Amerigo Resources Ltd.

Q1 2021 Financial Results Conference Call

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Terry Fisher
CIBC — Analyst

Daniel Baohm
Canaccord — Analyst

John Polcari
Mutual of America — Analyst

PRESENTATION

Operator

Good afternoon. My name is Joanna, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Amerigo Resources Q1 2021 Financials Conference Call. All lines have been placed on mute to prevent any background noise.

After the formal remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press *, then the number 2 key. Thank you.

Mr. Graham Farrell of Harbour Access Investor Relations, you may begin your conference.

Graham Farrell — Managing Partner, Amerigo Resources Ltd.

Thank you, Operator. Good afternoon, and welcome, everyone, to Amerigo Resources' quarterly conference call to discuss the Company's financial results for Q1 of 2021. We are delighted to have you join us today.

This call will cover Amerigo's financial and operating results for the first quarter ended March 31, 2021.

Amerigo's CEO, Aurora Davidson, will begin by providing an overview of the quarter, followed by CFO Carmen Amezquita, who will elaborate on the financial performance of the Company in the quarter.

Following our prepared remarks, we will open the conference call to a question-and-answer session. Please note that due to the limited amount of time available for the question-and-answer period, we kindly ask that participants keep their questions concise, as to allow enough time for all that wish to participate.

If there are participants who would like to have a more in-depth discussion on matters pertaining to the results, or other matters related to Amerigo's operations, management will make themselves available through the regular Investor Relations channels.

Before we begin the presentation, let me caution you that our comments and discussions will include forward-looking information within the meaning of applicable securities legislation. Forward-looking information will include, among other things, forecasts and projections about our copper production for the year, which involves known and unknown risks, uncertainties, and other factors that may cause actual results, performance, or achievements to be materially different from such forecasts and projections.

Therefore, although we believe that anticipated future results, performance, or achievements expressed or implied by the forward-looking information are based on reasonable assumptions and expectations, you should not place undue reliance on such forward-looking information.

We direct you to our press release issued on May 5, 2021, and our other documents filed with securities authorities in Canada, including our Annual Information Form under the heading Description of the Business Risk Factors. These documents describe the material factors and assumptions that were applied in drawing the conclusions and making the forecasts and projections as reflected in the forward-looking information and the material factors that could cause actual results, performance, or achievement to differ materially.

Except as required by law, we undertake no obligation to update or revise any forward-looking information made in this presentation.

Thank you. And I will now hand the call over to Aurora Davidson, CEO of Amerigo Resources. Please go ahead, Aurora.

Aurora Davidson — Chief Executive Officer, Amerigo Resources Ltd.

Thank you, Graham. Good day to all. Thank you for joining us to discuss Amerigo's first quarter 2021 financial results.

I will start the call with a review of quarterly operations at MVC in Chile and then provide a corporate update. After that, Carmen will provide comments on the quarterly financial results, and we will take questions.

We are pleased to report a strong operational and financial quarter. Production results met guidance. Amerigo's annual production guidance of 61 million pounds of copper and 1.5 million pounds of moly is maintained.

In Q1 2021, Amerigo produced 50.5 million pounds of copper and 400,000 pounds of moly at a cash cost of $1.89 per pound. Forty-five percent of copper production came from fresh tailings and, of course, 55 percent came from historical tailings. MVC's plant availability in the quarter was 97.8 percent.

Amerigo's quarterly revenue was $48.9 million, with net income of $10.9 million, or $0.06 per share.

EBITDA was $23.3 million, which included $5 million in positive price settlement adjustments from Q4 2020.

Quarterly cash generated from operations was $20 million. Net operating cash flow—in other words, cash flow including the changes in working capital—was $28 million.

On investing activities we used $600,000 in sustainable CapEx and received $3.9 million from the sale of shares in Los Andes Copper, which was a noncore investment.

