FINAL TRANSCRIPT

Amerigo Resources Ltd.

Q2 2021 Conference Call

Event Date/Time: August 12, 2021 — 2:00 p.m. E.T.

Length: 52 minutes

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PRESENTATION

Operator

Good afternoon. My name is Colin, and I'll be your conference Operator today. At this time, I'd like to welcome everyone to the Amerigo Resources Q2 2021 Conference Call.

All lines have been placed on mute to prevent any background noise. After the formal remarks, there'll be a question-and-answer session. If you'd like to ask a question during this time, simply press *, then 1, on your telephone keypad. If you would like to withdraw your question, please press *, followed by 2. Thank you.

Mr. Jonathan Paterson of Harbor Access, Investor Relations, you may begin your conference.

Jonathan Paterson — Harbor Access, Amerigo Resources Ltd.

Thank you, Colin. Good afternoon and welcome, everyone, to Amerigo Resources Q2 2021 Conference Call. We're delighted to have you join us today. This call will cover Amerigo's financial and operating results for the quarter ended June 30, 2021, along with a discussion of some of our recent highlights and goals for 2021 and beyond.

Please note that all dollar figures quoted in this call are US dollars, except where otherwise indicated.

Following our prepared remarks, we will open the conference call to a question-and-an-answer session.

Our call today will be led by Amerigo's Chief Executive Officer, Aurora Davidson; along with the Company's Chief Financial Officer, Carmen Amezquita.

Before we begin our formal remarks, I would like to remind everyone that some of the statements on this conference call may be forward-looking statements. Forward-looking statements may include, but are not necessarily limited to, financial projections or other statements of the Company's plans, objectives, expectations or intentions. These matters involve certain risks and uncertainties. The Company's actual results may differ significantly from those projected or suggested and any forward-looking statements due to a variety of factors which are discussed in detail in our SEDAR filings.

I will now hand the call over to Aurora Davidson. Please go ahead, Aurora.

Aurora Davidson — President, Chief Executive Officer & Director, Amerigo Resources Ltd.

Thank you, Jonathan. Welcome to our quarterly call to discuss Amerigo's second quarter 2021 financial results.

We are very pleased to report another strong operational and financial quarter. We continue to be on track and maintain our 2021 annual production guidance of 61 million pounds of copper, and 1.5 million pounds of moly.

Carmen will provide a thorough review of Q2 financial results during her presentation, but I would like to mention four very strong figures. We posted net income of $11.6 million, EBITDA of $23.4 million, and earnings per share of US $0.06, CAD $0.08. I am very pleased that our operation at MVC is meeting production goals, achieving full operational continuity, and controlling costs. These are our three fundamental operating pillars and reflect the commitment of our 289 managers and employees in Chile.

I feel extremely proud to work with this group of men and women. The MVC team received this week the San Lorenzo Annual Award from Chile's National Mining Association in recognition of MVC's contribution to mining sustainability and leadership in tailings processing.

Because it is such an important part of Amerigo's story, let me start my comments with a discussion of our debt refinancing, which we had intended to complete in Q3, but managed to squeeze into Q2.

MVC's original debt of $100 million is now a well-structured and manageable $35 million term loan repayable over five years. The loan can be fully prepaid at any time. We now have a robust balance sheet, and we're comfortable holding this level of debt, which will be reduced by $3.5 million every six months under the regular amortization schedule.

One way of seeing the impact of the debt service, principal, and interest of this new loan is as $0.14 per pound of copper produced annually, which is a very comfortable zone to be in.

We also now have in place a $15 million working line of credit, which we don't intend to use, but which is great to have in case of potential market cyclicality. It is also very important for us to have a solid working relationship with domestic Chilean banks. These are the type of relations that we want to have should we decide to expand the Amerigo business in Chile.

This refinance is an integral piece of Amerigo's return-of-capital strategy. The former loan constrained our ability to utilize cash at our full discretion, but that is no longer the case. Under the new facility, we have sweeped cash in excess of $15 million. That cash is available for potential distribution.

Going forward, MVC will also be able to do one annual distribution of 60 percent of free cash flow generated in the prior year. This mechanism was an absolute must for us in order to put in place a payout policy.

