FINAL TRANSCRIPT

Amerigo Resources Ltd.

Q2 2023 Earnings Conference Call

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Steve Ferazani
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Terry Fisher
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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Amerigo Resources Q2 2023 Earnings Conference Call. At this time, all lines are in a listen-only mode.

Following the presentation, we will conduct a question-and-answer session.

If at any time during this call you require immediate assistance, please press *, 0 for the Operator.

This call is being recorded on Thursday, August 3, 2023.

I would now like to turn the conference over to Graham Farrell, Investor Relations. Please go ahead, sir.

Graham Farrell — Investor Relations, Harbor Access LLC

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 2023. We are delighted to have you join us today.

This call will cover Amerigo's financial and operating results for the second quarter ended June 30, 2023. 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 Chief Executive Officer, Aurora Davidson, along with the Company's Chief Financial Officer, Carmen Amezquita.

Before we begin with 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 — Chief Executive Officer, Amerigo Resources Ltd.

Thank you, Graham. Welcome to Amerigo's earnings call for the second quarter of 2023.

I have spoken frequently about how important it is for MVC to have achieved operational consistency over the last three years. A consistent operation leads to predictable cash flows and market trust.

Through almost the end of June, MVC had maintained that consistency. So it was very significant for us when a climatic event cut off MVC's connection to Chile's central power grid on June 23rd.

Today, I'm happy to report that after resuming normal operations on July 22nd, our production results have continued to be on track. I am confident our revised guidance should be met or surpassed this year.

While preparing my remarks for today's call, I reflected on the fact that this was an unusual call, almost a study in contrasts. In the second quarter, we saw production weakness versus the continued strength and robust nature of Amerigo's capital return strategy, and we saw the stark comparison of our routine annual maintenance shutdown with a brilliantly planned and executed emergency repair effort.

If you haven't seen the two videos where we provided market updates on the flooding event and the project to reconnect us to the central power grid, I invite you to watch them. They are available on our website, and the images will give you a much better idea of the challenge we faced and how it was resolved.

Amerigo's three new releases on this subject cannot convey the message like the videos. Despite our comprehensive prior disclosures, I would like to discuss four critical points about this operational disruption.

The first point is that it will only impact our second and third quarter results. MVC has operated at full capacity with no further problems since July 22nd. However, we did reduce our annual copper production guidance by 3 percent, to 60.5 million pounds of copper, due to the lost production from the flooding.

We also incurred higher than normal costs from a secondary power source that enabled us to process fresh tailings while the repairs were being made, and there was additional unplanned CapEx from the reconnection project.

The second point is that the disruption had no lasting effect on Amerigo's long-term business and did not affect the Company's capital return strategy. This week, the Board of Directors declared our regular quarterly dividend of C$0.03 per share. This is our eighth consecutive dividend.

The third point is that we came out of this crisis stronger. We took the opportunity to change our infrastructure to have more protection in the future. This extra protection was part of the increased unplanned CapEx but was money well spent.

My fourth and final comment is that this crisis provided shareholders with a front-row view of how strong a team we have at MVC. This team did extraordinarily, from sourcing the materials to managing the project. They also worked night and day to reconnect to the power grid as quickly as possible, minimizing lost production. This is significant because the strengths of the MVC plant and operations are the cornerstone of Amerigo's capital return strategy.

Now let me provide you with some specifics of our second quarter results. Carmen Amezquita, our CFO, will provide more detail in her financial update.

We knew ahead of time that the second quarter would be the lowest production quarter of the year, due to the eight-day annual plant maintenance shutdown at MVC. The floods added eight days of additional lost production in the quarter. Those additional days account for the 9 percent decline in copper production compared to the second quarter of 2022.

The copper price was weaker than in the previous quarter, which also affected financial results. The copper price was $3.80 per pound, down from $4.02 per pound in Q1, resulting in $2.7 million in final settlement adjustments recognized in the quarter as the final prices for Q1 became known.

This resulted in a financial net loss of $3.8 million or $0.02 per share for the quarter, C$0.03 net loss per share.

