FINAL TRANSCRIPT

Amerigo Resources Ltd.

Second Quarter 2024 Earnings Call

Event Date/Time: August 1, 2024 — 2:00 p.m. E.T.

Length: 44 minutes

CORPORATE PARTICIPANTS

Graham Farrell
Harbor Access — Investor Relations

Aurora Davidson
Amerigo Resources Ltd. — Chief Executive Officer

Carmen Amezquita
Amerigo Resources Ltd. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Steve Ferazani
Sidoti — Analyst

Terry Fisher
CIBC World Markets — Analyst

John Polcari
Mutual of America Capital Management — Analyst

PRESENTATION

Operator

Good afternoon. My name is Sylvie and I will be your conference operator today. At this time I would like to welcome everyone to the Amerigo Resources Q2 2024 Earnings Conference Call.

Know that 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 star, then the number one, on your telephone keypad. If you would like to withdraw your question, please press star, then number two. Thank you.

Mr. Graham Farrell of Harbor Access Investor Relations, you may begin the conference.

Graham Farrell — Investor Relations, Harbor Access

Thank you, Operator. Good afternoon and welcome everyone to Amerigo's quarterly conference call to discuss the Company's financial results for the second quarter of 2024. We appreciate you joining us today.

This call will cover Amerigo's financial and operating results for the second quarter ended June 30, 2024. Following our prepared remarks, we will open the conference call to a question-and-answer session. Our call today will be led by Amerigo's President and 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 by 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 and Chief Executive Officer, Amerigo Resources Ltd.

Thank you, Graham. Welcome to Amerigo's earnings call for the second quarter of 2024. Although our figures reported in this call are U.S. dollars, except where we specifically refer to Canadian dollars.

The fundamental driver for Amerigo's strong financial performance in the second quarter was sharply rising copper prices, which averaged $4.39 per pound for MVC compared to $3.95 per pound in Q1 2024. In this price environment, it was a good quarter to be a copper producer, but a great quarter to be an Amerigo shareholder. Amerigo posted a net profit of $9.8 million, EBITDA of $22.3 million, operating cash flow before changes in working capital of $14.3 million, and free cash flow to equity of $6.7 million. This happened during the quarter when we completed our planned annual 8-day maintenance shutdown.

During the quarter, we also absorbed the impact of 1 million pounds of reduced production due to severe rains. In other words, this tremendous financial performance occurred during what we expect to be our lowest production quarter. And please remember that we have maintained our annual production guidance of 62.4 million pounds of copper.

Cash on our balance sheet grew considerably in the second quarter to $28.7 million. Our restricted cash level was $4.2 million, and we reduced our debt to $15.5 million. We also substantially reduced the Company's working capital deficiency to $1.5 million, down from $12.3 million at year-end 2023.

Not only were copper prices significantly stronger during the quarter, but MVC also managed its costs well. Our quarterly cash cost was $1.96 per pound and we have a normalized cash cost of $1.92 per pound for the first half of the year. These are below our cash cost guidance of $2.08 for the year.

During our last earnings call, I mentioned that we were building up our cash position to the desired target of $25 million and that once there, additional cash would be distributed to shareholders via performance dividends, share buybacks or a combination of both. We hit that target, and I think we did it faster than many realized we could. Our stronger financial position resulted in the declaration of Amerigo's first performance dividend of CA$0.04 per share, which will be paid on August 6. This initial performance dividend demonstrates Amerigo's unique ability to share the benefits of solid copper prices with investors quickly.

To close my comments on our performance, let me offer a high-level view of the first half of 2024. We met production guidance and beat cost guidance. The average MVC copper price in the first half of the year was $4.16 per pound, which enabled us to generate net income of $14 million, EBITDA of $35.9 million and free cash flow to equity of $14 million. There were no lost time accidents or environmental incidents at MVC.

The change from El Nino to La Nina has tempered weather risk. We have no rain in July, but we have some heavy rain forecasted for tomorrow. We also have ample water reserves. Looking forward, we expect normal operations at MVC for the year's second half.

As you know, Amerigo has now fully deployed the three tools of its capital return strategy: quarterly dividends, performance dividends and share buybacks. Amerigo's initial performance dividend was announced on July 9, which means that shareholders will receive at least CA$0.16 this year, a 10.3 percent yield based on today's share price. We know of no other copper equity investment with an attractive, predictable base dividend yield as we offer, but we don't stop there.