I mentioned in the prior call that refinancing the debt would enable the Board of Directors to reinstate Amerigo's dividend, put in place a share buyback program, or undertake a combination of both in Q3. Amerigo's board is actively working on determining a sustainable dividend policy, and we expect to be able to issue an announcement within this quarter. Our intention is not to sit on a pile of cash indefinitely. A payout policy is of significant strategic importance to the Amerigo Board of Directors.

Now on to operational matters. In Q2, Amerigo produced 15 million pounds of copper and 330,000 pounds of moly. As I mentioned before, our annual production guidance of 61 million pounds of copper and 1.5 million pounds of moly is maintained.

Cash cost in Q2 was $1.81 per pound, lower than our guidance of $1.90 per pound for the quarter due to stronger moly by-product credits due to an increase in moly prices. As a result of this, we revised our cash cost guidance down to $1.76 per pound in Q3, $1.84 per pound in Q4, and $1.82 per pound on an annual basis.

In Q2, 49 percent of copper production came from fresh tailings and 51 percent from historical tailings. MVC's plant availability in the quarter was 98.3 percent.

In Q2, the average head grade in the fresh tailings was higher than in recent quarters at 0.144 percent, and MVC work in areas of the Cauquenes deposit with lower head grade, averaging 0.23 percent. I received several calls asking if the "downward trend" in Cauquenes' grade in recent quarters is worrisome. The answer is no. Cauquenes does not have homogeneous grade throughout the deposit, and we notice.

In the second half of 2021, we are working in areas with higher grade. In July, for example, the average grade in the Cauquenes was 0.248 percent. In fact, the higher grade areas we're working on are the reason why we continue to expect to meet our annual production guidance, despite the fact that we will have fewer operating days in the second half of the year because of the annual plant maintenance shutdown.

The variance in grade can also be seen in our moly production, which underperformed in Q2, reaching only 84 percent of guidance. This was so because of lower moly grade in the sector of Cauquenes we were working on during the quarter. In the second half of the year, our mine plan has us working in better moly grade areas. Again, to give you a concrete example, in July, moly production was 19 percent higher than average moly production in Q2.

In our latest news release, we issued a clarification that we are not relying on the grades or recoveries, and therefore, on the inferred mineral resource estimates contained in the Company’s last published Technical Report. This is not a new development as our 2021 production guidance did not rely on that report. It also does not mean that we are unsure about how to progress at MVC. On the contrary, we have more knowledge of Cauquenes' grades and recoveries now than before. We have done substantial drilling and lab work and have built robust models that have proven to be accurate. This can be seen in the strong correlation between 2021's forecast and actual results.

MVC is a dynamic operation and we are responding to those dynamics. Another example, the overall impact of fresh tailings in 2020 and 2021 has also changed substantially and favourably so from what was projected in that last Technical Report. With higher throughput and grades from fresh tailings, we’re currently producing 50 percent of our copper from fresh tailings and 50 percent from the historical tailings at Cauquenes. That was not what was originally expected. This new information is taking us to prepare a new Technical Report in the near future.

Now I would like to give you some additional colour on our operations in Chile. First, Chile’s COVID situation has improved significantly. As of today, we have no COVID active cases at MVC and 96 percent of the employees have received their second vaccine. Our production is not being impacted by COVID.

I also want to highlight our annual maintenance shutdown for you. Based on the last information we have from El Teniente, both MVC and El Teniente will have their annual maintenance plant shutdowns for eight days in September and one day in October. This annual maintenance program goes on every year, usually in Q1, but was delayed in 2021 to a time when COVID was expected to be less of a risk, which happened to be the case.

It is a time when the plants and the conduction channel between El Teniente and MVC are fully inspected, and when major preventive maintenance requiring equipment shutdowns takes place. Unplanned corrective maintenance may also be identified during shutdowns.

This year, we will be completing improvements to MVC's water thickeners during the shutdown. MVC also continues to work on plant optimization, and as any changes result in sustainable production improvements, we will incorporate them into our future production plans.

Here is an update on our water situation. The good news is that MVC continues to have healthy water reserves, currently at 7.1 million cubic metres, compared to 7.2 million cubic metres at the last conference call. We continue to see low depletion of water reserves due to the input of fresh water from MVC's water rights. Water reserves are enough to maintain projected Cauquenes' tonnage for at least the next 12 months in the absence of further rain.

