

# Endeavour Silver Corp.

## First Quarter 2022 Financial Results

### Conference Call Transcript

**Date:** May 11, 2022

**Time:** 10:00 AM PT / 1:00 PM ET

**Speakers:** **Trish Moran**  
Interim Head of Investor Relations

**Dan Dickson**  
Chief Executive Officer

**OPERATOR:**

Welcome to the Endeavour Silver First Quarter 2022 Financial Results Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded.

I would now like to turn the conference over to Trish Moran, Interim Head of Investor Relations. Please go ahead.

**TRISH MORAN:**

Thank you and good day, everyone.

Before we get started, I would ask that you view our MD&A for cautionary language regarding forward-looking statements and risk factors pertaining to these statements. Our MD&A and financial statements are available on our website at [edrsilver.com](http://edrsilver.com).

With us on today's call we have Dan Dickson, Endeavour's CEO; Christine West, our CFO; and Don Gray, our Chief Operating Officer. Following Dan's formal remarks, we will then open the call for questions.

Now, over to you, Dan.

**DAN DICKSON:**

Thanks, Trish, and welcome, everyone.

'Twenty-two is off to a strong start. Not only was it a good quarter for our operating mines, we have been very active on building out the long-term future of the Company. First, let's talk about operations. Consolidated Q1 production was up 4% year-over-year to 2 million silver equivalent ounces. This was more than enough to offset the impact of suspending our El Compass operations last August.

Guanacevi had a great quarter, driven by higher silver and gold grades. Based on where we're mining this high grade ore, it's expected to continue in the near term. In addition, we're



purchasing ore from local miners, which is further enhancing our grades. This is also expected to continue into the second quarter. At Bolanitos, gold grade and gold ounces produced were down in Q1, while our silver ounces and silver grades were each up significantly higher. Bolanitos production is expected to remain steady and continue to provide mine free cash flow throughout 2022.

Ultimately, the first quarter puts us in great shape to achieve this year's production guidance of between 6.7 million and 7.6 million silver equivalent ounces. As noted, consolidated production increased by 4% in the first quarter. However, revenue rose close to 67%. A lot of you listening today on today's call are aware that we have opportunistically withheld metal in 2021. The bullion held at yearend had a market value of about \$31 million. The spike in this quarter's revenue is attributable to the sale of about half of that unsold bullion that we held at yearend. That bullion was sold throughout the first quarter at significantly higher prices than what we saw in December, which contribute to cash flow from operating activities of more than \$22 million.

As at March 31, we have \$151 million and no long-term debt, aside from normal course equipment leases, and working capital of \$168 million. For the quarter, our all-in sustaining cost per ounce metrics were 5% higher than the previous year, just inside our guidance range of \$20 to \$21 per ounce. Containing costs continues to be a major focus in this inflationary supply-constrained environment. While this is an industry-wide issue that is expected to prevail throughout the course of the year, we are closely reviewing our purchasing practices to see where and how we can mitigate the impact.

A moment ago, I mentioned that we had been actively building out the long-term future of the Company. We are tracking two major milestones here in the second quarter: securing financing for Terronera and closing the Pitarrilla acquisition. First, let me update you where things stand with respect to Terronera, which is our biggest priority. Once completed, Terronera is expected to double our production and cut our cost profile in half. We are advancing sustainability documentation to meet commercial banking requirements required for project loan financing. We believe this documentation will be beneficial with regards to the long-term sustainability of the project in consultation with the communities and various levels of government.

Aside from the delays to site visits and other due diligence caused by COVID, activity on this documentation has been underway for several months and is



expected to wrap up by the end of May. While this has put us slightly behind our original schedule, the project continues to move forward. In terms of our schedule, we are still expecting to complete commissioning in the first half of 2024, if we can secure the debt portion of the project financing by the end of this quarter.

Last year, the Board approved \$21 million to advance the Terronera project while we're working through this financing. We spent \$12 million prior to yearend and an additional \$6 million in Q1. We are well down the road on site clearing, detailed engineering, early earthworks, and camp infrastructure. We have another \$9.5 million earmarked to spend at Terronera in the second quarter to complete earthworks, phase one of detailed engineering, and the commencement of the permanent camp construction. For us, Terronera is a game changer, and it's a very important part of our future.

During the first quarter, we also announced the addition of an exciting advanced-stage exploration project called Pitarrilla. Situated in Durango State, Mexico, it's one of the world's largest undeveloped silver deposits, and we believe it has the potential to be a tier one asset. We announced this acquisition in mid-January and expect it to close before the end of June. At which time, work will immediately commence to define the historical resource as a current resource, assess a number of targets, and advance the project to an updated economic study.

