

Endeavour Silver Corp.

Second Quarter 2022 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 Second Quarter 2022 Financial Results 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.

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

Galina Meleger:

Good morning, everyone, and welcome to today's call.

Before we get started, I would like to 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 under our Disclosure portal.

You will have seen that there was a retransmission to today's news release that went through about 30 minutes ago. The amendment was with regards to a correct estimate for our 2022 all-in sustaining cost forecast of \$20 to \$21 per ounce net of the gold credit. This was the only change made to the news release.

With us on today's call we have Dan Dickson, Endeavour's CEO, and Christine West, our CFO.

On behalf of Endeavour Silver, I would like to thank you again for joining our call today, and I'll now turn it over to our CEO, Dan, for his formal remarks.

Dan Dickson:

Thank you, Galina, and welcome, everyone, to this conference call for the second quarter of 2022.

Before we discuss our Q2 results, I'd like to touch on current market conditions. While our operational performance has been strong, our stock price has been impacted by sell offs across equities in both the broader markets and in the precious metals. The gold miner equities have disconnected from the actual metal prices and have underperformed their underlying commodities.

Year to date, the S&P is down over 20%. Gold and silver equities are down 30%, and similarly, our stock is trading down about 30%, despite our robust operational performance. We remain confident that the current environment is bullish for gold and silver, especially as we are nearing peak rate expectations in this hiking cycle and inflation remains persistent.

Recently, we've seen positive movements in our space. We expect this trend to accelerate in the second half of this year, with the potential for precious metals to make a strong rebound. With that view on pricing, we have once again made a strategic decision to withhold the sale of a meaningful amount of metal. At the end of June, we were carrying approximately 1.6 million silver equivalent ounces in finished goods inventory with a market value of almost \$35 million.

Given that almost one full quarter's worth of metal remains in finished goods, our financial metrics were negatively impacted. Revenue decreased by 35%. Earnings declined by 275% and operating cash flow before working capital fell by 60%.

With the benefit of having more than \$115 million in cash on the balance sheet and no material debt, we have both the liquidity and flexibility to support the short-term sales strategy. However, we do expect to put cash back on the balance sheet by selling our finished goods inventory when the silver price strengthens.

Our two operating mines, Guanacevi and Bolanitos, have generated excellent results during Q2. Silver production increased by nearly 30%, driven by strong performance at Guanacevi, while gold production decreased by 17%, primarily due to the closure of the El Compas mine last August.

Guanacevi has been outperforming due to the mining of higher grade ore within the El Curso ore body and increased purchased ore from local third-party miners. While it's been very rewarding to see grades reach these levels, we expect the grades to be lower going forward, but still higher than planned. Additionally, in Q2, throughput was lower than planned as we invest in a new cone crusher at Guanacevi. This will allow us to increase throughput in the second half of the year.

For the quarter, our cost per ounce metrics have been tracking relatively in line, with cash costs averaging a little over \$10 per ounce and all-in sustaining costs averaging a little over \$19.50 per ounce net of the gold credit. Our direct operating costs per tonne have increased by 10% due to inflationary pressures across a number of inputs.

The additional production from the exceptional grades at Guanacevi have allowed us to maintain our cost guidance on a per ounce metric, but industry-wide inflation continues to be relevant. Like other miners, we were impacted by similar inflationary trends. Increases in prices of raw materials, such as reagents, explosives, steel, diesel, and power, are all driving continued cost escalation across the industry.

As you saw in today's news release, we increased our annual production outlook to reflect better the anticipated operating performance, mainly at Guanacevi. We are now targeting to produce 7.6 million to 8.0 million silver equivalent ounces for this year. Overall, and after factoring in the positive operating results in the first half of 2022, we increased our production outlook at Guanacevi by 12% in response to the higher than planned ore grades along the El Curso ore body. We tightened up the forecast at Bolanitos to meet the upper end of its previous guidance.

While we maintained our original cost outlook, costs are likely to be at the upper end of their respective ranges, with cash costs expected to average closer to \$10 per ounce and all-in sustaining costs expected to average closer to \$21. We acknowledge that global inflationary pressures are expected to persist for the rest of the year. As such, we have identified efficiencies to mitigate pressures on costs and cost metrics.

With our operations running well, we are getting closer to reaching a financing deal and a subsequent development decision at Terronera. To continue with the advancement of the project, the board has approved an additional \$23 million in development expenditures until the end of October. This investment is on top of the \$18 million already spent up to June 30, 2022. This brings the 2022 development budget to \$41 million, signalling a vote of confidence by the board and allowing us to move ahead with the early works while we work tirelessly to complete a finance impact.