Unfortunately, rain so far has been scarce this year. The height of the rain season is between April and July, although rain can still be expected in August and September. Cumulative rainfall to the end of July has been 29 percent of annual rainfall in 2020, which was a normalized rainfall year. However, there is rain in the forecast for Monday to Friday of next week which should reduce this gap. In 2020, most of the rainfall occurred over a short number of days. So we are encouraged to see a consistent period of rain in the near forecast.

As you would expect, we continue to monitor our water situation closely. We also will have more data to work once we complete the optimization project of MVC's water recovery thickeners. We expect to see a positive impact from an increase in the water recirculation this October once the project is completed.

As we announced in a news release, MVC officially received its first annual renewable energy certificate given that starting in 2020, 100 percent of MVC's power supply is coming from renewable sources. We're very proud of using only renewable energy at the MVC operations. This is something still on the bucket list of most mining companies.

It's not surprising that I have received follow-up questions on the topic of potential Chilean tax increases, so let me briefly address the situation.

I spoke at the last call of a mining royalty tax bill that could significantly increase the tax load of mining companies in Chile. The bill was approved in the Chilean Congress in May, and then moved down to the Chilean Senate. Rather than rubber-stamping the bill, senators are doing a diligent job gathering real data and interviewing crucial stakeholders, including CEOs of the major mining companies operating in Chile.

We're following the story with interest. However, as I mentioned in our prior call, MVC is not subject to the Chilean mining royalty tax because it is not considered a mining company within the scope of this tax, and we expect to continue to be unaffected in the future.

In other areas of Chilean politics, presidential primaries were held in July and radical left and radical right candidates were eliminated. We also see this as a positive development, as Chileans showed a desire for moderation.

The subjects of potential tax changes and electoral results are still open. But developments in the last three months confirm our belief that Chile is a stable and mature country where we feel comfortable conducting business in.

We continue to have a positive opinion on copper prices. The average LME price from January to July was $4.15 per pound, which is a very sweet spot for copper producers. The long-term outlook for bullish copper prices remains intact on the back of the implementation of global renewable energy standards and electric vehicle sales.

As an example, additional announcements over the quarter from governments such as the US and multiple automakers indicate an increasing commitment to electric vehicles, which are significantly more copper intensive than internal combustion engines.

Finally, I would like to mention that we are aware that there has been selling pressure on our equity. During this year, approximately 30 million to 33 million shares of Amerigo held in two significant blocks have been sold into the market. These are not sales from directors or management of Amerigo, but from long-term investors who came into the stock at a price of CAD $0.28 per share in 2009, shortly after the global financial crisis. These investors have fulfilled their personal investment cycle with the Company, and I have no reason to believe their actions reflect a lack of faith in Amerigo.

Whenever we are aware of this type of interest in selling, we will always look to accommodate crossing blocks to minimize the impact on Amerigo's share price.

Thank you for listening. I look forward to our conversation at the end of Q3. I 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 pleased to present the Q2 2021 annual financial report from Amerigo Resources and its MVC operation in Chile.

In Q2, the Company continued its strong performance of 2021 and ended the quarter with a more robust balance sheet. Amerigo posted net income of $11.6 million, earnings per share of US $0.06

or CAD $0.08, EBITDA of $23.4 million, and quarterly operating cash flow before changes in working capital of $17.1 million.

At June 30th, the Company’s cash balance was $48.9 million, an increase of $10.3 million during the second quarter and an increase of $34.8 million during the first six months of the year.

Total borrowings decreased from $53.8 million to $37.5 million. This change, including the debt refinancing completed during the quarter, will be discussed later in the presentation.

Amerigo’s financial performance is highly sensitive to copper prices. Amerigo’s average copper price for the second quarter of 2021 was $4.44 per pound, a significant increase from the average copper price of $2.61 per pound in the second quarter of 2020, and from the average price of $4.08 in Q1 of this year. Today’s LME copper price is $4.27 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 London Metal Exchange price for the third month following production of copper concentrates.

At June 30, 2021, MVC's provisional copper price was $4.37 per pound and final prices for April, May, and June sales will be the average LME price for July, August, and September, respectively. July was $4.36 per pound.

A 10 percent increase or decrease from the $4.37 per pound provisional price used on June 30, 2021, would result in a $6.6 million change in revenue in the third quarter of 2021 in respect of Q2 production.

