

Endeavour Silver Corp.

Second Quarter 2018 Financial Results

Conference Call Transcript

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Speakers: **Dan Dickson**
Chief Financial Officer

Godfrey Walton
President and Chief Operating Officer

Galina Meleger
Director of Investor Relations

OPERATOR:

Thank you for standing by. This is the Conference Operator. Welcome to the Endeavour Silver Corp. 2018 Q2 Conference Call. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star and zero.

I would now like to turn the conference over to Galina Meleger, Director of Investor Relations. Please go ahead.

GALINA MELEGER:

Thank you, Sabee. Good morning everyone and welcome to the Endeavour Silver Corp. 2018 Second Quarter Financial Results Conference Call. With me on the line today, we have the Company's Chief Financial Officer, Dan Dixon, and our Chief Operating Officer, Godfrey Walton. Chief Executive Officer, Bradford Cooke will not be joining today's earnings call as he is traveling. However, he is always reachable by e-mail if you have any further questions after the call today.

Before we get started, I am required to remind you that certain statements on this call will contain forward-looking information within the meaning of applicable securities laws. These may include statements regarding Endeavour's anticipated performance in 2018 and future years, including revenue and cost figures, silver and gold production, grades and recoveries, and the timing and expenditures required to develop new silver mines in mineralized zones. We do not intend to 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 would like to thank you for joining our call today and I will now turn it over to our CFO, Dan Dixon.



DAN DIXON:

Thanks very much, Galina, and welcome everybody to our Q2 financial results call. I would like to start, with a brief overview of the results released this morning, some updates on our ongoing projects, and then we will open it up to Q&A.

We did release our production numbers in early July and believe we are in position to obtain our production guidance for 2018. For the six months ended June 30 we've produced a total of 4.7 million silver equivalent ounces and expect production to improve in the second half of the year as El Campos achieved commercial production and Guanaceví's performance improves. On a quarter-over-quarter basis, silver production was up 19% to 1.36 million ounces, and coal production was up 5% to 13,674 ounces.

Guanaceví has continued to lag Management's expectations, but we are starting to see incremental improvement. The productivity optimization program that was launched in January is now complete and we are optimistic that we will see benefits of that program in the second half of 2018. We have developed over a kilometre toward the Milache orebody, which will help increase mine output and lower cost on a per unit basis.

El Cubo and Bolanitos both continue to perform as planned or better. Direct production cost per tonne in Q2 increased 3% compared to the same period last year. The higher production cost per tonne were driven mainly by Guanaceví's performance, but also offset by the improvement at El Cubo. The improved metrics at El Cubo resulted in 9% decrease in consolidated cash cost per ounce falling to \$7.61 per ounce. Similarly, all-in sustaining costs decreased 16% to \$17.28 compared to Q2 2017. The drop is related to the lower costs on a per ounce basis and lower capital expenditures, offset by higher G&A costs out of the corporate office here in Vancouver.

Revenue for the quarter increased 19% to \$38.8 million from sales of 1.26 million ounces of silver and 13,800 ounces of gold, averaging \$17.16 per silver ounce and \$1,270 per gold ounce. On a year-to-date basis, our revenue now totals \$79.1 million.

After quarterly cost of sales of \$34.2 million, mine operating earnings amounted to \$4.6 million from our operations in Mexico. The 26% increase in our cost sales was primarily due to increased depreciation and depletion at the Guanaceví operation.



If we were to exclude depreciation and depletion of \$7.9 million, our share-based payment and our inventory write-downs, mine operating cash flow before taxes was \$14.9 million in the second quarter, which represents a 69% increase from the same period last year.

For Q2, overall we reported a net loss of \$5.7 million, or \$0.04 a share, which was primarily driven by higher depreciation and depletion and a foreign exchange loss due to the depreciation of the Mexican peso. Discussions of tariffs and the uncertainty of the Mexican Federal election drove the Mexican peso to fall against the U.S. dollars at the end of Q2, driving a \$3 million foreign exchange loss on our outstanding taxes owed. Since quarter-end, the peso has reversed that trend and recovered most of that devaluation in the second quarter.

As of June 30, working capital totaled \$58.9 million compared to the \$66.2 million we had and year-end. The \$7.3 million decrease is a result of us investing \$23 million into our property plants and equipment, offset by our cash generated from operations, which included \$6 million of expenditures into our exploration assets. At quarter-end our cash position totaled \$31.1 million compared to \$36.6 million at the end of Q1, which represents a \$5 million decrease in Q2. The use of cash was for fueling future growth. Specifically, we completed the construction of the El Campos mine; we continued to develop at Guanaceví to provide (phon 6:18) more working stopes, including developing the Milache orebody expected to come online this year; and we increased our exploration expenditures as we've seen very encouraging results across our portfolio of assets.