On financing activities, we made scheduled debt repayments of $6.5 million and lease repayments of $300,000. Putting all the cash ins and cash outs together, the increase in cash position during the quarter was $24.5 million. Ending cash at March 31st was $38.6 million.

Now that is a flash report of the data for Q1 2021. I want to stress three important takeaway points before moving on to a more detailed discussion: one, we are able to maintain a stable, predictable operation at MVC; two, that it’s meeting production goals and achieving full operational continuity; and three, controlling costs. These are the three fundamental operating pillars of our company. With these pillars working properly, we do extremely well under strong copper prices and this is immediately reflected on a stronger balance sheet.

Now let’s do a little slightly deeper dive into a few subjects. In March, we experienced the highest number of COVID-19 cases at MVC, with 23 positive cases in the month. This was a general trend in Chile following the end of the Chilean summer holidays. COVID-19 cases at MVC have since decreased to 10 positive cases at the end of April and 3 positive cases today. Approximately 20 percent of the MVC employees have now at least one vaccine.

Despite the higher case count, there were no interruptions to plant production due to the strict protocols MVC has put in place since last year. This includes seven days in and seven days out shifts, strict physical distancing on premises, antigen testing on-site, and traceability protocols, which include completing a health survey that everyone has to do before entering MVC and which needs to be submitted and evaluated before they are allowed on premises.

You may recall that MVC and El Teniente delayed the annual plant maintenance shutdown to September of this year, when we expect there will be further decreases in active COVID-19 cases.

As mentioned earlier, our production results for Q1 were aligned with guidance. We continued to see higher throughput and grades from El Teniente's operation, in line with our 2021 mining plan. And the operation in Cauquenes also performed within our expectations and information. We expect to continue to meet guidance through the year.

The annual plant shutdown at MVC and El Teniente continues to be scheduled to take place in September and October. And we anticipate losing eight production days due to that maintenance shutdown.

As previously reported, we have continued working on plant optimization with 911 Metallurgy Corp. on a low CapEx basis and without hindering production capacity at MVC. Most of the work will be completed by the end of the current quarter, together with the laboratory work on the recovery of the fine extraction of Cauquenes.

Towards the end of April, MVC finished recommissioning a large rapid flotation band to increase flotation capacity, or in other words resident times, by 25 percent. This, in theory, should result in a 2 percent to 3 percent increase in production.

Production guidance for 2021 is not relying on these potential production improvements. They would be additional, and we will report on their actual impact as we gather relevant operational feedback.

MVC continues to have healthy water reserves. They are currently at 7.2 million cubic metres of water compared to 8.5 million cubic metres of water at the prior conference call three months ago. The depletion of water reserves through the dry season has been lower than originally projected, due to the input of fresh water from MVC's water rights. The levels of water at hand continue to be sufficient to maintain projected Cauquenes tonnage processing without any interruptions.

As we reported before, MVC is scheduled to complete an optimization project on its three water-recovery thickeners to increase the rate of water recirculation within the plant from the current rate of 1,600 litres per second to 2,100 litres per second in September and October of this year at the time of the annual plant maintenance shutdown.

MVC's copper price in Q1 was $4.08 per pound. Today's copper price is $4.55 per pound. I will mention again the high sensitivity of MVC's financial performance to the price of copper. The copper price we had on the books on March 31st of $4.08 per pound has improved, the average price in April was $4.23 per pound, and today's price is $4.55 per pound.

Each 10 percent increase in copper price from the $4.08 price used in the Q1 financial statements would result in $6.2 million in positive revenue adjustments during this quarter in respect to Q1 production. This is a good time to be a copper producer.

We'll remain bullish on copper prices and do not want to take further time on this call to elaborate on the reasons why. There is plenty of information in the media, and you can also refer to our investor presentation.

And while we're speaking of copper prices, I think it is important to address one recurring question, which is how does the DET royalty work under different copper prices? This is important because when you make your cash flow assumptions, you need to consider cash costs and the DET royalty. We essentially share the business with Codelco through this royalty, given they provide the tailings. And we provide the equipment and the operations to produce the copper and moly concentrates.