Revenue was $50.5 million in Q2, up from a revenue of $26 million in the prior-year period. Revenue is made up of net copper revenue of $45.7 million and molybdenum revenue of $4.8 million.

Within the copper revenue of $45.7 million, the gross copper sales were $66.6 million and positive settlement adjustments of $4.8 million. And then, deducted from revenue, we had $20.2 million in royalties to DET, smelting and refinery costs of $4.9 million, and transportation costs of $524,000.

Total tolling and production costs, including depreciation in Q2, were $31.4 million. This compares to tolling and production costs of $26.4 million from the comparative Q2 2020 period.

Cash costs per pound increased $0.09 from $1.72 per pound to $1.81 per pound.

In Q2 2021, there were general and administrative costs of $922,000 compared to $434,000 in Q2 2020. The $488,000 increase in general and administrative expenses relates to an increase in salaries, management and professional fees, share-based payments, and office and general expenses.

The derivative to related parties during the quarter had a recovery of $8,000 compared to an expense of $2.1 million in Q2 2020. This decrease in expense in the current year was the result of an increase in discount rates used to compute the fair value of the derivative which decreased the derivative liability thereby resulting in a recovery from the fair value adjustment in Q2 2021 of $253,000 compared to a loss of $1.8 million in the prior-year quarter.

Other losses were $146,000 compared to $382,000 in the prior-year period. The decrease relates mostly to the change in foreign exchange recognized, with a loss of $129,000 recognized in the current quarter compared to $396,000 in the prior-year quarter.

Finance expenses were $2.1 million this quarter compared to $900,000 in the prior-year period. This difference is mostly the result of a $1 million charge from the fair value adjustment loss on interest rate swaps recorded in Q2 2021 compared to $112,000 in fair value adjustments in Q2 2020.

$632,000 of the $1 million fair value adjustment loss on the interest rate swap was recorded to recognize the new interest rate swap liability related to the new finance agreement that was entered into at the end of the quarter.

In Q2 2021, the Company recognized an income tax expense of $4.3 million and a year-to-date tax expense of $8.6 million. Tax expense includes both current tax that is the actual taxes payable by the Company, and deferred tax which is a non-cash figure to reconcile timing differences between financial depreciation and tax depreciation.

The Company's current tax liabilities are shown in the balance sheet and on June 30th were $2.9 million. The balance sheet also shows a deferred income tax liability of $31.2 million which is the balance that tracks timing differences and does not represent taxes outstanding or due by the Company.

In Q2 2021, the Company posted a net income of $11.6 million, and year to date a net income of $22.5 million.

In respect of cash flow in the quarter, cash generated from operations in Q2 2021 was $17.1 million, $21.9 million after working capital changes. Cash flow used in investing activities in Q2 was $839,000 that relates completely to the purchase of plant and equipment. Cash used in financing activities was $10.6 million. This is made up of the repayment on borrowings of $44.1 million, as well as the lease repayments of $341,000, offset by the proceeds from borrowings net of transaction costs of $33.8 million.

Overall, there was a net increase in cash and cash equivalents of $10.5 million in Q2 and an ending cash balance of $48.9 million.

One item to note during the quarter was MVC’s debt refinancing. On June 29th, we completed a refinance of our debt facilities with the objective of transitioning from a project finance loan to a commercial term loan that also brought to the table a working capital line of credit.

MVC repaid the remaining outstanding principal amount of $42.2 million on its existing bank loan, along with accrued interest of $300,000 and an interest rate swap break fee of $2.3 million.

On June 30, 2021, MVC entered into a new finance agreement of $35 million and a working capital line of credit of up to $15 million. The new term loan has a five-year term to June 30, 2026, with 10 semi-annual installments of $3.5 million, each commencing on December 31, 2021, together with accrued interest.

Interest on the term loan is fixed through an interest rate swap. At the end of Q2, the interest rate swap was $632,000.

Upon entering into the finance agreement, MVC’s cash in excess of $15 million became available for future distribution to Amerigo shareholders. Going forward, MVC will be able to do one annual distribution to Amerigo's shareholders, provided that MVC has a debt surface coverage ratio of at least 1.4 in respect of the preceding year’s annual financial statements, maintains cash of at least $15 million after the distribution, and the amount to be distributed does not exceed 60 percent of free cash flow generated in the preceding year, which is defined as earnings before interest, taxes, depreciation, and administration, less tax payments, plus or minus changes in working capital, less debt service.

