b>2016</b>	<b>2015</b>
<b>Current Assets</b>		
Other credits and prepaid expenses (note 10)	-	1,328
<b>Non-current assets</b>		
Loans with subsidiary (a)	<u>34,251</u>	<u>34,031</u>
<b>Total balance</b>	<u><b>34,251</b></u>	<u><b>35,359</b></u>
	<b>2016</b>	<b>2015</b>
<b>Current liabilities</b>		
Other accounts payable (b)	22,769	-
<b>Non-current liabilities</b>		
ERO Copper Corporation (c)	16,296	-
Tugalla BV (d)	<u>297</u>	<u>-</u>
<b>Total Balance</b>	<u><b>39,361</b></u>	<u><b>-</b></u>
<b>Financial expenses</b>		
Interest income on loan (a)	211	277
Interest expense on loan	<u>-</u>	<u>(158)</u>
<b>Total financial expenses</b>	<u><b>211</b></u>	<u><b>119</b></u>

- (a) Refers to loan receivable arising from the transfer of the balances on the spin-off of NX Gold S.A. and subsequent loans. From March 20, 2015 onwards, with the amendment of the loan agreement, interest of 3.53% per annum is charged.
- (b) Cash advances in 2016 from NX Gold S.A., without interest charge and/or inflationary adjustment, to provide financial support.
- (c) Working capital loan held by the Company from its parent company, without interest charge and/or inflationary adjustments, maturing in December 2017.
- (d) Working capital loan held by the Company and its related company, with interest charged at LIBOR plus 3.5% per annum with initial maturity in October 2016.

**b. Directors' Remuneration**

During the year ending December 31, 2016, Directors remuneration, paid as fees, in the amount of R\$ 2.630 (2015: R\$ 2,849) was recorded as general and administrative expenses. Directors in executive positions are also entitled to a share of the Company's profits.

**31 Loss per share**

Calculation of the basic/diluted loss per share was based in net loss for the year allocated to ordinary shareholders, as follows:

	<b>2016</b>	<b>2015</b>
Loss of the year	(239,413)	(347,130)
Number of ordinary shares (*)	<u>71,427,931</u>	<u>71,427,931</u>
<b>Loss per share - basic and diluted (in R\$)</b>	<u><b>(3.3518)</b></u>	<u><b>(4.8599)</b></u>

- (\*) On December 31, 2016, the amount of ordinary shares is the number of fully paid ordinary shares, plus the shares subscribed by the new shareholders and classified as a prepayment for future capital increase. See note 23(a).

On December 31, 2016 and 2015, there were no outstanding ordinary shares.

## 32 Financial instruments

Market values of financial assets and liabilities were determined based on available market information and valuation methodologies appropriate to each situation. However, some judgment was 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.

### a. Classification of financial instruments

Existing financial operations involve assets and liabilities that are usual and pertinent to its economic activity, especially financial investments with short-term maturities, loans and financing. These transactions are presented in the balance sheet, plus the relevant appropriations of income and expenses which, due to the nature of the operations and their maturity, approach fair values, as follows:

	Measurement	Book value		Fair value	
		2016	2015	2016	2015
<b>Financial assets</b>					
<b>Measured at fair value through profit or loss</b>					
Derivative financial instruments receivable	Fair value	-	2,992	-	2,992
<b>Loans received</b>					
Cash and cash equivalents		27,745	10,852	27,745	10,852
Trade accounts receivable	Amortized cost	248	15,487	248	15,487
<b>Financial assets held-to-maturity</b>					
Financial investments	Amortized cost	1,947	13,906	1,947	13,906
<b>Total financial assets</b>		<b>29,940</b>	<b>43,237</b>	<b>29,940</b>	<b>43,237</b>
<b>Financial liabilities</b>					
<b>Other financial liabilities</b>					
Suppliers	Amortized cost	47,919	22,695	47,919	22,695
Loans and financing	Amortized cost	758,517	873,210	758,517	873,210
Non-convertible debentures	Amortized cost	101,267	46,414	101,267	46,414
Advances from clients	Amortized cost	-	21,917	-	21,917
Bonus to employee	Amortized cost	13,409	13,410	13,409	13,410
<b>Total financial liabilities</b>		<b>921,112</b>	<b>977,646</b>	<b>921,112</b>	<b>977,646</b>

### *Book value versus fair value*

For all operations involving financial instrument assets and liabilities other than derivatives financial instruments, management considers that the fair value is equivalent to the book value.

The fair values of financial instruments that are not traded in active markets are determined using valuation techniques. Vale uses its own judgment to choose between the various methods. Assumptions are based on the market conditions, at the end of the year.

It is management's understanding that for the loans and financing with financial institutions with outstanding balances at December 31, 2016 and 2015 there is no expectation of substantial alterations in the rates being practiced, considering that the main loan agreements were renegotiated during the year. Consequently, it is understood that the book value approximates fair value.

The details of the terms of loans and financing are presented in note 13 to the financial statements.

**b. Management of financial risks**

**(i) Non-derivative Financial instruments**

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

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

In the years ended on December 31, 2016 and 2015, there was no change to the financial risk management policy.

*Credit risk*

Credit risk is the risk of the Company incurring in losses from a client or a counterparty in a financial instrument arising from their failure to comply with their contractual obligations.

Until December 31, 2015, the credit situation of Paranapanema was very solid and did not represent credit risk, since the Company not have accounts receivable balances at that date.

In 2016, the Paranapanema began to face financial problems and began negotiations to restructure its financial debt directly with the banks and financial creditors holding bonds. Currently, the Paranapanema is nearing completion of its financial restructuring. In addition, despite continuing to provide to Paranapanema, as a way to mitigate credit risk, the payment term that was previously 35 days was reduced to 1 day. It should be noted that the company has alternatives to sell its product in the foreign market. However, considering logistical, financial and fiscal factors (existence of tax benefits), Paranapanema is your best alternative. In addition, Management closely monitors the company's situation and movements in order to anticipate possible situations that may pose risks to the Company. In December 31, 2016, the Company not have significant balances accounts receivable pending of the payment.

The Company aims at to minimize the credit risk of its clients based on long-term contracts with prices and payment terms prepared in common agreement between the parties.

With regards to the financial investments, the Company aims at to apply their cash in the best combination of the best rates and in financial institutions that are financially sound, recognized for their credit ratings.

*Cash and cash equivalents*

They are maintained with banks and financial institutions that have a rating between BBB- and AAA, based on the classification of the main rating agencies.

*Derivatives*

They are contracted with banks and financial institutions that have a rating BBB-, based on the average of the main ratings agencies.

The book value of the financial assets below represents the maximum credit exposure on the date of the financial statements was:

	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	27,745	10,852
Trade accounts receivable	248	15,487
Financial investments	1,947	13,906
Loans with related company	34,251	34,031
Derivative financial instruments - assets	-	2,992
	<b>64,191</b>	<b>77,268</b>

*Liquidity risk*

Liquidity risk is the risk associated to the difficulties that the Company may find to meet the obligations associated to their 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 sufficient liquidity 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.

As described in note 1, in the beginning of 2016, the Company's generation of operating cash was heavily impacted, especially by the substantial decrease in production of copper concentrate, the main product of the Company, due to collapse of a containment dike that caused the flooding of its underground mine and main source of ore for production. This event, combined with the economic scenario of devaluation of the national currency and reduction of the price of copper in the international market, led the Company to face serious economic-financial difficulties during the entire fiscal year. The Management understands that, with the entry of the new shareholder, and the funds contributed to the Company since then, will allow for the normalization of its activities, as well as guarantee the working capital necessary to maintain its operations and make the investments projected in its strategic planning. Thus, the Management has a reasonable expectation that the Company will have enough funds to continue operating in the predictable future; therefore, based on its judgment, it concluded that the remaining uncertainty of continuity is not substantial. Finally, the Company has in its new controlling shareholders eventual sources of funds to maintain its activities and operating support to resume the results necessary to its operational continuity.

*Exposure to liquidity risk*

The following are the contractual maturities of financial liabilities at the date of the financial statement. These amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of clearing agreements.

		Contractual cash flows			
December 31, 2016	Carrying amount	1-12 months	1-2 years	2-5 years	More than 5 years
<b>Non-derivative financial liabilities</b>					
Loans and financings	758,517	548,714	10,001	72,983	126,819
Suppliers	47,919	47,919	-	-	-
Non-convertible debentures	101,267	7	-	8,804	92,456
Other accounts payable	3,399	1,178	2,221	-	-
	<b>911,102</b>	<b>72,989</b>	<b>12,222</b>	<b>81,787</b>	<b>744,104</b>

December 31, 2015	Carrying amount	Contractual cash flows			
		1-12 months	1-2 years	2-5 years	More than 5 years
<b>Non-derivative financial liabilities</b>					
Loans and financings	873,210	48,100	62,594	757,672	4,844
Suppliers	22,695	22,695	-	-	-
Non-convertible debentures	46,414	125	385	45,904	-
Other accounts payable	3,433	867	2,566	-	-
	<b>945,752</b>	<b>71,787</b>	<b>65,545</b>	<b>803,576</b>	<b>4,844</b>

In order to improve its liquidity needs in short term (12 months), the Company entered into a series of renegotiations with their main creditors, with the purpose of extending their obligations within this period.

#### *Market risk*

Market risk is the risk that changes in market prices - such as exchange rates, interest rates and commodity prices - will affect the Company's earnings or the value of their financial instruments. The purpose of market risk management is to manage and control exposures to market risks, within acceptable parameters, while optimizing return.

The Company can use derivatives to manage market risks. All these operations are conducted within the guidelines established by the Management.

#### *Exchange variation risk*

As part of their activity, the Company incurs exchange risks related to the sale of their products that are quoted in US dollars and the adjustment of the loans and financing transaction that are also indexed to the exchange variation. In order to minimize currency mismatches, the Company monitors their cash flow projections considering future sales expectations indexed to US dollar variation in relation to the cash requirement to settle the existing financings.

#### **Sensitivity analysis**

The Brazilian Real when compared to the USD currency presented a variancy among USD 10% and 20%, and would have increased (reduced) its equity and the result in accordance with the amounts shown. 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 considers that all other variables, especially interest rates, are held constant. The analysis is conducted on the same basis, despite the reasonably possible variation of the foreign currency exchange rate being different.

Exposure to high USD December 31, 2016	Scenario probable	Scenario 25% Variation	Scenario 50% Variation
Loans	(758,517)	(834,369)	(910,220)
<b>Net exposure</b>	<b>(758,517)</b>	<b>(834,369)</b>	<b>(910,220)</b>

*Interest rate risk*

The Company has post-fixed operations linked to CDI variation, on financings and swap operations. Management adopts a policy of ensuring that part of exposure to changes in the interest rate on loans is reduced from the composition of other of funding sources at pre-fixed rates.

On the financial statements date, the company's financial instruments was paid by its own interests, as follows:

<b>Financial liabilities exposed to interest rate</b>	<b>Book Value</b>	
	<b>2016</b>	<b>2015</b>
CDI	31,403	29,376
TJLP	-	74
Pre-fixed	96,307	135,292
	<b>127,710</b>	<b>164,742</b>

The Company's exposure to the CDI Risk on December 31, 2016 was equivalent to 3.65% (3% on December 31, 2015) from of their total indebtedness. By these amounts, 100% of the balance will be amortized over a period of inferior to 360 days, and at the end of 2016, the Company will have 0% of its indebtedness linked to the CDI. Consequently, the Company understands that a sensitivity analysis related to interest risk will not be representative.

*Commodities risk*

The contracts for the sale of products with future settlement are priced using the forward yield curves for the copper. Typically, these curves are obtained on the stock exchanges where the product is traded, in this case the London Metals Exchange ("LME").

These financial instruments is monitored on a monthly basis, enabling financial results surveillance and its impact on cash flow.

**(ii) *Derivative financial instruments***

Derivative operations are designed to hedge against changes in commodity prices, foreign currencies and interest rates. All derivative financial instruments were designated as economic hedges, that is, with no application of hedge accounting. On December 31, 2016, no operations were contracted to hedge commodities risk, using swap operations as hedge of foreign exchange and interest risks.

***Market valorization of Derivative Financial instruments***

The Company maintained swap operations used as hedge against exchange risk linked to contractual commitments of working capital loans in foreign currency of the Company described in note 15. The mark-to-market methodology involves fully verifiable parameters drawn from BM&F futures markets.

The tables below show the pending positions referring to derivative financial instruments on December 31,2016.

	<b>Value book</b>	<b>Value notional</b>	<b>Counterparty</b>	<b>Rate of expiration</b>
Credit position - USD / Debit CDI	(2,992)	36,407	PINE Bank	3/22/2019
	<b>(2,992)</b>	<b>36,407</b>		

There are no pending positions in currency swap and interest rate swap contracts and interest rates on December 31, 2016, as the contracts were renegotiated in December 2016.

***Fair value hierarchy***

The fair value for derivatives classified in level 3 are measured using discounted cash flows and option model valuation techniques with main unobservable inputs discount rates, stock prices and commodities prices.

**33 Commitments**

There are no significant commitments assumed at December 31, 2016 that are fully provided for.

Adicionalmente, with the declaration of bankruptcy in February 2016, although subsequently successfully reversed, long term contracts were all renegotiated in 2017.

**34 Insurance**

The Company's has insurance coverage, through a policy with different coverage clauses for different risks, as well as a separate insurance policy for equipment, which provides sufficient coverage for the total loss or the repair of equipment in case of partial loss.

At December 31, 2016, the main assets, liabilities and other risks covered by insurance and the relevant amounts are as follows:

	<b>Amount insured (In thousands)</b>
Named Risks - Matriz, Oxidado and Surubim	R\$ 50,000
Civil liability of directors and officers (D&O)	R\$ 20,000
General Civil Liability	R\$ 22,500
Other risks	R\$ 10,000
International equipment transportation	USD 3,000

The Company also has group life insurance for their employees corresponding to 30 months remuneration for natural death or 60 months remuneration in the event of an accident.