We have included an easy reference in our investor presentation, which I encourage you to consult. It will provide a clearer explanation than my verbiage. But the main takeaway points are the following: That DET royalty is a sliding-scale royalty tied to copper prices. The lower the copper price, the lower the percentage of royalty. The higher the copper price, the higher the percentage of royalty.

We have different royalty ranges for the fresh tailings and for the Cauquenes tailings. For fresh tailings, the copper prices range from $1.95 to $4.80 per pound. And for Cauquenes, the copper prices range from $1.95 to $5.50 per pound.

So what happens outside of these ranges? If the copper prices persist out of range for a period of two consecutive months, and market projections indicate that copper prices are expected to remain outside of range, then MVC and DET will meet to review and agree on a royalty factor that maintains a similar balance of profits between the parties and we'll have 90 days to reach a new formula.

We included in our presentation, which is available on our website, a table showing the average DET royalty at various copper prices considering the production mix between fresh and Cauquenes expected in 2021.

Moving on to a discussion of operating costs. MVC's cash cost in Q1 2021 was $1.88 per pound, which was 3 percent over guidance. Why was our cash cost higher? Mostly to maintain full operational continuity. That is the quick answer.

Costs were higher than budget on plant maintenance and on maintenance at Cauquenes' processing equipment for a combined $0.06 per pound. We had a higher than budget cost on grinding balls of $0.03 per pound and in reagents of $0.02 per pound. A final item was higher environmental compliance cost of $0.02 per pound.

These were not trivial, superfluous, or error-driven cost overages. The dollar overages on maintenance are more than offset by ensuring we have continuity of operations with no lost days of production, particularly considering that the annual plant shutdown was delayed from the start of the year to Q3 of this year to reduce COVID-19 exposure. We need to ensure that adequate maintenance is given to equipment that continues to be online until the plant can be stopped for its annual facelift.

Being on top of environmental obligations is nonnegotiable. It is a core obligation of MVC, Amerigo, and its officers and directors. Grinding balls and reagent input costs were slightly higher in the budget and we have also been consuming more of both as needed operationally.

We continue to be very vigilant on costs and expect that cash cost in Q2 and Q3 will be $0.02 and $0.03 higher, respectively, compared to Q1. We also anticipate a slightly higher cash cost per pound in Q4 when we have more maintenance work and more environmental work to conduct than in other quarters.

Chile's 2021 election calendar will be a busy one. The starting point is May 15 and 16, which has been postponed from April 10 and 11 due to COVID-19, when voters will elect governors, mayors, and city councillors, as well as members of the Constituent Assembly that will draft the new Chilean constitution, which will have to be voted on in 2022.

Then in November of this year, Chileans will be asked to vote for their representatives in Congress and for a new president. Some parties have already held internal primaries to choose their presidential candidate and coalition primaries are scheduled for July 18. If no candidate receives at least 50 percent plus 1 of the votes in the first round of presidential voting on November 21st, the two leading candidates will compete in a runoff on December 19.

In the middle of this busy political time, sitting congressmen have revived one project that has come to life in prior election years, which is a project to increase mining royalty taxes in Chile. As a quick background, Chilean mining companies pay corporate income tax at a rate of 27 percent on taxable net income, and a mining royalty tax called the IEAM (sic) [IEM], which is based on operating profits and varies with production rates from a minimum of 3 percent to a max of 14 percent. MVC is currently exempt from this tax because it is not considered a mining company within the scope of the royalty tax.

The bill to amend the mining royalty tax is being promoted by opposition congressmen as part of the debate on how to tap into greater fiscal resources for social spending in Chile, which has been aggravated by the costs incurred to face the pandemic. The bill in its current shape and form has been passed by the mining commission and the treasury commission of Congress and is being debated today in Congress at large. If passed by Congress, it would move on to the Senate.