To close the transaction, we are awaiting approval from the Mexican Federal Economic Competition Commission that is expected imminently. The \$70 million acquisition of Pitarrilla is fully financed. Fifty percent of the purchase price will be Endeavour shares and 50% will be paid in cash. To fund the cash portion, we completed a bought deal for \$46 million in March. This equity raise, together with the strong operating cash flow this quarter, has really strengthened our balance sheet.

One last very important item I want to highlight before we move to Q&A, at the outset of the year you will recall we introduced a new sustainability strategy, focusing on three pillars: our people, our planet, and our business. I'm pleased to say that tomorrow we will be releasing our 2021 Sustainability Report that reflects our commitment to transparency and reflects our new strategy and branding. We recognize that our long-term success goes beyond achieving financial metrics. This year's report speaks to our ongoing actions and commitment to help shape a more inclusive and sustainable future for our business and our stakeholders



to prosper. I highly recommend you take time to view our new report, after it is published online tomorrow.

That wraps up my formal comments for today. Myself, Don, and Christine are happy to answer any questions that you may have.

Over to you, Operator, for Q&A.

**OPERATOR:**

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

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

**HEIKO IHLE:**

Hi there. Thank you, guys, for taking my questions. I assume you can hear me, okay?

**DAN DICKSON:**

Yes, you sound great, Heiko.

**HEIKO IHLE:**

Beautiful. Earlier on this call you spoke about adjusting some of your purchasing. I thought that quite interesting as a frustrated consumer who has been trying to more or less do the same thing when I hire contractors and whatnot, obviously on a much smaller scale. But frankly, I've really had no or very little success, because people just won't show up for jobs, or just quote you stupid prices. Maybe, if you'd be so kind, just give us some examples where like negotiating with workers is actually working and maybe some areas where things are not working and where you really haven't been able to mitigate the impact of the inflationary pressures, please.

**DAN DICKSON:**

Yes, sure. I mean, I think some of the obvious areas where we can't mitigate inflation pressure



is and that's on power costs. We get most of our power from CFE, Mexican Federal Commission of Electricity. We've seen a significant increase in that. For us, power costs are our third largest cost.

The other, our largest cost and obviously where it's most difficult to get concessions is labour. At the end of the day, with our union contract with Bolanitos and Guanacevi, obviously you don't ever see wages come down. Where we can push is on contractors, but obviously they're seeing inflationary costs. But where we do have a little bit of power, it comes down to combining purchasing between Bolanitos and Guanacevi.

Obviously, we've seen costs increases in cyanide and steel, and those are going to be prevalent because they're primary inputs, but we can get some purchasing power if we can combine that stuff, but we haven't been overly successful to this date with much. It's obviously something that were looking at when we're going into build Terronera. I think we're very lucky on the Terronera front that we've sourced a lot of our equipment. A lot of our—we've gone through Sandvik, and a lot of the equipment we've purchased with regards to operating is actually already on site. We have a ball mill already on site. We have been in front of it in that sense at Terronera.

But from an operations standpoint, again, it's looking at purchasing more volumes that we can share between Bolanitos and Guanacevi, and then, hopefully, ultimately Terronera when it comes online.

**HEIKO IHLE:**

Very good. Very helpful Thank you. Thank you very much and I'll get back in queue.

**OPERATOR:**

Our next question comes from Joseph Reagor of ROTH Capital Partners. Please go ahead.

**JOSEPH REAGOR:**

Hi, Dan and team. Thanks for taking the questions.

**DAN DICKSON:**

Hi. Thank you.

**JOSEPH REAGOR:**

Yes, so your G&A expenses kind of fluctuated a bit from quarter to quarter last year or so. I know some of that has to do with the way you guys account for G&A expenses and stock expense. But on a cash basis, how should we forecast quarterly going forward? What's a safe cash basis G&A number?

**DAN DICKSON:**

Yes, you're right. There is a fluctuation, and that's from the mark to market on deferred share units that are paid to our board. As you know, our stock pricing is very volatile because of the underlying metal, and that causes a lot of mark to market fluctuations. But ultimately, our G&A on a cash course and budget it somewhere between \$6 million and \$8 million. Ultimately, \$7 million, and it's pretty straight line. I think Q1 generally has higher costs, just because of the administration stuff with regards to audits. But in general, for the year, if you kind of used \$1.5 million to \$2 million per quarter, it kind of gets you there.

**JOSEPH REAGOR:**

Okay, that's helpful. Then, you mentioned the Pitarrilla acquisition. You're hoping to get it closed by June. It seems like that's a little longer than maybe originally was expected. Is it COVID-related delays in Mexico for getting approvals, and how comfortable are you with that June target at this point?