**35 Subsequent events**

**a. Renegotiation of debts**

As described in the notes 1 and 14(b), in December 2016 the Company renegotiated most of the debts with the extension of the terms of loans and borrowings, longer grace periods and discounts on the principal. However, the impacts of the new conditions of the debt restructuring were only accounted for in May 2017, due to the fact that certain pre-conditions for the restructuring had not been fully complied with at the reporting date.

**b. Capital contributions**

In order to comply with the terms of the debt restructuring, as described above, between December 31, 2016 and May 2017, new shareholder injected, as capital and convertible loans, the amount of approximately USD 50 million. This amount started to be injected in the company in the December 2016 and the total injection of these resources was completed in April 2017. At this date, USD 34.3 million was registered as a Capital increase and approximately USD 15.6 million as convertible loans.

\* \* \*

Eduardo De Come  
*Chief Financial Officer*

Edmilton de Oliveira Silva  
Accountant

Mineração  
Caraíba S.A.

**Financial statements**  
**December 31, 2015 and 2014**

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## Independent auditors' report

To the Board of Directors and Stockholders of  
**Mineração Caraíba S.A.**  
Jaguarari - BA

### Report on the Audit of the Financial Statements

We have audited the accompanying financial statements of Mineração Caraíba S.A. ("the Company"), which comprise the statements of financial position as at December 31, 2015 and 2014, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, issued by the International Accounting Standards Board (IASB) 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2015 and 2014, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards, issued by the International Accounting Standards Board (IASB).

**Emphasis of matter*****Going concern***

We draw attention to Note 2(a) in the Financial Statements which describes that the Company incurred a net loss of R\$ 347,130 thousand during the year ended December 31, 2015, negative working capital of R\$ 100,191 thousand and negative equity of R\$ 162,803 thousand. These conditions, along with other matters as set forth in the Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

***Incentive reserve***

We draw attention to Notes 5 (b) and 22 (b).ii, which describe that the Company has accumulated tax benefits as at December 31, 2015 of R\$ 217,485 thousand, which originally were part of the tax incentive reserve in stockholders' equity and were fully used subsequently to absorb in part the accumulated losses. If the mentioned balance would be used in the future to be distributed to the shareholders as dividends, in detriment of capital increase, the Company will be obliged to pay these benefits obtained to the fiscal authorities. Our opinion is not modified in respect of this matter

Salvador, September 5, 2017

KPMG Auditores Independentes  
CRC SP-014428/F-7

Cristiano Seabra Di Girolamo  
Accountant CRC BA-017826/O-4

## Mineração Caraíba S.A.

### Balance sheets as of December 31, 2015 and 2014

(In thousands of Brazilian Reals)

Assets	Notes	2015	2014	Liabilities	Notes	2015	2014
<b>Current</b>				<b>Current</b>			
Cash and cash equivalents	6	10,852	22,559	Suppliers		22,695	13,223
Trade accounts receivable	7	15,487	33,138	Loans and financing	13	48,100	350,308
Derivative financial instruments	30	2,992	965	Derivative financial instruments	30	-	17,778
Inventory	8	26,175	49,465	Non-convertible debentures	14	125	42,068
Recoverable taxes		1,899	5,726	Payroll and related charges	15	18,234	17,682
Other receivables and prepaid expenses	9	16,100	4,356	Taxes payable	16	48,868	39,728
<b>Total current assets</b>		<b>73,505</b>	<b>116,209</b>	Income and social contribution payable		-	419
<b>Noncurrent</b>				Bonus to employee	17	10,412	5,587
Financial investments	10	13,906	13,403	Social security installments	18	2,478	2,288
Recoverable taxes		-	46	Advances from customers	19	21,917	-
Judicial deposits	21	6,372	3,223	Other accounts payable		867	878
Loans with related companies	28	34,031	47,256	<b>Total current liabilities</b>		<b>173,696</b>	<b>489,959</b>
Equity-accounted investees		1,372	962	<b>Noncurrent</b>			
Property, plant and equipment	11	585,175	540,261	Loans and financing	13	825,110	165,564
Intangible assets	12	277,914	324,526	Non-convertible debentures	14	46,289	115,862
<b>Total noncurrent assets</b>		<b>918,770</b>	<b>929,677</b>	Bonus to employee	17	2,998	1,608
				Social security installments	18	18,798	20,023
				Asset retirement obligation	20	66,445	51,052
				Legal claims	21	19,176	15,727
				Other accounts payable		2,566	1,764
				<b>Total noncurrent liabilities</b>		<b>981,382</b>	<b>371,600</b>
				<b>Stockholders' equity</b>	22		
				Share capital		129,710	129,710
				Capital reserve		367	367
				Profit reserve		-	54,250
				Accumulated losses		(292,880)	-
				<b>Total stockholders' equity</b>		<b>(162,803)</b>	<b>184,327</b>
<b>Total assets</b>		<b>992,275</b>	<b>1,045,886</b>	<b>Total liabilities and stockholders' equity</b>		<b>992,275</b>	<b>1,045,886</b>

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

# Mineração Caraíba S.A.

## Income statement

For the years ended December 31, 2015 and 2014

*(In thousands of Brazilian Reais)*

	Notes	2015	2014
Net operating revenues	23	406,186	404,405
Cost of sales	24	<u>(353,728)</u>	<u>(322,940)</u>
<b>Gross profit</b>		<u>52,458</u>	<u>81,465</u>
General and administrative expenses	25	(36,556)	(37,728)
Sales expenses		(7,507)	(7,104)
Other income	26	5,010	16,627
Other expenses	26	<u>(63,338)</u>	<u>(26,427)</u>
<b>Income before financial income (expenses)</b>		<u>(49,933)</u>	<u>26,833</u>
Financial income	27	104,086	74,732
Financial expenses	27	<u>(401,283)</u>	<u>(179,414)</u>
<b>Net financial expenses</b>		<u>(297,197)</u>	<u>(104,682)</u>
<b>Net loss</b>		<u><u>(347,130)</u></u>	<u><u>(77,849)</u></u>
<b>Loss per share</b>			
Loss per share - basic and diluted (R\$)	29	<u>(4.8599)</u>	<u>(1.0899)</u>

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

## Mineração Caraíba S.A.

### Statement of comprehensive income

For the years ended December 31, 2015 and 2014

*(In thousands of Brazilian Reais)*

	2015	2014
Net loss	(347,130)	(77,849)
Other comprehensive income	<u>-</u>	<u>-</u>
<b>Total comprehensive income</b>	<b><u>(347,130)</u></b>	<b><u>(77,849)</u></b>

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

## Mineração Caraíba S.A.

### Statement of changes in stockholders' equity

For the years ended December 31, 2015 and 2014

(In thousands of Brazilian Reals)

	Notes	Profit reserves						Total
		Capital	Capital reserve	Legal reserve	Tax incentives	Investment reserve	Accumulated losses	
<b>Balance as at January 1, 2014</b>		129,710	367	23,648	107,011	594	-	261,330
Reversal of dividend payable provisioned in prior years	22(c)	-	-	-	-	-	846	846
Net loss		-	-	-	-	-	(77,849)	(77,849)
Tax incentive reserve	22(b)	-	-	-	31,023	-	(31,023)	-
Absorption of accumulated loss with profit reserves	22(b)	-	-	-	(107,432)	(594)	108,026	-
<b>Balance as at December 31, 2014</b>		129,710	367	23,648	30,602	-	-	184,327
Net loss		-	-	-	-	-	(347,130)	(347,130)
Tax incentive reserve	22(b)	-	-	-	30,244	-	(30,244)	-
Absorption of accumulated loss with profit reserves	22(b)	-	-	(23,648)	(60,846)	-	84,494	-
<b>Balance as at December 31, 2015</b>		129,710	367	-	-	-	(292,880)	(162,803)

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

# Mineração Caraíba S.A.

## Statement of cash flows

For the years ended December 31, 2015 and 2014

(In thousands of Brazilian Reais)

	2015	2014
<b>Net loss</b>	(347,130)	(77,849)
<b>Adjustments for:</b>		
Depreciation, amortization and depletion	76,733	76,670
Write-off of investments	-	19
Residual write-off of property, plant and equipment	6,377	5,055
Write-off of intangible assets	-	10,163
Legal claims	3,449	8,914
Inventory impairment loss	2,216	-
Property, plant and equipment impairment loss	25,261	-
Intangible asset impairment loss	21,368	-
Changes in financial instruments at fair value through profit or loss	(13,843)	(4,152)
Interest, monetary and exchange variations - net	260,288	92,088
	<u>34,719</u>	<u>110,908</u>
<b>Variations in:</b>		
Trade accounts receivable	17,651	7,139
Inventory	21,074	29,057
Recoverable taxes	3,454	12,601
Advances, other accounts receivable and prepaid expenses	(13,072)	644
Judicial deposits	(3,149)	5,984
Suppliers	9,472	(15,096)
Payroll and related charges	552	236
Taxes payable	9,140	(437)
Bonus to employee	6,215	3,947
Social security installments	(2,372)	(6,300)
Advances from customers and other accounts payable	22,708	(3,798)
Payment of asset retirement obligation	(5,533)	(2,609)
	<u>100,859</u>	<u>142,276</u>
<b>Cash provided by operating activities</b>	100,859	142,276
Interest paid	(45,239)	(32,292)
	<u>55,620</u>	<u>109,984</u>
<b>Net cash provided by operating activities</b>	55,620	109,984
<b>Cash flows from investment activities</b>		
Financial investments	(503)	(1,034)
Equity-accounted investees	(410)	(1,393)
Additions to property, plant and equipment	(107,113)	(148,468)
Additions to intangible assets	(2)	(2,294)
	<u>(108,028)</u>	<u>(153,189)</u>
<b>Net cash (used in) investment activities</b>	(108,028)	(153,189)
<b>Cash flows from financing activities</b>		
Loans with related company, net	14,836	(34,024)
Non-convertible debentures	-	39,000
Repayment of non-convertible debentures	(169,427)	(30,000)
Loans and financing	683,985	86,140
Repayments of loans and financing	(488,693)	(56,028)
	<u>40,701</u>	<u>5,088</u>
<b>Net cash provided by financing activities</b>	40,701	5,088
<b>Net decrease in cash and cash equivalents</b>	(11,707)	(38,117)
Cash and cash equivalents as at January 1	22,559	60,676
	<u>10,852</u>	<u>22,559</u>
<b>Cash and cash equivalents as at December 31</b>	10,852	22,559

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

## **Notes to the financial statements**

*(In thousands de Reais, except when indicated otherwise)*

### **1 Operating context**

Mineração Caraíba S.A. (“Company”) is a privately-held corporation, domiciled in Brazil, with registered office at Fazenda Caraíba, District of Pilar, in the municipality of Jaguarari, state of Bahia. The Company’s predominant activity is prospection, production, transformation and marketing of mineral assets, copper and gold and silver as by products.

#### **Financial situation**

Significant alterations in macro-economic factors, such as the devaluation of the Brazilian currency (R\$) against the U.S. dollar and reduction of the price of copper in international markets, led the Company to face severe financial difficulties and to meet its obligations with creditors. As a result, the Company filed for bankruptcy in April 2015 with the principal objective of being able to continue its operational activities.

This bankruptcy filing resulted in the search for other financing alternatives, through an initiative prompted by its principal creditors, in an attempt to assure the maximum recovery of loans granted. Thus, prior to judicial approval of the bankruptcy filing, the Company, its related party NX Gold S.A., as guarantor, and the financial institutions Banco Votorantim S.A., Votorantim S.A., Santander S.A., Itau Unibanco S.A. and ABC Brasil S.A., as creditors, after a number of rounds of negotiation, signed on August, 2015 an agreement (“Global Contract”) stipulating the terms of the renegotiation of existing debts, and in October, 2016 the definitive loan agreements with the new debt payment terms. In addition, parallel agreements were signed between the Company and another four banks (Banco do Brasil S.A., Banco Safra S.A., Banco Pine S.A. and Banco Fibra S.A), which were not party to the aforementioned Global Contract., with different conditions.

The bankruptcy proceedings, in turn, were suspended at the request of the Company, on August 26, 2015, after the signature of the Global Contract and definition of the commercial conditions with the remaining parallel agreements for restructuring debts with the creditors, in a total amount of approximately R\$ 730,000.

Full compliance with the restructuring plan, as foreseen in the agreements signed with financial institutions, was an essential condition for recovery from the financial situation in which the Company found itself, in order continue its operating activities, the employment of its workforce and to meet its obligations with creditors.

However, as a result of the worsening Brazilian economic crisis in the last quarter of 2015, the continued low prices of copper in international markets, the Company’s capacity to generate cash was negatively impacted, the capital investment program approved in its business plan could not be complied with, as well as creating further difficulties in meeting other financial commitments up to date.

On January 22, 2016, the region of Jaguarari in the state of Bahia, where the Company's main source of ore is located and its underground mine, was affected by a volume of rainfall well beyond the region's historic average. The excessive rain caused a breach in the dyke which directed the Sulapa river, located near the Company's facilities and the underground mine was severely flooded. As a consequence, the Company was forced to suspend all activities in the underground mine, maintaining its operations only in its open-pit mine, which caused a significant reduction in copper production and revenues.

Given this scenario, and without the financial resources to meet commitments to suppliers, the government and other creditors, the Company was forced to file a second petition for bankruptcy on February 3, 2016, which was granted by the Court on the February 26, 2016.

During the period from February 26 to June 22, 2016, the Company reduced significantly its operations, only producing ore from its open-pit mine, which was not affected by the rainfall. This production volume, together with funds received from its affiliated company NX Gold S.A., ensured operational continuity. However, at the end of June 2016, the Company interrupted its production at the open-pit mine, due to depletion of mineral reserves and consequently began to accumulate liabilities with suppliers and employees, using funds from its restricted accounts that were authorized by the courts, as well as resources from NX Gold SA to meet priority obligations.