The royalty mining bill faces significant opposition by the executive branch of government and the mining and industrial sectors of Chile. The current mining royalty tax, which is based on operating profit, would be superseded by the new bill, which is proposed to tax sales and be progressive based on the underlying metal price from a minimum of 3 percent to a marginal rate of up to 75 percent if copper prices reach $5 a pound.

The Chilean government estimates that the total tax load to a traditional Chilean mining company could increase from the current average of 40 percent to 82 percent, which would essentially put Chile out of range with any other mining jurisdiction.

I mention these numbers which, of course, are preliminary until the bill is approved, if at all, to illustrate that there is a tendency for higher taxes than current. However, the metrics being floated are untenable and would significantly disrupt the Chilean mining sector, which is a key driver of the economy. Our view is that reason will prevail, as has occurred in the past in Chile. Taxes will tend to increase, but we expect that they will do so within reason.

Chile’s a jurisdiction we know well. It is a stable, mature, and market-driven place to conduct business in. It has strong institutions, very capable miners and professionals, and a core understanding of the importance that mining brings to the economy. Just as we are bullish on copper, we're bullish on Chile, and we believe that opportunities exist to replicate the MVC model successfully.

This could continue to happen through the synergies that we have with Codelco, or could also happen through new ventures with other holders of copper tailings deposits in Chile. We believe that MVC is a compelling business case, as is our ability to finance growth projects with debt, as we did with the Cauquenes expansion.

As I mentioned at the start of the presentation, the combination of strong operational results and high copper prices are a potent combination that generates substantial cash flow at Amerigo, which continues to improve the Company's balance sheet. On March 31st, as I mentioned before, our cash balance was $38.6 million, up from $14.1 million on January 1. Right now, Amerigo has reached an important milestone, which is to have more cash on hand than debt outstanding.

So what is that debt? And what do we intend to do with it? We have a $7.3 million loan with DET, which we took last year to organize the payment of settlement adjustments when copper prices fell sharply. This loan has been repaid this year in 12 monthly installments of $600,000 each, and the balance outstanding on the DET loan on March 31st was $5.5 million.

We also have bank debt originally for $100 million, which has been reduced to $41.5 million on March 31st. The schedule to pay the bank debt includes four more semiannual installments of $4.7 million each payable in September this year, March and September 2022, and March 2023, plus a balloon payment of $23.5 million on September 2023.

Under the terms of the existing debt agreement, MVC can make additional loan prepayments. At current copper prices, the total bank debt could be paid as early as August, leaving an adequate amount of cash on hand for working capital purposes. This would be one extreme option to follow, which would fully eliminate the restrictions set forth in the current debt agreement and which includes the requirement to do a cash sweep to the banks of 50 percent of the cash available for distribution out of MVC.

A second option would be to continue making scheduled debt payments, plus do the cash sweep to the banks each September and March. This option would provide a certain amount of cash for distribution to shareholders, depending on copper prices; reduce debt more rapidly; and reduce or eliminate the big balloon payment at the end of the loan.

A third option is to refinance the existing debt to meet various objectives. These objectives would include the release of an important amount of cash and the reduction, to some extent, of outstanding debt at the time of a refinance, having more manageable and even payments through a term of, say, five years with the option of prepayments, have more flexibility to distribute surplus cash to shareholders during the term of the loan, and provide MVC with access to a working capital line of credit.

Having a well-structured and manageable amount of debt at MVC should not be a hindrance to increasing shareholder value. One of these options will be undertaken in Q3 of this year and will enable the Board of Directors to reinstate Amerigo’s semiannual dividend, put in place a share buyback program, or undertake a combination of both.

To close the presentation, I will share my view that two aspects of Amerigo were negatively perceived by the market for some time, which were historical operational performance issues and the high debt levels which were incurred to finance the Cauquenes expansion.

On the back of recent quarterly results and particularly the results for the first quarter of 2021, we are showing that both problems are nonissues now. And the Company’s debt will soon be negligible, or become a structured element of a robust balance sheet.

