ERO COPPER

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2018

1050 – 625 Howe Street, Vancouver, B.C., Canada V6C 2T6
Phone: 604-449-9244 | Website: www.erocopper.com | Email: info@erocopper.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") has been prepared as at August 13, 2018 and should be read in conjunction with the unaudited condensed consolidated interim financial statements of Ero Copper Corp. ("Ero" or "the Company") as at, and for the three and six month periods ended June 30, 2018, which are prepared in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting* as permitted by the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB"). As well, this MD&A should be read in conjunction with the Company's December 31, 2017 audited consolidated financial statements and MD&A. All dollar amounts are expressed in US dollars ("US") and tabular amounts are expressed in thousands of US dollars, unless otherwise indicated. References to "$" or "dollars" are to US dollars, references to "C$" are to Canadian dollars and references to "R$" are to Brazilian Reais.

This MD&A contains "forward-looking information" that is subject to risk factors set out in a cautionary note contained at the end of this MD&A. The Company cannot assure investors that such information will prove to be accurate, and actual results and future events may differ materially from those anticipated in such information. The results for the periods presented are not necessarily indicative of the results that may be expected for any future period. Investors are cautioned not to place undue reliance on this forward-looking information. All information contained in this MD&A is current and has been approved by the Board of Directors of the Company as of August 13, 2018, unless otherwise stated.

BUSINESS OVERVIEW

Ero, headquartered in Vancouver, B.C., is a mining company focused on the production and sale of copper from its Vale do Curaçá Property, located in Bahia, Brazil. On October 19, 2017, the Company completed an initial public offering ("IPO") and its common shares became publicly traded on the Toronto Stock Exchange under the symbol "ERO".

The Company's primary asset is a 99.6% interest in the Brazilian copper mining company, Mineração Caraíba S.A. ("MCSA"), 100% owner of the Vale do Curaçá Property with over 37 years of operating history in the region. The Company currently mines copper ore from the Pilar underground and the Surubim open pit mines and is completing the construction of the new high-grade Vermelhos copper mine. In addition to the Vale do Curaçá Property, MCSA owns 100% of the Boa Esperança development project, an IOCG-type copper project located in Pará, Brazil. The Company also owns, directly and indirectly thru MCSA, 97.6% of NX Gold S.A., a small producing gold mine in Mato Grosso State, Brazil.

Additional information on the Company and its operations, including Technical Reports on both the Vale do Curaçá and Boa Esperança properties, can be found on the Company's website (www.erocopper.com) and on SEDAR (www.sedar.com).

HIGHLIGHTS

	2018 - Q2	2018 - Q1	2018 - YTD	2017 - Q2	2017 - YTD[1]
Operating Information					
Copper (MCSA Operations)					
Ore Processed (tonnes)	500,952	316,126	817,078	502,216	777,956
Grade (% Cu)	1.35	1.76	1.51	1.30	1.34
Cu Production (tonnes)	5,684	4,845	10,530	5,651	9,006
Cu Production (lbs)	12,531,922	10,681,781	23,213,703	12,459,108	19,854,984
Cu Sold in Concentrate (tonnes)	6,569	4,096	10,665	6,233	8,378
Cu Sold in Concentrate (lbs)	14,482,149	9,030,124	23,512,272	13,741,396	18,470,306
C1 Cash cost of copper produced (per lb)[2][3]	1.49	1.63	1.55	1.25	1.45
Financial information ($millions, except per share amounts)					
Revenues	$47.3	$28.2	$75.5	$32.5	$44.7
Gross profit	$11.6	$5.0	$16.6	$4.9	$2.1
EBITDA[2]	($2.6)	$7.1	$4.5	$1.4	$5.8
Adjusted EBITDA[2]	$23.6	$6.2	$29.9	$9.4	$7.9
Cash flow from operations	$22.7	$1.0	$23.7	$4.7	$3.2
Net loss attributable to owners of the Company	($16.9)	($4.1)	($21.0)	($10.5)	($15.4)
Net loss per share attributable to owners of the Company - Basic & diluted	($0.20)	($0.05)	($0.25)	($0.19)	($0.32)
Adjusted net income (loss) attributable to owners of the Company[2]	$2.6	($4.8)	($2.2)	($3.2)	($13.4)
Adjusted net earnings (loss) per share attributable to owners of the Company[2] - Basic & diluted	$0.03	($0.06)	($0.03)	($0.06)	($0.28)
Cash and Cash Equivalents	$17.1	$27.1	$17.1	$24.8	$24.8
Working Capital (Deficit)[2]	($7.3)	$22.2	($7.3)	($23.1)	($23.1)
Net Debt[2]	($121.9)	($110.7)	($121.9)	($138.6)	($138.6)

Footnotes

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

[2] - EBITDA, Adjusted EBITDA, Adjusted net income (loss), Net Debt, Working capital, and C1 Cash cost of copper produced (per lb) are non-IFRS measures - see page 21 of this MD&A for a discussion of non-IFRS measures.

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

Second Quarter 2018 Highlights

Operational performance – ramping up operations into Q2 2018

- Quarter-on-quarter increase in total tonnes mined during second quarter to 495.5 thousand tonnes ("kt") grading 1.35% copper compared to 318.7kt grading 1.74% copper during the first quarter of 2018.
- Processed 501.0 kt of ore grading 1.35% copper at average metallurgical recoveries of 84.1% during the period resulting in the production of 5,684 tonnes of copper in concentrate at C1 Cash Costs of $1.49 per pound of copper.
- Surubim Phase II operations normalized during the period, resulting in 206.1kt of ore mined grading 0.80% copper from open pit operations, compared to 89.0 kt grading 0.71% copper during the first quarter of 2018.

Vermelhos development continues above forecast rates – advancing first production

- Completed 1,261 meters of total development, comprised of 238 meters of primary ramp development, 953 meters of secondary development and 70 meters of auxiliary ramp accessing the UG1 production area.
- As at the end of July, the coarse-ore development stockpile at Vermelhos had reached 15,941 tonnes grading 4.24% copper.

Continue to expand exploration activities – shifting focus to district exploration

- At the end of the second quarter, 17 drill rigs were staffed and mobilized throughout the Vale do Curaçá Property undertaking programs designed to expand known mineral resources via step-out and infill drilling for mine planning purposes.
- The Company has made significant progress on its dual-system airborne geophysical survey. At the end of the second quarter, the gravity portion of the survey was approximately 80% completed and the electro-magnetic portion ("EM") of the survey had been flown over approximately 50% of the total survey area. Targeting remains ongoing with first drill testing planned in the coming months.