**DAN DICKSON:**

I think I'm very comfortable with the June target. The biggest thing is COFECE, which is the commission against anti-trusts, and we've been going back and forth with them and submitting information on ultimately Endeavour Silver's market share globally and in Mexico with regards to silver. We've submitted all our documentation. They came back with a number of questions, actually a number of times. It's our belief we've completely answered all their questions, so it's now just getting through that process, which we actually think it's quite imminent. We think we

can have that before May is out. I think we're being conservative with the June timeline, but if we do get done in the coming weeks, we should be able to close relatively quickly after that. But at this point, we're just waiting for regulatory approval.

**JOSEPH REAGOR:**

Okay, fair enough. Thanks. I'll turn it over.

**DAN DICKSON:**

Thanks, Joseph, for your questions.

**OPERATOR:**

Our next question comes from Lucas Pipes of B. Riley Securities. Please go ahead.

**LUCAS PIPES:**

Thank you very much, and good afternoon, everyone.

**DAN DICKSON:**

Good afternoon, Lucas.

**LUCAS PIPES:**

I also wanted to ask about inflationary pressures and I wondered if you could maybe distinguish between the inflation rates you're seeing in local currency versus on the U.S. dollar rate and what percentage of your costs is approximately in local currency. Thank you very much.

**DAN DICKSON:**

Yes, very fair question. Again, labour being our largest cost, which is about 33% of our kind of operating costs. You've got the operating costs. Those are obviously incurred in Mexican Pesos, and then, of the last 66%, about half comes out of Mexico and half the sources are tied to the U.S. Dollar. Ultimately, or about 60% to 65% tied to the Mexican Peso.



Now, last year in 2021, the Mexican Peso's inflation rate was just shy of 6%. This year it's tracking a little bit higher than that, similar to what we're seeing in Canada and the United States. But ultimately, it's lining up to where the U.S. is. It's not like the Mexican Peso is running at a higher inflation rate, impacting the Mexican Peso, or giving us less with our Peso. I would imagine that will continue with oil prices being higher. Mexican Peso generally does a little bit better, because they are tied quite a bit. I do expect their tourism industry to pick up with people traveling again with COVID almost behind us.

**LUCAS PIPES:**

That's very helpful. Thank you for that and then just turning to the balance sheet for a moment. You've been shoring up financing, and congratulations on that.

**DAN DICKSON:**

Thank you.

**LUCAS PIPES:**

It feels like things are a bit choppier, kind of across the broader capital markets, and I wondered if you could share your perspective on how you look at the balance sheet today, if there might be desire for more dry powder, or if you say it's pretty bulletproof from here. Appreciate your perspective on that. Thank you.

**DAN DICKSON:**

Yes, as I touched on, I mean, our working capital is \$168 million as of March 31. Our cash balance was north of \$150 million. Of course, \$35 million of that cash will be paid out to SSR when we close Pitarrilla, so we're still in a very strong cash position. Obviously, the big thing that's coming down the pipe for us is a formal construction decision on Terronera.

Right now, in our feasibility study, the Terronera initial CapEx is \$175 million. It's going to be paid over two years. We do have, and been working on for the last six months, a debt portion. We feel like we have the equity portion with the cash that we have on hand and the cash

coming from the operations. But ultimately, we want to carry a float in the Company and put in about \$80 million to \$90 million of debt on the books at a project loan financing ability.

I think we're still going to go down that path. We've done a lot of work with regards to our sustainability around the Terronera asset for project loan financing. We think it's the best use of capital. We think it's the best route for our shareholders. Carrying \$80 million of debt on our balance sheet I think is very prudent for our shareholders, and ultimately that's where we're going to go.

As far as putting more powder on the balance sheet, there's none at this time. Of course, our corporate development group's always looking at potential to further grow assets that would be accretive. If it means we have to go out and raise more capital, it means we go out and raise more capital. It's not something that we're looking at, at this time.

I think with the acquisition of Pitarrilla, with the construction coming of Terronera we're quite busy. We've got lots going on. I don't want to absolutely kill our staff. Hopefully, we can kind of swallow those and get moving on that, and then look to see what we can do in 2023 or 2024.

**LUCAS PIPES:**

No, that's very helpful, and yes, you've been busy. Congrats on all the good work.

**DAN DICKSON:**

Thank you.

**OPERATOR:**

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

**DAN DICKSON:**

Thank you, Operator, and thank you again for everyone for joining us today. Just a reminder that tomorrow is our Annual General Meeting of Shareholders. It's being held at the Metropolitan

Hotel in Vancouver at 10:00 a.m. We hope to see you there and have a good day.

**OPERATOR:**

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