I look forward to another strong quarter in Q2 and will now pass this on to Carmen for her comments on financial results.

Carmen Amezquita — Chief Financial Officer, Amerigo Resources Ltd.

Thank you, Aurora. We are now pleased to present the Q1 2021 quarterly financial report for Amerigo Resources and its operating company, MVC, in Chile.

The first quarter showed an increase in cash generated from operations and a stronger financial position. The working capital deficit of $6.1 million that was present at the end of 2020 was eliminated, and the first quarter of 2021 finished off with a working capital of $11.5 million. The change to positive working capital is a significant indicator of stronger liquidity resilience.

At the end of the first quarter, the Company's cash balance was $38.6 million, an increase from the December 31 cash balance of $14.1 million.

Amerigo's financial performance is highly sensitive to copper prices. Amerigo's average copper price for 2021 was $4.08 per pound, a significant increase from the average copper price of $2.35 per pound in the first quarter of 2020. Today's LME copper price is $4.55 per pound.

Another factor affecting earnings are the changes in copper price from one quarter to the next. This is so because of our M+3 price convention for copper sales, where the final settlement price is the average LME price for the third month following production of copper concentrates.

At March 31, 2021, MVC's provisional copper price was $4.08 per pound, and final prices for January, February, and March 2021 sales will be the average LME prices for April, May, and June 2021, respectively. A 10 percent increase or decrease from the $4.08 per pound provisional price used at March 31, 2021, would result in a $6.2 million change in copper revenue in the second quarter of 2021 in respect of the first quarter's production.

Revenue was $48.9 million in the first quarter of 2021, up from a revenue of $15.6 million in Q1 2020. Revenue is made up of net copper revenue of $45.4 million and molybdenum revenue of $3.5 million.

Within the copper revenue of $45.4 million, the gross copper sales were $58.1 million with positive settlement adjustments of $8.5 million. And then deducted from revenue, we had $16 million in royalties to DET, smelting and refinery costs of $4.8 million, and transportation costs of $519,000.

Total tolling and production costs, including depreciation, were $30 million. This represents an increase in costs of $5.4 million from the comparative Q1 2020 period. However, given the increase in production in the first quarter of 2021, the unit tolling and production costs per pound delivered decreased from $2.32 per pound to $1.99 per pound.

In Q1, there were general and administrative costs of $1.2 million compared to $701,000 in Q1 2020. The $547,000 increase in general and administrative expenses relates mostly to an increase in performance-based compensation and professional fees, as well as an increase in office and general expenses.

The derivative to related parties during the quarter had a loss of $377,000 compared to a recovery of $3.7 million in Q1 2020. This derivative is measured at fair value, and the difference in fair value from one quarter to the next is mostly related to the discount rate applied in the fair value determination.

Other losses were $1.2 million compared to other gains of $1 million in the prior-year period. The decrease relates mostly to the change in foreign exchange loss gain of $1.4 million, plus the recognition of a write-down of obsolete equipment and supplies of $749,000.

Finance expenses were $856,000 this quarter compared to $2.8 million in Q1 2020. This difference is mostly the result of the $1.7 million from the fair value adjustment loss on interest rate swaps recorded in the prior-year period compared to Q1 2021's $222,000 fair value adjustment recovery.

In Q1 2021, the Company recognized an income tax expense of $4.3 million and a net income of $10.9 million compared to an income tax recovery of $3.7 million and a net loss of $4 million in the first quarter of 2020.

In respect of cash flow in the quarter, cash generated from operations in Q1 2021 was $20 million and $28.1 million after working capital changes. The Company received proceeds from the sale of their investments in Los Andes Copper of $3 million. And the cash used in the quarter includes $563,000 used to purchase plant and equipment, repayment of borrowings of $6.5 million, and lease repayments of $345,000. Overall, there was a net increase in cash and cash equivalents of $24.5 million in Q1 and an ending cash balance of $38.6 million.