At the end of almost 10 months of negotiation, the Company's management, together with a Canadian investment group, concluded negotiations with the former shareholders of the Company and with creditor financial institutions, which resulted in the following: (i) transfer of the shares of the former shareholders to the new investment group for a symbolic value; (ii) renegotiation of the term of loans to 10 years, with grace periods of up to 29 months and discounts on the value of the loans of up to 40%; and (iii) commitment by the new shareholders to invest the funds necessary to resume the Company's operating activities and to resume the "Vermelhos" project (See details at Note 12) capital investment and cost reduction project.

As a consequence of this negotiation, and as a precondition to making the investments agreed by the new shareholder, the bankruptcy proceedings and court-supervised reorganization were cancelled on December 5, 2016. Immediately after the cancel of court-supervised reorganizations process, the Canadian Investment Group transfer USD 5 million of funds as convertible loans.

The funds injected by the new shareholder enabled the Company to resume its production of copper and, on February 22, 2017, the Company began to restock supplies and spare parts, and attain levels of working capital necessary for normal operations. The success of the aforementioned actions enabled the Company to:

- Liquidate all employee debts;
- Recover the equipment damaged in the flood, which are in the final phase of repair;
- Regularize all the commitments with suppliers, financial institutions and other creditors, in accordance with the negotiated terms and conditions;
- Fully resume the 'Vermelhos' project, and
- Develop new geological surveys.

## **2 Basis of accounting**

The financial statements were prepared in accordance with IFRS. They were authorized for issue by the Company's board of directors on September 5, 2017.

### **a. Going concern basis for accounting**

These 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. As at December 31, 2015, the Company incurred a net loss of R\$ 347,130 thousand during the year ended December 31, 2015, negative equity of R\$ 162,803 thousand and negative working capital of R\$ 100,191 thousand, including R\$ 919,499 thousand of debt facilities for which payment terms were extended pursuant to a restructuring agreement (Note 33) completed in May 2017 and reclassified to long term liabilities at that time. The Company's ability to continue as a going concern in the short term is dependent on the continued support of its stockholders and obtaining additional financing to settle its current liabilities. In the long-term, the Company's ability to continue as a going concern is dependent upon achieving profitable operations. The recoverability of the carrying values of the Company's assets is dependent upon the ability of the Company to obtain the necessary financing to meet its debt obligations, complete the development of projects new, and achieve profitable production.

If required, the Company has from its new controlling shareholders additional sources of funds to maintain its activities and operating support to ensure operational continuity.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary if the Company was not considered to be a going concern. These adjustments could be material.

## **3 Functional currency and currency of presentation**

These financial statements are presented in Brazilian Reais (R\$), which is the Company's functional currency. All the amounts have been rounded to the nearest thousand, unless otherwise indicated.

## **4 Use of judgements and estimates**

The preparation of financial statements requires the use of certain critical accounting estimates, assumptions and judgments by the management of the Company. These estimates are based on the best knowledge and information existing at the balance sheet date. Changes in facts and circumstances may lead to the revision of these estimates. Actual future results may differ from the estimates.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- **Notes 11 and 12** - impairment test: key assumptions underlying recoverable amounts of fixed assets and development costs recorded in intangible assets; and
- **Note 20** - recognition and measurement of provisions for environmental recovery and decommissioning: assumptions on the probability and magnitude of the outflow of resources; and
- **Note 21** - recognition and measurement of provision and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

### ***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 far 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); and
- **Level 3:** inputs, for assets or liabilities, that are not based on observable market information (non-observable inputs).

Further information about assumptions made in measuring fair values is included in the following note 30 - Financial instruments.

## **5 Significant accounting policies**

The Company has consistently applied the following accounting policies to all periods presented in these financial statements.

### **a. Revenue**

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, there is no continuing management involvement with the goods and the amount of revenue to be recognized can be measured reliably.

The final sales amount is based on quoted market prices which may be fixed at the time the shipment is received at the customers or may be determined in a period subsequent to the date of sale (provisionally priced sales) based on the terms of specific copper concentrate contracts. Revenues for sales are recorded at the time the shipment is received at the customers, which is also when the risks and rewards of ownership transfer to the customer. Provisionally priced sales are recognized based on an estimate of metal contained using forward market prices on the expected date that final sales prices will be fixed. The period between provisional pricing and final settlement can be up to four months. This provisional pricing mechanism represents an embedded derivative. The embedded derivative 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.

Revenues are subject to PIS, COFINS, ICMS and CFEM taxes, at the rates in effect under the specific legislation for each tax and are recorded as reduction of gross operating revenue. These taxes are included in gross operating revenue and shown as a separate deduction for disclosure purposes to reconcile to net revenue recognized in the statement of income.

### **b. Government grant**

Tax incentives are recognized in the income statement in the period against the expense that they are intended to compensate, provided that the conditions of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance are met.

**(i) DESENVOLVE Incentive**

The Company enjoys tax benefit existing in the state of Bahia referred to as “*DESENVOLVE*”, which consists in the deferment of the values due of ICMS [Tax on the Circulation of Goods and Services] for a term of 72 months. The Company has the option to pay in advance the sums due, without predetermined maturity, obtaining a reduction for the copper concentrate of up to 81% of the ICMS payable and, for copper cathode of up to 64% of the ICMS payable. The portion of the incentive is recorded in the accounts against the ICMS expense upon withholding of the sums due, which is demonstrated as reduction of the gross operating revenue.

The Company also benefits from a reduction in the ICMS tax basis, so that the exits of copper concentrate incur ICMS tax burden at 12%. Also, assumed credit is calculated on the ICM amount verified in sales of copper concentrate, equivalent to 33.33% of the total debit of said tax. The portion of the incentive is recorded in the accounts against ICMS expense, which is demonstrated as a reduction in gross operating revenue.

**(ii) SUDENE Incentive - Profit from the exploration**

The Company enjoys benefit of reduction of 75% from income tax on profit from the exploration, for the period of 10 years, between fiscal years 2008 to 2017, calculated based on the profit from the exploration, in conformity with the Constitutive Report issued by the Northeast Development Superintendence [*Superintendência de Desenvolvimento do Nordeste*] - SUDENE.

**c. Financial income and expenses**

Financial income includes: exchange variation on loans, financing and debentures; derivative gains; gain from financial investments; exchange variation on importation and other and other income.

Financial expenses includes: exchange variation and interest on loan; financing and debentures; derivative losses; exchange variation on importation and other expenses.

Interest income and expenses are recognized in the income statement, through the effective interest rate method

**d. Foreign currency**

Transactions in foreign currencies are translated into the functional currency at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in the income statement.

**e. Employee benefits**

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**f. Income tax expenses comprises current and deferred tax.**

Income tax is calculated at the rate of 15% plus an additional 10% on annual taxable income exceeding R\$ 240 thousand and social contribution at the rate of 9% of taxable income. Income tax and social contribution losses can be offset for an indefinite period of time subject to a limit of 30% of taxable income annually.

**(i) Current tax**

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax assets and liabilities are offset only if certain criteria are met.

**(ii) Deferred tax**

Deferred tax is recognised 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 tax is not recognized for:

- Temporary differences on the initial recognition of assets or liabilities that is not a business combination, and that affect neither accounting nor taxable profit or loss;
- Temporary differences related to investments subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future, and
- Taxable temporary differences arising on the initial recognition of goodwill.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Company has not rebutted this presumption.

Deferred tax assets and liabilities are offset only if certain criteria are met.

**g. Inventory**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the average acquisition or production cost and includes costs incurred in the acquisition of consumables, production and processing costs and other costs incurred to bring inventory to their existing location and condition. In the case of production inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated completion costs and selling expenses.

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

**h. Property, plant and equipment**

**(i) Recognition and measurement**

Items of mineral property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and depletion and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of an asset. The cost of assets constructed by the Company includes the cost of materials and direct labor, any other costs to bring the asset to the location and condition required to be operated in the manner intended by management, costs of disassembly and restoration of the site where the assets are installed and borrowing costs on qualifying assets.

**(ii) Subsequent costs**

Subsequent expenses are capitalized only if it is probable that future economic benefits associated with the expenditure will flow to the Company.

**(iii) Environmental recovery and decommissioning costs**

Expected mine environmental recovery and decommissioning costs are capitalized, based on the present value of expected cash flows.

**(iv) Mineral properties**

Exploration and evaluation costs are transferred from Intangible assets (see note 5.i) to Fixed assets when the exploration and evaluation of a mineral property is deemed 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.

**(v) Depreciation and depletion**

Items of mineral property, plant and equipment are depreciated by the straight-line method in income based on the estimated economic useful life of each component, except for environmental recovery and decommissioning costs and mineral properties. Land is not depreciated.

The useful lives estimated for current and comparative years are as follows:

	<b>Years</b>
Buildings	22
Facilities	2
Equipment	4
Mineral properties	Units of production
Environmental recovery and decommissioning	Units of production

The depletion of environmental recovery and decommissioning mineral properties is determined based on the ratio between production and total proven and probable mineral reserves.

**i. Intangible assets**

**(i) Exploration and evaluation assets**

Exploration and evaluation expenses are capitalized at cost in accordance with IFRS 6.

When the exploration and evaluation of a mineral property is deemed 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 Intangible assets (see note 5.i) to Fixed assets as mineral properties.

Exploration and evaluation assets are periodically tested for impairment.

**(ii) Other intangible assets**

Other intangible assets that are acquired by Company and have finite useful lives are measured at cost, less accumulated amortization and any accumulated impairment losses. They are represented by programs and licenses with an approximate useful life of 4 years.

**j. Financial instruments**

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

The Company classifies non-derivative financial liabilities into the following categories: financial liabilities at fair value through profit or loss and other financial liabilities.

**(i) Non-derivative financial assets and liabilities - Recognition and derecognition**

The Company initially recognises loans and receivables and debt instruments issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

**(ii) Non-derivative financial assets - Measurement**

***Financial assets recorded at fair value through profit or loss***

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest, are recognised in profit or loss.

***Held-to-maturity financial assets***

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

***Loans and receivables***

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

**(iii) *Non-derivative financial liabilities - Measurement***

A financial liability is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, including any interest expense, are recognised in profit or loss.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

**(iv) *Derivative financial instruments***

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives are initially measured at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

**(v) *Share capital***

***Ordinary shares***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12.

**k. *Impairment loss***

**(i) *Financial assets (including receivables)***

Financial assets not classified as at fair value through the profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment, indicating that a loss event occurred after the initial recognition of the asset and that loss event had a negative effect on projected future cash flows that can be reliably estimated.

**(ii) *Non-financial assets***

At each reporting date, the Company review the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

In the case of assets under development (exploration and evaluation assets) that are not yet available for use, the recoverable amount is estimated every year close to the reporting date. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (CGUs)

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

**l. Provisions**

A provision is recognized, based on a past event, when the Company has a legal or other obligation that can be estimated reliably, and it is probable that an economic outflow will be required to settle the obligation.

**(i) Bonus to employee**

Recognized in the balance sheet by the estimated amount of the liability when the Company generates certain preestablished targets are met.

**(ii) Assset Retirement Obligation**

Liability recorded based on a technical report prepared by a 3<sup>rd</sup> party appraiser considering the present value of the costs to be incurred for decommissioning of the mine. The corresponding entry of this obligation is recorded in property, plant and equipment and amortized in accordance with the depletion of the existing mineral reserves.

**(iii) Legal claims**

A provision is recognized when the Company has a presumed or legal liability that can be reliably estimated as the result of a past event, and it is probable that an economic resource is required to settle the liability. Provisions are recorded based on the best estimates of risk involved and expected future cash flows. A provision for loss on legal claims is recorded by evaluating and quantifying lawsuits, whose probability of loss is deemed as probable, in the opinion of the Management and its legal counsels.

**m. Leases**

Firstly, the Company assesses the agreed arrangement in order to evaluate if it is or contains a lease. At the reporting date the Company has no arrangements leases that contains a finance lease. Payments made under operating leases are recognized in income by the straight-line method over the lease term.

**n. Standards issued but not yet effective**

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017 and earlier application is permitted; however, the Company has

not early adopted the following new or amended standards in preparing these consolidated financial statements.

**(i) *Disclosure Initiative (Amendments to IAS 7)***

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

To satisfy the new disclosure requirements, the Company intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

**(ii) *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)***

The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

The Company is assessing the potential impact on its consolidated financial statements resulting from the amendments. So far, the Company does not expect any significant impact.

**(iii) *IFRS 15 Revenue from Contracts with Customers***

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Company has not completed an initial assessment of the potential impact of the adoption of IFRS 15 on its financial statements.

***Sales of goods***

For the sale of copper, revenue is currently recognised when the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods. For some made-to-order paper product contracts, the customer controls all of the work in progress as the products are being manufactured. When this is the case, revenue will be recognised as the products are being manufactured. This will result in revenue, and some associated costs, for these contracts being recognised earlier than at present - i.e. before the goods are delivered to the customers' premises.

For certain contracts that permit the customer to return an item, revenue is currently recognized when a reasonable estimate of the returns can be made, provided that all other criteria for revenue recognition are met. If a reasonable estimate cannot be made, then revenue recognition is deferred until the return period lapses or a reasonable estimate of returns can be made.

Under IFRS 15, revenue will be recognised for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur. As a consequence, for those contracts for which the Company is unable to make a reasonable estimate of return, revenue is expected to be recognised sooner than when the return period lapses or a reasonable estimate can be made. A refund liability and an asset for recovery will be recognised for these contracts and presented separately in the statement of financial position.

**(iv) IFRS 9 Financial Instruments**

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company currently plans to apply IFRS 9 initially on 1 January 2018.

The actual impact of adopting IFRS 9 on the Company's financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Company holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Company to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete. However, the Company has performed a preliminary assessment of the potential impact of adoption of IFRS 9 based on its positions at 31 December 2015 and hedging relationships designated during 2015 under IAS 39.