One other copper equity investment has also implemented additional and powerful mechanisms such as our performance dividend to spontaneously return extra cash to shareholders. Amerigo's performance dividend is a flexible tool regarding timing, frequency and the amount of capital we can return to shareholders. For example, our initial CA$0.04 performance dividend is greater than one of our regular quarterly dividends of CA$0.03 and this was possible after only one quarter of strengthening copper prices.

The unpredictability of performance dividends is meant to encourage and reward patient holders of our shares, the opportunity cost of missing a performance dividend is high, which provides an extra incentive to tuck away Amerigo shares and ignore market volatility.

If you are new to the Amerigo story, performance dividends are only one of the three tools of our capital return strategy. When deployed, all three have an immediate positive impact on shareholders, and currently, they are all deployed. As you can see, Amerigo's return to shareholders is happening now as copper prices start to rise, not in the distant future.

Let me give some observations about the global copper markets and Amerigo's place in them. We cannot predict the average copper price in the remaining months of 2024. However, we can state with certainty that the challenges involving the supply and demand dynamics for copper have not changed since our last call. We remain confident that copper prices will continue to strengthen over time.

The recent copper prices of around $5 per pound, were too short lived to move any investment decisions to bring new copper supplies online. Although copper prices above for dollars are excellent news for Amerigo, that is still a territory where the incentive price for new copper investments has not been reached.

When the incentive price is reached, the world will still need to develop mines from discovery to production. The world needs more than just brownfield expansion of existing mines. The most recent report on this topic, published by S&P Global in June 2024, indicates that copper mines are some of the slowest to develop from start-to-finish, taking an average of 16.2 years. S&P also recently stated that their studies show the world will need to produce more copper in the next 12 years than in the previous 120 years. Without this copper, the energy transition will not be achieved. The magnitude of a task this size cannot be overstated. In our opinion, both statistics point to higher future copper prices.

S&P is not alone in recognizing the bullish scenario for copper prices. The most recent 2024 forecast from JPMorgan shows a 0.7 percent growth in copper mine production, a 2.5 percent growth in refined copper production, and a 3.2 percent growth in refined copper consumption. What does this mean? It means that the forecasted tons of refined copper consumption are projected to be 15 percent higher than the projected copper mine production. This will again drain the world's copper inventories and tighten the markets, leading to upward pressure on copper prices as we saw in the second quarter.

Yes, in the short term, we are seeing some price volatility. Physical copper inventories in China are not coming down at the same rate as they usually do after midyear. At higher prices, there was also appetite to tap into copper scrap to the greatest extent possible. Still, the expectation is that even if muted, demand will continue to outstrip the supply from copper mines.

Against this backdrop, Amerigo is uniquely positioned. We have a long-term business at MVC that produces additional copper for Chile. MVC has excellent operating performance and generates operational cash flow predictably. Excess cash flow can be quickly, flexibly, and efficiently return to shareholders.

We think that we are only just starting to see the beginning of a secular rise in copper prices. Copper prices briefly broke through the $5 mark in the second quarter, primarily due to strength in global supply. The initial demands of global electrification have barely started.

To conclude my remarks, Amerigo shareholders do not need to hope for higher future share prices to make money. They can rely on the business outcome of a solid copper-producing operation with a consistent pattern of secure quarterly dividends. Amerigo investors already receive significant and tangible returns with every quarterly dividend. With performance dividends, such as we recently declared, Amerigo investors are poised to receive even higher returns as copper prices increase further. And as I said before, these are good times for copper producers and great times for Amerigo shareholders.

I will now ask Carmen Amezquita, Amerigo's Chief Financial Officer, to discuss the Company's financial results. Carmen, please go ahead.

Carmen Amezquita — Chief Financial Officer, Amerigo Resources Ltd.

Thanks, Aurora. We are pleased to present the Q2 2024 quarterly financial report from Amerigo and its MVC operation in Chile.

The Company continued to report strong financial results in the second quarter of 2024. We posted net income of $9.8 million, earnings per share of $0.06 or CA$0.08, and operating cash flow before changes in noncash working capital of $14.3 million. Copper production in Q2 2024 was 346,000 pounds, higher quarter-on-quarter, and along with a higher average copper price of $4.39 per pound compared to $3.80 per pound in Q2 2023 resulted in gross copper revenue of $63 million in Q2 2024 compared to $52.8 million in the comparative quarter. The notional items deducted from top line copper revenue include DET royalties of $18.5 million, smelting and refining of $5.8 million and transportation of $0.4 million.