Production results in the second quarter of 2021 continued in line with expectations and guidance, with copper production at 96 percent of guidance in Q2 and 98 percent of guidance year to date.

We will report Q3 2021 financial results mid-November 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'll now begin the question-and-answer session. Should you have a question, please press *, followed by the 1 on your touchtone phone. You'll hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press *, followed by 2. If you're using a speakerphone, please lift the handset before pressing any keys.

One moment for your first question.

Okay. Your first question comes from Terry Fisher from CIBC. Terry, please go ahead.

Terry Fisher — CIBC

Thanks a lot. Yeah. Congratulations again, guys, on another terrific quarter. And the cash is piling up which is good to see. Also, this time, I was able to get all of the MD&A and everything on the website right immediately after you announced it, which really helps. So I've been all through it.

I do have a few questions, although Aurora headed off most of them. But just going back to what Carmen was saying before about the receivable adjustments, for the last four quarters you've had significant positive adjustments because copper price has been going up. And now the copper price is slightly below where it was in the second quarter, and it looks to me like there won't be any positive adjustment when we see the third quarter results, and possibly even a negative number. I just want you to confirm that and tell me whether or not that's offset, to some degree, by an adjustment in royalties to DET.

Aurora Davidson

Terry, thank you for your question. That's a good question. Yes, we disclosed the price that we had booked in terms of the ending price at Q2. We already have our financial results for July ready. We did have a negative settlement adjustment, but irrespective of those adjustments, we still posted a very strong profit during July.

We're not disclosing that in detail. We never disclose monthly information. But it was still an operation that was robust in July, irrespective of that adjustment in copper prices.

Terry Fisher

Okay. My second question, and I don't want to get into asking about what you're going to do with the cash because I don't think you're going to be able to answer that, but, and you've given us some hints, although it's intriguing in your comments about investing in other activities in Chile, and that would be great if you could give us any more colour on that. But what I really want to ask is two things. When you say that there's the ability to distribute cash to shareholders, which right now is $15 million under the new bank arrangements, I would assume that also includes share repurchases. And it would seem to me that if I was a director, one of the obvious uses of cash is to have an NCIB that would enable you to buy back enough shares to offset any vested options that have been issued.

And I also would ask about where the cash is sitting and in what currency and what kind of interest rate it earns. Because right now, you've got a negative carry on $35 million of bank debt at 5.48 percent plus—well, part of that's in a different rate. But I doubt you're getting very much interest income on the $49 million in cash that's sitting there.

Aurora Davidson

Terry, good questions. I cannot provide any more information than what we have said already in terms of the board is working on a comprehensive payout policy.

Just a couple of clarifications. If you understood that $15 million is available for distribution, you didn’t understand correctly. $15 million is the amount of cash that we kept for operating cash at MVC. The rest of the cash that was held at MVC when we entered into the loan in excess of $15 million is the amount that is available for distribution. So there is more available for distribution than $15 million. That’s one question.

Terry Fisher

Okay.

Aurora Davidson

That's one question. Most of the funds are still held in MVC. They’re holding a free distribution account. They’re held in US dollars, and they’re earning a very marginal amount of interest. It’s important for us to hold them in US dollars and not to hold them in Chilean pesos, and interest rates are as you say, marginal. We’re not in the business of making money with that money, and we’re not interested in sitting in that pile of money indefinitely.

When I mentioned potential investments in Chile, I mentioned that in relation to the importance of having robust working relations with Chilean banks if projects of interest, similar to what we have undertaken at MVC, materialize. It’s not an immediate goal of the board to look into that. I think the board is basically focused on, as I mentioned, dividends, share buybacks, or a combination of both.

Terry Fisher

Okay. That’s good. Thank you on that one. Finally—well, not finally, I've a couple more questions. First of all, the Technical Report language is very specific, and you’ve addressed it and I don’t want to go back over that. I just would ask you this question, and I know you’re still working on ways to improve the recoveries and you mentioned the water thickeners that will be coming.

But in the fourth quarter last year, we were over 16 million pounds of production. Was that solely due to grade? And the last two quarters have seen the number come down; I'm just asking really, what does it take to get back to the 16 million?