During the quarter, our cash decreased by $12.3 million. The three main reasons were CapEx payment of $4.8 million, dividend payments of $3.7 million, and our semiannual debt repayment of $3.5 million. Our net cash position, that is, cash minus bank debt, is $16.2 million.

As I have said previously, we will not return capital to shareholders at the expense of the required CapEx we need to have at MVC. This month, we will complete a significant CapEx project, a new sump for processing historical tailings in Cauquenes. This sump will operate for three to three-and-a-half years.

The purchase of a standby power transformer, a significant risk mitigation CapEx project, is also progressing. We expect this transformer to be installed during MVC’s 2024 annual maintenance shutdown.

Here is a brief update of the continuing success of Amerigo’s capital return strategy.

As you know, the cornerstone of our strategy's our regular quarterly dividend. Consistent dividends provide a big incentive for investors to buy and hold our stock. The regularity and safety of the dividends, with a current yield of 7.4 percent, are paramount to Amerigo.

Since October 2021, when Amerigo's capital return strategy was launched, Amerigo has paid a cumulative dividend of C$0.20 per share. The quarterly dividend has also been raised once by 50 percent from C$0.02 to C$0.03 per share.

During the same period, Amerigo repurchased 20.1 million shares, more than 11 percent of the issued and outstanding shares when the strategy was initiated.

Under the strategy, the Company has paid $25.9 million in dividends and used $23.7 million to repurchase shares, a total of $49.6 million, with a capital allocation ratio of 52 percent dividends and 48 percent buybacks.

I will conclude my comments with the outlook for copper. Currently, global copper inventories remain remarkably low. The most recent LME warehouse stock is 75,000 tons, compared to 89,000 at the start of the year and 130,000 tons a year ago today.

Despite the negative to catastrophic tone of economic headline news, copper prices this year found a short-lived floor of $3.60 per pound, which was much better than in 2022. The $3.60 floor has been followed by a rise up to over $3.95 per pound, finding subsequent floors at $3.70 and then $3.80 per pound.

While we continue to see a wide range of short-term copper price forecasts, what we know for sure is that copper producers continue to struggle to sustain supply and are selling all the copper they produce. The demand for copper is real and more substantial than headline economic data would let us believe, but short-term economic noise persists, and spot copper prices react.

However, the positive consensus on the medium- and long-term price outlook continues because projected demand will grow faster and sooner than new supply can be developed. This points to higher copper prices.

My outlook for Amerigo continues to be very optimistic. My already positive assessment of our operation and team was further strengthened by their response to the flooding crisis.

We continue to have a robust copper demand and supply outlook, and we have a unique long-term operation ideally positioned to benefit from these favourable conditions. I believe Amerigo continues to represent a tremendous value proposition for new and existing shareholders.

I will ask Carmen to discuss the Company's second quarter financial results now. Carmen, please go ahead.

Carmen Amezquita — Chief Financial Officer, Amerigo Resources Ltd.

Thank you, Aurora. Now I will present the Q2 2023 quarterly financial report from Amerigo and its MVC operation in Chile.

In the second quarter of 2023, Amerigo had a net loss of $3.8 million, loss per share of $0.02 or $0.03 Canadian, EBITDA of $1.7 million, and operating cash flow before changes in non-cash working capital of negative $2.3 million.

We expected Amerigo's financial results this quarter to be the lowest in the year due to the planned eight-day annual plant maintenance shutdown at MVC. Results were also unexpectedly affected by the total production shutdown on June 23, 2023, resulting in 1.3 million pounds of lost copper production. This brought production 9 percent lower than in Q2 2022, representing $3.2 million in lost copper tolling revenue in the quarter.

Earnings were also affected by a lower average copper price of $3.80 per pound, compared to $4.10 per pound in the comparative quarter, and from lower realized copper prices for Q1 sales in Q2, which resulted in $2.7 million in final price settlement adjustments, given our M+3 price convention for copper sales.

Copper tolling revenue in Q2 2023 was $32 million compared to $33.6 million in the comparative quarter.

Moly revenue was stronger this quarter at $2.9 million compared to $2.2 million, due to higher molybdenum production and stronger prices.

Our tolling and production costs, including depreciation, were $35.3 million compared to $32 million in Q2 2022.