The Company's debt balance at the end of Q1 was $47 million, including bank debt and the loan with DET. As mentioned by Aurora, depending on copper prices from May on, MVC's bank debt can either be repaid fully in Q3, reduced under the current finance agreement cash sweep, or refinanced to provide additional flexibility on the use of surplus cash. The Company will complete one of these alternatives in Q3 this year.

Production results in the first quarter of 2021 continued in line with expectations and guidance. We will report Q2 2021 financial results mid-August 2021, and want to thank you for your continued interest in the Company during this year.

We will now take questions from call participants.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the *, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request. If you are using a speakerphone, please lift the handset before pressing any keys.

First question comes from Terry Fisher at CIBC. Please go ahead.

Terry Fisher — CIBC

Good day. Congratulations, you guys. Great quarter, obviously. And, Aurora, I think you answered all of the questions I had going into this from reading the material. However, just three quick ones and I'll give them all to you up front so you know the scope of the timing.

One is that you've given us guidance and you met it in the quarter, but you don't give us guidance for the final profitability. And I'm just wondering if it surprised you at all at the Company? Or whether you expected these kinds of strong net profits and EBITDA? Second question is you accrued taxes, which makes sense because you had a profit, but you didn't pay any. They've been deferred. And I'm just wondering what sort of tax pools are left for further deferrals when you start to pay cash taxes?

And finally, I'm delighted to see the sale of the Andes Copper investment. And I'm hoping that's a sign that there won't be any more such investments in shares of other companies. Or can you just fill us in on what the strategy is there? That's it.

Aurora Davidson

Thank you, Terry. Those are three good questions. The guidance for EBITDA for the rest of the year, if copper prices continue at this level, we are projecting EBITDA of over $80 million, considering the effect of the settlement adjustments from Q1 into Q2. Again, that's all sensitive to copper prices.

I think we have provided enough information on our investor materials so that people can take their own decision on what copper price they want to use for your own projections and work on that basis. It's not a difficult projection to make. And if there are any questions from anyone along the way, through Harbour Access or through myself, we're happy to answer your questions.

We weren't surprised by the results, Terry. We have a good metric system in place to monitor our performance at MVC on a monthly basis and project it for the rest of the month and quarter. If we plug in copper prices and moly prices, we're pretty aligned with the actual results as projected as we work through the quarter.

Taxes. We had been utilizing our pool of accumulated tax losses at MVC until the end of April. We have fully reversed our loss position, our cash loss position, as of the end of last month. We will continue to—so we are essentially starting a period of current taxes payments, so there is no more tax shield to us.

We're going to start making our provisional tax payments based on a percentage of sales, which is the way you do your installments for taxes in Chile, as of July the 1st. And they are done on a quarterly basis based on your ending cash position of the prior quarter. And we will be taxable, therefore, starting as of April of this year. And that's just the way it is. It's a good problem to have when you have, essentially, eaten up a significant amount of tax losses in this short period of time, which is reflective of the strong earnings that MVC has realized.

Third question, we're happy to have orderly sold that investment in an organized sale at a good price quite close to market price at a slight discount, given we sold it on a single sale. And we are not expecting to make other investments in emerging mining companies. That is not one of the uses of surplus cash that is intended.

Terry Fisher

That's great. Thanks very much.

Operator

And again, as a reminder, if you have any questions, please press *, 1 now.

Next question from Daniel Baohm at Canaccord. Please go ahead.

Daniel Baohm — Canaccord

Hi. I was wondering—you mentioned—great, great earning results, by the way. But you guys mentioned that you would be exempt from the IEAM (sic) [IEM] tax. Can you just kind of discuss a bit more about that? And what the implications are on your tax rate if your parent-co is going to be taxed? Thanks. That's it.

Aurora Davidson

Yes. We are currently exempt from the existing tax in its current morphology because we are considered a toll processor and there are contracts with Codelco. That's for copper. For moly, we currently fall below the threshold where the current tax exists. So we can speak as of what the current taxation is and how it affects MVC, and those are the factual statements.