Sales and Liquidity

- Revenue from copper sales for the second quarter totaled $47.3 million. This included the sale of a significant portion of inventory that built up in Q1 2018 as a result of the planned maintenance shutdown at the Paranapanema smelter during the first quarter of 2018.
- The Company ended the quarter with $19.3 million in cash and cash equivalents (including $2.2 million of restricted cash).
- Working capital decreased by $29.4 million from March 31, 2018. This was in line with expectations given the accelerated development activities at Vermelhos as well as the timing of certain equipment purchases and their associated financing which resulted in higher than normal creditor balances at June 30, 2018.
- Subsequent to quarter-end, the Company's subsidiary, MCSA, entered into an unsecured Line of Credit with a Brazilian bank for up R$ 30 million (approximately $8 million). This line, intended for working capital purposes, remains undrawn as of August 13, 2018.

REVIEW OF OPERATIONS

Mineração Caraíba S.A.

– Vale do Curaça Property, Brazil:

	2018 - Q2	2018 - Q1	2018 - YTD	2017 - Q2[1]	2017 - YTD[1]
Operating Information					
Copper (MCSA Operations)					
Ore Processed (tonnes)	500,952	316,126	817,078	502,216	777,956
Grade (% Cu)	1.35	1.76	1.51	1.30	1.34
Cu Production (tonnes)	5,684	4,845	10,530	5,651	9,006
Cu Production (lbs)	12,531,922	10,681,781	23,213,703	12,459,108	19,854,984
Concentrate Grade (% Cu)	34.8	34.7	34.7	35.4	35.3
Recovery (%)	84.1	87.3	85.6	86.4	86.6
Concentrate Sales (tonnes)	19,142	11,672	30,814	17,799	24,646
Cu Sold in Concentrate (tonnes)	6,569	4,096	10,665	6,233	8,378
Cu Sold in Concentrate (lbs)	14,482,149	9,030,124	23,512,272	13,741,396	18,470,306
C1 Cash cost of copper produced (per lb)[2][3]	1.49	1.63	1.55	1.25	1.45

Footnotes

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

[2] - C1 Cash cost of copper produced (per lb) is a non-IFRS measure - see page 21 of this MD&A for a discussion of non-IFRS measures.

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

Operational Update

Within the Pilar District, the Pilar underground mine continued to meet production expectations during the three-month period ended June 30, 2018. During the period, 289.4 kt of ore was mined grading 1.74% copper from underground operations, a quarter-on-quarter increase in total contained copper mined relative to first quarter of 2018. At the Surubim open pit mine, within the Surubim district, Phase II ore production resumed to normalized levels following the completion of deferred waste stripping activities which impacted ore production during the first quarter of 2018. During the period, 206.1 kt grading 0.80% copper was mined from open pit operations. At the Caraíba Mill, 501.0 kt of ore was processed grading 1.35% copper at average metallurgical recoveries of 84.1%, resulting in the production of 5,684 tonnes of copper in concentrate. C1 cash costs during the period were $1.49 per lb. of copper produced.

In the Vermelhos District, development of the Vermelhos Mine is progressing well ahead of schedule with mine production now firmly on the horizon. Total development during the second quarter was 1,261 meters, consisting of 238 meters of primary ramp development, 953 meters of secondary development and 70 meters of auxiliary ramp development to access the UG1 production area. Underground infrastructure, including ventilation raises, have been completed to the 4th operating level of the main Vermelhos ore body, where in-ore gallery development in preparation for blast hole drilling has commenced. In-ore gallery development has continued in the UG1 production area where blast-hole drilling of the first production stopes is underway in preparation for first production. At the end of July, the coarse-ore development stockpile associated with gallery development had reached 15,941 tonnes grading 4.24% copper.

Exploration drilling throughout the first and second quarter was primarily focused on known and previously announced extensions of mineralization within the three primary mineral districts of the Curaçá Valley: Pilar, Surubim and Vermelhos, as well as progressing the Company's airborne geophysical survey targeting regional high-grade mineralization.

At the Pilar District, drilling continues to focus on infill and step-out drilling of the Deepening Extension, extensions and infill of the recently announced West Limb discovery between the R22 Underground target and the known mining area of P1P2W (see the Company's press release dated May 17, 2018 for additional detail on the West Limb discovery). Recent drilling at Pilar was highlighted by holes FC4884 that intersected 18.0 meters grading 6.28% copper and FC4986 intersected 6.9 meters grading 5.82% copper and 15.4 meters grading 3.71% copper. These two holes are the deepest intercepts yet of copper mineralization and were drilled approximately 235 meters below the extent of all previously known mineralization at Pilar. They represent down-dip extensions of copper mineralization on the East Limb of the Pilar Mine with the zone remaining open along strike and at depth.

Drilling within the Surubim district, located approximately 40 kilometers to the north of the Caraíba mill complex which includes the Surubim open pit mine, has shifted focus to exploration drilling on properties neighboring the Surubim mine as well as Surubim extensions to depth below the existing open pit mine.

Exploration activities at the Vermelhos district, located approximately 80 kilometers to the north of the Caraíba mill complex, which includes the high-grade Vermelhos Mine currently under construction, are focused on completing infill drilling for mine planning and drill testing down plunge extensions of the main Vermelhos ore bodies to depth as well as step-out brownfield exploration targets adjacent to the Vermelhos Mine. The results of the first step-out drilling, approximately 25 meters to the south of the main Vermelhos deposit, was highlighted by hole FVS-212 that intersected 39.8 meters grading 5.57% copper, including 21.9 meters grading 9.43% copper. In addition, the first phase of the oxide drilling campaign was completed during the second quarter and the results are under review.

The Company's airborne geophysical survey, comprising both electromagnetic and gravity components, commenced at the beginning of the quarter and as at June 30, 2018 had been flown over approximately 80% and 50% of the district with the gravity and EM systems, respectively. Data processing commenced contemporaneously with the start of the program and priority targeting in preparation for drill testing is underway.

Please refer to the Company's press releases dated June 6, 2018 and May 17, 2018 for additional detail on the Company's exploration activities.

