Endeavour Silver Corp.

2021 Second Quarter Financial Results

Conference Call Transcript

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Speakers:	**Galina Meleger** Vice President, Investor Relations
	Dan Dickson Chief Executive Officer

OPERATOR:

Welcome to the Endeavour Silver Corp. 2021 Second Quarter Financial Results Conference Call.

As a reminder, the conference is being recorded.

I would now like to turn the conference over to Galina Meleger, VP of IR, for opening remarks. Please go ahead.

GALINA MELEGER:

Thank you, Operator. Good morning everyone and welcome to the Endeavour Silver 2021 Second Quarter Financial Results Conference Call.

With me on the line today we have the Company's Chief Executive Officer, Dan Dickson, our Chief Financial Officer, Christine West, and our Chief Operating Officer, Don Gray.

Before we get started, I'm required to remind you that certain statements on today's call will contain forward-looking information within the meaning of applicable Securities laws. These may include statements regarding Endeavour's anticipated performance in 2021 and future years, including revenue and cost figures, silver and gold production, grades and recoveries, and the timing and expenditures required to develop new mines in mineralized zones. We do not intend, and do not assume any obligation, to update such forward-looking information, other than as required by applicable law.

On behalf of Endeavour Silver, I'd like to thank you again for joining today's call, and I'll now turn it over to CEO, Dan Dickson.

DAN DICKSON:

Thanks, Galina, and good day, everyone. Welcome to the Endeavour Silver Conference Call for the Second Quarter of 2021.

Before I dive into Q2 results, I want to highlight that this year so far has been one of leadership change. As we've positioned the Company for its next stage of growth, as you all are aware, in May we announced a seamless Management transition. I assumed the role of CEO, my long-time colleague, Christine West, got promoted to the role of CFO, and Brad Cooke stepped into the role of Executive Chairman. Also note, our newly appointed Chief Operating Officer, Don Gray. He has significant expertise in development over his 45-year career. This Management transformation was an important part of Endeavour Silver's succession plan that was several years in the making. It represents a celebration of our past and an investment into our future.

With my first quarter in the seat of the CEO, I can assure you that our goal is to deliver exceptional shareholder returns as we execute on our commitments and strategy. We have three key areas of focus, of safety and culture, ESG, and ultimately, profitability. We're already making significant progress in these areas.

On the safety and culture side, our ICARE and Te Cuido operating philosophy continues to be ingrained in our culture, bringing a step back and take charge attitude in a positive way. This is important to me and the way the Leadership should view the business.

Demand for corporate action and data across a host of environmental, social, and governance issues continues to grow at a rapid pace, with increased mandates from investors, regulators, and industry stakeholders. At Endeavour, these are serving as catalysts to drive further improvements and new initiatives. We are currently formalizing a multiyear ESG business strategy that we anticipate to release in the fourth quarter. We will build on our existing sustainability practices to address the evolving landscape in this area and achieve meaningful outcomes for our stakeholders. This will be especially important ahead of a development decision at Terronera.

Lastly, regarding profitability. Our focus over the next couple quarters will be cost control. We are seeing industry-wide inflationary pressures due to the global supply chain constraints. I was in Mexico last week and we put together a plan for weathering and reducing higher costs in the second part of this year.

Beyond the more traditional business risks we face, we're not out of the woods yet on the pandemic. Twenty-five percent of Mexico is fully vaccinated, so COVID-19 risks are prevalent for the country, particularly as Delta variant poses risks to our non-vaccinated employees and stakeholders. However, the risk remains less than the original variant, due to developed protocols already in place. We're currently rolling out a company-wide internal campaign to increase vaccinations for our employees and their families, and testing will become more regular and controlled in the second half of the year.

With that, let's turn to our Q2 performance and then we'll open it up for Q&A. As per our news release this morning, our financial performance this quarter was stronger than the previous year. However, comparatively speaking, Q2 2020 was impacted by mandated shutdowns by the Mexican Government to prevent the spread of COVID-19.

Year-on-year, our revenue was up 136% to $47.7 million on the sale of 1.1 million ounces of silver and almost 10,000 ounces of gold at an average realized price of $26.82 for silver and $1,866.00 for gold. On a year-to-date basis, our revenue now totals $82.2 million.