## 6 Cash and cash equivalents

	<b>2015</b>	<b>2014</b>
Banks balances	1,555	903
Short-term investments (a)	9,297	21,656
	<b>10,852</b>	<b>22,559</b>

- (a) Refers to certificates of deposit which bear interest at rates between 92.5% and 102.5% of the Certificate of Interbank Deposit rate (CDI).

The exposure of the Company to credit and interest rate risks is disclosed in note 30.

## 7 Trade accounts receivable

	<b>2015</b>	<b>2014</b>
Paranapanema S.A.	15,154	32,717
Other	333	421
	<b>15,487</b>	<b>33,138</b>

As exposed in the table above, substantial part of Trade accounts receivable are due from Paranapanema S.A.. Thereby, the Company is significantly subordinated to these customer's transactions.

The Company's exposure to credit risks related to trade and other receivables is disclosed in note 30. No provision for bad debts was recorded at December 31, 2015.

## 8 Inventory

	2015	2014
Consumables	22,374	21,542
Products in progress	3,884	19,233
Product inventory	2,970	9,510
Materials held by third parties	<u>187</u>	<u>204</u>
	29,415	50,489
(-) Impairment provision	<u>(3,240)</u>	<u>(1,024)</u>
	<u><b>26,175</b></u>	<u><b>49,465</b></u>

The breakdown of cost of goods sold is disclosed in note 24.

The impairment provision relates to obsolete and/or slow moving consumables at the reporting date.

## 9 Other receivables and prepaid expenses

	2015	2014
Advance to suppliers	1,399	503
Prepaid expenses (a)	8,044	-
Advances to employees	4,977	3,624
Insurance	325	189
Loan to related company (NX Gold S.A.) - Note 28	1,328	-
Other	<u>27</u>	<u>40</u>
	<u><b>16,100</b></u>	<u><b>4,356</b></u>

- (a) Advance energy payments to CHESF (Bahia state energy distributor), in accordance with Provisional Executive Order 677 dated June 22, 2015 in the amount of R\$ 5,963, which will be deducted from 2016 electricity supply invoices.
- (b) Refers substantially to advances to employees of salary, vacation and other benefits.

## 10 Financial investments

Financial investments are directly related to loan agreements with Banco do Nordeste do Brasil (BNB) and Banco do Brasil (BB), which required restricted cash. See Note 13 for additional information.

	2015	2014
BNB - Juazeiro	9,725	11,878
BNB - Reinvestment	1,718	1,525
BB - Mandatory investment	<u>2,463</u>	<u>-</u>
	<u><b>13,906</b></u>	<u><b>13,403</b></u>

Financial investments are linked to loan agreements with guarantee clauses that require the establishment of a reserve fund. Subsequent redemption is conditioned on the settlement of the related agreements, scheduled for 2021, with interest is earned as 96% of CDI for BNB - Juazeiro, and 99% of CDI for BNB - Reinvestment, and CDI+5% for BB Mandatory investment. See note 13.

## 11 Property, plant and equipment

### a. Reconciliation of carrying amounts

	Land	Buildings	Equipment	Mineral property	Environmental recovery and decommissioning	Projects in progress	Other	Total
<b>Balance at January 1, 2014</b>	<b>753</b>	<b>16,449</b>	<b>293,814</b>	<b>407,376</b>	<b>31,533</b>	<b>25,423</b>	<b>17,494</b>	<b>792,892</b>
Additions	-	73,000	45,019	11,570	-	83,528	8,278	148,468
Disposals	(484)	(2,373)	(7,318)	-	-	(9,517)	(892)	(20,584)
Transfers	-	(175)	4,170	63,346	(340)	(88,955)	(12,330)	(34,284)
Incorporation	-	-	-	-	-	50	-	50
Depreciation	-	(4,687)	(143,116)	(189,890)	(5,748)	-	(2,840)	(346,281)
<b>Balance at December 31, 2014</b>	<b>269</b>	<b>9,337</b>	<b>192,569</b>	<b>292,402</b>	<b>25,445</b>	<b>10,529</b>	<b>9,710</b>	<b>540,261</b>
Cost	269	14,024	335,685	482,292	31,193	10,529	12,550	886,542
Accumulated depreciation	-	(4,687)	(143,116)	(189,890)	(5,748)	-	(2,840)	(346,281)
<b>Balance at January 1, 2015</b>	<b>269</b>	<b>9,337</b>	<b>192,569</b>	<b>292,402</b>	<b>25,445</b>	<b>10,529</b>	<b>9,710</b>	<b>540,261</b>
Additions	-	-	19,337	3,638	20,926	81,122	3,016	128,039
Disposals	-	-	(479)	-	-	(3,244)	(4,055)	(7,778)
Impairment	-	(1,266)	(17,249)	(5,497)	(1,111)	-	(138)	(25,261)
Transfers	-	-	5,247	61,006	-	(45,046)	2,423	23,630
Depreciation	-	(505)	(28,861)	(41,874)	(2,013)	-	(463)	(73,716)
<b>Balance at December 31, 2015</b>	<b>269</b>	<b>7,566</b>	<b>170,564</b>	<b>309,675</b>	<b>43,247</b>	<b>43,361</b>	<b>10,493</b>	<b>585,175</b>
Cost	269	12,569	328,687	532,860	28,972	43,361	13,619	981,263
Accumulated depreciation	-	(5,003)	(158,123)	(223,185)	(6,651)	-	(3,126)	(396,088)

Projects in progress consists of projects to improve operational and administrative processes. Upon conclusion, the balances are reclassified to the appropriate fixed assets accounts and are depreciated or amortized based on the expected useful life of each project.

Some properties of the fixed assets were given in guarantee for debts. Please, see explanatory Note 13.

**b. Fixed asset impairment tests**

According with IAS 36, recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use.

Fair value less costs of sales of the fixed asset items and or CGUs cannot be determined in a reliable manner due to the characteristics of the business and present volatility of the market. Consequently, the recoverable value of these assets was calculated based on the value in use of the assets, estimated based on discounted cash flows.

The main assumptions used to estimate the value in use of property, plant and equipment items subject to impairment tests are defined below:

- The amounts attributed to the main assumptions represent the evaluation by Management of future trends and were based on historic data from internal and external sources;
- A 10.5% discount rate was estimated using the average weighted average of the capital cost in which the CGU operates; and
- Cash flow projections include specific estimates for 11 years, equivalent to the expected useful life of the subterranean mine.
- The projected EBITDA was estimated considering past experience, adjusted by the following factors:
  - Increase in revenue was projected considering the mining plan of the Company.
  - Expenditures were considered for: production expenses (remuneration, materials, and maintenance), amortization and depreciation and administrative expenses.
  - Taxes on income were calculated based on the taxable income regimen, considering the prevailing rates of 25% and 9% for income tax and social contribution, respectively. The Company also has the SUDENE benefit which permits a 75% income tax reduction until 2018; and
  - Projection of a capital variation of approximately R\$ 19,974 thousand.

At December 31, 2015, the Company acknowledged losses in the amount of R\$ 25,261, being represented by R\$ 24,150 of costs of fixed assets and R\$ 1,110 for considering it economically unfeasible, with basis on analyses carried out by geologists in the Oxidized unit. The activity at this unit was stopped in 2014 because of the unavailability of oxidized ore, its main raw material. The composition of the assets of the Oxidized unit for provisioning regarding losses is represented below:

	<b>Cost</b>	<b>Depreciation</b>	<b>Impairment</b>
Buildings	(1,455)	189	(1,266)
Equipment	(31,103)	13,854	(17,249)
Mirenal property	(14,076)	8,579	(5,497)
Environmental recovery and decommissioning	(2,221)	1,110	(1,111)
Other	(315)	177	(138)
<b>Total</b>	<b>(49,170)</b>	<b>23,909</b>	<b>(25,261)</b>

## 12 Intangible assets

### a. Reconciliation of carrying amounts

	Exploration and evaluation assets	Other Projects	Program and Licenses	Total
<b>Balance at January 1, 2014</b>	<b>243,560</b>	<b>3,488</b>	<b>-</b>	<b>247,048</b>
Additions	1,024	-	1,269	2,293
Disposals	(10,163)	-	-	(10,163)
Transfer	28,469	(3,488)	7,092	34,284
Incorporation (*)	54,699	-	-	54,699
Amortization	-	-	(1,424)	(1,424)
<b>Balance at December 31, 2014</b>	<b>317,589</b>	<b>-</b>	<b>6,937</b>	<b>324,526</b>
<b>Cost</b>	<b>317,589</b>	<b>-</b>	<b>8,361</b>	<b>325,950</b>
<b>Accumulated amortization</b>	<b>-</b>	<b>-</b>	<b>(1,424)</b>	<b>(1,424)</b>
<b>Balance at December 31, 2014</b>	<b>317,589</b>	<b>-</b>	<b>6,937</b>	<b>324,526</b>
Additions	2	-	-	2
Transfer	(23,630)	-	-	(23,630)
Impairment	(21,368)	-	-	(21,368)
Amortization	-	-	(1,616)	(1,616)
<b>Balance at December 31, 2015</b>	<b>272,593</b>	<b>-</b>	<b>5,321</b>	<b>279,914</b>
<b>Cost</b>	<b>272,593</b>	<b>-</b>	<b>8,361</b>	<b>280,954</b>
<b>Accumulated amortization</b>	<b>-</b>	<b>-</b>	<b>(3,040)</b>	<b>(3,040)</b>

(\*) The column related to the incorporation of a subsidiary in 2014 represents the amount of investment made in the project “Vermelhos” for the then subsidiary Mineração Vale do Curaçá S.A., incorporated to the Company on that same year, according to the incorporation report.

The principal ongoing mineral exploration and evaluation assets are :

- (i) The “MSB Aprofundamento” project is located at Jaguarari, in Bahia and the present phase of the Project estimates the extraction of sulfide ore between the elevations 220m and -965m below surface. The Company aims to produce an average of 16,5 thousand tons/year (unaudited) of contained copper during the period of 2017 to 2022.
- (ii) Project Boa Esperança - An agreement with Codelco do Brasil Mineração Ltda., was entered into on October 26<sup>th</sup>, 2007, assigning and transferring the mineral rights of Project Boa Esperança to the Company, for the sum of R\$ 145,124. The value recorded at December 31, 2015 is R\$ 234,888 (R\$ 223.938 at December 31, 2014).
- (iii) Project Vermelhos - The project relates to the acquisition of mining rights and expenses required for the future extraction of copper. The expectation regarding Project Vermelhos includes mining for a period of at least 4 years. The value recorded at December 31, 2015 is R\$ 59,073 (R\$ 54.669 at December 31, 2014).

The mining rights of the “Boa Esperança” and “Vermelhos” Projects were pledged in guarantee of the Company’s debts. See note 13.

### b. Intangible assets impairment tests

The fair value less costs of sale cannot be determined on a reliable manner due to the characteristics of the business and present volatility of the market. Consequently, the recoverable value of this CGU was calculated based on the value in use of the assets, estimated based on discounted cash flows and a net provision for the devaluation of these assets is recognized in the amount of R\$ 21,368 regarding Boa Esperança Project.

The main assumptions used for estimating the value in use of the intangible assets of the Company are defined as follows:

- The amounts attributed to the main assumptions represent the evaluation by Management of future trends and were based on historic data from internal and external sources;
- A 12.0% discount rate was estimated using the average weighted average of the capital cost in which the CGU operates; and
- Cash flow projections include specific estimates for 11 and 7 years, equivalent to the expected useful life of the “Boa Esperança” and “Vermelhos” projects, respectively.
- The projected EBITDA was estimated considering past experience, adjusted by the following factors:
  - Increase in revenue was projected considering the mining plan of the Company.
  - Expenditures were considered for: production expenses (remuneration, materials, and maintenance), amortization and depreciation and administrative expenses.
  - Taxes on income were calculated based on the taxable income regimen, considering the prevailing rates of 25% and 9% for income tax and social contribution, respectively. The Company also has the SUDENE benefit which permits a 75% income tax reduction until 2018; and
  - Projection of a capital variation of approximately R\$ 3,029.