Financial Update

Revenue from copper concentrate sales for the second quarter totaled $47.3 million. This included the sale of a significant portion of inventory that built up in Q1 2018 as a result of the planned maintenance shutdown at the Paranapanema smelter during the first quarter of 2018.

The Company generated a loss for the quarter of $16.9 million primarily due to foreign exchange losses of $26.2 million. The foreign exchange loss is comprised of $12.2 million associated with US dollar denominated debt held by MCSA (as MCSA's functional currency is the Brazillian Reai), $11.4 million associated with realized and unrealized losses on foreign exchange derivatives and $2.6 million related to other operational exchange losses. During the quarter, there was a decline in the Brazilian Reai relative to the US dollar, which exchange rate changed from 3.3069 at March 31, 2018 to 3.8760 at June 30, 2018.

The Company ended the quarter with $19.3 million in cash and cash equivalents (including $2.2 million of restricted cash). Working capital decreased by $29.4 million from March 31, 2018, as expected with the accelerated development activities at Vermelhos which is now expected to be commissioned ahead of schedule.

Subsequent to quarter-end, the Company's subsidiary, MCSA, entered into an unsecured Line of Credit with a Brazilian bank for a total of R$30 million (approximately $8 million). This line, intended for working capital purposes, remains undrawn as of August 13, 2018.

Outlook

The Company's production, cash cost and capital expenditure guidance for 2018 is outlined below and detailed in the Company's press release dated January 9, 2018. Guidance remains unchanged for the full year.

	2018[1]
Tonnes Processed Sulphides	2,000,000
Copper Grade (% Cu)	1.50%
Copper Recovery (%)	86.0%
Cu Production Guidance (tonnes)	**25,500 – 27,500**
C1 Cash Cost Guidance (US$/lb)[2]	**$1.30 – $1.40**

Footnotes:

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

[2] - C1 Cash Costs of copper produced (per lb.) is a non-IFRS measures – see page 21 of this MD&A for a discussion of non-IFRS measures.

Production for the year is heavily weighted towards the second half of the year in part due to the commissioning of the Vermelhos Mine as well as Pilar and Surubim mine sequencing. Cash cost guidance for 2018 assumes a USD:R$ foreign exchange rate of 3.20, gold price of US$1,250 per ounce and silver price of US$17.50 per ounce. C1 Cash Cost guidance has been updated to include treatment and refining charges ("TC/RCs"), offsite transportation costs and certain tax benefits that are passed through to customers on invoicing. These adjustments have been included in C1 Cash Cost disclosure since the first quarter of 2018.

The Company's capital expenditure guidance for 2018 reflect the acceleration of the Vermelhos Mine and a significant expansion of the Company's 2017 exploration programs. Additional investments in the Pilar underground mine and supporting infrastructure are being made during 2018 in preparation for a longer mine life than previously envisioned.

($US millions)	**2018**
Pilar Mine	$39.0
Vermelhos	36.0
Exploration & Drilling [1]	20.0
Boa Esperança	1.0
Capital Expenditure Guidance	**$96.0**

Footnotes:

[1] - Exploration & drilling capital expenditure guidance is dependent, in part, on future exploration success and subject to further review and revision

Boa Esperança, Brazil

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

NX Gold S/A, Brazil

The NX Gold Property, located in Mato Grosso State, Brazil, is comprised of a single mining concession and various exploration concessions from which the Company currently produces gold. The Company continues to evaluate avenues to dispose of its interest in NX Gold 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.

REVIEW OF FINANCIAL RESULTS

The following table provides a summary of the financial results of the Company for the three month periods ended June 30, 2018 and 2017. Tabular amounts are in thousands of US dollars, except share and per share amounts.

	Notes	Three month period ended June 30, 2018	Three month period ended June 30, 2017
Revenue	1	$ 47,295	$ 32,548
Cost of product sold	2	(34,757)	(27,167)
Sales expenses		(914)	(470)
Gross profit		11,624	4,911
Expenses			
General and administrative	3	(5,196)	(2,976)
Share-based compensation	3	(834)	(91)
Income before the understated		5,594	1,844
Other income (expenses)			
Finance income		129	641
Finance expense	4	(4,645)	(6,676)
Foreign exchange loss	5	(26,184)	(7,973)
Other	6	2,873	259
Loss before income taxes		(22,233)	(11,905)
Income tax recovery (expense)			
Current income tax expense		(149)	-
Deferred income tax recovery		1,491	795
Net loss from continuing operations		(20,891)	(11,110)
Net income (loss) from discontinued operations	7	3,996	(1,640)
Net loss for the period		(16,895)	(12,750)
Other comprehensive loss			
Foreign currency translation loss		(21,067)	(988)
Comprehensive loss		$ (37,962)	$ (13,738)
Net loss attributable to:			
Owners of the Company		$ (16,892)	(10,536)
Non-controlling interests		(3)	(2,214)
		$ (16,895)	$ (12,750)
Comprehensive loss attributable to:			
Owners of the Company		$ (37,877)	(11,375)
Non-controlling interests		(85)	(2,363)
		$ (37,962)	$ (13,738)
Loss per share attributable to owners of the Company			
Loss per share from continuing operations			
Basic and diluted		$ (0.25)	$ (0.18)
Income (loss) per share from discontinued operations			
Basic		$ 0.05	$ (0.01)
Diluted		$ 0.04	$ (0.01)
Loss per share			
Basic and diluted		$ (0.20)	$ (0.19)
Weighted average number of common shares outstanding			
Basic		84,458,914	56,772,684
Diluted		88,458,396	56,772,684

Notes:

1. Revenues for the quarter ended June 30, 2018 include the sale of 6,569 copper tonnes in concentrate as compared to 6,233 copper tonnes for the quarter ended June 30, 2017. Higher prices were received for copper in 2018 as compared to the comparative quarter in 2017 is consistent with the change in market price of copper.
2. Costs of product sold for the quarter ended June 30, 2018 includes $11.0 million (2017- $8.3 million) in depreciation and depletion, $8.9 million (2017 - $8.3 million) in salaries and benefits, $4.5 million (2017 - $3.4 million) in contractor services, $4.3 million (2017 - $3.2 million) in materials and consumables, $3.7 million (2017 - $2.1 million) in maintenance costs, $2.2 million (2017 - $1.6 million) in utilities, and $0.2 million (2017 - $0.2 million) in other costs. Cost of product sold for the three month period ended June 30, 2018 increased relative to the same period in 2017 due to an increase in sales volume and increases in tonnes mined as the mine was only coming out of care and maintenance and ramping up in the prior year.
3. General and administrative expenses and share-based compensation for the quarter ended June 30, 2018 include $3.8 million (2017 - $1.9 million) with respect to MCSA for salaries, professional fees, office and sundry and provisions for tax, legal and labour claims, and $2.2 million (2017 - $1.1 million) with respect to the corporate head office in Vancouver. Corporate head office costs are primarily comprised of $0.8 million (2017 - $0.5 million) in salaries and consulting fees, $0.8 million (2017 – $0.1 million) in share based compensation, $0.2 million (2017 - $0.2 million) in professional fees, $0.1 million (2017 - $0.1 million) in office and sundry costs and $0.3 million (2017 - $0.2 million) in travel-related costs. Overall costs compared to the same quarter in the comparative year were higher due to a number of factors, most importantly of which is that both MCSA and corporate headquarters are in full operation mode rather than ramping up in the prior year as MCSA just came out of care and maintenace. This includes an increased headcount and more consultants being used at MCSA. In addition, in 2018, there are increased costs associated with the Company being publicly listed on a recognized stock exchange.
4. Finance expense for the quarter ended June 30, 2018 was $4.6 million (2017 - $6.7 million) and is primarily comprised of interest on loans and borrowings. Prior year expense was higher as it also included $1.3 million in accretion of purchase price adjustments associated with certain liabilities that were repaid early, a reduction in loans and borrowings as a result of the participation agreement entered into late in 2017, $0.3 million in interest on taxes and amounts owed to suppliers while in judicial recovery, and $0.3 million facility fee paid on the convertible debenture which were not incurred in 2018.
5. Foreign exchange loss for the quarter ended June 30, 2018 was $26.2 million (2017 - $8.0 million). This amount is comprised of a loss on foreign exchange forward contracts of $11.4 million (2017 - $nil) as well as a foreign exchange loss of $12.2 million (2017 – $8.1 million) primarily associated with the translation of US dollar-denominated loans and borrowings in MCSA, where the functional currency is the Brazilian Reai. These combined foreign exchange losses were a result of a significant devaluation of the Brazilian Reai relative to the USD during the quarter.
6. Other income for the quarter ended June 30, 2018 of $2.9 million (2017 - $0.3 million) included $2.6 million from PIS/COFINS tax reimbursements associated with prior year purchases (2017 - $Nil).
7. Net income from discontinued operations in the quarter ended June 30, 2018 of $4.0 million (2017 – net loss of $1.6 million) is from NX Gold. This is due to operational improvements at NX over the similar quarter in the prior year.

The following table provides a summary of the financial results of the Company for the six month periods ended June 30, 2018 and 2017. Tabular amounts are in thousands of US dollars, except share and per share amounts.

	Notes	Six month period ended June 30, 2018	Six month period ended June 30, 2017
Revenue	1	$ 75,450	$ 44,667
Cost of product sold	2	(57,512)	(41,827)
Sales expenses		(1,326)	(720)
Gross profit		16,612	2,120
Expenses			
General and administrative	3	(11,472)	(7,356)
Share-based compensation	3	(1,615)	(91)
Income (loss) before the understated		3,525	(5,327)
Other income (expenses)			
Finance income		317	825
Finance expense	4	(8,890)	(13,424)
Foreign exchange loss	5	(25,341)	(2,092)
Other	6	3,752	2,659
Loss before income taxes		(26,637)	(17,359)
Income tax recovery (expense)			
Current income tax expense		(149)	-
Deferred income tax recovery		2,095	796
Net loss from continuing operations		(24,691)	(16,563)
Net income (loss) from discontinued operations	7	3,700	(3,247)
Net loss for the period		(20,991)	(19,810)
Other comprehensive loss			
Foreign currency translation loss		(20,750)	(405)
Comprehensive loss		$ (41,741)	$ (20,215)
Net loss attributable to:			
Owners of the Company		$ (20,978)	$ (15,440)
Non-controlling interests		(13)	(4,370)
		$ (20,991)	$ (19,810)
Comprehensive loss attributable to:			
Owners of the Company		$ (41,647)	$ (15,784)
Non-controlling interests		(94)	(4,431)
		$ (41,741)	$ (20,215)
Loss per share attributable to owners of the Company			
Loss per share from continuing operations			
Basic and diluted		$ (0.30)	$ (0.30)
Income (loss) per share from discontinued operations			
Basic		$ 0.04	$ (0.02)
Diluted		$ 0.04	$ (0.02)
Loss per share			
Basic and diluted		$ (0.25)	$ (0.32)
Weighted average number of common shares outstanding			
Basic		83,223,757	48,527,872
Diluted		87,132,023	48,527,872
Cash and cash equivalents		$ 17,092	$ 24,767
Total assets		$ 333,086	$ 329,864
Non-current liabilities		$ 175,121	$ 207,109

Notes:

1. Revenues for the six months ended June 30, 2018 include the sale of 10,665 copper tonnes in concentrate as compared to 8,378 copper tonnes for the six months ended June 30, 2017. As noted in previous disclosure MCSA resumed operations in January 2017 with sales of copper concentrate only commencing in late February 2017. Also, higher prices were received in 2018 over 2017 as the copper price has increased.
2. Costs of product sold for the six months ended June 30, 2018 includes $18.5 million (2017- $13.0 million) in depreciation and depletion, $15.2 million (2017 - $13.1 million) in salaries and benefits, $7.5 million (2017 - $5.0 million) in contractor services, $6.8 million (2017 - $5.0 million) in materials and consumables, $5.9 million (2017 - $3.1 million) in maintenance costs, $3.3 million (2017 - $2.5 million) in utilities, and $0.3 million (2017 - $0.3 million) in other costs. As noted above, prior year operations did not commence until January 2017 and sales of copper concentrate until the latter portion of February 2017. Cost of product sold for the six month period ended June 30, 2018 increased relative to the same period in 2017 due to an increase in sales volume and increases in tonnes mined and processed.
3. General and administrative expenses and share-based compensation for the six months ended June 30, 2018 include $8.7 million (2017 - $5.6 million) with respect to MCSA for salaries, professional fees, office and sundry and provisions for tax, legal and labour claims, and $4.4 million (2017 - $1.8 million) with respect to the corporate head office in Vancouver. Corporate head office costs are primarily comprised of $1.5 million (2017 - $0.9 million) in salaries and consulting fees, $1.6 million (2017 – $0.1 million) in share based compensation, $0.4 million (2017 - $0.3 million) in professional fees, $0.4 million (2017 - $0.1 million) in office and sundry costs and $0.5 million (2017 - $0.4 million) in travel-related costs. Overall costs compared to the same period in the comparative year were higher due to a number of factors, most importantly of which is that both MCSA and corporate headquarters are in full operation mode rather than ramping up in the prior year as MCSA just came out of care and maintenace. This includes an increased headcount and more consultants being used at MCSA. In addition, in 2018, there are increased costs associated with the Company being publicly listed on a recognized stock exchange.
4. Finance expense for the six months ended June 30, 2018 was $8.9 million (2017 - $13.4 million) and is primarily comprised of interest on loans and borrowings. Prior year expense also included $2.6 million in accretion of purchase price adjustments associated with certain liabilities that were repaid early, a reduction in loans and borrowings as a result of the participation agreement entered into late in 2017, $1.3 million in interest on taxes and amounts owed to suppliers while in judicial recovery, and $0.6 million facility fee paid on the convertible debenture which were not incurred in 2018.
5. Foreign exchange loss for the six months ended June 30, 2018 was $25.3 million (2017 - $2.1 million). This amount is comprised of a loss on foreign exchange forward contracts of $10.5 million (2017 - $nil) as well as a foreign exchange loss of $12.1 million (2017 – $2.3 million) primarily associated with US dollar-denominated loans and borrowings in MCSA, where the functional currency is the Brazilian Reai. The foreign exchange losses are a result of the weakening of the Brazilian Reai relative to the USD on the US denominated debt.
6. Other income in the six months ended June 30, 2018 of $3.8 million (2017 - $2.7 million) included $0.6 million (2017 - $2.1 million) from insurance reimbursements in relation to some equipment damage in previous years and $2.6 million from PIS/COFINS tax reimbursements associated with prior year purchases (2017 - $nil).
7. Net income from discontinued operations in the six months ended June 30, 2018 of $3.7 million (2017 – net loss of $3.2 million) is from NX Gold. This is due to operational improvements at NX over the similar six month period in the prior year comparative period.

SUMMARY OF QUARTERLY RESULTS

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

	2018	2017					2016	
Selected Financial Information	June 30[1]	March 31[2]	Dec 31[3]	Sept 30[4]	June 30[5]	March 31[6]	Dec 31[7]	Sep 30[8]
Revenue	$ 47.3	$ 28.2	$ 37.8	$ 33.0	$ 32.5	$ 12.1	n/a	n/a
Cost of product sold	$ (34.8)	$ (22.8)	$ (31.5)	$ (26.6)	$ (27.2)	$ (14.7)	n/a	n/a
Gross profit (loss)	$ 11.6	$ 5.0	$ 5.8	$ 5.5	$ 4.9	$ (2.8)	n/a	n/a
Net income (loss) from continuing operations	$ (20.9)	$ (3.8)	$ 16.1	$ 18.7	$ (11.1)	$ (5.5)	$ (3.0)	$ (0.2)
Net income (loss) from discontinued operations	$ 4.0	$ (0.3)	$ 3.3	$ (0.9)	$ (1.6)	$ (1.6)	$ (0.1)	$ -
Net income (loss) for period	$ (16.9)	$ (4.1)	$ 19.5	$ 17.8	$ (12.7)	$ (7.1)	$ (3.1)	$ (0.2)
Income (loss) per share from continuing operations attributable to owners of the Company								
- Basic	$ (0.25)	$ (0.05)	$ 0.23	$ 0.33	$ (0.18)	$ (0.11)	$ (0.19)	$ (0.08)
- Diluted	$ (0.25)	$ (0.05)	$ 0.20	$ 0.29	$ (0.18)	$ (0.11)	$ (0.19)	$ (0.08)
Income (loss) per share attributable to owners of the Company								
- Basic	$ (0.20)	$ (0.05)	$ 0.28	$ 0.32	$ (0.19)	$ (0.12)	$ (0.19)	$ (0.08)
- Diluted	$ (0.20)	$ (0.05)	$ 0.24	$ 0.29	$ (0.19)	$ (0.12)	$ (0.19)	$ (0.08)
Weighted average number of common shares outstanding - Basic	84,458,914	81,974,876	70,929,120	56,772,684	56,772,684	40,191,450	14,211,385	3,043,480
- Diluted	88,458,396	81,974,876	81,448,095	63,112,617	56,772,684	40,191,450	14,211,385	3,043,480

1. During the three month period ended June 30, 2018, the Company earned gross profit of approximately $11.6 million from mining operations. Overall, net loss from continuing operations for the period was $20.9 million, which included the gross profit of $11.6 million and other income of $2.9 million. These income items were offset by $5.2 million in general and administrative expenses, $0.8 million in share-based compensation expense, $4.6 million in finance expense, and $26.2 million in foreign exchange losses. The foreign exchange losses were comprised of $12.2 million loss associated with US dollar denominated debt held by MCSA whose functional currency is the Brazilian Reai, $11.4 million loss on foreign exchange forward contracts and $2.6 million related to other operational exchange losses.
2. During the three month period ended March 31, 2018, the Company earned gross profit of approximately $5.0 million from mining operations. Overall, net loss from continuing operations for the period was $3.8 million, which included the gross profit of $5.0 million, $0.9 million of other income from sales of water and insurance proceeds, $0.6 million of net deferred income tax recoveries and $0.8 million in foreign exchange gains. These income items were offset by $6.3 in general and administrative expenses, $0.8 million is share-based compensation expense, and $4.2 million in finance expense.
3. During the three month period ended December 31, 2017, the Company earned gross profit of approximately $5.8 million from mining operations. MCSA had its third straight full quarter of concentrate sales from operations. Net income from continuing operations for the period was $16.1 million, which included the gross profit of $5.8 million, a $28.7 million gain on the successful settlement of certain MCSA debt balances, and $0.6 million on net income tax recovery. These income items where partially offset by $9.3 million in foreign exchange loss on US dollar denominated debt as the US dollar strengthened compared to the Brazilian Reai, $1.7 million of finance expense, and $9.0 million in general and administrative expenses.
4. During the three month period ended September 30, 2017, the Company earned gross profit of approximately $5.5 million from mining operations. MCSA had a second full quarter of concentrate sales as operations continued to ramp up. Net income from continuing operations for the period was $18.7 million, which included the gross profit of $5.5 million, $6.9 million in foreign exchange gains on US dollar denominated debt as the US dollar weakened compared to the Brazilian Reai, and a $15.0 million deferred income tax recovery primarily resulting from receipt of approval of MCSA's inclusion in a tax amnesty program previously discussed in this MD&A. These income items were partially offset by $5.8 million of finance expense and $4.0 million in general and administrative expenses.