After quarterly cost of sales of $37.5 million, mine operating earnings amounted to $10.2 million from our operations in Mexico. This resulted in overall net earnings of $6.7 million, or $4 per share. Q2 earnings were strengthened by the sale of our El Cubo operation and the gain on sale of marketable securities during the period. The Cubo transaction closed in April for $19.8 million in cash and share payments, with up to $3 million in contingent payments in the future. When excluding the gain on El Cubo, earnings were just under $1 million for Q2.

We reported quarterly EBITDA of close to $16 million on operating cash flow before working capital charges of $8.7 million, both up significantly from the comparative quarter in 2020. It should be noted our quarterly consolidated costs were higher than budgeted. Cash costs were $1,303 per ounce of silver, up 370% year-on-year, and all-in sustaining costs were over $25 per payable ounce of silver, up 70% year-on-year net of gold cuts. Operating costs were higher than budgeted due to the global supply chain constraints creating inflationary pressures, increased labour costs, a strengthening Mexican peso, and we increased operating development at Guanacevi that we should see come to fruition here in the second half of the year.

Particularly at Guanacevi, royalty costs increased almost 400% to $4.3 million in Q2. This was obviously due to the higher realized silver price and increased mining of the high-grade material at El Curso. On a per-ounce basis, the royalty costs alone equate to almost $4 per ounce on cash costs and all-in sustaining metrics. Notwithstanding the increased cost profile, our gold and silver production profile is tracking ahead of guidance, totalling 3.9

million ounces of silver equivalent metal for the first half of the year.

We announced, in today's news release, that Management will suspend operations at our El Compas mine this month due to exhaustion of reserves. This was communicated in our annual guidance earlier this year and will not impact the Company's ability to meet or exceed production guidance for the year. El Compas is a small gold mine and was intended to be a bridge until Terronera comes on-stream, representing less than 5% of our annual consolidated production. We have some very talented individuals at El Compas that we expect to transfer within the Company to our operations in Bolanitos and ultimately to Terronera.

The anticipated suspension cost is estimated to be $1.3 million that will be incurred over the remainder of the year, and then in the meantime, Management will be evaluating various value creation opportunities.

On a positive note, we are entering the second half of the year with a robust cash balance of $125 million, minimal long-term debt on our balance sheet ahead of the potential construction decision of Terronera later this year. This should help us facilitate our ability to track project financing.

Moving on to our mines. Guanacevi is our top performer and will produce over 60% of consolidated production. During Q2, higher throughput and higher grades resulted in production exceeding plan during the quarter and ahead of the annual plan.

At Bolanitos, we are focused on developing the Belen vein and expanding production in the Medallito vein, where both areas have multiple drill targets. From a production standpoint, processed tonnes were higher than plan, offset by slightly lower grades during the quarter.

Lastly, at Compas, production has been declining quarter-over-quarter, as planned, in preparation of the suspension.

That's a brief overview of the operations and we recognize we have improvements to implement in our costs, and we are confident that we will reduce them in H2, in the second half of the year.

In terms of our growth outlook, our attention is on Terronera.

Terronera is slated to be our next core asset. We published a prefeasibility study last year forecasting over five million ounces of annual silver equivalent production over 10 years. The project is development-ready and fully permitted. We're now in the final stages of completing our final feasibility study to de-risk the project and evaluating financing alternatives that will be used to start construction. The final feasibility study will be released this quarter, and we'll also host a detailed webcast to discuss the results.

Subsequent to the end of Q2, we also announced an agreement to acquire an advanced-stage gold exploration asset, the Bruner Gold Project in Nevada, from Canamex, a company that's currently under a CTO, a cease trade order, with ideas that we will look for a shareholder vote during Q3. Endeavour will provide an update on our plan to advance the asset after that vote. At this time, I can say that we view the acquisition as opportunistic, and the asset could potentially be layered into our growth plans following Terronera.

Several years of exploration work remain ahead of any potential development on this gold heap leach asset to model the potential production. For this reason, Mexico and silver remain to be our focus.

In closing, we are confident in our business strategy, our financial position, and our growth agenda. I'm looking forward to leading Endeavour Silver and continue to work with our Board, Executive team, employees, and partners through these exciting times for the Company.

With that, Operator, I'd like to conclude and open up for Q&A.

OPERATOR:

Thank you. We will now begin the question-and-answer session.