Any changes to the scope of a revised bill remain to be seen. I think it's early to speculate on whether they would have similar provisions—similar inclusion concepts for us or not. But currently we are not, as a toll producer, subject to the existing mining royalty tax. Having said that, we are remaining vigilant on what the changes could be.

As stated in my presentation, if the bill were to proceed on the basis in which it is expected to be presented to Congress for voting, it would significantly increase the tax load support as a Chilean entity that is subject to both income tax and the royalty tax from about 40 percent to 82 percent. So that in itself shows the magnitude of the change why it is such an out-of-range change that we expect that it will be significantly reasoned down to a more manageable and executable level.

Daniel Baohm

Great. That makes sense. Thank you.

Operator

Next question comes from John Polcari at Mutual of America. Please go ahead.

John Polcari — Mutual of America

Thank you. Several questions. First, what's the CapEx cash expenditure for this year? And do you have a number for next year?

Aurora Davidson

Our sustaining CapEx is around $6 million a year. We have that within our budget for this year, and we don't have any information that would indicate a different sustaining CapEx number for next year. So in general terms, a figure of anywhere from $5 million to $6 million in sustaining CapEx is a figure that we're working with, John.

John Polcari

Thank you. Second question was on an ongoing basis what level would you be comfortable at in terms of maintaining the cash balance? Obviously, I believe you said cash balances now as of today equate to the loan balances. But obviously, there's some optimal point where you need a certain amount of cash that you're comfortable with either as a reserve or for operating.

Aurora Davidson

Yes. Correct. I think a good number to speak of in terms of working capital for the Company combined is around $25 million. When we're talking about a potential refinance of the Company, we're also talking about including a working capital line of credit, which we feel would be an important element to have to protect against cyclicality.

As I mentioned in the presentation, we're quite tuned in to copper prices. Settlement adjustments are not immaterial. When you have a correction upwards, we love it. We had $5 million of positive settlement adjustments in Q1. The opposite could occur in a downturn, and we need to protect for that because we cannot expect things not to have little glitches and little cyclical shake-ups from time to time. But in a general term basis, working capital balance of $25 million at MVC is a healthy balance to have.

John Polcari

Would that necessarily go up with the price of copper? Or not necessarily affect ongoing operations? Just because of escalating commodity prices you wouldn't—would I be correct in saying you wouldn't necessarily have to have a higher level of ongoing cash balances?

Aurora Davidson

No, no. I think that would be enough under current scenarios. We don't expect a significant cash cost ramp-up. We're working hard to maintain our cash costs under control. So I think $25 million, just off the back of an envelope, is a healthy number that I could live with as a regular maintaining cash balance at MVC.

John Polcari

Thanks. Two more big-picture questions and then I'm done. Some time ago, several years ago when the original expansion was done, I believe it called for an increase in production ultimately for a much higher level. And that project was broken up into two smaller, incremental growth steps.

Aurora Davidson

Mm-hmm.

John Polcari

And now we're at, let's call it, $60 million annually. Is there still an opportunity to take that up to the original projected level of a number of years ago, which I believe was perhaps north of $80 million?

Aurora Davidson

Yeah. No, we are waiting for laboratory results on the final analysis that we did to sort of compare and contrast those assumptions against what we're seeing in practice at the MVC operation. That is associated with the amount of recovery that could be done from the fine extraction of Cauquenes.

The results are not pointing to the same conclusions that were included in the technical report. We will comment on that when we have the final laboratory test work. But for the time being, I think that we have to assume that we are operating at MVC on the basis of the best way possible with the existing equipment that we have there.

Obviously, at copper prices of $4.50, questions arise as to what is the opportunity of realizing potential incremental production that could essentially pay for itself in a relatively short period of time.

John Polcari

Right.