5. During the three month period ended June 30, 2017, the Company earned gross profit of approximately $4.9 million from mining operations. MCSA had a full quarter of concentrate sales as operations continued to ramp up. Net loss from continuing operations for the period was $11.1 million, which included $6.7 million of finance expense, $3.1 million in general and administrative expenses, and $8.0 million in foreign exchange loss on US dollar denominated debt as the US dollar strengthened compared to the Brazilian Reai, partially offset by $4.9 million from mining operations, $0.8 million deferred income tax recovery and $0.9 million in finance and other income.
6. During the three month period ended March 31, 2017, the Company experienced a loss of approximately $2.8 million from mining operations. MCSA's operations at its Vale do Curaçá Property resumed in January of 2017 but sales of copper concentrate sales did not commence until the latter portion of February 2017. Net loss from continuing operations for the period was $5.5 million, which included the $2.8 million loss from mining operations, $6.7 million of finance expense, and $4.4 million in general and administrative expenses, partially offset by $5.9 million of foreign exchange gains, primarily on US dollar denominated debt as the US dollar weakened compared to the Brazilian Reai and $2.6 million in finance and other income.
7. 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 $2.4 million associated with MCSA from the date of acquisition.
8. 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, 2018, the Company held cash and cash equivalents of $17.1 million. Cash and cash equivalents are primarily comprised of cash held with reputable financial institutions and are invested in highly liquid short-term investments with maturities of three months or less. The funds are not exposed to liquidity risk and there are no restrictions on the ability of the Company to use these funds to meet its obligations.

Cash and cash equivalents decreased by $34.0 million during the six month period ended June 30, 2018. The Company's cash flows from operating, investing and financing activities during the six months ended June 30, 2018 are summarized as follows:

- Cash used in investing activities of $54.6 million, including:
    - $52.8 million on additions to mineral property, plant and equipment;
    - $2.0 million on additions to exploration and evaluation assets;

- Cash flows used in financing activities of approximately $2.1 million, including:
    - $5.3 million proceeds from new loans and borrowings;
    - $1.3 million proceeds from issuance of share capital;

  net of:
    - $2.3 million on repayment on loans and borrowings;
    - $4.8 million on payment of interest on loans and borrowings;

Partially offset by:

- Cash from operating activities of $23.7 million.

As at June 30, 2018, the Company had a working capital deficit of $7.3 million.

The Company does not expect to have any issues with respect to its ability to service its debt obligations. The Company has restructured its core debt such that there are no significant principal repayments in the next 6 months, at which time the Company anticipates that the Vermelhos Mine will have reached commercial production. The restructured debt repayment obligations are repayable over an eight-year period commencing at the earliest on 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, that 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 are comprised of cash from operations, cash and cash equivalents on hand and debt facilities. The Company will continuously monitor its capital structure and, based on changes in operations and economic conditions, may adjust such structure by issuing new common shares or new debt as necessary. While the Company has been successful in securing financing to date, there are no guarantees that it will be able to secure such financing in the future on terms acceptable to the Company, if at all. Taking into consideration cash flow from existing operations, the successful commissioning of the Vermelhos UG Mine within the next six months and the line of credit received subsequent to June 30, 2018, management believes that the Company has sufficient working capital to maintain its planned operations and activities for at least the next twelve months.

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

Contractual Obligations and Commitments

As at June 30, 2018, the Company's contractual obligations and commitments are summarized as follows:

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

2018	$	32
2019		66
2020		68
2021		68
2022		28
Total Commitments	**$**	**262**

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.

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 below represents the maximum credit risk exposure as at June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
Cash and cash equivalents	**$ 17,092**	$ 51,098
Restricted cash	**2,208**	2,193
Accounts receivable	**5,186**	2,217
Deposits	**1,583**	1,955
Other non-current assets - term deposits	**663**	753
	$ 26,732	$ 58,216

The Company invests cash and cash equivalents and restricted cash with financial institutions that are financially sound based on their credit rating. The Company's exposure to credit risk associated with accounts receivable is influenced mainly by the individual characteristics of each customer. The Company currently has one primary significant customer. The Company has not incurred a significant credit loss during the six month period ended June 30, 2018 nor has a provision for credit losses been recognized.

Expected credit losses

We have reviewed our expected credit losses on our trade receivables on transition to IFRS 9. We have also implemented a process for managing and estimating provisions relating to trade receivables going forward under IFRS 9. For our trade receivables, we apply the simplified approach for determining expected credit losses which requires us to determine the lifetime expected losses for all our trade receivables. The expected lifetime credit loss provision for our trade receivables is based on historical counterparty default rates and adjusted for relevant forward-looking information, when required. As our primary significant customer is considered to have low default, historical default rates are low and the lifetime expected credit loss allowance for trade receivables is nominal as at January 1, 2018 and June 30, 2018. Accordingly, we did not record a provision for expected credit losses for our trade receivables.

Derivatives

The Company may use derivatives, including forward contracts and swap contracts, to manage market risks. At June 30, 2018, the Company has entered into foreign exchange forward contracts to sell an aggregate amount of $81.0 million U.S. dollars into Brazilian Real at rates ranging from 3.3440 to 3.9800. The maturity dates of these contracts range from July 10, 2018 to January 2, 2019 and are financially settled on a net basis. The fair value of these contracts at June 30, 2018 was a $6.6 million liability, (December 31, 2017 - $0.9 million) which has been included in Derivatives in the statement of financial position. The change in fair value of $7.4 million and $6.8 million for the three and six months ended June 30, 3018 (three and six months ended June 30, 2017 - $nil), respectively, has been recognized in foreign exchange loss. In addition, in the three and six months ended June 30, 2018, the Company recognized a realized loss of $4.0 million and $3.7 million (three and six months ended June 30, 2017 - $nil), respectively related to the settlement of foreign currency forward contracts.