The first question comes from Jake Sekelsky with Alliance Global Partners. Please go ahead.

JACOB SEKELSKY:

Hi, Dan and team, thanks for taking my question.

DAN DICKSON:

Hi, Jake.

JACOB SEKELSKY:

Just looking at Compas winding down this month, I guess, what do you see as the most likely outcome here? I know you're looking at a range of options. Do you think we're likely to see more of an outright sale like what we saw with Cubo? And any colour on an outcome on this front, as far as timeline goes?

DAN DICKSON:

Yes, for sure, Jake. From a timeline, I can't provide a lot of colour there. We're talking with a number of groups that would be interested in Compas, but at the same time, there is exploration opportunities that remain in the district. Ultimately, Cubo worked out really well for the acquirer, VanGold, which is now Guanajuato Silver, and worked out well for us. Ideally, that would be the same case for El Compas, but we're early days yet. As I say, there's a lot of exploration opportunity that remains in that district. We have some other properties, a little bit more base metals that would require a refurbishing of the plant; not a huge amount of refurbishment, but nonetheless, refurbishment.

We have an exploration opportunity that we can do and continue to push forward, but at this point in time, that's pretty much all I can say from an El Compas and various alternatives standpoint.

JACOB SEKELSKY:

Okay, that's helpful. Then I guess just on the finished goods inventory, I mean, you were slightly down from where you were in Q1. I'm just curious if this is more related to the timing of shipments, or was this just, again, a strategic decision to withhold some inventory for sale on a higher metals price environment, or what are your thoughts on that?

DAN DICKSON:

Yes, as you alluded to, we built our finished goods balance at the end of Q1, and we continue to hold that balance. I think at the end of Q1, actually, the fair market value was about $15 million, and at the end of Q2, that fair market value was about $17 million. From a fair market value standpoint, we actually had higher finished goods at the end of Q2. We do still believe in the long-term price of silver and gold, and ultimately what we saw on Friday is a short-term dip of what we expect in the prices, and we expect that to come back in the fall. Ultimately, when we need that cash, we'll dispose of those finished goods.

JACOB SEKELSKY:

Got it, that makes sense. Okay, that's all of mine. Thanks again.

DAN DICKSON:

Thanks, Jake.

OPERATOR:

The next question comes from Heiko Ihle with H.C. Wainwright. Please go ahead.

HEIKO IHLE:

Hi, everyone, thanks for taking my question, hope you're doing well.

DAN DICKSON:

Thanks, Heiko, hope you're doing well as well.

HEIKO IHLE:

I'm trying. You mentioned industry pressures in the global supply chain earlier on this call. Can you just provide a little bit of colour on the things that concern you the most? I mean, I assume that a year ago, it would've been things like masks and cleaning supplies; I mean, that stuff seems to be in pretty decent supply right now. I guess there were rumours about tires being hard to get, some particular equipment having long lead times.

Is there anything particularly that you see? And almost as importantly, can you say how that answer would have differed 30 days ago?

DAN DICKSON:

Sure. I think our biggest concern right now is going into the construction phase of Terronera, so steel's going to be a big part, and we are seeing increases in basic construction supplies. Terronera being such a key asset to us and ultimately the cost to build Terronera, and we want to do it within the next two years and ultimately have that decision this year, those inputs; and we're slightly seeing increases there. For us, tires are not a huge cost for us, with being underground vein development and vein mining, as opposed to the big open pits where tires have big, significant costs.

Other things that we're seeing some costs are all our reagents, cyanide, flocculants; we saw some increase in Q1. We sourced some spots where we think that we're going to see some cost control here for the second half of the year. Ultimately, what we're also seeing increases on is geologists and engineers, and the supply constraints with what's happening in our space that more geologists, more engineers, and that's going to impact their salaries and their asks. That's starting to come through.

One of the other things that we saw coming through in Q2 is production bonuses from 2020, PTU payments, profit-sharing payments in Mexico. Also what happened in Mexico is they changed the outsourcing rule, so all employees have to be employees of the company that they work for. We had to make that transition in the second quarter, which cost us additional cash as well.

But ultimately, the rest of the inflation story that we're seeing across the world impacted us a little bit here in Q2, and we're concerned that will impact us across almost all inputs in Q3 and Q4.