### 13 Loans and financing

The terms and conditions of outstanding loans are as follows:

Description	Interest		Currency	Contract date	Maturity date	2015	2014
	rate (year)	Guarantees					
Itaú - Renegotiation	4.73%	(iii)	Dollar	Sep/15	Jul/20	207,676	-
Santander - Renegotiation	4.68%	(iii)	Dollar	Aug/15	Aug/20	205,475	-
Votorantim - Renegotiation	4.35%	(iii)	Dollar	Oct/15	Jul/20	184,753	-
Banco BNB - FNE	10.00%	(v)	Real	Mar/11	Feb/21	80,242	95,773
ABC - Renegotiation	6.5%	(iii)	Dollar	Aug/15	Apr/20	51,878	-
PINE - Renegotiation	3%	(ii)	Dollar	Sep/15	Mar/19	36,407	-
Banco do Brasil - FCO	3.53%	(i)	Real	Sep/13	Apr/21	36,384	43,207
Banco do Brasil - Renegotiation	CDI + 5%	(vi)	Real	Sep/15	Sep/18	29,376	-
2770 Fibra	10.5%	(i)	Dollar	Dec/14	Aug/16	15,177	10,270
Safra - Renegotiation	20.55%	(ii)	Real	Sep/15	Mar/19	14,340	-
Santander Renegotiation Finimp	5%	(iii)	Dollar	Aug/15	Aug/20	4,740	-
2770 Fibra 600k	10.5%	(i)	Dollar	Jan/15	Aug/16	2,360	-
Finame Safra Motiva Volvo	6.00%	(iv)	Real	May/14	May/19	1,784	2,095
Finame ABC Movea Scania	6.00%	(ii)/(iv)	Real	Jul/14	May/19	766	989
Finame ABC - Sandvick	5.50%	(ii)/(iv)	Real	Jul/11	Apr/16	377	1,505
Banco Alfa Metso (*)	5.50%	(ii)/(iv)	Real	Jun/11	Mar/16	346	1,732
Finame Banco Safra 729	2.50%	(iv)	Real	Apr/13	Oct/17	297	459
Banco Safra FL Smidth (*)	8.70%	(iv)	Real	Nov/11	Sep/16	158	368
Finame Safra 379 (*)	2.50%	(iv)	Real	Dec/13	Oct/17	155	239
Banco Caterpillar 2	8.70%	(iv)	Real	Nov/11	Oct/16	142	354
Finame Banco Safra Bombeiro	5.50%	(iv)	Real	Nov/12	Jun/17	120	201
Finame Safra Metso	8.70%	(iv)	Real	Jan/12	Oct/16	104	228
Finame ABC 124	2.50%	(ii)/(iv)	Real	Mar/13	Oct/17	51	78
Banco Safra SCANIA	10.00%	(iv)	Real	Nov/11	Oct/16	51	113
Banco Alfa Maquesonda	5.50%	(ii)/(iv)	Real	Jun/11	Mar/16	19	94

Description	Interest rate (year)	Guarantees	Currency	Contract date	Maturity date	2015	2014
Banco Safra M.Diesel	10%	(iv)	Real	Sep/11	Aug/16	19	47
Banco Safra Hincol	10%	(iv)	Real	Sep/11	Aug/16	13	32
Finimp Caterpillar Santander	2.68%	(i)	Dollar	Apr/13	Apr/15	-	3,283
Finimp Simba ABC	3.13%	(ii)	Dollar	Sep/13	Sep/15	-	3,331
Finimp Citic Santander	3.2%	(i)	Dollar	Nov/13	Jan/15	-	896
Finimp Screens ABC	3.52%	(ii)	Dollar	May/13	Jun/15	-	1,063
Finimp 2 <sup>nd</sup> loader ABC	3.5%	(ii)	Dollar	Jun/14	May/15	-	1,744
Finimp 3 <sup>rd</sup> loader ABC	3.5%	(ii)	Dollar	Jun/14	May/15	-	2,130
Finimp Cabolt 30% ABC	4.77%	(ii)	Dollar	Nov/14	Nov/15	-	663
Finimp Peneiras 80% ABC	3.5%	(ii)	Dollar	Jul/13	Jul/15	-	4,073
Finimp BTI ABC	3.52%	(ii)	Dollar	Jun/13	Jun/15	-	1,405
Finimp Boomer ABC	3.5%	(ii)	Dollar	Jun/13	Jun/15	-	2,402
Finimp Carreg. Sandvick 30%	3.44%	(ii)	Dollar	Feb/14	Feb/15	-	608
Finimp Carreg. Sandvick 70%	3.35%	(ii)	Dollar	Apr/14	Apr/15	-	1,436
Finimp Sandvick 30% PINE	1.808%	(ii)	Dollar	Feb/14	Feb/15	-	701
Finimp Sandvik 70% PINE	1.808%	(ii)	Dollar	Mar/14	Mar/15	-	1,650
Banco do Brasil 30 MM	CDI + 2%	(i)	Real	Apr/14	Feb/17	-	30,207
Club Deal 2 Itau	4.16%	(iii)	Dollar	May/13	May/18	-	131,005
Club Deal 2 Santander	4.16%	(iii)	Dollar	May/13	May/18	-	131,006
4131 ABC	3.25%	(ii)	Dollar	Jan/14	Jan/15	-	2,156
4131 PINE	3%	(ii)	Dollar	Jun/14	May/17	-	23,579
4131 Safra	2.96%	(ii)	Dollar	Nov/14	Nov/16	-	13,327
Finame ABC - Totvs	9.40%	(ii)	Real	Nov/10	Jan/15	-	127
Banco do Brasil	5.50%	(iv)	Real	Jun/11	Dec/15	-	379
Finimp Putzmeister ABC	3.44%	(ii)	Dollar	Feb/14	Feb/15	-	917
						<b>873,210</b>	<b>515,872</b>
Current						48,100	350,308
Noncurrent						825,110	165,564

**Guarantee types:**

- (i) Free of guarantee;
- (ii) Promissory note;
- (iii) Receivables (R\$ 15,487) and mining rights;
- (iv) Statutory lien of equipment;
- (v) Receivables (R\$ 15,487); and
- (vi) Reserve fund required by Banco do Brasil (R\$ 2,463 - See note 10).

Information on the exposure of the Company to interest rate, foreign currency and liquidity risks are included in note 30.

**a. Debt Scheduling**

The maturity dates of non-current loans and financing at December 31, 2015 are as follows:

	2015
2017	62,594
2018	125,895
After 2019	636,621
	<b>825,110</b>

**b. Renegotiation with banks**

After much negotiation with the main banks, on April 20, 2015 and on May 25, 2015 (through an addendum), the main creditor parties, composed of representatives of a pool of banks: Bancos Votorantim S.A., Votorantim S.A Nassau Branch, Santander S.A., Santander Grand Cayman Branch, Itau Unibanco, Itau Unibanco Nassau Branch and ABC Brasil S.A. and parallel agreements with Banco do Brasil S.A., Banco Safra S.A., Banco Pine S.A. and Banco Fibra S.A., signed with the debtor (Mineração Caraíba S.A.) and the guarantor (NX Gold S.A.), a commitment of Inaction and Other Matters, when on the one side the debtor suspends the petition for judicial reorganization and on the other, the creditors do not practice any act of judicial or extrajudicial collection process.

The main terms and conditions included in these documents are listed below:

*Global Contract (pool of banks)*

- Definition of the total restructured amount of approximately R\$ 634,000, not including approximately R\$ 128,000 of the part not restructured and R\$ 98,000 of debts which were negotiated in bilateral operations with the respective banks;
- Renewal of existing bank guarantee in the amount of approximately R\$81,000;
- Through this instrument the associated company NX Gold S.A. is the global guarantor of the contract signed between Mineração Caraíba S.A. and the financial institutions;
- Fiduciary assignment of creditor rights from the copper supply contract to Paranapanema;
- Opening and maintenance, throughout the whole contract period, of a blocked account, reserve account and debt acceleration account as a form of guaranteeing the payment of the debt by means of retentions or anticipations;
- Offer of additional guarantees, with conditional assignment of the Vermelhos and Boa Esperança mining rights, in the case on non-fulfillment of the obligations undertaken. In relation to Boa Esperança, it was agreed that the Company shall grant to the syndicate of banks the power to sell its mineral rights, where, in the case of a sale, these amounts (net of commissions and taxes) would have 70% allocated to the reduction of indebtedness with the syndicate. The remaining 30% could be used freely by the Company, without having to be a part of the funds to be used for anticipated obligatory settlement. It is important to emphasize that the Company will not be obliged to sell the asset, should the proposals not be considered adequate by the shareholders;
- Maintenance of guarantee of first degree pledge of the mineral rights of Vale do Curaçá;
- Statutory lien of the total amount of shares of the controlling shareholders representing 84.94%( Tugalla B.V.-28.98%, Branford Participações-28.98%, and Zinia Participações S.A.-25.96%) of the shares.
- Remuneration of the new restructured amount using the U.S. dollar exchange rate variation or equivalent plus interest remuneration of 6.5% per year;

- Grace period of 24 months as of the date of signature of the contract;
- Amortization of the debt in accordance with the following: amortization of 1% of the debt from the 25<sup>th</sup> to the 30<sup>th</sup> month; amortization of 3% of the debt from the 31<sup>st</sup> to the 36<sup>th</sup> month; amortization of 8% of the debt from the 37<sup>th</sup> to the 42<sup>nd</sup> month; amortization of 25% of the debt from the 43<sup>rd</sup> to the 48<sup>th</sup> month; amortization of 52% of the debt from the 49<sup>th</sup> to the 54<sup>th</sup> month and amortization of 11% of the debt from the 55<sup>th</sup> to the 60<sup>th</sup> month as of July 28, 2015;
- Obligation, under the hypothesis of sale of the mineral right of Boa Esperança, to use at least 70% of the funds obtained for total or partial settlement of the global contract;
- Apart from the above mentioned obligations, there are various accessory obligations foreseen under clause 4 of the contract.

*Parallel agreements (Banco do Brasil S.A., Banco Safra S.A., Banco Pine S.A. and Banco Fibra S.A.).* The adjusted restructuring conditions agreed-to with these banks are described below:

- Banco do Brasil S.A: 12 month grace period, and after this period, amortization of the principal amount in 24 monthly, equal and consecutive installments. Over the debt balance there will be interest remuneration of CDI + 5% per year. As a guarantee of the operation, a security deposit shall be made equivalent to 3 monthly installments and a guarantee from the associated company NX Gold.
- Banco Safra S.A: 18 month grace period, and after this period, amortization of the principal amount in 24 monthly, equal and consecutive installments. Over the debt balance there will be pre-fixed interest remuneration of 1.57% per month. No guarantees were offered for this operation.
- Banco Pine S.A: 18 months grace period, and after this period, amortization of the principal amount in 24 monthly, equal and consecutive installments. Over the debt balance there will be interest remuneration equivalent to 92% of the CDI variation. As a guarantee of the operation, equipment in the amount of R\$ 8,000,000 were included as collateral and guarantee of the associated company NX Gold
- Banco FibraS.A: 12 months grace period, and after this period, amortization of the principal amount in one sole installment. Over the debt balance there will be interest remuneration equivalent to the exchange variation + 10.5% per year. No guarantees were offered for this operation.

### **Covenants**

Some of the Company's debt agreements with lenders contain financial covenants. The main covenants in those agreements require maintaining certain ratios, such as debt to EBITDA (Earnings before Interest Taxes, Depreciation and Amortization), as follows: The ratio between the EBITDA and the net debt shall always be equal or greater than 7x in relation to the year 2015, 6.5x in relation to the year 2016, 6x in relation to the year 2017, 4.5x in relation to the year 2018, and 3x in relation to the year 2019.

In December 31 2014, the Company did not comply with the above mentioned contractual clauses and did not get the waiver of the trustees within the financial year, and this fact entailed early maturity of the certain obligations, of which R\$ 186.202 were classified in non-current liabilities. The Company has not identified any instances of noncompliance as at December 31, 2015.

## 14 Non-convertible debentures

On July 17, 2013 the Company, with the purpose of CAPEX investment, as well as for financing the operational activities and refinancing its debts, performed the third issue of simple debentures, unsecured, for public distribution with restricted placement efforts, designated for qualified investors, in this case the financial institution Banco Votorantim S.A., having Banco Itau S/A. as depository. The total amount of issue was of R\$ 99,000, having issued 99 debentures, each in the amount of R\$ 1,000. The debentures are updated through the closing variation quotation of the exchange sales rate of Reais to Dollar (PTAX 800 - Option 5). These debentures ceased to exist in 2015 during the renegotiation process of the indebtedness of the Company. They were converted into 4131 bank debt instruments. Nevertheless, we continue with the debentures subscribed by Banco ABC. The 2nd issue debentures were converted, also during the renegotiation in September 2015, into 4th issue debentures that follow the same set of rules indicated above. See more details below:

### Contract details:

Payment of principal	The payment of the debenture will be made in 36 monthly installments with past due from August 15, 2017 until July 15, 2020.
Payment of interest	Pre-fixed interest rate of 6.5% per annum, due monthly from October 15, 2015 until July 15, 2020
Guarantees	Mining rights of the 'Vermelhos' and 'Boa Esperança' projects; fiduciary assignment of the receivables from Paranapanema to a related account; and fiduciary alienation of shares.

### a. Movement

The table below demonstrates changes in the balance of debentures during the years ended December 31, 2015 and 2014:

	01/01/2015	Issue/ interest	Exchange variation	Payment	Transfer	12/31/2015
Current	42,068	32,522	-	(179,400)	104,935	125
Noncurrent	115,862	35,362	-	-	(104,935)	46,289
	<b>157,930</b>	<b>67,884</b>	<b>-</b>	<b>(179,400)</b>	<b>-</b>	<b>46,414</b>
	01/01/2014	Issue/ interest	Exchange variation	Payment	Transfer	12/31/2014
Current	20,910	13,202	(7,531)	(37,884)	53,371	42,068
Noncurrent	112,292	35,750	21,191	-	(53,371)	115,862
	<b>133,202</b>	<b>48,952</b>	<b>13,660</b>	<b>(37,884)</b>	<b>-</b>	<b>157,930</b>

**b. Debt scheduling**

The maturities of the long-term non-convertible debenture for the years ending December 31, 2015 are broken down as follows:

	<b>2015</b>
2017	385
2018	4,545
2019	29,561
2020	11,798
	<b>46,289</b>

**c. Covenants**

Some of the Company's debt agreements with lenders contain financial covenants. The main covenants in those agreements require maintaining certain ratios, such as debt to EBITDA (Earnings before Interest Taxes, Depreciation and Amortization). The Company has not identified any instances of noncompliance as at December 31, 2015 and 2014.

**15 Payroll and related charges**

	<b>2015</b>	<b>2014</b>
Vacation pay	10,221	10,567
Payroll taxes	6,714	6,719
Other	1,299	396
	<b>18,234</b>	<b>17,682</b>

**16 Tax payable**

	<b>2015</b>	<b>2014</b>
ICMS (a)	32,928	33,443
Financial compensation for mineral exploration (CFEM)	1,990	904
Other revenue taxes	8,526	2,947
Others	5,424	2,434
	<b>48,868</b>	<b>39,728</b>

- (a) Relates to tax obligations deferred in accordance with the terms of to the rules of the Tax Incentive Program of Bahia State, "DESENVOLVE". See explanatory note no. 6.b.i.

**17 Bonus to employee**

The Company has a bonus plan to employee, which is paid to managers upon achievement of pre-established goals defined during strategic planning.