As for El Campos, our newest mine, the mine of stockpiling ore, the mine is stockpiling ore with ore grades reconciling to expected projections. The commission of the plant was initiated in Q2 using low-grade ore. As normal ports with startups, planned circuits are being modified, configured, and fine-tuned to resolve normal startup issues. The plant to date has been commissioned with low-grade ore and we will shortly feed planned ore grades from our stockpiles with the expectation of achieving commercial production in Q3. Total construction costs at El Campos have come in line with our guidance. Total cost was expected to be about \$11.3 million or right there.

Other highlights from our exploration development groups included: we've completed our trade-off studies at the Terronera project and we're currently finalizing our updated PFS with the expectations of publishing in August; we've maintained good dialogue with the governing bodies over our last two permits with the expectations of obtaining those permits here in the near future;



we continue to report positive results from our infill drill programming at Terronera and we continue to see strong results since our publishing of our last results; and we reported positive metallurgy and drill results from our Parral exploration property up north.

After that briefly overview, Operator, I would like to open it up for Q&A.

OPERATOR:

Thank you. We will now begin the question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

Our first question comes from Heiko Ihle with H.C. Wainwright & Co. Please go ahead.

HEIKO IHLE:

Hey, guys. Thanks for taking my questions. Can you hear me?

DAN DICKSON:

Yes. We can hear you, yes. Go ahead Heiko.

HEIKO IHLE:

Perfect. Okay. (Inaudible 8:52) on Page 22 of the MD&A and that's really popped out at me. Your silver recoveries at Guanaceví were excellent during the quarter. In fact, it was better than any quarter in 2017, and so best since Q4 2016. Is there any fundamental change? I mean, in quarter-over-quarter terms you were up 290 basis points, which is obviously huge. I guess, it just doesn't make a trend, but is there something we can maybe read into for the rest of the year?

DAN DICKSON:

Just so we understand you clearly, Heiko—it is Dan here; you are coming in a little bit crackly—you're asking about the recoveries at Guanaceví quarter-on-quarter?

HEIKO IHLE:

Correct. The recoveries were really good during the quarter. I mean, you are up 290 basis points Q-over-Q. Does that make for a trend for the rest of the year?



GODFREY WALTON:

Hi, Heiko. This is Godfrey. Thanks for the question. The recoveries have been a lot better at Guanaceví and that is because we have gotten better (inaudible 9:58) time in the leach stacks (phon 10:00). So as our production, as we stop filling that plant we'll come back down to the projected recoveries that we forecasted at the beginning of the year. So, it's a function of lower production at the present time.

HEIKO IHLE:

Got it. Okay. Fair enough. So do not read anything into it so to speak, okay. Then I kept going and I went to the IVA tax refunds part of the MD&A. It said there that you received \$4.2 million since June 30. Is there an expectation to receive the other \$17.5 million (inaudible 10:41)—adding it all up its \$21.1 million minus the \$4.2 million, so there's still \$17.5 million too—is there anything to expect or should we expect this just to be a continued battle with the Government?

FAN:

Yes. It is a very good point, Heiko. At the end of the quarter we had \$24.5 million sitting with the Government related to our value-added taxes, and after the quarter we received \$4.2 million. We have actually had very positive dialogue to get that \$4.2 million. We have expectations that some more will come in in August. Unfortunately, the people that we have been dealing with have been on vacation the last three weeks and we have another meeting with the Hacienda actually next week, late last week, to talk about another \$4 million to come in. Then, yes, we do have the expectations that we should see that define and start coming in. To be able to collect the full \$21 million I think is very optimistic. If we can get that balance from \$24 million down to \$10 million, I think we would be doing very well.

Then, of course, you always have a lag of three months; basically is what we'd like to see, three month kind of outstanding with the Government. Cubo has got some (inaudible 11:51) that's outstanding from beyond two years. So, we have seen positive movement from the Government specifically collecting that \$4 million and we do we see some more, but like I say, typically we'll hold out around \$10 million to \$12 million is where it likely will be from a balance standpoint.

HEIKO IHLE:

Very helpful and greatly appreciated. Thank you, guys. I will get back in



queue.

DAN DICKSON:

Thanks, Heiko. I hope all is well.

OPERATOR:

Once again, if you have a question, please press star, one. Our next question comes from Chris Thompson with PI Financial. Please go ahead.

CHRIS THOMPSON:

Hi, good morning, guys. Can you hear me?

DAN DICKSON:

We can hear you will, Chris.