For a discussion of additional risks applicable to the Company and its business and operations, including risks related to the Company's foreign operations, the environment and legal proceedings, see "*Risk Factors*" in the Company's Annual Information Form for the year ended December 31, 2017 and dated March 28, 2018 (the "AIF").

OTHER FINANCIAL INFORMATION

Off-Balance Sheet Arrangements

As at June 30, 2018, the Company had no material off-balance sheet arrangements.

Contingencies

With the acquisition of MCSA, the Company inherited certain liabilities and MCSA has been subject to a number of claims (including claims related to tax, labour and social security matters and civil action) in the course of its business which individually are not material and have not been accrued for in the Company's financial statements as it is not probable that a cash outflow will occur. While the Company believes that a significant number of these claims are unlikely to be successful, if all such existing claims were decided against it, the Company could be exposed to liability of up to approximately $19.4 million, which could have an adverse impact on the Company's business, financial condition, results of operations, cash flows or prospects.

Outstanding Share Data

At August 13, 2018, the Company had 84,455,650 common shares, 3,678,000 stock options, and 3,333,328 warrants issued and outstanding.

Related Party Disclosures

For the three and six month periods ended June 30, 2018, amounts paid to related parties were incurred in the normal course of business and measured at the exchange amount, which is the amount agreed upon by the transacting parties and on terms and conditions similar to non-related parties.

Key management personnel consist of the Company's directors and officers and their compensation includes management and consulting fees paid to these individuals, or companies controlled by these individuals, and share based compensation. The aggregate value of compensation paid to key management personnel for the three and six month periods ended June 30, 2018 was $0.6 million and $1.2 million, respectively ($0.5 million and $0.9 million for the three and six month periods ended June 30, 2017, respectively). In addition, $0.6 million and $1.1 million was recognized in share-based compensation for the three and six month periods ended June 30, 2018, respectively, for options previously issued to key management personnel ($nil for the three and six month period ended June 30, 2017).

Key management personnel held certain convertible debentures which were converted in the six month period ended June 30, 2018 into 1,476,164 common shares and 369,040 common share purchase warrants. The warrants were then exercised into 369,040 common shares. Key management personnel exercised 33,000 options during the three and six month periods ended June 30, 2018. During the six month period ended June 30, 2017, key management personnel participated in certain financing activities by purchasing 233,333 common shares of the Company for total proceeds of $0.4 million and by subscribing to $1.0 million of the convertible debentures.

ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Critical Accounting Judgments and Estimates

The Company's December 31, 2017 consolidated financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB). The significant polices applied and recent accounting pronouncements are described in Note 2 of the Company's 2017 annual consolidated financial statements, respectively, except as discussed below.

In preparing the condensed consolidated interim financial statements in accordance with IAS 34, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates involve considerable judgement and are, or could be, affected by significant factors that are out of the Company's control. Actual results could differ from those estimates. Management reviews its estimates and assumptions on an ongoing basis using the most current information available. Revisions to estimates and the resulting effects on the carrying values of the Company's assets and liabilities are accounted for prospectively. For a description of the critical judgements in application of the accounting policies and information about assumptions and estimations uncertainties, refer to the Company's MD&A for the year ended December 31, 2017, which is available on SEDAR at www.sedar.com.

New Accounting Standards Adopted in the Current Period

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

i) IFRS 15 Revenue from Contracts with Customers

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

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

Adoption of IFRS 15 did not have a material impact on our condensed consolidated interim financial statements.

The following is the Company's new accounting policy for revenue recognition under IFRS 15:

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

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

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

ii) IFRS 9 Financial Instruments

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

The adoption of IFRS 9 did not have a material impact on the measurement of the Company's financial instruments in the condensed consolidated interim financial statements. However, additional disclosures have been provided.

The following are new accounting policies for financial instruments under IFRS 9.

Non-derivative financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Measurement and classification of financial assets is dependent on the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. See Note 15 to these condensed consolidated interim financial statements for the classifications of our financial instruments under IFRS 9.

Financial assets at FVTPL

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

Financial assets at FVTOCI

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

Financial assets at amortized cost

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

Financial liabilities

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

Derivative instruments

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

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

Expected credit losses

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

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

Future Changes in Accounting Policies Not Yet Effective as at June 30, 2018

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

i) *IFRS 16 Leases*

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

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

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

The Company is currently in the process of identifying and reviewing contracts to determine if the term is more than 12 months and/or if the contract is a right-of-use contract. Upon adoption of IFRS 16, the Company anticipates it will record a balance of lease assets and associated lease liabilities related to leases with a term of 12 months or more on the consolidated balance sheet at January 1, 2019. Due to the recognition of additional lease assets and liabilities, a higher amount of depreciation expense and interest expense on lease liabilities will be recognized under IFRS 16 as compared to the current standard. This impact will be partially offset by a reduction in operation lease expense payments currently included in cost of product sold and/or general and administrative expenses.

The Company has not yet quantified the potential impact that adoption of IFRS 16 will have.

Local Currency Operating Metrics – Presented in Brazilian Reai

		2018 - Q2[2]		2017 - Q2[1]		2018 - YTD		2017 - YTD[1]
Costs								
Mining - UG	R$	46,465	$	28,449	$	86,662	$	50,271
- OP		15,884		13,505		28,869		22,873
Processing		14,670		13,167		27,992		23,769
Indirect		6,689		4,057		11,859		7,555
Production costs		83,708		59,178		155,382		104,468
Capex development		(13,206)		(5,756)		(23,887)		(7,782)
By-product credits		(3,857)		(3,649)		(7,215)		(5,418)
Treatment, refining and other		1,446		n/a		904		n/a
C1 Cash Costs	R$	**68,091**	$	49,772	$	**125,184**	$	91,268
Breakdown Mined and Processed (tonnes)								
UG Mined		367,342		236,621		642,345		416,406
OP Mined		1,098,434		932,800		2,445,969		1,717,798
Total Mined (t):		**1,465,776**		**1,169,421**		**3,088,314**		**2,134,204**
Total Processed (t)		**500,952**		**502,216**		**817,078**		**777,956**
Cu Production (t)		**5,684**		4,845		**10,530**		9,006
UG Mining - R$/tonne mined		126.49		120.23		134.91		120.73
OP Mining - R$/tonne mined		14.46		14.48		11.80		13.32
Processing -R$/S tonne processed		29.28		26.22		34.26		30.55
Indirect -R$/S tonne processed		13.35		8.08		14.51		9.71