Aurora Davidson

You don't have the same leeway to have those discussions when copper prices are at $2.80, at $3.00, but we're in a different position now. But let me say that any investment decisions that the Company could make in future would have to be thorough, would have to be peer reviewed, and would have to be absolutely certain as to the level of expected results versus investment associated with it.

We're not in the business of just producing more copper for the sake of producing more copper. We have to be in the business of producing the right amount of copper that maximizes margins and plus return for shareholders.

John Polcari

So it would obviously you'd have to assume perhaps a much lower copper price, a higher return on investment before anyone would even consider expending cash on a future endeavour, right?

Aurora Davidson

Correct. It has to be a conservative and a responsible decision.

John Polcari

So there have been some opportunity or talk of opportunity of searching for an additional tailings operation over the last half dozen years that hasn't presented itself. Is there anything on the drawing board that would lead you to believe that there's—

Aurora Davidson

I think there's more momentum to that, in fact, coming in from a number of factors. One, of course, incentive pricing is significantly higher now. There's also the recognition that in creating tailings you are conducting a true ESG operation. You are tapping into an environmentally responsible way of accessing metals.

And there's also the recognition that tailings, one, deserve more responsible attention from mining companies. There's obviously an element of environmental and social liability attached to them. And there's also an opportunity to recover a substantial amount of metals that are contained in some of the historical deposits.

Chile has a number of those deposits within essentially, as we put in our presentation, transforming environmental liabilities into economic assets. We don't think that is a tagline. We think that that is a potential and real opportunity that we can follow. And I think that a number of things have changed recently that point us to looking at that with a serious commitment and with a true business opportunistic outlook.

John Polcari

So it's more than just a cliché that people tend to throw around. There's perhaps an opportunity down the road to—

Aurora Davidson

Yeah. I think that there are opportunities to—the opportunities are there. It is a question of tapping into them in a way that makes technical and economical sense, and we see that those could be replicated. We're not just throwing that for the sake of having another slide in our presentation. I think that that is a true statement.

John Polcari

Nice. My last point may be a little technical, but first off, was just gratified to see that you received 99.5 percent plus of the share vote at the general meeting. Though my question was related to the options, which received approval of 71 percent; considerably less. And is that perceived to be some sort of pushback against the larger amount of options? Like if you could just elucidate a little bit about the rolling 10-year plan? I think there's about 8 million-plus of remaining options for issuance. Does—

Aurora Davidson

Yeah. We—yeah. Yeah. The—

John Polcari

Is that just—let me just ask a specific question, though, before you answer it. To the degree that those are issued and increases the total fully diluted share count, does the 10 percent rolling number—it's a little different than the US. In Canada, does it reload, if you will?

Aurora Davidson

We have—

John Polcari

And in which case—

Aurora Davidson

Yeah. We have about 6 percent of our issued of outstanding in options. We have included as of last year our key staff in Chile within the option grants. We feel that that is an important source of alignment with shareholder interest. And the number of options granted have increased because of that. We don't think that we have a huge amount of options outstanding.

John Polcari

Mm-hmm.

Aurora Davidson

There is a pushback in general terms from the investor community and that is fine. But we're not operating close to the limits by any means in respect of the options that the Company is granting to officers, directors, and key employees.

John Polcari

So just help me understand the 10 percent rolling plan, does that include the historic options that have been issued? Or does it reload every year where the total—the 10 percent—

Aurora Davidson

I will check that for you, and if you send me an email I will give you the answer to that question.

John Polcari

Thank you. And that's it for me. I appreciate it. Nice quarter. Thank you.

Aurora Davidson

Thank you.

Operator

Thank you. There are no further questions at this time. You may proceed.

Graham Farrell

Operator, I think we're—if there's no more questions, I think we're good to wrap things up.

And I want to thank everyone for joining us today and look forward to future quarters like this.

Operator

Thank you. Ladies and gentlemen, this does conclude your conference call for today. We thank you for participating, and we ask that you please disconnect your lines. Enjoy the rest of your day.