We knew when we prepared the 2023 budget and provided cost guidance that power costs would be higher in 2023 due to the contractual inflationary adjustments to the base power tariff and higher pass-through charges from the Chilean power grid. Actual pass-through charges, however, have been higher than expected.

Another factor impacting our costs has been the stronger Chilean peso. However, the increase in costs coming from a stronger peso is within the sensitivities we shared in our initial guidance for 2023.

Under other expenses in Q2 2023, general and administrative expenses were consistent with Q2 2022 at $1 million, with $0.5 million in salaries, management, and professional fees; $0.3 million in share-based payment compensation; and $0.3 million in office and general expenses.

We also reported other gains of $0.8 million in Q2 2023, compared to other losses of $2.9 million in the comparative quarter, which relate almost entirely to foreign exchange.

Amerigo's foreign exchange gains or losses are mainly unrealized and come from mark-to-market foreign exchange rate adjustments for amounts held in MVC denominated in Chilean pesos.

The derivative to related parties was a $0.3 million recovery compared to a $0.8 million recovery in Q2 2022. This comes from changes in the discount rates used to calculate the derivative's present value.

The Company's finance expense in Q2 2023 was $0.4 million compared to $0.3 million in Q2 2022.

In Q2 2023, the Company recognized an income tax expense of $0.2 million compared to $3.3 million in the comparative quarter.

Moving on to a brief review of cash costs. Amerigo's cash cost in Q2 was $2.37 per pound. This was higher than expected due to the lower production in the quarter from the effects of the floods in Chile. Up to the end of May, our cash cost was $2.09 per pound, below our original guidance of $2.14 per pound.

We have updated our cash cost guidance in our latest MD&A. Based on the lower production and higher power costs from using a secondary power source in July, we expect the 2023 cash cost to be $2.27 per pound.

Moving on to the balance sheet, on June 30, 2023, the Company had cash of $31.7 million, restricted cash of $4.2 million, and a working capital deficiency of $4.9 million. There was a net decrease in cash of $12.3 million in the quarter, as the net cash generated from operating activities was lower than the cash used in financing and investing activities.

The most significant use of cash in the quarter was for financing activities for the following items, in order of magnitude: $3.7 million to pay the quarterly dividend, $3.5 million on MVC's semiannual debt payment, $1.7 million for the final lease payment at MVC, and $0.8 million on the share repurchases. Of this, the only item that is recurring every quarter is the dividend payment.

On CapEx, we used $4.8 million in the quarter. As we have stated before, 2023 is a CapEx-intensive year at MVC due to the constructing a new sump in Cauquenes and purchasing a standby power transformer at MVC.

As a final comment, we reported a provisional price of $3.80 per pound for our Q2 sales. The final settlement prices will be the average LME prices for July, August, and September 2023.

A 10 percent increase or decrease from the $3.80-per-pound provisional price would result in a $5.2 million change in revenue in Q3 2023 regarding Q2 2023 production. We know now the July price, which was $3.83 per pound.

We will report the Q3 2023 financial results early in November 2023 and want to thank you for your continued interest in the Company.

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. Questions will be taken in the order received. Should you wish to cancel your request, please press the *, followed by the 2. If you are using a speakerphone, please lift the handset before pressing any keys.

Once again, that is *, 1, should you wish to ask a question.

Your first question is from Steve Ferazani from Sidoti. Please ask your question.

Steve Ferazani — Sidoti

Thanks. Good afternoon, Aurora, Carmen. Given that the damage from the flooding and then the efforts to restart, did that result in any raised 2023 CapEx or any long-term investments made through that process?

Aurora Davidson

Yes, it did. We included that in our MD&A. It's estimated that the CapEx for the reconnection is going to be $1.1 million.

Steve Ferazani

And then, would you expect higher than normal costs in 3Q? Any idea what that might be?

Aurora Davidson

We are expecting higher costs in Q3, particularly in July. We had to face—

Steve Ferazani

Yeah.

Aurora Davidson

—higher power costs associated with a secondary power source. We have increased our guidance, as Carmen was saying, from—

Steve Ferazani

Yeah.