In Q2 2024, we had positive fair value adjustments of $6.9 million compared to $3.5 million in negative settlement adjustments posted in Q2 2023. After these revenue deductions, copper tolling revenue in Q2 2024 was $45.2 million compared to $29.2 million quarter-on-quarter.

Our molybdenum revenue was higher this quarter at $6.4 million compared to $2.9 million in the comparative quarter, primarily due to the positive settlement adjustments recorded during the quarter of $1.2 million compared to negative settlement adjustments of $2.1 million in the comparative quarter.

Therefore, Amerigo's final revenue in Q2 2024 was $51.6 million, an increase from the $32 million recognized in Q2 2023, driven fundamentally by higher copper and moly prices.

Tolling and production costs decreased quarter-on-quarter to $35.1 million compared to $35.3 million in Q2 2023. Reasons for reduced tolling and production costs included decreases in direct costs of $0.8 million, which I will address shortly, and lower plant and administrative costs of $1.3 million compared to $1.6 million in Q2 2023, mostly due to a 17 percent weaker Chilean peso quarter-on-quarter. Offsetting these lower costs was an increase in depreciation of $0.8 million quarter-on-quarter from CapEx projects put into use at the end of 2023 that began to be depreciated during the quarter, and a $0.1 million increase in moly royalties to DET due to higher moly prices.

Regarding the performance of direct tolling and production costs in Q2 2024, we faced a $0.3 million decrease in power costs due to lower power consumption and lower pass-through charges, and $0.4 million lower grinding media costs due to less consumption and lower steel costs. This was then offset by $0.2 million higher historic tailing extraction costs due to costs incurred to remove rainwater from the sump, and a $0.3 million increase in line costs due to higher prices.

Our head office, general and administrative expenses were $1.1 million, slightly up from $1 million in Q2 2023.

Other gains included a gain of $0.6 million compared to $0.8 million in Q2 2023, almost entirely consisting of a foreign exchange gain.

The Company's finance expense in Q2 2024 was $0.4 million, consistent with the comparative period quarter. The Company recognized an income tax expense of $5.6 million with a current tax expense of $6.3 million, offset by a deferred income tax recovery of $0.7 million. All of the above items resulted in a quarterly net income of $9.8 million compared to a loss of $3.8 million quarter-on-quarter.

Before moving on to the statement of financial position, I will mention some non-IFRS measures used by the Company: cash cost, total cost and all-in sustaining costs. Amerigo's cash cost in Q2 2024 was $1.96 per pound, decreasing from $2.37 per pound quarter-on-quarter. The $0.41 per pound reduction in cash cost was caused predominantly by a $0.25 per pound increase in molybdenum byproduct credits, along with a $0.07 per pound decrease in other direct costs, and a $0.05 per pound lower power costs. Total cost decreased to $3.78 per pound, a decrease of $0.06 per pound from Q2 2023's $3.84 per pound. This was the result of the $0.41 reduction in cash cost, offset by a $0.30 increase in DET royalties from a higher copper price, and $0.05 increase in depreciation.

Starting in Q1 2024, we are reporting all-in sustaining costs to include cash cost plus DET royalties and depreciation. In other words, total cost, plus sustaining CapEx and corporate G&A. In Q2 2024, our all-in sustaining cost was $4.20 per pound compared to $4.44 per pound in Q2 2023.

Moving to the statement of financial position, on June 30, 2024, the company had cash and cash equivalents of $28.7 million, restricted cash of $4.2 million and a working capital deficiency of $1.5 million, a significant reduction from the working capital deficiency of $12.3 million on December 31, 2023. Regarding cash flows during the quarter, Amerigo generated cash flow from operations of $14.3 million and the net cash flow generated from the quarter, including changes in working capital, was $23.8 million.

In terms of uses of cash, $3.4 million was used in investing activities for CapEx and $6 million was used in financing activities, which included $3.6 million in dividends paid to shareholders at CA$0.03 per share, as well as $4 million in the repayment of borrowings offset by a change in restricted cash of $2 million.

As a final comment, our Q2 2024 copper sales were booked at a provisional copper price of $4.41 per pound. The final settlement prices for April, May and June 2024 sales will be the average LME prices for July, August and September 2024, respectively. Each 10 percent change from the $4.41 per pound provisional price would result in a $6.3 million change in revenue in Q3 2024 regarding Q2 2024 production.