Aurora Davidson

It's essentially grade. If you look at our production data on a quarterly basis, you can see that we were working on very strong areas of grade at Cauquenes during those quarters. We are working on stronger areas of Cauquenes in the second half of the year. Stronger grades are conducive to stronger recoveries. They go hand-in-hand. It's a very closely correlated function. So that's essentially what it takes.

And as I mentioned, we're not working a homogenous deposit. We go from area to area. We know that going in and that is all part of the annual mining plan and that's all factored into our guidance.

Terry Fisher

Oh, thanks. Two final questions and I won't be long. First, I appreciate your comments about the tax situation but I have a different kind of question about that. There are reopeners within the DET contract under specific kind of events. I don't know what those are. Your language says you don't anticipate the contract being reopened and the terms changed. But I'm wondering if a change in taxation on Codelco would be the type of event that might reopen the contract.

Aurora Davidson

No. No, it is not the type of event that would reopen the contract. And when we're talking about whether any tax changes would affect Codelco, the answer is no. Codelco essentially returns all of its earnings to the Chilean state irrespective of how it returns it via first, income tax, mining royalty tax, or a special tax that is exclusive to Codelco. It is irrespective to them where in the order of taxation you put it. It's all part of the same bucket.

Terry Fisher

Super. Okay. Final question. Let’s assume that we don’t get rain and we don’t get it next year either. So we’re back into drought conditions similar to what we had a couple of years ago. With all the changes that you’ve made and that El Teniente has made, would we expect to see the Company fare better under the future drought than it did the last time?

Aurora Davidson

Yes, I think so for a number of reasons. First of all, we have reserves that we didn’t have. We went into a drought with essentially 300,000 cubic metres of water reserves. We have 7.1 million cubic water metres right now. So our reserves are higher. We have new infrastructure that’s coming online in October to recover more water. And those are two essential changes.

We have revamped our water rights as well. So we're in a better condition than what we would be. Let’s see what happens in respect of rain next week. I know this sounds too punctual. What will five days of rain do? Last year, we essentially got all of our water reserves up in Cauquenes to 10 million cubic metres of water with rain that occurred during two weeks.

So it’s a situation in flux. Right now, it’s very dry but we have sufficient water reserves to remain unaffected in our operations for at least 12 months should no further rain be occurring.

Terry Fisher

Okay. That’s it for me. Thanks. Great disclosure and keep going and we can see the results finally of all the years of hard effort and now let's just see it in the share price. It is up $0.01 or $0.02 today.

Aurora Davidson

Thank you, Terry.

Operator

Your next question comes from John Polcari from Mutual of America Capital Management. John, please go ahead.

John Polcari — Mutual of America Capital Management

Thank you. Several very short, succinct questions. First, is there any tax laws carried forward that remains?

Aurora Davidson

No.

John Polcari

Any shelter in any? No, okay. Secondly, the cash cost of $1.82 approximately, I assume the royalty is on top of that. Right?

Aurora Davidson

Correct.

John Polcari

And then I was wondering if the strikes or the potential strikes or the possibility of strikes at other facilities, totally unrelated to your operation, would cause an impact because labour would move out, drop tools in sympathy, not cross the line, or? Although it wouldn't directly impact your operation, would the union walk out in sympathy necessarily to another union?

Aurora Davidson

No. No, that usually doesn't happen. Right now there are two strikes in Chile. Codelco's Andina is on strike and Lumina's Copper Caserones is on strike. BHP's Escondida has successfully negotiated with their workers during the mediation period, so the strike has been called off.

El Teniente has contracts that are expiring in October. They are conducting advance discussions with their workers, but the existing strike activity is of no impact to MVC.

John Polcari

And even if Codelco were to have a significant strike, it wouldn’t impact your tailings operation labour force?

Aurora Davidson

Well, Codelco's Andina has a strike right now. It doesn’t have any effect on us. It’s a separate operation. Any strike on El Teniente could have an impact of MVC. We don’t expect that to occur.

John Polcari

Okay. And lastly, on any potential dividends, you’re doing an annual calculation. But does that mean that the dividend would only be paid annually? Could it possibly be paid semi-annually? Or quarterly? Or yet to be determined?

Aurora Davidson

That is—

John Polcari

Could you speak to that?

Aurora Davidson

Yeah. That is part of the discussion that is ongoing. It’s not just determining the dividend, the share buyback, or the combination of both. It’s when, for how much, what form of dividend, et cetera. So all of those elements are being discussed and analyzed.