CHRIS THOMPSON:

All right. Thanks. A couple of quick questions here; we will start off with Guanaceví. Obviously, we are anticipating steady improvements towards the back half of this year. Just looking at the unit operating costs, what should we be modeling, I guess, once Milache and Santa Cruz are in production here?

DAN DICKSON:

Yes. I think that is a very fair question, Chris. We have modeled be coming into the year just over \$100 per tonne and we've seen these high cost per tonne over the last two years, as our production on a per unit basis has been down. I mean, the plant, historically, our capacity at Guanaceví being 1,200 tonnes per day, we saw a cost per tonne as low as \$78. I think the \$78 is past us now and if we can get up—and the key is getting up to capacity of 1,200 tonnes per day—we can see that come back into the \$90s.

What we had this quarter, we had with inventories we had a write-down on that which flowed through our cost per tonne. We had optimization programs that we were paying flow through costs per tonnes. We had year-end bonuses that got kind of bumped up and union wages and increases kind of flow through Q2 when all that was finalized. There is a lot of extraordinary costs that are flowing through Q2 to get to that \$139 of cost per tonne. I think that is very

unrealistic.

We saw the same thing happen at Cubo four or five years ago where we had these massive spikes in our cost per tonne that just weren't reflective of what was going to be happen going forward and I think we've seen that now at Guanaceví basically for the last four to five quarters. We expect that to end. Like I say, the key is getting the tonnes up to the 1,200 tonnes per day, which will drive that.

In the second quarter we were around 800 tonnes per day going through. You can see on an absolute cost basis we're running the same amount of labor at our operations, effectively same amount of contractors, the bottlenecks being the amount working stopes that we're seeing in Santa Cruz. Getting to Milache, which will be able to kind of de-thaw our production abilities, and in July we started with (inaudible 14:53). We expect production to start coming up here in Q3; that should drive that down.

CHRIS THOMPSON:

Great. That is great in itself. Thanks for that, Dan. Just moving on to the other assets quickly, at Bolanitos, just trying to get a sense of the grade profile we can expect towards the back half of this year and maybe after that as far as gold grades. Any chance of getting over the 2 gram mark here?

GODFREY WALTON:

Hi, Chris. This is Godfrey. We are finding there is a lot more zoning particularly at the Plateros area where we get high gold off at the bottom of the zone and higher silver at the top. It is just a matter of getting that development so that we can blend it properly. But, to be honest, I don't think we're going to hit over 2 grams gold for the balance of this year.

CHRIS THOMPSON:

All right. Okay. That is good. Thanks, Godfrey. Just quickly, a similar sort of question I guess for El Cubo, but now it is over to silver grades. Obviously, nice quarter-on-quarter increase in silver grades. Grades, I guess, that you guys reported in the Q2, are those sustainable; any chance of an improvement beyond that?

GODFREY WALTON:



I actually think they're sustainable, Chris, but I don't see them getting higher than what we've had for Q2.

CHRIS THOMPSON:

All right. Perfect. Then finally, the ATM, can you comment on the progress there to date?

DAN DICKSON:

Yes. We launched that ATM June 13. We worked through with BMO, our agent on that matter. We sold \$2.3 million worth of stock in Q2 to kind of just see how the process works. We had a couple of hot days right after we launched. Effectively in Q3 we haven't been in the market because we've been in a blackout period, and with today's share performance, I don't foresee us being in the market anytime soon. It's some optionality there for us. If we see some movement up in our share price or have some more exploration results like we're getting, we might tap into that to be able to increase our expenditures on our exploration next year. Obviously, partly of that is going to be advancing Terronera which was what we disclosed on that. Touched on that, I think the key stuff for us is waiting for these last two permits, which, like I say, is going to be in the near term here.

Our infill drill program for the year is fully funded and obviously, we are having very good progress with that. But I don't see any additional costs or funds needed for 2018 with regards to Terronera. It'll just be getting the feasibility study finished, getting the permits done, and then going to the board with a construction decision.

CHRIS THOMPSON:

Great. Thanks again, Dan. Thanks, guys.

DAN DICKSON:

Thanks, Chris.

GODFREY WALTON:

Thanks, Chris.

OPERATOR:

Once again, if you have a question, please press star, one. There are no



questions at this time.

DAN DICKSON:

Okay, Operator. Thank you and thank everybody for joining the Endeavour's Q2 financial results call. Again, if you have any questions, we are always here happy to help. Mr. Cooke is traveling today, but if you have e-mails that you want to pass or questions you want to pass on to Galina, we'll be happy to get back to you as quickly as possible.

OPERATOR:

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