The table below demonstrates changes in the complementary benefit as at December 31, 2015 and 2014:

	2015	2014
Balance as at January 1	7,195	3,248
Provision for the year	12,530	7,195
Amounts paid in relation to prior year	<u>(6,315)</u>	<u>(3,248)</u>
Final balance	<b><u>13,410</u></b>	<b><u>7,195</u></b>
Current	10,412	5,587
Noncurrent	2,998	1,608

## 18 Social security installments

The Company has an agreement with the Brazilian National Institute of Social Security, to pay outstanding social security contributions in 102 installments until 2024:

	Current	Noncurrent	Total
<b>Balances as of January 1st 2014</b>	<u>7,768</u>	<u>20,301</u>	<u>28,069</u>
Interest	542	-	542
Amortizations	(6,300)	-	(6,300)
Transfers	<u>278</u>	<u>(278)</u>	<u>-</u>
<b>Balances at December 31, 2014</b>	<b><u>2,288</u></b>	<b><u>20,023</u></b>	<b><u>22,311</u></b>
Interest	1,337	-	1,337
Amortizations	(2,372)	-	(2,372)
Transfers	<u>1,225</u>	<u>(1,225)</u>	<u>-</u>
<b>Balances at December 31, 2015</b>	<b><u>2,478</u></b>	<b><u>18,798</u></b>	<b><u>21,276</u></b>

## 19 Advances from customers

At December 31, 2015, the balance was comprised of advances from Paranapanema S.A. for future delivery of 4,698 tons of copper concentrate and to fund working capital requirements. The balance was fully settled in 2016.

## 20 Asset retirement obligation

Refers to the costs for the closure of the mines and deactivation of the related mining assets. Changes in the provision of asset retirement obligations and long-term interest rates (per annum, used to discount these obligations to present value and to update the provisions) are as follows:

	Discount rate	Balance on 01/01/2014	Expenses with environmental recovery	Balance on 12/31/2014	Provision increase	Expenses with environmental recovery	Balance on 12/31/2015
Projects	10.3%	<u>53,661</u>	<u>(2,609)</u>	<u>51,052</u>	<u>20,926</u>	<u>(5,533)</u>	<u>66,445</u>
		<b><u>53,661</u></b>	<b><u>(2,609)</u></b>	<b><u>51,052</u></b>	<b><u>20,926</u></b>	<b><u>(5,533)</u></b>	<b><u>66,445</u></b>

The provision refers to costs related to mine closure and reclamation, with the completion of mining activities and decommissioning of assets related to mine. When the provision is recognized, the corresponding cost is capitalized as part of property plant and equipment and is depreciated on the same basis over the related asset and recorded in the income statement.

The long-term liability is subsequently measured using a long-term risk free discount rate applicable to the liability and recorded in the income statement as financial expenses until the Company makes payments related to mine closure and decommissioning of assets mining.

The accrued amounts of these obligations are not deducted from the potential costs covered by insurance or indemnities.

## 21 Legal claims

### a. Provision for legal claims

Based on an analysis of individual judicial and administrative legal claims against the Company, the following provisions for labor, civil and tax probable losses have been made:

	<b>2015</b>	<b>2014</b>
Labor claims (i)	13,941	10,876
Civil claims	901	785
Tax claims (ii)	<u>4,334</u>	<u>4,066</u>
	<b><u>19,176</u></b>	<b><u>15,727</u></b>

### (i) Labor claims

As of December 31, 2015 there are a number of labor claims filed against the Company, of which, approximately 140 claims are evaluated as probable losses by the Company's legal counsel (110 processes as at December 31, 2014).

	<b>2015</b>	<b>2014</b>
Balance as at January 1st	10,876	5,891
Additions	<u>3,065</u>	<u>4,985</u>
Final balance	<b><u>13,941</u></b>	<b><u>10,876</u></b>

Provisions for loss were recognized for the processes where the possibility of loss was evaluated as probable, based on the opinion of the Company's legal counsel.

The understanding of the Company's management is that the unfavorable outcome in its lawsuits, individually or on the whole, shall have no significant adverse impact in the Company's financial conditions or business.

### (ii) Civil and Tax claims

	<b>2015</b>	<b>2014</b>
Balance as at January 1st	4,851	922
Additions	<u>384</u>	<u>3,929</u>
Final balance	<b><u>5,235</u></b>	<b><u>4,851</u></b>

The provisions for losses relates, principally, to tax assessments issued by the Federal Revenue Service relating to alleged incorrect compensation of Income and Social Contribution Taxes credits, whose possibility of loss was evaluated as probable, based on the opinion of legal counsel.

**b. Legal claims not provisioned**

At December 31, 2015, the Company evaluated the following claims as possible losses and no provision was accounted for.

<b>Nature</b>	<b>2015</b>
Social security	452
Tax (i)	42,949
Civil	27,245
Mineral	6,229
Labor (ii)	9,620
	<b>86,495</b>

**(i) Tax claims**

As of December 31, 2015, there are proceedings of tax nature filed against the Company, among which, 54 claims are evaluated as possible loss by the Company's legal advisers, amounting to R\$ 42,949 (R\$ 35,702 as at December 31, 2014).

*Tax-deficiency notice - IRPJ, CSL, PIS and COFINS debits*

On January 12, 2011, the Internal Revenue Service issued a tax-deficiency notice against the Company referring to IRPJ, CSL, PIS and COFINS debits. Part of the tax-deficiency notice was deemed due and paid on February 7, 2011 in the amount of R\$ 3,619, for the remainder, a plea was made in the administrative sphere on February 9, 2011 (in time).

The inspection understood that the amounts registered under the item "revenue/expense adjustment on variation", based on the London Metal Exchange (LME), consisted of active or passive exchange variations and, therefore, should be considered, tax-wise, as financial revenues or expenses.

This way, considering that under the assumed profit regime no deductions from passive exchange variations of the gross revenue would be allowed and the amounts registered under this item could not deduct the calculation basis of the presumed profit when negative.

On the other hand, if the outcomes were positive, the amounts registered under this item would be offered to taxation by IRPJ as financial revenues, that is, by investment of the percentage of 100% and not of the percentage of presumed profitability of 8%, which would only be applicable on the revenues arising from the sale of goods.

The lower court ruling established that the effects of the amounts added by the inspection for exchange variation purposes should be cleared, giving assent to the Company.

**(ii) Labor claims**

As at December 31, 2015 the Company is a party to various labor processes, among which 46 claims are evaluated as having possible loss by the legal advisors of the Company (35 claims as at December 31, 2014), in an amount of R\$ 9,620 (R\$ 4,182 as at December 31, 2014).

**c. Judicial deposits**

In relation to the above-mentioned claims, as at December 31, 2015, the Company had judicial deposits amounting to R\$ 6,372 (R\$ 3,223 as at December 31, 2014).

	2015	2014
Labor claims	5,939	2,791
Civil claims	24	17
Tax claims	409	405
Other claims	-	10
	<b>6,372</b>	<b>3,223</b>

**22 Stockholders` equity**

**a. Share capital**

At December 31, 2015 and 2014 the subscribed and paid in share capital was R\$ 129,710, comprised of 71,427,931 ordinary shares with no par value, as shown below:

	Quantity of ordinary shares	%
Tugalla B.V.	20,344,010	28.48
Branford Participações	20,344,010	28.48
Zinia Participações S.A.	19,990,198	27.99
Employees / others	10,749,713	15.05
	<b>71,427,931</b>	<b>100.00</b>

The ordinary shareholders are entitled to receive dividends as established in the Company's articles of association. Ordinary shares give to its owner the right to one vote per share in General Meetings.

**b. Reserves**

**(i) Profit reserves**

***Legal reserve***

Established at the rate of 5% of annual net profit in accordance with Brazilian Corporate Law (Art. 193 of the Law 6.404/76) up to the limit of 20% of the share capital. As of December 31, 2015, the balance of the legal reserve of R\$ 23,648 was used to compensate accumulated losses.

***Tax incentives***

The Company has a tax incentive reducing the income tax on exploration profit by 75%, for a period of 10 years from 2008 to 2017, calculated based on the exploration profit calculation rules as defined by the Northeast Development Board - SUDENE. Furthermore, the Company has a tax incentive in the state of Bahia in relation to the deferral and reduction of ICMS. These incentives are registered in a specific account in income and at year end are transferred to a tax incentive reserve, in accordance with Corporate Law. The period of this benefit can be renewed since the Company meets its requirements.

<b>Years</b>	
2013	49,451
2014	107,432
2015	<u>60,602</u>
	<u><b>217,485</b></u>

If the Company has accumulated profits in the future periods, in accordance with Corporate Law, it must exclude from the calculation of mandatory dividends payable, tax incentive reserve amounts transferred to compensate losses.

**c. Dividends**

The Company's Bylaws establish a minimum mandatory dividend of 25%, calculated on the annual adjusted net profit in accordance with Corporate Law.

As at December 31, 2014 the Company had the amount of R\$ 846 provisioned for dividends, not paid until such date, which amount was reversed to net equity in the same year.

At December 31, 2015 and 2014, no dividends were payable because of losses in both years.

**23 Net operating revenue**

	<b>2015</b>	<b>2014</b>
Copper concentrate	438,739	419,496
Copper cathode	-	14,610
Gold and silver	-	14,965
Copper forwards	<u>31,510</u>	<u>11,115</u>
Gross operating revenue	470,249	460,186
(-) Taxes on sales (a)	<u>(64,063)</u>	<u>(55,781)</u>
<b>Net operating revenue</b>	<u><b>406,186</b></u>	<u><b>404,405</b></u>

- (b) On December 31, 2015, the amount of the Desenvolve incentive in the amount of R\$ 30,244 (R\$ 31,023 on December 31, 2014) was recorded as a reduction of taxes on sales.

**24 Cost of sales**

	<b>2015</b>	<b>2014</b>
Materials	(119,409)	(126,319)
Personnel	(78,958)	(57,530)
Depreciation, amortization and depletion	(67,536)	(55,670)
Outsourced services	(37,650)	(34,782)
Other costs	<u>(50,175)</u>	<u>(48,639)</u>
	<u><b>(353,728)</b></u>	<u><b>(322,940)</b></u>

## 25 General and administrative expenses

	<b>2015</b>	<b>2014</b>
Payroll and related charges	(26,763)	(17,016)
Outsourced services	(5,388)	(12,857)
Other expenses	(4,405)	(7,855)
	<u>(36,556)</u>	<u>(37,728)</u>

## 26 Other revenue and expenses

	<b>2015</b>	<b>2014</b>
Sale of water	3,297	3,095
Sale of scrap	126	486
Sale of inventory items	56	152
Reimbursement from insurance claims	21	2,828
Recovery of expenses	1,091	5,294
Reversal of provision for losses on legal claims	419	4,772

<b>Other revenue</b>	<u><b>5,010</b></u>	<u><b>16,627</b></u>
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	<b>2015</b>	<b>2014</b>
Provision for losses with legal claims	(5,281)	(16,201)
Loss on disposals	(133)	(2,108)
Regional exploration	(6,235)	(4,915)
Idle time of the Oxidado unit	(354)	(2,114)
Write-off of inventory of low quality product	(7,697)	-
Provision for impairment of fixed assets (a)	(24,151)	-
Provision for impairment of intangible assets (b)	(21,368)	-
Write-off environmental asset of the Oxidade unit (a)	(1,110)	-
Gain (loss) taxes	3,032	(1,089)
Other operating expenses	(41)	-
	<u>(63,338)</u>	<u>(26,427)</u>

- (a) As mentioned in note 12, at December 31, 2015 the Company recognized a provision for impairment of R\$ 24,151, based on tests performed on property, plant and equipment items of the CGU Oxidado and of R\$ 1,110 related to the existing balance of environmental assets.
- (b) As described in note 13, at December 31, 2015 the Company recognized a provision for impairment, of R\$ 21,368, based on tests performed on the Boa Esperança project, recorded in intangible assets.

## 27 Financial income and expenses

	2015	2014
Exchange variation on loans, financing and debentures	74,224	46,037
Derivative gains (losses)	22,732	19,690
Gain from financial investments	2,496	4,013
Exchange variation on importation and other	3,527	4,634
Other income	1,107	358
<b>Total financial income</b>	<b>104,086</b>	<b>74,732</b>
Exchange variation on loan, financing and debentures	(286,237)	(84,717)
Interest on loan, financing and debentures	(46,938)	(52,866)
Derivative gains/losses	(36,575)	(23,842)
Exchange variation on importation and other	(3,146)	(14,994)
Other expenses	(28,386)	(2,995)
<b>Total financial expenses</b>	<b>(401,283)</b>	<b>(179,414)</b>
<b>Financial expenses, net</b>	<b>(297,197)</b>	<b>(104,682)</b>

## 28 Transactions with related parties

### a. Transactions and balances

The Company considers shareholders, related companies, directors and officers and their families, as related parties, as demonstrated below:

	2015	2014
<b>Current assets</b>		
Other accounts receivable and prepaid expenses (a) - Note 9	1,328	-
<b>Noncurrent assets</b>		
Loans with related company (b)	34,031	47,256
<b>Total balance</b>	<b>35,359</b>	<b>47,256</b>
<b>Financial expenses</b>		
Interest income on loan (b)	277	-
Interest expense on loan	(158)	-
<b>Total financial expenses</b>	<b>119</b>	<b>-</b>

(a) At December 31, 2015, the Company had outstanding balances from transactions with its related party NX Gold S.A. in relation to the balance due transfer of operational materials; e

(b) Refers the balance to receive from loan formed by the transfer of the balances split for the subsidiary NX Gold S.A. and contributions made. From March 20, 2015, with the amendment of the loan agreement, the levy of interests of 3.53% per year was agreed.

### b. Directors and officers' remuneration

During the year ending December 31, 2015, directors and officers's remuneration in the amount of R\$ 2,849 (2015: R\$ 2,428) was recorded in general and administrative expenses. Directors and officers are also entitled to a share of the Company's profits.