John Polcari

So historically you had paid semi—

Aurora Davidson

Semi-annually.

John Polcari

—annually. So—

Aurora Davidson

Yeah. We used to pay semi-annually. That could change or not.

John Polcari

Okay. So you're not locked into—I'm not hearing that you're locked into simply a calculation based on covenants where you could only pay annually?

Aurora Davidson

No.

John Polcari

You're open to discussion?

Aurora Davidson

Absolutely.

John Polcari

Great. Thank you and well done. Appreciate the answers.

Aurora Davidson

Thank you, John.

Operator

Your next question comes from Stephen Ridgeray (phon), a private investor. Stephen, please go ahead.

Stephen Ridgeray — Private Investor,

Yes. Good morning, Aurora. A very comprehensive rundown, if you like, of the whole company. I was very impressed.

Question for you. El Teniente is expanding quite considerably over the next few years. That is presumably going to increase the flow of fresh tailings to you. And what will that mean to your processing?

Aurora Davidson

Stephen, we're already seeing that. That's one of the things that I mentioned in the presentation. Fresh tailings tonnage has gone up starting last year. We're seeing that consistently now. We have received the five-year production plan from El Teniente. Of course, we cannot disclose that. It's information that's presented on an operational basis to us.

So the impact of production ramp-ups in El Teniente results in higher throughput coming to MVC from fresh and that's why fresh tailings are representing right now 49 percent of our production. That is good news because to the extent that we process more fresh tailings, we are processing less of Cauquenes and we're depleting Cauquenes in not such an accelerated way. So that's a positive for MVC.

Stephen Ridgeray

Okay. That's good. I guess you're not free to comment on the individuals that were selling Amerigo shares?

Aurora Davidson

Rick Rule and Ross Beatty.

Stephen Ridgeray

It was Ross Beatty and?

Aurora Davidson

Rick Rule.

Stephen Ridgeray

Okay. Okay. Thank you.

Operator

Your next question comes from Nick Toor from BackRoot Capital (sic) [BlackRoot Capital]. Nick, please go ahead.

Nick Toor — BlackRoot Capital

Hi, Aurora. Couple of clarifications. Under your existing, or under your new bank facilities, is the covenant for return of capital $35 million plus the 60 percent of free cash flow? Or is it the lower of $35 million and 60 percent of free cash flow?

Aurora Davidson

We can return 60 percent of free cash flow every year provided we maintain $15 million for operating cash.

Nick Toor

Right. So you can return 60 percent of free cash flow plus the $35 million that is above $15 million minimum?

Aurora Davidson

Well, I don't know where you're getting $35 million from, Nick.

Nick Toor

Okay. So just you have $50 million of cash. Right? Roughly $50 million of cash.

Aurora Davidson

Yeah.

Nick Toor

And you have to maintain $15 million out of that $50 million. So the difference is $35 million. That's where I'm betting the $35 million from.

Aurora Davidson

Yeah. Yeah. There are two parts to that. There was an initial cash sweep at inception that's done and that's all that we're going to be sweeping for this year. As of next year, we can do a cash sweep based on annual—the metrics for 2020 performance. Sixty percent of free cash flow can be returned to shareholders provided we always keep at MVC $15 million for operations.

Nick Toor

Right. So under that framework, you can return 60 percent of your free cash flow and any cash above $15 million? Or is it either/or?

Aurora Davidson

Either/or.

Nick Toor

Either or. So it's not like $35 million, plus 60 percent. It's typically the lower of $35 million or 60 percent of cash flow?

Aurora Davidson

Correct.

Nick Toor

Okay. Got it. And in terms of the definition of free cash flow, I think you guys gave a definition, but just if you can illustrate. If you looked at your second quarter results, what was the free cash flow number that would have been used in the definition of free cash flow?

Aurora Davidson

I can say, and you know with that, essentially free cash flow is defined as EBITDA less any tax payments less CapEx less changes in working capital.

Nick Toor

Right. No, no, I got that. I was just wondering. If you can send me the number, that would be great. I assume that in the EBITDA you include the reconciliation for copper prices going up or down in the subsequent quarter, and I wasn't sure if the definition of EBITDA included that reconciliation? Or is it just booked at the quarter we're in now? (phon)

Aurora Davidson

It is. It is because that's reflected in the financial statements. That's how we can see—yeah, that's a mark-to-market revenue and so, therefore, because it's already contained within revenue it would be contained within the EBITDA.

