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Chris Thompson *PI Financial Corp., Research Division - Head of Mining Research*

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PRESENTATION

Operator

Thank you for standing by. This is the conference operator. Welcome to the Endeavour Silver 2019 Year-End Conference Call. (Operator Instructions)

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

Galina Meleger - Endeavour Silver Corp. - Director of IR

Thank you, operator. Good morning, everyone, and welcome to the Endeavour Silver 2019 Fourth quarter and Year-End Financial Results Conference Call. With me on the line today, we have the company's Chief Executive Officer, Bradford Cooke; our Chief Financial Officer, Dan Dickson; and our Chief Operating Officer, Godfrey Walton.

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 2020 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 and 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. So on behalf of Endeavour Silver, I'd like to thank you again for joining our call. And I'll now turn it over to our CEO, Brad Cooke.

Bradford James Cooke - Endeavour Silver Corp. - CEO & Director

Thank you, Galina, and welcome, everyone, to our year-end financials call. Premixed bag in 2019, which really was our most challenging in our 15-year history, both operationally and financially. Our financial performance last year was negatively impacted by significant operating issues and higher costs at each of the mines.

As a result, our gross revenue declined to \$121.7 million on the year, based on the sale of 4.1 million ounces of silver and 39,000 ounces of gold. Our cash flow declined to negative \$8.9 million, and we recorded a net year loss of \$48.1 million. The losses were mainly due to the accumulation of higher than historic operating costs, higher general and administrative costs, higher exploration costs and very significant depreciation, depletion charges due to our short mine lives.

We were able to come out of the year with a relatively clean balance sheet, \$23.4 million of cash and \$38.4 million of working capital. And the only term liabilities are related to loans for equipment. Our metal production was 4 million ounces of silver and 39,000 ounces of gold. And our operating costs for the year were, on a cash basis \$12.85 per ounce of silver, net of the gold credits. And the all-in sustaining costs were \$21.19 per ounce of silver, net of the gold credits. So that was a pretty tough year.



Our response to a terrible start to the year last year was, basically, sweeping changes throughout all of our operations and we literally cleaned house. So we have new site management at each of the operations. We purchased or leased and also rented new equipment. So that we could have full equipment availability. We changed the mine plans, which unfortunately put us behind the eighth ball in terms of our mine development compared to the original plans. And so we had a significantly higher capital investment last year due to the change of mine plans, the accelerated mine development to play catch-up and the new equipment.

But as a result of all that, and we had layoffs, and we also close the mine, El Cubo on November 30. So quite an accumulation of bad news, last year. But we did all the changes to set up a much, much better year this year. And so now if we turn our attention to looking forward, I think it's safe to say that Guanaceví, which was really our dog last year, should be our shining star this year. The changes have already taken root. We've seen the throughput in the plant climb quarter-on-quarter for 3 consecutive quarters and still climbing.

We expect to hit the plant capacity by the end of this quarter. And of course, running more tonnes through the plant reduces our unit cost. And we expect to get to profitability this quarter on Guanaceví.

So Guanaceví is successfully survived the downturn. The changes are working. The turnaround is nearing completion. Bolañitos, we didn't do the clean sweep until the third quarter last year. So it's trailing Guanaceví in terms of its turnaround by about 2 quarters, and it's still in an accelerated mine development mode here in the first quarter. We're mining lower than planned grade right now because we don't have access to higher grades until the end of the quarter, early second quarter.

But we do expect by the end of the second quarter that Bolañitos too will have finished this turnaround phase and get back to something resembling normal operations because it was for 10 years, our most profitable mine, and we expect it to return to a profitable state. El Compas, our third mine was only commissioned at the end of March last year and it has achieved steady state. So it's not that material, it's our smallest mine, but at least it's chugging along and it doesn't need a whole lot of attention.

Turning to our development portfolio. Terronera, we spent most of last year going through continued engineering studies, optimization work, derisking work, we got fully permitted in June of last year and we've just hired recently, a project manager to build Terronera. So the only barrier really remaining now is the appropriate debt financing needed to push that project forward. We still have to receive the final update on our pre-feasibility study. And that's coming later this quarter. We will then ask our project manager to do a full internal review. And only at that time when we announce our next steps on Terronera. And last but not least, we did enjoy significant exploration results from Guanaceví, Bolañitos and Parral last year, and we actually commenced drilling on our portfolio of world-class prospects in Chile. So all in all, we did enjoy some success in 2019, notwithstanding the other challenges, we achieved commercial production at our new El Compas mine.

We did succeed in turning around Guanaceví. Bolañitos is showing clearly that it's in the middle of its turnaround. Permitting was achieved on Terronera, and we're continuing to focus on not only replacing reserves, but expanding our resources through our exploration programs.