Aurora Davidson

—$2.14 per pound to $2.27 per pound annually, as a result of the various effects, Steve—lower production and higher power costs in the month of July.

Steve Ferazani

Right. Makes sense. When I think about the CapEx projects outside of maintenance you conducted over the last few years, so much of it has been de-risking production, whether it had been water supply, the back standby transformer, or protecting critical infrastructure, which proved critical after this incident.

How is this making you think about further investments in de-risking production? Because obviously, you can't protect against all catastrophes. But is there a lot more you want to do coming out of this? Or do you feel very good at where you are?

Aurora Davidson

I think we have made critical progress in the last three years. You follow us well, so you know that we basically improved our water recovery infrastructure significantly. Water supply was a risk to us for a number of years. I don't think it's a risk, at least in the short and medium term for us anyways.

Two other projects that are significant—and one of them proved its value—was essentially the flotation—

Steve Ferazani

Yeah.

Aurora Davidson

—protection that we installed in the water and slurry lines in Cauquenes. Right now, with the water that we have in Colihues, all of our lines are floating. If we hadn't had that protection in place, we probably wouldn't be able to produce from Cauquenes until we de-watered the area, so that proved significant.

We weren't expecting an issue with the power line. Now we have a robust power line that has been basically redone to better sustain a similar flooding event in the future, should it occur.

And another project that Carmen mentioned is our standby power transformer. We have two power transformers in MVC, and we wanted to make sure that, should one of those incur some damage, operational damage, and needed to be repaired, we wouldn't have any hindrances to production.

So we basically will have the new transformer arrive in Chile this month, end of July, and it's going to be installed next year. And then, we'll have a fantastic backup system where—

Steve Ferazani

Yep.

Aurora Davidson

—if one of our transformers goes down, we will be turned on in a matter of a few hours. So that's significant.

I don't have a long list of additional de-risking projects, but we maintain a critical view of what could go wrong, and new risks continue to pop up. I mean, climatic risk is an example. So—

Steve Ferazani

Yeah.

Aurora Davidson

—we're vigilant about that, and as I mentioned, should we identify another project that needs to be financed to reduce operational risk in the future, we will do so.

Steve Ferazani

Great. That's helpful. And you noted the variety of reasons to point to why share repurchases have been a little slower lately. Obviously, you lost some production, you had some additional costs but the balance sheet's still in great shape.

How are you thinking with copper prices now back north of $3.80 and seem to be, at least temporarily, at a more stable range? You got four months left on this buyback. How are you thinking about share repurchases at this point?

Aurora Davidson

Yeah. That's a good question. Buying back shares is one of the tools of our capital return strategy, and we have used it a lot in the last two years. If you look at our share buyback activity in 2023, which—just in case some people may not know that, we provide the monthly update on what we have done on the share buyback program on our website, so it's always up there for people to check it out.

You can see that outside of the restrictions to buy shares during blackout periods, we were active in the first four months of the year and—

Steve Ferazani

Right.

Aurora Davidson

—copper prices during those four months were over $4 per pound.

Then in May, the copper price receded to $3.73, and we were still buying back shares. We bought about 700,000 shares in May, and we went into the second quarter blackout. We faced this operational disruption in MVC, and this disruption, as we have said, will affect the cash generated from operations. It had an effect in Q2. It will have an effect in Q3.

So at current copper prices, we will take a pause, and we will continue to monitor conditions to see when we go back to the NCIB. I know that it is tempting for shareholders to think that, if the share price is lower than it has been, just buy as many shares as you can, as fast as you can, but this is a balancing act, and we need to adjust our pace from time to time, and this is one of those times. This is a marathon, not a sprint, and so we're monitoring conditions, but we're not actively buying back shares just at this point in time.

Steve Ferazani

Great. Thanks, Aurora.

Operator

Thank you. Your next question is from Terry Fisher from CIBC. Please ask your question.

Terry Fisher — CIBC

Hello, Aurora. Can you hear me?

Aurora Davidson

We can hear you.

Terry Fisher

Super. Okay. Two questions, and I'll table both of them.