We now know the July price, which was $4.26 per pound. Therefore, the final negative price adjustment for our April 2024 sales, which are now fully priced, will be $795,000. The May and June 2024 sales will be final priced at the average LME prices for August and September 2024, respectively. Today's spot price is $4.08 per pound.

We will report Amerigo's Q3 2024 financial results in October 2024, and thank you for your continued interest in the Company. We will now take questions from call participants.

Q & A

Operator

Thank you. As stated, ladies and gentlemen, if you would like to ask a question, please press star, followed by one, on your touch-tone phone. You will then hear a three-tone prompt to acknowledge your request. If you would like to withdraw from the question queue, you will need to please press star, followed by two. Lastly, if you are using a speaker phone, please lift the handset before pressing any keys. Please go ahead and press star, one, now if you do have any questions.

Your first question will be from Stephen Ferazani at Sidoti. Please go ahead.

Steve Ferazani — Analyst, Sidoti

Good afternoon, Aurora and Carmen. Thanks for all the detail on the call. I wanted to start out asking not about copper prices, but actually go the other way and ask about cash costs. You've had a second quarter in a row where you've been under $2 and that's well below your full year guidance. I know you're getting a significant benefit from higher moly prices. But outside of moly prices—and we don't know how that swings—what are you seeing in terms of the other cost areas? I know power is down. I think Carmen mentioned some other costs are down. Do those trends continue outside of a big swing in moly? Can you stay under $2? I'm not asking you to make a forecast, but generally speaking.

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

Steve, the major driver beyond the byproduct credit impact that we have, and you correctly stated it's significant, is the behavior of the Chilean peso on one hand, which has been weak, weaker than what we would have expected to be with the strong copper prices that we saw in Q2. Other than that, it is cost management of items that are not contract price, for example, maintenance, for example just regular production costs at MVC that are not subject to long-term contracts such as power or the supply of lime or the supply of grinding balls. Every little bit adds. So, the impact of controlling costs tightly, the impact of having a weaker Chilean peso has a significant positive impact on our cash cost.

Steve Ferazani — Analyst, Sidoti

Great. Thanks for that. An update on CapEx. I saw on the filing there's some approval for some water removal pumps, which I guess makes sense. What are you expecting now for full-year CapEx?

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

It's not changing significantly. The big change to the CapEx was announced in Q1. Those are the two optimization projects that have a total CapEx of $2.3 million. We originally expected to incur most of that in 2024. We currently expect to incur around $1.6 million on those two projects in the year. The additional pumps to be 100 percent devoted for water removal at the sump in case of heavy rains will have an additional CapEx of $1.4 million. They may be delivered by year-end. That would be our best-case scenario, but they may be delivered in 2025. So, it's mostly just a small timing will have an effect on the total CapEx for the year, but we're not seeing any significant variances on the CapEx projects that have been completed by MVC. So far in 2024, fully completed projects, the cost closing shows around 2 percent of cost overrun, which is not significant. So, we're not seeing a significant change in our CapEx for the year.

When you factor in the initial CapEx that we have projected and these additional projects, we're looking at around $12 million to $13 million of CapEx for 2024. All of those are basically with updated figures as of the end of June.

Steve Ferazani — Analyst, Sidoti

Okay. So still down significantly from last year.

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

Absolutely. Absolutely. Last year, we flagged it out as a high CapEx year, and we indicated the reasons why, the construction of the sump and the installation of our standby transformer or supply of our standby transformer. This is not a year of that CapEx magnitude.

Steve Ferazani — Analyst, Sidoti

Right. If I could ask on, I know, bullish long-term copper prices, you noted what we all think is sort of a temporary correction in copper prices. When you're thinking about returning—this is sort of not a yes or no question—but can you give us a little colour on when the Board is thinking about returning capital to shareholders. I know, obviously, in a perfect case, you have elevated and stable copper prices. In this interim period, as copper prices are holding above $4, but at least on a temporary decline, how does that weigh in your decision on returning capital to shareholders now that the balance sheet is in much better shape?

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

The overall framework of the capital return policy is that we know that we need and we want to have a sufficient cash reserve, which we have identified as $25 million. Then there is the observation of the spot prices, which are not insignificant. We have three months of exposure on our copper prices, which we have to be mindful of. It's not the fact only that you have closed a strong quarter; we were priced provisionally for three of those months so we just have to observe and see how the copper price continues to progress, but nothing really changes. The fundamental tool is the quarterly dividend, and to the extent that additional cash continues to be built up in the balance sheet, it will be distributed. It's just a matter of whether it's distributed via a performance dividends or share buybacks. But there's always that observation of what's happening with the spot prices because they do have an effect on us. Carmen just mentioned, the closing of July has a correction in price, a final price adjustment that we know we have to consider for the April sales. Those are just factors that are always looked at by the Board.