I think our outlook for this year is a lot more positive. We're still only guiding pretty much breakeven operations on an all-in basis. But given that we still have almost 2 quarters of turnaround yet to come on Bolañitos. I think we're happy and the current -- with that achievement. And we do see -- like Guanaceví and Bolañitos will be our core assets for several years to come, as we go forward, generating free cash flow.

Our modeling this year was at \$17 silver. So the projections I made on breakeven for the year are based on \$17 silver, and anything above that is obviously gravy. So I think, operator, that summarizes my comments and why don't we open this up for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Joseph Reagor with Roth Capital Partners.

Joseph George Reagor - *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

I guess, first thing. First thing, just thinking about the overall process of the turnaround that you guys are in, or maybe a feeling of what inning you're in and maybe what steps are left to get you to the finish line with these mines.

Bradford James Cooke - *Endeavour Silver Corp. - CEO & Director*

Given we started the turnaround at Guanaceví in April. I think it's safe to say we're pretty close to the ninth inning on that one. But Godfrey, where would you say we're at on Bolañitos?

Godfrey J. Walton - *Endeavour Silver Corp. - President & COO*

This is Godfrey. I would say we're probably around about the fourth to fifth inning in Bolañitos. We still have a lot of work to do, ahead of us.

Joseph George Reagor - *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Okay. And then further on Bolañitos, with obviously, your resource grade is quite a bit higher than the production grade expectations. Is this related to more towards mine sequencing? Is it related to the issues with the high arsenic or -- and what can be done to kind of bring the average grade up closer to resource grade?

Godfrey J. Walton - *Endeavour Silver Corp. - President & COO*

Last year, we had a lot of issues with the arsenic and looked -- looking at the plant and also at the mine is just how we could sequence that properly. I think we've got through that. We found some solutions in the plant. And then, we will also change where we're actually mining in the mine. So that's changing mine plan, changing the plant processing. At this point, we're a little bit behind where we should be in our development. And so once we can get back on track on the development, I think you'll find that the grades will come back and be closer to our reserve resource grades.

Joseph George Reagor - *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Okay. And...

Bradford James Cooke - *Endeavour Silver Corp. - CEO & Director*

And Joe, specifically, it was the arsenic issue that forced us to change the mine plan because the concentrate off-takers, once we saw more than 1% arsenic in the cons, we basically said, we're not going to take that. So we actually had to stop mining our main stope for 2019 and try and quickly access other stopes, which were lower grade. And of course, falling throughput falling grades, higher unit costs. We made all of the other changes in Q3. So new management, new equipments, new mine plan, and we're only halfway through this new mine plan.

We're still starving for high-grade and only mine development, accelerated. Mine development will get us back on plan. And so that's why I said, look to the end of Q2 for Bolañitos to emerge from this process.



Joseph George Reagor - *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Okay. And then one final one, if I could. Just on the debt financing for Terronera. Can you give us any additional details of what you think that might look like, given things keep changing in the overall market?

Bradford James Cooke - *Endeavour Silver Corp. - CEO & Director*

We are invited to look at the eurobond market last year, and we spent a lot of time and money looking at an offering, a \$100 million bond offering. As it turns out, the broker didn't clearly understand what the market was prepared to do for us. And so we didn't do that deal. And we're back looking at really 2 things, either some consortium of security or secure debt, took subordinated debt, and/or convertible debt, or a possibility to just go to full feasibility to reduce our cost of capital, while we already have an estimate that it could be done this year and for not a big cost. And -- but we -- that's jumping ahead, and we want our project manager to really do a full top to bottom review of Terronera and come back to us this quarter, with his own personal recommendations. We know we have a GAAP analysis on things that still haven't been optimized. We know that the CapEx seems high compared to what we did at Cubo, 7 years ago.

So there's still some work to do on final optimization and the feasibility study might be the path to that, but let's wait until we get his recommendations.

Operator

(Operator Instructions)

Our next question comes from Chris Thompson with PI Financial.

Chris Thompson - *PI Financial Corp., Research Division - Head of Mining Research*

I just want to dig into some details here, just looking at the operations. And just correct me if I'm wrong, but I wanted to be, I guess, you're currently producing at about 1,000 tonne a day in the Q4. The intention is to pick that up to about 1,200 tonne a day. And your costs right now are about \$132 per tonne mill. When can we see the turnaround? Can you be a little bit more specific on a quarter.

Bradford James Cooke - *Endeavour Silver Corp. - CEO & Director*

Dan?

Daniel W. Dickson - *Endeavour Silver Corp. - CFO*

Yes, Chris, Dan here. Nice to hear from you. Yes, we had a direct production cost in 2019 of about \$135 per tonne. I think we've touched on this previously, even with yourself and on previous calls. Historically, we've been down in the \$95 to \$100 range. Never thought we'd get there. Some of the things that went through on Q4, we're still \$132, despite getting up to 1,000 tonnes per day, just some additional costs in our immobilization. We've had some success at the PEA Porvenir Cuatro extension, the land that we acquired or a concession that we -- rates we acquired from a neighbor of ours for scope.