The first is you talk about transformers, but transformers don't generate electricity. So is this something that—I mean, if the link to the grid is down, it doesn't matter whether you have a transformer or not. Are we really talking about generators? Because you did have some on-site generators. So that's one question.

My other question is that I'm trying to follow the dates here, but the eight-day downtime for maintenance, I don't believe that that overlapped with the power problem, which I think was another eight days. If that's—

Aurora Davidson

Correct.

Terry Fisher

—correct, you were impacted for half of the—oh, that's half of the month, so not half of a quarter. I haven't done the numbers.

All I can say is that it seems strange to me you were able to do as well as you did compared to last year, $32 million revenue versus $33.6 million, when you had a lower copper price, okay, and lower production. And I would have thought the production would have been impacted even more than it was, 13.6 million versus 14.9 million.

So I'm just wondering how you were able to do that, whether you had stockpiled material you were able to process, or I don't know. Anyway, I mean, I'm grateful, but just would like to understand it better.

Aurora Davidson

Yeah. There's a very simple [audio gap] Q2 2022 than this year.

Terry Fisher

Okay.

Aurora Davidson

So that is the difference in revenue. Also, if you're looking at total revenue, not just copper revenue, we had higher moly revenue.

Terry Fisher

Right.

Aurora Davidson

In the financials and the MD&A, there's a full breakdown of, let's call it the gross copper revenue, the negative settlement adjustments, and then the items that we deduct from our revenue, which are the royalties, TC/RCs, and transportation.

So if you look, for example, at Q2 2022, the total amount of settlement receivables that were negative were almost $8 million, so that's the difference in—and that basically dented the revenue left in the comparative quarter compared to this quarter.

If you're—

Terry Fisher

And what about the production? Why wouldn't it have been down more, given how much downtime you had?

Aurora Davidson

We also had a maintenance shutdown last year in Q2. So essentially—

Terry Fisher

Okay.

Aurora Davidson

—we had our maintenance shutdown in both second quarters and, in addition to that, we lost eight years—sorry, eight days this quarter that we didn't lose in Q2 2022.

Terry Fisher

Okay. That's fine. That explains that. Can you go back to the transformers then versus generators?

Aurora Davidson

The generators, the generating units were impaired last year, at the end of December. We're not using them. They're essentially not efficient units that operate in an unsustainable way, so it's very hard for us to produce power in a cost-effective way to sell it back to the grid to use them. So those have been basically impaired, and we're not relying on them. They're going to be decommissioned as soon as the period in which the authorities is giving us to basically bring them down.

What we're installing is a power transformer. It has nothing to do with power supply. It's basically a transformer within the plant to operate our equipment. So we have two, and we're going to have a third one. And it's not a generator—

Terry Fisher

So it—

Aurora Davidson

—it's a transformer.

Terry Fisher

—but it—if the power were—if the tower was to fall down again, and you were no longer connected to the grid, having this additional transformer wouldn't really help, would it?

Aurora Davidson

No, no, no. No, it wouldn't. No, it's not a generating unit. It is—

Terry Fisher

Right.

Aurora Davidson

—a transformer to transform the power that comes into the plant through the grid.

Terry Fisher

Okay. That's all I had. Another great quarter, given the circumstances, and carry on. I'm delighted and thank you.

Aurora Davidson

Thank you, Terry.

Operator

Thank you. Once again, please press *, 1, should you wish to ask a question.

Your next question is from John Polcari from Mutual of America Capital Management. Please ask your question.

John Polcari — Mutual of America Capital Management

Thank you. My question was already answered, thank you, with the prior callers, but let me just take the opportunity to commend management for their handling of what is a major exogenous event. Well done. Thank you.

Aurora Davidson

Thank you, John.

Operator

There are no further questions at this time. Please proceed.

Aurora Davidson

Well, thank you for joining us at this call today. The recording of the call and a script will be available in the next few days on the Amerigo website.

We will address you again in November to discuss the third quarter financial results. And as usual, if you have any further questions about the Company, please reach out to either Carmen, Graham, or myself. We're always available to shareholders.

Operator

Thank you. Ladies and gentlemen, the conference has now ended. Thank you all for joining. You may all disconnect. Goodbye.