## 29 Loss per share

The calculation of the basic loss per share was based on the net loss for the year attributed to the holders of ordinary shares, as demonstrated below:

	<b>2015</b>	<b>2014</b>
Loss of the year	(347,130)	(77,849)
Number of ordinary shares (Note 22.a)	<u>71,427,931</u>	<u>71,427,931</u>
Loss per share - basic and diluted (in R\$)	<u><b>(4,8599)</b></u>	<u><b>(1,0899)</b></u>

## 30 Financial instruments

Market values of financial assets and liabilities were determined based on available market information and valuation methodologies appropriate to each situation. However, some judgment was 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.

### a. Classification of financial instruments

Existing financial operations involve assets and liabilities that are usual and pertinent to its economic activity, especially financial investments with short-term maturities, loans and financing. These transactions are presented in the balance sheet, plus the relevant appropriations of income and expenses which, due to the nature of the operations and their maturity, approach fair values, as follows:

		Book value		Fair value	
		2015	2014	2015	2014
<b>Financial assets</b>					
<b>Measured at fair value through profit or loss</b>					
Derivative financial instruments receivable	Fair value	2,992	965	2,992	965
<b>Loans received</b>					
Cash and cash equivalents		10,852	22,559	10,852	22,559
Trade accounts receivable	Amortized cost	15,487	33,138	15,487	33,138
<b>Financial assets held-to-maturity</b>					
Financial investments	Amortized cost	<u>13,906</u>	<u>13,403</u>	<u>13,906</u>	<u>13,403</u>
<b>Total financial assets</b>		<u><b>43,237</b></u>	<u><b>70,065</b></u>	<u><b>43,237</b></u>	<u><b>70,065</b></u>
<b>Financial liabilities</b>					
<b>Measured at fair value through profit or loss</b>					
Derivative financial instruments payable	Fair value	-	17,778	-	17,778
<b>Other financial liabilities</b>					
Suppliers	Amortized cost	22,695	13,223	22,695	13,223
Loans and financing	Amortized cost	873,210	515,872	873,210	515,872
Non-convertible debentures	Amortized cost	46,414	157,930	46,414	157,930
Advances from clients	Amortized cost	21,917	-	21,917	-
Bonus to employee	Amortized cost	<u>13,410</u>	<u>7,195</u>	<u>13,410</u>	<u>7,195</u>
<b>Total financial liabilities</b>		<u><b>977,646</b></u>	<u><b>711,998</b></u>	<u><b>977,646</b></u>	<u><b>711,998</b></u>

***Book value versus fair value***

For all operations involving financial instrument assets and liabilities other than derivatives financial instruments, management considers that the fair value is equivalent to the book value.

It is management's understanding that for the loans and financing with financial institutions with outstanding balances at December 31, 2015 and 2014 there is no expectation of substantial alterations in the rates being practiced, considering that the main loan agreements were renegotiated during the year. Consequently, it is understood that the book value approximates fair value.

The details of the terms of loans and financing are presented in note 13 to the financial statements.

**b. Management of financial risks**

**(i) *Non-derivative financial instruments***

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

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

As at December 31, 2015 and 2014 there were no alterations to the financial risk management policies of the Company.

***Credit risk***

Credit risk is the risk of the Company incurring in losses from a client or a counterparty in a financial instrument arising from their failure to comply with their contractual obligations.

In 2015 the Company sold 100% of its production to Paranapanema S.A. Until December 31, 2015, the credit situation of Paranapanema was very solid and did not represent credit risk, since the Company not have significant balances accounts receivable pending of the payment at that date. In 2016, the Paranapanema began to face financial problems and began negotiations to restructure its financial debt directly with the banks and financial creditors holding bonds. Currently, the Paranapanema is nearing completion of its financial restructuring. In addition, despite continuing to provide to Paranapanema, as a way to mitigate credit risk, the payment term that was previously 35 days was reduced to 1 day. It should be noted that the company has alternatives to sell its product in the foreign market. However, considering logistical, financial and fiscal factors (existence of tax benefits), Paranapanema is your best alternative. In addition, Management closely monitors the company's situation and movements in order to anticipate possible situations that may pose risks to the Company.

The Company aims at to minimize the credit risk of its clients based on long-term contracts with prices and payment terms prepared in common agreement between the parties.

With regards to the financial investments, the Company aims at to apply their cash in the best combination of the best rates and in financial institutions that are financially sound, recognized for their credit ratings.

*Cash and cash equivalents*

They are maintained with banks and financial institutions that have a rating between BBB- and AAA, based on the classification of the main rating agencies.

*Derivatives*

They are contracted with banks and financial institutions that have a rating BBB-, based on the average of the main ratings agencies.

The book value of the financial assets below represents the maximum credit exposure on the date of the financial statements was:

	2015	2014
Cash and cash equivalents	10,852	22,559
Trade accounts receivable	15,487	33,138
Financial investments	13,906	13,403
Loans with related company	34,031	47,256
Derivative financial instruments - assets	<u>2,992</u>	<u>965</u>
	<b><u>77,268</u></b>	<b><u>117,231</u></b>

*Liquidity risk*

Liquidity risk is the risk associated with difficulties that the Company could face to comply with obligations associated with financial liabilities that are settled with cash payments or with another financial asset. The approach of Company's management for liquidity is to guarantee, as far as possible, sufficient liquidity to comply with its obligations on maturity, under normal and stressed conditions, without causing unacceptable loss or risk of causing damage to the normal operations of the Company.

		<b>Contractual cash flows</b>			
<b>December 31, 2015</b>	<b>Carrying amount</b>	<b>1-12 months</b>	<b>1-2 Years</b>	<b>2-5 years</b>	<b>Over 5 years</b>
<b>Non-derivative financial liabilities</b>					
Loans and financing	873,210	48,100	62,594	757,672	4,844
Suppliers	22,695	22,695	-	-	-
Non-convertible debentures	46,414	125	385	45,904	-
Other accounts payable	<u>3,432</u>	<u>867</u>	<u>2,566</u>	<u>-</u>	<u>-</u>
	<b><u>945,751</u></b>	<b><u>71,787</u></b>	<b><u>65,544</u></b>	<b><u>803,576</u></b>	<b><u>4,844</u></b>
		<b>Contractual cash flows</b>			
<b>December 31, 2014</b>	<b>Carrying amount</b>	<b>1-12 months</b>	<b>1-2 Years</b>	<b>2-5 years</b>	<b>Over 5 years</b>
<b>Non-derivative financial liabilities</b>					
Loans and financing	515,872	350,308	63,656	87,767	14,141
Suppliers	13,121	13,121	-	-	-
Non-convertible debentures	157,930	42,068	54,147	61,715	-
Other accounts payable	<u>2,642</u>	<u>878</u>	<u>1,764</u>	<u>-</u>	<u>-</u>
	<b><u>689,565</u></b>	<b><u>406,376</u></b>	<b><u>119,566</u></b>	<b><u>149,482</u></b>	<b><u>14,141</u></b>

In order to improve its liquidity needs in short term (12 months), the Company entered into a series of renegotiations with its creditors, with the purpose of extending the term this period.

*Market risk*

Market risk is the risk that changes in market prices - such as exchange rates, interest rates and commodity prices - will affect the Company's earnings or the value of their financial instruments. The purpose of market risk management is to manage and control exposures to market risks, within acceptable parameters, while optimizing return.

The Company uses derivatives to manage market risks. All these operations are conducted within the guidelines established by management.

*Exchange variation risk*

As part of their activity, the Company incurs exchange risks related to the sale of their products that are quoted in US dollars and the adjustment of the loans and financing transaction that are also indexed to the exchange variation. In order to minimize currency mismatches, the Company monitors their cash flow projections considering future sales expectations indexed to US dollar variation in relation to the cash requirement to settle the existing financings.

**Sensitivity analysis**

Below, the sensitivity analysis for foreign exchange rates fluctuations, showing eventual impacts on the Company's financial result and equity. These sensitivity analyses were prepared assuming that the equity balances were outstanding during the entire year.

The probable scenario 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 considers that all other variables, especially interest rates, are held constant. The analysis is conducted on the same basis, despite the reasonably possible variation of the foreign currency exchange rate being different.

<b>Exposure to the rise in the USD 12/31/2015</b>	<b>Probable scenario</b>	<b>Scenario with 25% variation</b>	<b>Scenario with 50% variation</b>
Swap exchange	38,371	9,593	19,186
Loans	<u>(754,883)</u>	<u>(188,721)</u>	<u>(377,441)</u>
<b>Net exposure in exchange foreign rate</b>	<b><u>(716,512)</u></b>	<b><u>(179,128)</u></b>	<b><u>(358,255)</u></b>

*Interest rate risk*

The Company has exposure to the variation in CDI rates on financing and swap operations. Management adopts a policy of reducing the majority of its exposure to changes in interest rates on loans by using other fixed rate debt instruments.

<b>Financial liabilities exposed to interest rate risks</b>	<b>Book value</b>	
	<b>2015</b>	<b>2014</b>
CDI	29,376	71,364
TJLP	74	666
Pré-fixado	<u>135,292</u>	<u>147,349</u>
	<b><u>164,742</u></b>	<b><u>219,379</u></b>

The Company's exposure to risk at December 31, 2015 for CDI was equivalent to 3% of its total indebtedness (10% as at December 31, 2014). Out of indebtedness amounts, 25% of the balance will be liquidated in a period of less than 360 days. Thus, at the end of 2015, the Company had only 2% of its indebtedness linked to the CDI. Consequently, the Company does not believe it is exposed to material interest rate risk.

*Commodity risks*

As at December 31, 2015 and 2014 the Company did not have any position of derivatives for its copper operations.

**(ii) Derivative financial instruments**

Operations with derivatives have the purpose of protecting against the price variations of commodities, foreign currencies and interest rates. All derivative financial instruments were assigned as economic hedge instruments, in other words, without the application of hedge accounting. At December 31, 2015 no operations were contracted for covering commodity risks, and swap operations were used for protection against exchange and interest risks.

*Market valuation of derivative financial instruments*

The derivative financial instruments were valued at market at December 31, 2015 and are duly registered in the equity accounts. The methodology for market valuation involves totally verifiable parameters, from future markets of the Brazilian Stock Exchange.

December 31, 2015	Book value	Notional Value	Counterparty	Maturity range
<b>Derivative financial instruments</b>				
Asset position - USD / Liabilities CDI	(2,992)	36,407	(a)	03/22/2019
	<u>(2,992)</u>	<u>36,407</u>		

**Counterparty**

(a) Banco PINE

December 31, 2014	Book value	Notional value	Maturity range	Counterparty
<b>Derivative financial instruments</b>				
Asset position - USD / Liabilities Pre or USD	965	20,561	01/26/2015 to 11/19/2015	(a)
Asset position - USD / Liabilities CDI	(9,609)	329,328	11/09/2016 to 05/17/2018	(b)
Asset position - CDI / Liabilities USD	(8,169)	39,000	06/27/2017	(c)
	<u>(17,778)</u>	<u>368,328</u>		

**Counterparties**

(a) Banco ABC and Banco PINE

(b) Banco PINE, Banco Safra and Banco Itaú

(c) Banco ABC

**Fair value hierarchy**

The fair value for derivatives classified in level 3 are measured using discounted cash flows and option model valuation techniques with main unobservable inputs discount rates, stock prices and commodities prices.

### 31 Commitments

The long-term contract for copper's supplying to Paranapanema - the Company's main customer, was renewed on January 27th, 2015. In this contract states an engagement to provide copper as following bases:

- The volume contracted for 2015, under pre-established terms and conditions, was 85,000 dry metric tons, with a possible variation of up to 20%;
- The Company must elaborate a spreadsheet to demonstrate temporary monthly calculation comprising the average prices of payables metals of previous month to posterior modification. The period of quotation is three months after invoice emission date for copper and one month after invoice emission date for gold and silver. The exchange rate used shall be that of previous month of billing;
- In the copper's price shall be give an discount of 6.5% if LME's quotation is higher or equal to 6.000 and lower than 6.500. Discount of 7% if quotation is higher or equal to 6.500 and lower than 7.000. Discount of 7.5% if quotation is higher or equal to 7.000 and lower 7.500. Discount of 8% if quotation is higher or equal to 7.500 and lower to 8.500. Discount of 8,5% if quotation is higher or equal to 8.500. If the quotation were lower than 6.000, the parties must renegotiate the agreed discount;
- A metallurgical deduction shall be made to the total copper content contained in the copper concentrate of 1 unit for copper with a content of up to 30%; 1.1 unit for copper with content between 30% and 33%; 1.2 units for copper containing 33-35% and 1.3 units for copper containing 35-37%. In the silver, a metallurgical deduction of 10 g / m<sup>2</sup> in the total content of silver contained in the copper concentrate and in the gold a 10% metallurgical deduction will be applied to the local content of gold contained in the copper concentrate;
- It is deducted of copper's price calculation a shared freight of US\$18,00; and
- In the final amount will be add taxes rates of ICMS, Pis and Cofins.

### 32 Insurance

The Company's has insurance coverage, through a policy with different coverage clauses for different risks, as well as a seperate insurance policy for equipment, which provides sufficient coverage for the total loss or the repair of equipment in case of partial loss.

At December 31, 2015, the principal assets, liabilities and other risks covered by insurance and the relevant amounts are as follows:

	<b>Amount insured</b>
Named risks - Matrix, Oxidado and Surubim	50,000
Civil responsibilities of directors and officers (D&O)	20,000
General civil responsibilities	15,000
Sundry risks	11,135
International transportation of equipment	7,028

### **33 Subsequent events**

#### **a. Renegotiation of debts**

As described in the notes 1, in December 2016 the Company renegotiated most of the debts with the extension of the the terms of loans and borrowings, longer grace periods and discounts on the principal. However, the impactos of the new conditions of the debt restructuring were only accounted for in May 2017, due to the pfact that certain pre-conditions for the restructuring had not been fully complied with at the reporting date.