At the same time, we are moving forward with engineering, construction of access roads, site

clearing, and purchasing of long lead items. With respect to equipment, I'm pleased to say that we've locked in prices on much of our long lead items to mitigate these inflationary pressures. Since Terronera will be our largest and lowest cost mine, it's a significant priority for our management team. We're working very hard to complete a financing package and look forward to providing the market with an update in the coming months.

Along with Terronera, we're building an impressive pipeline of new projects to fuel our future growth. Subsequent to quarter end, we completed the acquisition of the Pitarrilla project from SSR Mining, which is the world's largest, undeveloped silver deposit. Not only does this important acquisition allow us to maintain a high leverage of silver on our pathway to grow, but it strengthens and complements our regional expertise. For the remainder of the year, our exploration team will focus initially on verifying the historic resources and then turn their attention to the many exploration targets on this highly promising property.

Let me wrap this up. This is truly an exciting time for Endeavour Silver, for the potential we see in the capital markets, and for our operational performance. We have made operational and strategic improvements in all areas of our business and built a remarkable pipeline of growth, focused on benefitting from longer term strengths in silver prices with Terronera, Pitarrilla and Paral.

Let's just stop there and let's open up for questions.

Operator, over to you.

Operator:

Thank you. We will now begin the question-and-answer session. The first question is from Heiko Ihle with H.C. Wainwright. Please go ahead.

Marcus Giannini:

Hi everyone. This is Marcus Giannini calling in for Heiko. Thanks for taking my questions, and congrats on the good quarter.

Dan Dickson:

Hi, Marcus.

Marcus Giannini:

And with raising guidance.

You guys speak about cost control in the release. Obviously, not even to do with the current environment as a key focus for the firm right now and pretty much for everyone else in the industry as well. Out of curiosity, can you break down where you think you can wring out some efficiencies out of the business and maybe even quantify the savings by category?

Dan Dickson:

Yes, it would be difficult, Marcus, to quantify some of the savings by category. Some of the things that we're looking at are mainly on the development side with the amount of meshing and bolting we're doing. We're seeing a high increase in our bolting and meshing costs, which is really the inflationary we're seeing in steel. We're kind of re-looking at how we can better deploy that going forward.

Obviously, the biggest thing for us is at Guanacevi, and it's really in economies of scale. You

can see that our mining rate actually hasn't hit what our plan has been for the year, and ultimately our processing tonnes also haven't hit as planned for the year. We're slightly below on a tonnes per day. We're on the lower end of our original guidance for tonnes per day through the plant, and that's a function of a couple things that we did in the first half of the year.

One is changing out a cone pressure. Other stuff has been maintenance on leach tanks. A lot of that work has been done and the cone pressure is installed. I think that's going to allow us to get closer to 1,200 tonnes per day. As we get up to the 1,200 tonnes per day for Guanacevi, we're going to see our costs per tonne come down, and ultimately, that will make its way through.

That's some of the efficiencies that we've been looking at for the second half of the year is ensuring that we're hitting our throughput tonnes to get the economies of scale in some of those inflationary things. Things like diesel and power cost, there's very little we can do. We're obviously accepting those costs as is. It's just finding efficiencies and productivity throughout the operations. I think there's still a lot of opportunity at Guanacevi to be able to do that.

Secondly, as prices have come down, our royalty costs at Guanacevi are going to come down, as well. A big portion of our cost is the royalties that come from El Curso. Again, when silver was over \$25, we paid a 16% royalty on it. Between \$20 and \$25, we paid 13%; and below \$20, we paid 9%. Ultimately, we are getting some cost savings in the royalties with these lower prices. That will help push down some of our costs going forward as well, but of course we would prefer to have higher prices than paying higher royalties.

Marcus Giannini:

Okay, perfect. Yes, that was really helpful.

Then lastly, congrats on Pitarrilla. Would you be willing to venture a guess as to how much you've spent on the site since closing and an approximate estimate as to what you expect to see for the remainder of the year on a monthly basis? Then I guess pushing our luck a bit further here, any idea how these combined funds break down into labour and claims fee, etc.?

Dan Dickson:

Yes, I mean, you're not pushing too much. Claim fees and labour, most of our costs that we're carrying there is 28 individuals that work—that we have acquired when we acquired the Pitarrilla project. On a monthly basis, our burn rate there is about \$100,000 to \$200,000, just with keeping the plant—or sorry, the camp and those individuals employed and going through that.

Since we have acquired it, which closed shortly after Q2 here, we haven't incurred all that much. I mean, we're kind of mobilizing our exploration team to start a project. At the beginning of the year, we had a \$1.8 million exploration budget for Pitarrilla. We think we are going to come close to that \$1.8 million in the six months, depending on how we can get mobilized.