HEIKO IHLE:
Got it. Then just a quick clarification. In your MD&A, you broke down drilling activity by country and in metres, I think it was Page 22 or something. You were spending $1.2 million in Chile, at Paloma, for only 3,000 metres of drilling. On a per-metre basis, that's actually quite a bit higher than any of the other assets. Purely our curiosity, and I'm aware this is a small sum of money we're talking about here, but do you think Paloma is just temporarily expensive, given drilling economies of scale? Am I missing something obvious, or is this just a more expensive area to work in and operate, with, I don't know, unions giving trouble, or hard to access? Would this be any different if there was ultimately a mine there?

DAN DICKSON:
Yes, no, it's a very fair question. You're right, Paloma we drilled this year. It is more expensive, and that was always budgeted as being more expensive. We also did a lot of surface work too that would be built into some of that cost, so we've been doing permitting at Aida and permitting at Cerro Marquez that would be built into some of that cost on a segment basis that you're reading. But you're right in the fact that Chile itself is more expensive; it's more expensive from a drilling standpoint, and we also think it'd be much more expensive

from an operating standpoint.

But again, what we're looking for in Chile isn't underground vein mining; it's open pit, world-class size assets that would be game-changers for Endeavour.

HEIKO IHLE:

Very good. I'll get back in queue. Thank you, guys.

DAN DICKSON:

Thanks, Heiko. Much appreciated.

OPERATOR:

The next question comes from Cosmos Chiu with CIBC. Please go ahead.

COSMOS CHIU:

Hi, thanks, Dan and team.

Maybe my first question's also on…

DAN DICKSON:

Hi, Cosmos.

COSMOS CHIU:

Hi, Dan, how are you doing? My first question's also on…

DAN DICKSON:

Good, how are you?

COSMOS CHIU:

Good. My first question's also on cost. I guess, as you mention in your MD&A, cost was over $25 an ounce, higher than what you had expected. You've also talked about inflation and some of the cost pressure here. I'm just wondering how much of that cost pressure has been captured in your Q2 numbers? It doesn't sound like everything. I'm just wondering, since the Q2 numbers, have you seen more cost pressures into Q3? And could that leak into Q3 and more being reflected into Q3 as well? I'm just trying to figure out, even if you have, say, improved efficiencies in the second half or in Q3, is that going to be offset by continuing inflation or any pressures that were not reflected in your Q2 numbers?

DAN DICKSON:

Yes, no, it's a fair question. Our goal is those inflationary pressures won't show up in Q3 and Q4. Our July production results just came in and we're waiting for costs for July yet, so I can't speak to Q3, what we're seeing so far, but our expectation is those costs will be contained here in Q2. We've looked at some of our cost profiles and we projected out for the next two quarters, and we expect that to be relatively the same. Again, with some of the stuff that we saw in Q2 on production bonuses, PTUs and changeover resulted in salary increases and labour cost increases. Ultimately, those won't flow through in the third quarter or fourth quarter.

Then the big aspect to it all, and we've always communicated this, is the $4 royalty costs. With prices where they're at today, obviously that royalty cost will come down. The other thing that happened in Q2, at Guanacevi, was we did a lot of operating development, so development that we expense in an area we call El Porvenir. Ultimately, that won't flow through into Q3 or Q4, so we expect our cost profile to be lower in the third quarter.

COSMOS CHIU:

Okay, great. I guess, then, into the fourth quarter as well, because to confirm, you've maintained your cost guidance for the year on sustaining costs of $19 to $20 an ounce. Right?

DAN DICKSON:

Yes. We have not changed guidance at this time.

COSMOS CHIU:

Okay, great. Maybe following up on cost, as you mentioned, the feasibility study at Terronera is expected by Q3, and potentially a go-ahead decision after that. As you talked about inflationary factors here in Mexico, there's been recent changes in subcontracting rules as well in the country. How are you going to factor that into your feasibility study, and how can you mitigate some of that risk? How do you see the inflationary pressures in Mexico potentially impacting a decision on Terronera?

DAN DICKSON:

Yes, it's a very fair question. Obviously from the prefeasibility study to the feasibility study, we're going to see cost increases. We've hired Wood; they're an exceptional group. But being able to determine costs and rely on that, and I think what we're going to see come through the feasibility study is an inclusion of what we're seeing from an inflationary pressure standpoint on our initial CapEx.