Footnotes

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

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

NON-IFRS MEASURES

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

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

C1 Cash Cost of Copper Produced (per lb)

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

	2018 - Q2[2]	2017 - Q2[1]	2018 - YTD[2]	2017 - YTD[1]
Costs				
Mining	$ 17,294	$ 13,106	$ 33,690	$ 23,167
Processing	4,069	3,657	8,176	6,711
Indirect	1,855	1,672	3,449	2,986
Production costs	23,218	18,435	45,315	32,864
Capex development	(3,663)	(1,782)	(6,956)	(2,428)
By-product credits	(1,285)	(1,137)	(2,561)	(1,704)
Treatment, refining and other	401	n/a	234	n/a
C1 Cash Costs	**$ 18,671**	**$ 15,516**	**$ 36,032**	**$ 28,732**
Costs per pound				
Payable copper produced (lb)	**12,532**	**12,459**	**23,214**	**19,854**
Mining	1.38	1.05	1.45	1.17
Processing	0.32	0.29	0.35	0.34
Indirect	0.15	0.13	0.15	0.15
Capex development	(0.29)	(0.14)	(0.30)	(0.12)
By-product credits	(0.07)	(0.09)	(0.07)	(0.09)
Treatment, refining and other	0.03	n/a	0.01	n/a
C1 Cash Cost of Copper produced (per lb)	**1.49**	**1.25**	**1.55**	**1.45**

Footnotes

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

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

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

	2018 - Q2[2]	2017 - Q2	2018 - YTD[2]	2017 - YTD[1]
Reconciliation:				
Cost of Product Sold	$ 34,757	$ 27,167	$ 57,512	$ 41,827
Add (less):				
Depreciation/amortization/depletion	(11,013)	(8,298)	(18,524)	(12,940)
Net Change in Inventory	(3,598)	(2,630)	(463)	979
Transportation costs & other	857	414	1,186	570
By-product credits	(1,285)	(1,137)	(2,561)	(1,704)
Treatment, refining, and other	401	n/a	234	n/a
Foreign exchange translation adjustments	(1,448)	-	(1,352)	-
C1 Cash costs	**$ 18,671**	**$ 15,516**	**$ 36,032**	$ 28,732

Footnotes

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

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

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

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

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

- Gain on debt settlement
- Foreign exchange gain (loss)

	2018 - Q2	2017 - Q2	2018 - YTD	2017 - YTD[1]
Reconciliation:				
Net loss	$ (16,895)	$ (12,750)	$ (20,991)	$ (19,810)
Adjustments:				
Finance expenses	4,645	6,676	8,890	13,424
Taxes	(1,342)	(795)	(1,946)	(796)
Depreciation/amortization/depletion	11,040	8,312	18,579	12,954
EBITDA	**(2,552)**	**1,443**	**4,532**	**5,772**
Foreign exchange loss	26,184	7,973	25,341	2,092
Adjusted EBITDA	**$ 23,632**	**$ 9,416**	**$ 29,873**	**$ 7,864**

Footnotes

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

Adjusted net income (loss)

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

The following table provides a detailed reconciliation of net earning as reported in the Company's consolidated financial statements to adjusted net earnings and adjusted EPS.

	2018 - Q2	2017 - Q2	2018 - YTD	2017 - YTD[1]
Reconciliation:				
Net loss as reported attributable to the owners of the Company	$ (16,892)	$ (10,536)	$ (20,978)	$ (15,440)
Adjustments for:				
Unrealized foreign exchange loss on USD denominated debt in MCSA	12,137	7,294	12,026	2,014
Unrealized foreign exchange loss on unrealized derivative contracts	7,327	-	6,730	-
Adjusted net income (loss)	**2,572**	(3,242)	**(2,222)**	(13,426)
Weighted average number of common shares - basic	84,458,914	56,772,684	83,223,757	48,527,872
Adjusted earnings (loss) per share	**$ 0.03**	$ (0.06)	**$ (0.03)**	$ (0.28)

Footnotes

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

Net Debt

Net debt is determined based on cash and cash equivalents, restricted cash and loans and borrowings as reported in the Company's consolidated financial statements. The Company uses net debt as a measure of the Company's ability to pay down it's debt. The following table provides a calculation of net debt based on amounts presented in the Company's consolidated financial statements as at June 30, 2018 and December 31, 2017.

	June 30, 2018	December 31, 2017
Cash and cash equivalents	$ 17,092	$ 51,098
Restricted cash	2,208	2,193
Less: Current portion of loans and borrowings	(16,221)	(5,601)
Long-term portion of loans and borrowings	(124,971)	(133,565)
Net Debt	**$ (121,892)**	**$ (85,875)**

Working Capital

Working capital is determined based on current assets and current liabilities as reported in the Company's consolidated financial statements. The Company uses working capital as a measure of the Company's short-term financial health and operating efficiency. The following table provides a calculation of working capital based on amounts presented in the Company's consolidated financial statements as at June 30, 2018 and December 31, 2017.

	June 30, 2018	December 31, 2017
Current Assets	$ 59,791	$ 97,892
Less: Current Liabilities	(67,077)	(55,332)
Working Capital (Deficit)	**$ (7,286)**	**$ 42,560**

Internal Control over Financial Reporting

The Company's management with the participation of the Chief Executive Officer and Chief Finaical Officer, is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Any system of ICFR, no matter how well designed, has inherent limitations and cannot provide absolute assurance that all misstatements and instances of fraud, if any, within the Company have been prevented or detected. The Company's ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in the accordance with International Financial Reporting Standards ("IFRS").

The Company uses the 2013 Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

There were no changes in the Company's ICFR that materially affected, or are reasonably likely to materially affect, ICFR during the six month period ended June 30, 2018.

NOTE REGARDING SCIENTIFIC AND TECHNICAL INFORMATION

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

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

Cautionary Note Regarding Forward-Looking Statements

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

Forward-looking information is not a guarantee of future performance and is based upon a number of estimates and assumptions of management in light of management's experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances, as of the date of this MD&A including, without limitation, assumptions about: 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 technical reports for these properties; production costs; the accuracy of budgeted exploration and development costs and expenditures; the price of other commodities such as fuel; future currency exchange rates and interest rates; operating conditions being 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 the risk factors listed under the heading "Risk Factors" in the Annual Information Form of the Company for the year ended December 31, 2017, dated March 28, 2018 (the "AIF").

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

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

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

ADDITIONAL INFORMATION

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