The Board meets at least every quarter to look at capital allocation and when it needs to have decisions made outside of that calendar, as what occurred with performance dividends, we meet and we discuss all the information that is in front of us and the decision is promptly made..

Steve Ferazani — Analyst, Sidoti

Great. That's really helpful. If I could just get one more in. I know you had the one labour agreement in the last 12 months. I know there's another one. What's the timing on that?.

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

That is October of 2025 for the big labour agreement with our operators.

Steve Ferazani — Analyst, Sidoti

Okay, so you've got more than 12 months away?

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

Correct.

Steve Ferazani — Analyst, Sidoti

Great. Thanks so much, Aurora.

Operator

Thank you. The next question will be from Terry Fisher at CIBC World Markets. Please go ahead.

Terry Fisher — Analyst, CIBC World Markets

Thank you. Can you hear me? Hello?

Operator

We can hear you.

Terry Fisher — Analyst, CIBC World Markets

Okay, good. First, just a quick observation. Note 2 is very helpful, and I just want to thank you for putting that in. Secondly, it's interesting to observe twice as much cash on the balance sheet as debt. That should speak volumes to a number of investors, I would hope.

I have four quick ones. Let me just table them. Number one, moly, historically in the company that as long as I've been invested is not often this strong. I'm just wondering if there's anything you can say about the future outlook for moly. Secondly, you had one director resign who I think represented one of the largest blocks of shares out there and I'm wondering if there's anything you can tell us about their intentions. Whether that stock might start to come on to the market, or are they still happy long-term shareholders?

Third question is, I noticed that while 0.7 million shares were purchased during the quarter, if you look at the number of shares outstanding at the end of June versus the beginning of the year, they're up. So, options are being exercised. What we would like to see is the net number of shares outstanding going down. If you can give me any colour on that going forward. I have not done the homework myself to go through the annual report and subsequent filings on the status of the vesting and prices of the option., so I apologize. But if there's any comment you could make that would be great.

Then, finally, not so much a question, but what was just recently asked about the timing of the special dividends. A number of companies who do that tend to do it towards the end of the year and look backwards at how the whole year went. It's kind of what I was thinking, but I heard in your comments, Aurora that this is to reward long-term shareholders. I think that’s wise. I think the Board has made a good decision there that, in other words, you can't tell what quarter it may happen, so if you want the performance dividends, you have to continue to be a long-term shareholder, and I think that makes a lot of sense. I would also say that, that use of the surplus cash is not constrained in the same way that the NCIB is constrained in terms of the volume of shares that are traded.

Those are my three questions and a comment.

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

Okay. Let's start with moly. Moly prices were decent in the second quarter. They were $21, quite similar to what we had in the comparative quarter, as Carmen noted. Obviously, this helps us. It's not what we're there to do, but it's great to have a strong moly production, which is attributable to our MVC team and a strong moly price. We had factored a similar moly price in our guidance as what we're seeing now based on the information that we had in November 2023 when we were doing the budget. So, I really cannot add a lot more comments, Terry. Moly price is a bit of a black box. Sometimes it gives you good surprises, as what we saw in Q1 of last year when it reached $31 or more. And sometimes, it corrects rapidly. So, there's really nothing more that I can tell you on that one except that when it stays at similar prices like we're seeing now, it's really good for the bottom line.

Your question regarding the changes to the Amerigo Board. Michael Lucid retired from the Board on June 30. He has been a director of the Company for more than four years. He is a prolific businessman and a busy person, so he plans to devote more of his time to other projects. I think that Michael owned around 12.5 million shares or around 7.5 percent of the issued and outstanding when he left the Board. What occurs after that is really not reportable anymore because he doesn't hold more than 10 percent.

What can I say? He has been a long-term shareholder. He has done very well with his investment in Amerigo, but each investment has a life cycle and investors have their own capital allocation decisions. So, whether Michael decides to keep some or all of this investment in Amerigo is basically his own decision to make.

Just as a reference, Amerigo has had significant shareholders in the past with substantial positions larger than 10 percent, which was not the case here. When they concluded their own investment cycle with the Company, those shares were orderly absorbed by the market. So, there's really nothing else I can say there.