How to mitigate against that? Ultimately, for us, it's going to be if we can get into a construction decision and move forward. I think partly as the Company that we are, we're a silver producer and a gold producer, so effectively, any inflation pressures that we see across the world will eventually be showing up in the silver and gold prices on the back end of it. I think we're mitigating in that sense, and ultimately the sooner we can kind of get going on that construction will be better. As I say, I think Wood's really—and our teams consider the inflationary pressures, and you're going to see that it initial CapEx when we come out with it hopefully in the next month or so.

COSMOS CHIU:

Mm-hmm, great. Then one last question for me here, Dan. The Bruner Gold Project, it seems like you're acquiring it from Canamex. Two questions. I guess the first part is, new country, new metal. Can you talk a bit more about that strategy? Number two, is that telling us that it is just really difficult to find good silver assets in terms of acquisitions?

DAN DICKSON:

Yes. I mean, I will say it is difficult. There's a scarcity of primary silver mines in the world, and we see that, and most silver comes from base metal mines and is a by-product of a lot of other mines. It is difficult. We've seen the whole silver space acquire gold assets, most recently Fortuna with Roxgold, First Majestic with Jerritt Canyon. We want to maintain our 50% silver production, or above 50% silver production.

The move into Nevada, which is obviously a world-class jurisdiction, and gold was more opportunistic than necessarily a strategic move into gold or into a new jurisdiction. The idea that we're not obviously concerned with Nevada, we're not concerned with gold—40%, 45% of our revenue comes from gold and we do like gold, but we like silver more. Ultimately, we are looking for silver assets; there's just not a lot out there. There are some, but not a lot.

It always takes two to kind of come to an agreement to acquire silver assets, and we want to add value. We saw a quick way to add some value, and hopefully after a shareholder vote from Canamex, we can talk about Bruner in more detail.

COSMOS CHIU:
Great, thanks, Dan. Those are all the questions I have. Thanks again.

DAN DICKSON:
Thanks, Cosmos. Good questions.

OPERATOR:
The next question comes from Joseph Reagor with ROTH Capital Partners. Please go ahead.

JOSEPH REAGOR:
Hi, Dan and team, thanks for taking my questions.

DAN DICKSON:
No problem, Joseph, nice to hear from you.

JOSEPH REAGOR:
Yes. I guess, sorry to continue on to the cost side of things, but maybe a little bit different question. On Guanacevi specifically, you guys mentioned in the MD&A that some of the costs in Q2 were related to some development for an orebody that's not reserves, and therefore you had to expense it. Can you kind of give us an idea of what that looked like so maybe we could back it out of the cost numbers? Also, how much more you're going to have for expenses for non-reserve development kind of over the rest of the year?

DAN DICKSON:
Yes. In Q2 at El Porvenir, it's an upper area of Porvenir that is part of the El Curso acquisition. We spent about $500,000 accessing some ore that we'll ultimately be able to mine and draw up effectively here in Q3. Because under IFRS rules there's no reserves there, we chose to expense that development. Like I say, it's just under $500,000.

Ultimately, we're out of that area now and we want to just be mining Milache, El Curso, and Santa Cruz Sur. I wouldn't expect much more in Q3 or Q4 from that area.

JOSEPH REAGOR:

Okay. Were there any other items like that one-time item in the Guanacevi Q2 numbers?

DAN DICKSON:

Yes. We have profit-sharing and true-up of our bonus. PTU, we paid about $250,000 in PTU to Guanacevi in the second quarter, and we had a top-up of year-end production bonus that we finalized, which ultimately amounted to about a similar amount, $200,000 to $250,000.

JOSEPH REAGOR:

Okay. Second thing is, if I'm looking at your annual guidance, specifically at the gold guidance for Guanacevi and Bolanitos, you guys are tracking—if you just doubled the first half, you guys would be above the high end. Should we be thinking about Q2 gold production from those assets being lower than Q1? Was Q1 just that much better than expected? How should we… Whatever colour you can give as far as what the Q2 might look like that made it so you guys didn't decide to raise guidance.

DAN DICKSON:

Yes. We just weren't ready to raise guidance at this time due to COVID. Obviously, Q1 was phenomenal from a grade standpoint, out of Guanacevi, and the grades in Q2 at Guanacevi were right around what we expected with plan. I think those grades, for Q2, might improve a bit here in Q3 and Q4 but ultimately be closer to plan.