#### **b. Capital contributions**

In order to comply with the terms of the debt restructuring, as described above, between December 31, 2016 and May 2017, new shareholder injected, as capital and convertible loans, the amount of approximately USD 50 million. This amount started to be injected in the company in the December 2016 and the total injection of theses resources was completed in April 2017. At this date, US\$34,3 was registered as a Capital increase and approximately US\$15.6 million as convertible loans.

\* \* \*

Geraldo Rogério Ferreira Fernades  
*President*

Eduardo De Come  
*Chief Financial Officer*

Edmilton de Oliveira Silva  
*Accountant*



**PRO FORMA CONSOLIDATED STATEMENT OF  
INCOME (LOSS)**

**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(UNAUDITED)**

## Ero Copper Corp.

### Pro Forma Consolidated Statement of Income (Loss) For the year ended December 31, 2016

(Unaudited - Amounts in thousands of US dollars, except share and per share amounts)

	Ero Copper Corp. Period Ended December 31, 2016 <sup>(1)</sup>	MCSA Year Ended December 31, 2016 Note 5	MCSA Adjustment Note 6a)	Pro Forma Adjustments Note	Pro Forma Consolidated
Revenue	\$ -	\$ 27,134	\$ -	\$ -	\$ 27,134
Cost of goods sold	-	(37,790)	-	(1,240) <sup>6b)</sup>	(39,030)
<b>Gross profit (loss)</b>	-	(10,656)	-	(1,240)	(11,896)
<b>Expenses</b>					
General and administrative	(1,844)	(7,228)	824	-	(8,248)
Care and maintenance	(3,687)	(24,072)	3,687	-	(24,072)
Other expenses	-	(40,091)	-	40,091 <sup>6c)</sup>	-
	(5,531)	(82,047)	4,511	38,851	(44,216)
<b>Other income (expenses)</b>					
Finance income	37	877	(20)	154 <sup>6d)</sup>	1,048
Finance expense	(1,409)	(20,031)	1,409	(2,448) <sup>6e)</sup>	(22,479)
Foreign exchange	3,258	30,362	(3,248)	(213) <sup>6f)</sup>	30,159
Other income (expenses)	137	1,697	(137)	-	1,697
<b>Loss before income taxes</b>	(3,508)	(69,142)	2,515	36,344	(33,791)
<b>Income tax recovery</b>					
Deferred income tax recovery	121	-	-	261 <sup>6g)</sup>	382
<b>Net loss from continuing operations</b>	(3,387)	(69,142)	2,515	36,605	(33,409)
Net income (loss) from discontinued operations	(65)	-	-	3,987 <sup>6h)</sup>	3,922
<b>Net loss for the period</b>	\$ (3,452)	\$ (69,142)	\$ 2,515	\$ 40,592	\$ (29,487)
<b>Net loss attributable to:</b>					
Owners of the Company	(3,046)	(58,771)	2,138	32,231	(27,448)
Non-controlling interests	(406)	(10,371)	377	8,361	(2,039)
	\$ (3,452)	\$ (69,142)	\$ 2,515	\$ 40,592	\$ (29,487)
<b>Loss per share attributable to owners of the Company</b>					
Loss per share from continuing operations - basic and diluted	\$ (0.44)			7	\$ (4.12)
Income (loss) per share from discontinued operations - basic and diluted	\$ (0.00)			7	\$ 0.16
Net loss per share - basic and diluted	\$ (0.44)			7	\$ (3.96)
<b>Weighted average number of common shares outstanding - basic and diluted</b>	6,932,086				6,932,086

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

## Ero Copper Corp.

### Pro Forma Consolidated Statement of Income (Loss) For the year ended December 31, 2016

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

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#### 1. Description of the Transaction

The accompanying unaudited pro forma consolidated statement of income (loss) for the year ended December 31, 2016 of Ero Copper Corp. ("Ero" or the "Company") has been prepared to give effect to the acquisition of an 85% interest in Mineração Caraíba S.A. ("MCSA") and a 28% interest in NX Gold S.A. ("NX Gold"), which occurred on December 12, 2016, as if the acquisition had occurred on January 1, 2016.

#### 2. Basis of Preparation

The unaudited pro forma consolidated statement of income (loss) for the year ended December 31, 2016 combines the consolidated statement of loss of Ero for the period from incorporation on May 16, 2016 to December 31, 2016 and the statement of loss of MCSA for the year ended December 31, 2016, both contained within their respective audited financial statements as at December 31, 2016 and for the respective periods ended December 31, 2016, as if the acquisition of the interests in MCSA and NX Gold had occurred on January 1, 2016. The net income of NX Gold for the period from January 1, 2016 to December 12, 2016 has been included in the pro forma statement of income (loss) by way of a pro forma adjustment and presented as discontinued operations (Note 6(h)).

MCSA and NX Gold's presentation currency is the Brazilian Real ("BRL"). For purposes of these pro forma consolidated financial statements, BRL amounts in MCSA's and NX Gold's statements of income (loss) have been translated into USD using the average exchange rate for the year ended December 31, 2016 of 3.4626 BRL per USD.

This unaudited pro forma consolidated statement of income (loss) has been prepared to illustrate the estimated effects of the acquisition of the respective interests in MCSA and NX Gold as if the acquisition occurred on January 1, 2016. The unaudited pro forma adjustments are based upon available information and certain assumptions that management of Ero believes are reasonable. The unaudited pro forma consolidated statement of income (loss) does not purport to represent Ero's results of operations or financial condition for any future period or as of any date. The unaudited pro forma consolidated statement of income (loss) does not reflect potential cost savings and operating synergies that the combined company may achieve or the liabilities that may result from integration planning as a result of the transaction.

#### 3. Summary of Significant Accounting Policies

The accounting policies used in the preparation of this pro forma consolidated statement of income (loss) are those as set out in the audited consolidated financial statements as at and for the period ended December 31, 2016 of Ero, whose accounting framework is International Financial Reporting Standards. Accordingly, this unaudited pro forma consolidated statement of income (loss) should be read in conjunction with the audited consolidated financial statements of Ero Copper Corp. as at and for the period ended December 31, 2016 and the accompanying notes.

## Ero Copper Corp.

### Pro Forma Consolidated Statement of Income (Loss) For the year ended December 31, 2016

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

#### 4. Preliminary Purchase Price and Purchase Price Allocation

On December 12, 2016, the Company obtained control of MCSA and NX Gold by acquiring an approximately 85% and a 28% interest in each entity, respectively. Although the Company only acquired an approximately 28% economic interest in NX Gold, by virtue of a shareholders' agreement with the shareholder vendors of NX Gold, the Articles of Incorporation of NX Gold and the composition of the Board of Directors of NX Gold, the Company has control over all key operating, financing and investing activities. Accordingly, the Company has consolidated the accounts of NX Gold commencing on December 12, 2016. As the Company's 28% interest in NX Gold was acquired from one of the same shareholders as MCSA and was contemplated as part of the MCSA acquisition, for accounting purposes the acquisitions are considered as a single acquisition. The acquisition has been accounted for as a business combination. The cash consideration paid was nominal and the Company agreed to assume all of the loans and borrowing and other obligations of MCSA and NX Gold.

The preliminary purchase price allocation, which is subject to final adjustments, based on estimated fair value of the identifiable assets acquired and liabilities assumed on December 12, 2016 is as follows:

Accounts receivable	90
Inventories	4,939
Other current assets	6,145
Mineral property, plant and equipment	212,067
Exploration and evaluation assets	25,745
Deposits	1,975
Other non-current assets	592
Goodwill	17,369
Assets held for sale	24,711
Accounts payable and accrued liabilities	(35,839)
Taxes payable	(17,566)
Loans and borrowings	(160,632)
Provisions	(28,135)
Other non-current liabilities	(9,512)
Deferred income tax liabilities	(17,369)
Liabilities related to assets held for sale	(24,711)
<b>Net</b>	<b>\$ -</b>

The above purchase price allocation is preliminary as the Company is still in the process of determining the fair value of certain assets and liabilities. Specifically, the Company is in the process of determining the fair value of mineral property, plant and equipment, exploration and evaluation assets, deferred income tax liabilities and amounts allocated to goodwill. Such amounts may change when the purchase price allocation is finalized.

The Company intends to dispose of its interest in NX Gold in the next year as it is not within its core copper business. Accordingly, the assets acquired and liabilities acquired of NX Gold are presented in the consolidated financial statements of ERO as assets held for sale and liabilities related to assets held for sale, and subsequent results of operations as discontinued operations.

## Ero Copper Corp.

### Pro Forma Consolidated Statement of Income (Loss) For the year ended December 31, 2016

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

#### 5. MCSA Year Ended December 31, 2016

The statement of loss for MCSA has been translated from Brazilian Real ("BRL") to US Dollars ("USD") in the schedule below using an average exchange rate for the year ended December 31, 2016.

	MCSA		Adjusted MCSA Year	
	Year Ended December 31, 2016	Re-classification	Ended December 31, 2016	MCSA Year Ended December 31, 2016
	BRL	BRL	BRL	USD
Revenue	\$ 93,954	\$ -	\$ 93,954	\$ 27,134
Cost of goods sold	(130,851)	-	(130,851)	(37,790)
<b>Gross profit (loss)</b>	<b>(36,897)</b>	<b>-</b>	<b>(36,897)</b>	<b>(10,656)</b>
<b>Expenses</b>				
General and administrative	(20,127)	(4,902)	(25,029)	(7,228)
Care and maintenance	-	(83,351)	(83,351)	(24,072)
Sales expenses	(1,319)	1,319	-	-
Other expenses	(237,489)	98,670	(138,819)	(40,091)
	(295,832)	11,736	(284,096)	(82,047)
<b>Other income (expenses)</b>				
Finance income	182,618	(179,583)	3,035	877
Finance expense	(132,075)	62,717	(69,358)	(20,031)
Foreign exchange	-	105,130	105,130	30,362
Other income (expenses)	5,876	-	5,876	1,697
<b>Net loss for the year</b>	<b>\$ (239,413)</b>	<b>\$ -</b>	<b>\$ (239,413)</b>	<b>\$ (69,142)</b>

For presentation in the pro forma consolidated statement of income (loss), certain items have been reclassified to conform to the presentation in the pro forma consolidated statement of income (loss).

#### 6. Pro Forma Assumptions and Adjustments

- An adjustment to remove income and expenses for the period from December 12, 2016 (date of the acquisition of MCSA) to December 31, 2016 from the MCSA year ended December 31, 2016 amounts as the MCSA amounts from December 12, 2016 to December 31, 2016 have already been included in the consolidated Ero Copper Corp. column.
- An adjustment to reflect the amortization of the mineral property, plant and equipment increase resulting from the purchase price adjustment.
- An adjustment to reflect the elimination of a write-off of MCSA intangible assets as these assets were allocated a lower fair value on acquisition on December 12, 2016 and the elimination of a loss on provisions which was taken into account in the fair value of provisions at December 12, 2016.
- An adjustment to reflect the accretion of a purchase price adjustment related to certain employee loans receivable.
- An adjustment to reflect interest expense based on the fair value of loans and borrowings determined in the purchase price allocation, as well as the accretion arising from purchase price adjustments related to other non-current liabilities.

## Ero Copper Corp.

### Pro Forma Consolidated Statement of Income (Loss) For the year ended December 31, 2016

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

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- f) An adjustment to reflect the adjustment of foreign exchange gain arising as a result of purchase price adjustments to the carrying values of certain loans and borrowings.
- g) An adjustment to reflect the deferred income tax recovery calculated on the pro forma adjustments included in the pro forma consolidated statement of income (loss).
- h) An adjustment to reflect NX Gold's net loss from January 1, 2016 to December 12, 2016. The loss from December 12, 2016 to December 31, 2016 is already included in the consolidated Ero Copper Corp. column. NX Gold's results are presented as discontinued operations, consistent with the presentation in Ero's consolidated financial statements.

#### 7. Pro Forma Income (Loss) Per Share

For purposes of the unaudited pro forma consolidated statement of income (loss), the income (loss) per share figures have been calculated using the weighted average number of shares outstanding for Ero from the date of incorporation on May 16, 2016 to December 31, 2016.

**CERTIFICATE OF THE COMPANY**

Dated: October 11, 2017

This prospectus (which includes the marketing materials included or incorporated by reference) constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces and territories of Canada, other than Québec.

By: (signed) "*David Strang*"  
President and Chief Executive Officer

By: (signed) "*Wayne Drier*"  
Chief Financial Officer

On Behalf of the Board of Directors

By: (signed) "*Lyle Braaten*"  
Director

By: (signed) "*Matthew Wubs*"  
Director

## **CERTIFICATE OF THE PROMOTERS**

Dated: October 11, 2017

This prospectus (which includes the marketing materials included or incorporated by reference) constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces and territories of Canada, other than Québec.

### **PROMOTERS**

By: (signed) "*David Strang*"  
Promoter

By: (signed) "*Christopher Noel Dunn*"  
Promoter

## CERTIFICATE OF THE UNDERWRITERS

Dated: October 11, 2017

To the best of our knowledge, information and belief, this prospectus (which includes the marketing materials included or incorporated by reference) constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces and territories of Canada, other than Québec.

BMO Nesbitt Burns Inc.

Scotia Capital Inc.

By: (signed) "*Jamie Rogers*"  
Managing Director

By: (signed) "*Marcus Chalk*"  
Managing Director

Canaccord Genuity Corp.

GMP Securities L.P.

PI Financial Corp.

Raymond James Ltd.

By: (signed)  
"*Markus Felderer*"  
Managing Director

By: (signed)  
"*Michael Barman*"  
Director, Investment  
Banking

By: (signed)  
"*Russell Mills*"  
Director

By: (signed)  
"*Gavin McOuat*"  
Managing Director