Nick Toor

Okay. And then some clarification on this point. In the disclosure, it says that you have to look at the previous fiscal year. Is it the previous fiscal year? Or is it over the last 12 months that you make the calculation to base the 60 percent off of?

Aurora Davidson

In the disclosure, we're referring to the—which 12? I'm not following your example here.

Nick Toor

So, in your disclosure, you basically say that we can use 60 percent of the free cash flow on—

Aurora Davidson

Oh, okay. It's on the prior fiscal year. So this will start as of 2022 in respect of 2021 MVC financial statements.

Nick Toor

Okay. So it's not the last 12 months. It's not on a rolling basis, just—

Aurora Davidson

No. It's not a rolling thing. No, no, no. It's based on annual audited financial statements of MVC.

Nick Toor

Got it. Okay. And then is there any colour you can give us on the opportunities that you had mentioned last time and you mentioned this call, on potential additional tailings that might be able to be thrown through the—flowed through the MVC—

Aurora Davidson

Yes.

Nick Toor

—infrastructure?

Aurora Davidson

No. Yeah. No, nothing to update on that. No specifics to be provided at this call.

Nick Toor

Okay. And last question. Do you know how—Ross Beatty and Rick Rule, are they out of their positions? Or do you know to which extent they're out of it? Or is that just—

Aurora Davidson

Rick Rule is fully sold.

Nick Toor

—(unintelligible)?

Aurora Davidson

Rick Rule is fully sold and we have a guesstimate in respect of Ross.

Nick Toor

Can you share that? Or is that confidential?

Aurora Davidson

No. I don’t think I can share that.

Nick Toor

Okay. All right. Thanks a lot—

Aurora Davidson

It’s below 10 percent. It’s below 10 percent, so it’s not public information.

Nick Toor

Right. Fair enough. Okay. That’s all for me. Thank you.

Aurora Davidson

Thank you, Nick.

Operator

We have a follow-up question from Terry Fisher from CIBC. Terry, please go ahead.

Terry Fisher

Yes. Just a point of clarification, Aurora, about the increase in fresh tailings that are coming from El Teniente. It’s my understanding that that also is beneficial for you from a water point of view. As the slurry comes down, more water comes into your processing system and it takes some strain off of your own water resources.

Aurora Davidson

Yeah. Fresh tailings are our single-most significant source of water.

Terry Fisher

Super. And is this likely—are we just seeing the beginning of a rise? Or is it just up at a higher run rate and it's going to stay there? Or I know you can't get into the numbers but if you can give us—

Aurora Davidson

No. Well, yeah. You can see that from our production stats starting in Q3 of last year.

Terry Fisher

Okay. Super. Thank you.

Operator

And we have a follow-up question from John Polcari from Mutual of America Capital Management. John, please go ahead.

John Polcari

Thank you. Quick question. In light of your last comment about any distributions being based on prior years of the financials, I would assume then that would mean there wouldn't be any significant repurchase or distributions until '22 based on audited numbers for '21. Would that be accurate?

Aurora Davidson

Except that we were able to do an initial cash sweep of excess cash at MVC when we entered into the facility. So we have already done a distribution for this year, or we already have reserved cash for distribution secured, John.

John Polcari

Okay. Thank you.

Operator

There are no further questions at this time. I'll turn it back to Jonathan for closing remarks.

Oh, actually, I'm sorry. We have one more from Nick Toor from BackRoot Capital (sic) [BlackRoot Capital] that just came in. Nick, please go ahead.

Nick Toor

Aurora, just a clarification of the last question. You said you had already reserved through the cash sweep what you can potentially use for distributions. Could you give us what that number is?

Aurora Davidson

It's in excess of $35 million.

Nick Toor

Got it. So it is the $35 million. And then next year you can have 60 percent of audited free cash flow for the previous year.

Aurora Davidson

Correct.

Nick Toor

Okay. So it's not either/or. Okay. Okay. That's really helpful. Thank you so much.

Operator

Okay. There are no further questions at this time. I'll turn it back to Jonathan for closing remarks.

Jonathan Paterson

Thank you, everyone, for dialling into our presentation today, and we look forward to presenting our Q3 results later this year. Thank you.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.