At Bolanitos, our tonnage has been on plan, a little bit higher than plan in Q2, and the grades, from a silver standpoint, were slightly lower, and gold grades have been on plan. Ultimately, we just weren't comfortable raising guidance at this point with so much time left in the year, but there's no expectation that we'll see a dip in production at Guanacevi or Bolanitos in the second half of the year compared to what we see now.

JOSEPH REAGOR:

Okay, so it's fair to say your concern is more about the potential impact of COVID on tonnage, not on grade. On grade, you'd expect to remain steady?

DAN DICKSON:

Yes.

JOSEPH REAGOR:

Okay, okay. Then one final thing. It looks like subsequent to the end of the quarter, you guys finished off the ATM that you had. Any additional plans for any form of equity financing related to Terronera, or do you feel with the $125 million in cash you have, plus amended estimates, that you guys are well funded on the equity side?

DAN DICKSON:

We are well-funded on the equity side. Obviously our balance sheet's in a great position, and we've been working with a number of groups to add project financing in the form of—and we've said this for the last six months, somewhere between $60 million and $100 million, so say $75 million, $80 million to help with the funding and keep our cash balance dry for other opportunities that may come along.

JOSEPH REAGOR:

Okay, sounds good. Thanks, I'll turn it over.

DAN DICKSON:

Thanks, Joseph. Good questions.

OPERATOR:

The next question comes from Lucas Pipes with B. Riley Securities. Please go ahead.

MATT KEY:

Good afternoon, everyone, this is actually Matt Key here asking a question for Lucas. Just a quick macro question for me. We've obviously seen a lot of strength in commodity pricing over the last 12 months, but precious metals have largely lagged or even decreased. I was wondering if this performance in precious metals surprises you at all, and where you kind of see silver and gold pricing going in the second half of 2021.

DAN DICKSON:

Yes, I mean, I guess now that I've been in the space for 14 years, surprise isn't the right word. I think Friday was kind of one of those tough days, but we've seen those in the past, and I think it's just a correction. Right now, we're sitting at 75:1 silver to gold ratio, and ultimately, we see that gold ratio get back down to 65:1, and I think we're going to be sideways here for a little bit. But I do expect it to pick up in fall and into next year.

Ultimately, government balance sheets haven't changed. The impact of inflation is still here, and I think inflation's going to be long-term and we're going to have to deal with it. There's not a lot of ways for the governments to deal with it with where their balance sheets are. Ultimately, we see silver and gold to be higher going forward, but can never give a timeline of when that's going to happen.

We're going to make our decisions on Terronera based on what we see a long-term silver price to be and long-term gold price, and continue to look into the market and see if we can add more silver into our portfolio, all up and down the spectrum.

MATT KEY:
Got it, that's very helpful. Thank you. You mentioned an ESG Report that you guys are going to publish in the coming months. I was wondering if you'd be able to share what you kind of see as the easiest avenues to improve your ESG profile over the coming years?

DAN DICKSON:
Yes, I mean, it's an ESG strategy. We actually reported a Sustainability Report in May, and then we did our eighth report this year. It's not one specific area that we can improve; I think it's partly continuing to improve from our culture standpoint. I think we do a really good job internally and from a governance standpoint, but there's going to be things that are changing in the world, specifically carbons and how to manage that over the next three, four years, that we're going to continue to look at. Terronera gives us that opportunity to try to do some best practice stuff to reduce our footprint in the world. All mining companies are going to have to look at their carbon footprints, and we're going to be no different.

Hopefully over the next three to four years we can improve that, and then hopefully report on it and be given credit to be a leader in the space on it.

MATT KEY:

Got it, that's helpful. That's all for me. Best of luck moving forward.

DAN DICKSON:

Thanks, Matt.

OPERATOR:

The next question comes from Ryan Thompson with BMO. Please go ahead.

RYAN THOMPSON:

Hi, Dan, thanks for the update.

I think most of my questions got asked, but I'll just ask one on Bolanitos, maybe a little bit longer term. Just how should we be thinking about that mine? When I look at the resource grade, both in M&I and inferred, they seem to be higher than the reserve grade. If you can just talk a little bit about converting that material into the reserve mine plan and just how we should be thinking about that aspect for the next couple of years? Is it safe to think that grades would be moving up closer to those sort of resource grades?