So we ended up expensing a lot of development into P4E because we didn't have reserves and resources there. As of December 31, we ended up having a total resource base of 495,000 tonnes per day. So we'll be able to capitalize those development point, or what we've already guided out in our 2020 guidance is the cash costs and ultimately, consolidated direct cost per tonne.

And inside that direct cost per tonne is kind of drag down to \$100, \$110 range, which at we've roughly seen historically. So we expect that to calm now. We do have a royalty on the P4 extension with Frisco, that's going to drive up our operating cost a little bit, if we end up doing more production out there. But ultimately, the margins out of that area will be significantly higher than those additional costs.

Chris Thompson - *PI Financial Corp., Research Division - Head of Mining Research*

All right. that's good. We ask the same sort of question for Bolañitos, down. So apologies that we probably -- I think we have discussed this before. But just...

Daniel W. Dickson - *Endeavour Silver Corp. - CFO*

No, we haven't.

Chris Thompson - *PI Financial Corp., Research Division - Head of Mining Research*

There, I mean, where do we stand on the tonnes and where do we stand on the cost there? I know they're a little, I guess, you're a little short on that, is it 1,250 tonne per day expectation there for this year at some point? And then your costs are still a little high ahead.

Daniel W. Dickson - *Endeavour Silver Corp. - CFO*

Yes. No, absolutely. And you'll see that at Bolañitos and anyone that's followed us, we'll see from it Q1 to Q4, our costs rose each quarter at Bolañitos. And ultimately, we ended up at the \$80 mark, which is the highest in the history of Bolañitos. Historically, we've always run in the mid-60s kind of reached into the 70s here and there, but ultimately, drove back down into the 65, 68.

On an absolutely growth basis, we spend actually a little bit less than we budgeted in 2019. But ultimately, again, it comes down to how many tonnes are going through the plant and driving that. And we dipped to below 1,000 tonnes per day in 2019. And it can -- in Q3, we are just over 800. In Q4, we're closer to 900, but ultimately, not at that 1,000 or 1,100 tonne average, we expected last year.

Q2 or Q3, we should be hitting the 1,200, 1,250. And ultimately, we budgeted out about 1,100 tonnes per day, over the course of the year, and that's going to drive us back down into either low 70s, and ultimately, hopefully, into the high 60s for 2020.

Chris Thompson - *PI Financial Corp., Research Division - Head of Mining Research*

Okay. And then just, I guess, finally, El Compas. You seem, you'll be there on the tonnes, correct me if I'm wrong, but I guess, they are the 250 tonne per day mark there, but costs are, I mean, what is the correct cost? Well, what do you see as far as steady state sort of operating cost per tonne?

Daniel W. Dickson - *Endeavour Silver Corp. - CFO*

Yes, originally, in our economic study, we're always around the \$110 range. This year, we will be between \$110 and \$120 is what we expect.

I mean, our first 9 months of production at Compas wasn't as smooth maybe as we hope. We got to that throughput, but there's always little issues that we're working through with any new mine. We did switch out the contractor halfway through the year. There are mobilization fees with that. We are going from a cut and fill method to a semi long-haul method in 2020, ultimately, reducing contractors and increase in employee operated from the mine site. We did a lot of sill development in 2019. So we'll be moving more to regular, like you say, semi-long holing, which should benefit us and just less troubleshooting.



We moved a gentleman out of the plants, as well. And we think, we have a team in place now, that we can operate, where we expect it to operate from our economic studies going into this operation.

Operator

This concludes the question-and-answer session. I would like to turn the conference back over to CEO, Bradford Cooke for any closing remarks.

Bradford James Cooke - *Endeavour Silver Corp. - CEO & Director*

Thank you, operator, and thanks all for tuning in today. We obviously had a challenging year, last year. We hope, that this is the last of the bad news we have to report. And as we go forward, hitting our marks for this year, we feel, is critically important to seeing the stock perform. We have many other drivers of value, but clearly bouncing back from last year's operating underperformance is tops of our list.

Secondly, obviously, we have the best organic growth profile in the silver sector and getting Terronera through the next steps and through the debt financing. So we can break ground, would be priority number two, to create value for stockholders, both short and long term. And then ultimately, in the latter half of this year, we hope to get back to drilling in Chile, where we have world-class prospects. And the idea in Chile is that instead of finding more, relatively small high-grade ore bodies, as we've done so in Mexico, our attempts in Chile are to try and crack open a game changer discovery, if you will, something that would secure a long-term mine life for the company.

So we are looking optimistically at 2020, and then we certainly have a tailwind in the metal prices. Thank you all for tuning in, and that's all from me.

Operator

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

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