Your third question, where were we on the third question? Just remind me what it was about.

Terry Fisher — Analyst, CIBC World Markets

Yes. The number of shares outstanding at the end of June is higher than at the beginning of the year in spite of your share buybacks.

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

We haven't done any share buybacks in this year. If you look at our financial statements and if you look at our information on the website, we haven't been active on the share buybacks this year. I note your point, and the Board is aware, at least we would like to have a stable share position in the year where the options that are exercised by employees—and most of us who exercise options hold on to our shares, so we are also long-term shareholders of the Company for obvious reasons. We would like to maintain a stable number of shares during the year. We still have six more months to go on the current normal course issuer bid and I would say the expectation is that normal course issuer bids will continue to be renewed on an annual basis. So, there's always that option to deploy that third aspect of our capital return policy.

Terry Fisher — Analyst, CIBC World Markets

That was my mistake. I read that you repurchased $0.7 million, but that was the last year in the second quarter. My mistake.

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

Correct. Mm-hmm. Then your final comment was essentially on the timing of the performance dividend. Yes, we want to have full flexibility in terms of timing, how often it could be declared and for what amount. I think that the feature of not having established pattern on the performance dividend is important for that surprise factor and to incentivize shareholders to be shareholders of Amerigo..

Terry Fisher — Analyst, CIBC World Markets

That's great. Thank you, Aurora. Another great quarter. Congratulations.

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

Thank you, Terry.

Operator

Once again, as a reminder, ladies and gentlemen, if you do have any questions, please press star, followed by one.

Your next question will be from John Polcari at Mutual of America Capital Management. Please go ahead.

John Polcari — Analyst, Mutual of America Capital Management

Thank you, and thanks, Aurora, for managing through another excellent quarter.

Three quick questions. First one, is moly priced on the same terms as copper? Meaning with the lag. Just mechanically, does it work the same way?

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

Moly also is forward priced. Our contract with our moly client gives them the ability to choose the settlement period. And Carmen, I think that right now we have most of our sales priced on an n+4 basis, correct?

Carmen Amezquita — Chief Financial Officer, Amerigo Resources Ltd.

Yes, that's correct.

John Polcari — Analyst, Mutual of America Capital Management

Okay. Thank you.

Second question regarding copper itself, should it in the future see a tightening in the market where copper was to break above $5 as it did recently, would that necessitate a renegotiation of the royalty agreement? I'm not sure the royalty agreement addresses the potential for dramatically higher copper prices. Is there a cap at the moment above which the agreement does not cover?

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

John, the agreement speaks differently for the royalty on the fresh tailings and the Cauquenes tailings or the old tailings. For the fresh tailings, we have a price cap of $4.80 per pound. For Cauquenes, we have a cap of $5.50 per pound. If the copper prices were to break outside of the $4.80 on an average basis for more than two months and the indications of the market showed that higher prices would continue in the future or were expected to continue in the future, we would need to sit down with El Teniente, not to renegotiate the agreement but to extend the slope of the curve of the factor of the royalty, which basically means prolong the formula beyond the $4.80 that we currently have for the fresh and $5.50 that we currently have for the old tailings.

John Polcari — Analyst, Mutual of America Capital Management

Thank you. The last question I had was just a bit more theoretical. As the debt is gradually reduced to 0, which will happen over the next 18 months or so, obviously that will free up cash that was used for debt service which, to some degree, equates to approximately a penny a share per quarter, maybe $0.04 annually. Would the Board consider or has the been thought given to permanently increasing the regular dividend from, say, $0.03 to $0.04 on a quarterly basis as the debt is extinguished, or is that at the moment not contemplated and maybe would just enhance the ability for more of a discretionary performance payment?

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

It hasn't been discussed yet because we are not there yet. Certainly, that is a possibility that will have to be considered because, as you mentioned, essentially what we call right now free cash flow to equity will be free cash flow. We will not have any further debt obligations, so that will have to be considered in due course.

John Polcari — Analyst, Mutual of America Capital Management

Okay. In summation, thank you. It was an excellent quarter, and well done.

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

Thank you so much.

Operator

Thank you. At this time we have no other questions registered. Please proceed.

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

Perfect. If we don't have any further questions in front of us, I think that concludes our call. We will report again in three months' time our third quarter of the year results. In the meantime, as always, we're available to shareholders at any time to answer any questions or just to provide additional information as you require. Thank you so much and have a great rest of your summer.

Operator

Thank you. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. At this time, we ask that you please disconnect your lines.