DAN DICKSON:

Yes, because of the dynamics right now at Bolanitos, we're still getting grades that we expect and we're trying to open up more areas to get more working faces to kind of get a more blended silver grade to come up. But ultimately, we are going to see this mine be more gold, less silver as we get deeper into the deposits.

We do have some areas, one, Belen, that we've been drilling, and we expect that to come online next year. Medallito, we put out some drill results on that earlier this quarter with some good grades, but ultimately we're hovering around the 2.0, 2.1 gold aspect. If we can get silver grades back up in the 50s to 60s, that would be ideal, but right now we're just seeing variations in the orebody that has lower silver and more gold.

RYAN THOMPSON:

Okay, that's helpful. Thanks for the update.

DAN DICKSON:

Thanks, Ryan.

OPERATOR:

The next question comes from Mark Reichman with Noble Capital Markets. Please go ahead.

MARK REICHMAN:

Thank you. Yes, there's a lot of mixed messages in the market about the trajectory of inflation. I wanted to ask you, Dan, about how you're thinking about Terronera in terms of the feasibility study coming out in the third quarter. How is this changing the inputs that go into that report? And as the former CFO, how do you kind of think about managing that project in terms of locking in supplies ahead of time versus on an as-needed basis?

DAN DICKSON:

Yes. I kind of touched on this earlier. Ultimately, I think we're going to see and we are going to see initial CapEx increase, and part of that is due to the inflation and what we're seeing from a cost pressure standpoint. The engineering group and our team have the foresight to be able to put that in and ultimately impact our costs.

As far as locking in supply costs, I think the business that we're in, gold's obviously naturally hedged to inflation that we don't need to get way ahead of ourselves and lock in costs. The other aspect to that is the Mexican peso is depreciating against the U.S. dollar. As an underground vein miner, a significant portion of our cost structure is labour; 30% to 33% is the labour at our three existing assets, and that's no different at Terronera. I think if we do see runaway costs from an inflation standpoint, you'll see our labour costs probably stay relatively the same in terms of U.S. dollars.

Ultimately, silver and gold is that hedge against higher cost pressures in the world. There's going to be short-term blips, but ultimately we expect to be at Terronera for 15, 20, 25 years, and nothing that we can do in the short term will help us over that length of time. We've got to take the long-term focus on Terronera rather than short-term.

Now, of course, when it comes to our construction decision, how well can we lock in those prices over the next two years? We'll look to do that as best we can, but at this point, we have no strategy on buying everything upfront.

MARK REICHMAN:

Okay. Then the second question is, and I know Terronera's going to be a big change for this Company, but in terms of where you talked about optimizing your operating cost profile in the second half. You may have touched on some of this earlier, but what do you think are the key variables that you're really focused on to do that, and what do you think—how much of a reduction do you think you can achieve?

DAN DICKSON:

The key aspect right off the get-go is labour, as I touched on, a lot of the one-items that rolled through Guanacevi. But then also, we've acquired supplies here in Q2 that we'll be using in Q3 and Q4, so there's no particular item that we're trying to lock in. It's almost everything, and you saw it across everything, transportation costs, etc., etc. The key to us is ensuring that we hit our grades and we hit our tonnage.

At Bolanitos and Guanacevi, I'm confident that we're going to be able to hit that here in the second half of the year, and ultimately with taking all those one-time costs out that we'll be able to get our costs in line to what our expectations were at the beginning of the year, somewhere in the $19 to $20 all-in sustaining cost range. It's a little bit of everything; it's not one thing.

MARK REICHMAN:

Okay. Thank you, that's very helpful.

DAN DICKSON:

Thanks, Mark. Good questions.

OPERATOR:

This concludes the question-and-answer session. I would like to turn the conference back over to Dan Dickson, CEO of Endeavour Silver, for any closing remarks.

DAN DICKSON:

Thanks, Operator.

I want to thank everybody for joining our call today. I know the big aspect and one of the biggest catalysts for the Company is going to be Terronera. It's going to take our production profile and double it and ultimately cut our cost profile in half. We have a big quarter coming ahead of us; we do expect the final feasibility study to be out this quarter, and we will be putting a webcast together for that feasibility study as it's important to the Company.

Hopefully we can talk again soon, and thank you for all the questions.

OPERATOR:

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.