As far as the break down between labour and the actual costs, I would say probably about \$1.8 million. Labour cost is going to be somewhere between \$500,000 to \$700,000. Some of that would be on new exploration geologists, contractors in there, but I don't know if I need to give much more break down in those terms for Pitarrilla.

We do have good plans. Like I said, we have to prove out the historic resource. That will take some time, and then ultimately, we have a couple plans with regards to exploration. One, there is an exploration ramp that's about 1.1 kilometres in. It needs a workaround. It's come through a fault that's collapsed. We'll have to work on that. Then there's targets from surface that we're

going to consider, and ultimately, we'll get some of that work done here in the next four to five months and then come out with a new plan for 2023 for Pitarrilla.

Marcus Giannini:

All right.

Dan Dickson:

The carrying costs, Marcus, and sorry, the last question on just claims. The carrying cost on claims is very small. I'd say less than \$200,000 for the year. That would have been all paid. Normally that's paid in January and July.

Marcus Giannini:

Got you. Okay, perfect. Thanks a lot. That's it for me.

Dan Dickson:

Thanks for the questions, Marcus.

Operator:

The next question is from Jake Sekelsky with Alliance Global Partners. Please go ahead.

Jake Sekelsky:

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

Dan Dickson:

Hi, happy to take them.

Jake Sekelsky:

Obviously, you had a strong first half on the back of higher grades. You mentioned they'll moderate a bit, Dan, in the second half, but still remain a little bit elevated. Are you able to quantify this at all? I'm just trying to get a handle on what type of profile we might see in the second half.

Dan Dickson:

Yes, I think we're just always concerned that some of the grades that we're seeing come through Guanacevi have been higher than what our reserve grades are. We are continually seeing the grades in this area being higher. You can even point to some of the drill results that we put out earlier this year on an extension of El Curso, which had a significantly higher grade, even that we've mined. Ultimately, we do think there will be a reversion to what the reserves actually are, and we want to be kind of protected to that.

But still, again, we expect that we're going to be higher than plan. I can't put a specific number on it at this point. I think we averaged close to 450 grams per tonne of silver equivalents in the last quarter, and I think that would come down almost kind of 8% to 10%, so close to the 400 gram silver equivalent per tonne.

Jake Sekelsky:

Okay, that's helpful. Then just looking at the disconnect, now that you mention between precious metals equities and where prices are right now. Realizing that development is accelerating at Terronera, you just closed on Pitarrilla. Do you think you'll continue to take an opportunistic stance from an MD&A standpoint, or do you sort of feel that your plate is kind of full right now?

Dan Dickson:

No, yes, our plate is definitely full right now, but at the same time we haven't put down the pens with regards to potential that's out there to build the Company, and ultimately, I think being opportunistic is a good approach to take, especially on M&A. We do have a long-term view that silver prices are going to be higher than where they are now, and ultimately, we think that will persist for a long time.

It's hard to find silver assets, predominantly silver assets in this space. I don't think it's prudent to kind of put pens down and not look at things. We continue to look at things. Of course, as we grow, cash flow is going to become more meaningful, and trying to find cash flowing operations would probably take a priority over a development project, just on being able to use of funds. But at the same time, we don't stop looking at those things, because if there's value to be had, we want to be able to take advantage of that.

Jake Sekelsky:

Got it. Okay. That's all for me. Thanks again.

Dan Dickson:

Thanks for the questions, Jake.

Operator:

The next question is from Joseph Reagor with ROTH Capital Partners. Please go ahead.

Joseph Reagor:

Hi, Dan and team. Thanks for taking my questions. I think most of the stuff I wanted to touch on was already touched on by the prior two people, but maybe a little bit more detail on cost inflation.

How do you guys think about the impact of these cost inflations you're seeing when it comes to the Terronera project? Do you feel that the estimates you have out there publicly are, you're comfortable with? Do you expect that you'll have to change them? Do you take a proactive approach of doing a larger financing package? What are the puts and takes there?

Dan Dickson:

Yes, thanks, Joseph.

I think that's a very fair question. It's something that we are very mindful of. I think the good news from our standpoint with Terronera is we have locked in a lot of lead items. Our mobile equipment fleet with Sandvik, I think 22 of 33 pieces of equipment have arrived and are on site. We have procured a number of plant equipment items that have locked in those prices, so really, it's going to come down to the inflation on the infrastructure.

We have looked at it, and it's not that we're uncomfortable with the \$175 million that's in that feasibility study, but things have obviously changed over the past year with regards to inflation, and I think that's going to come its way through. I think when we come out with a development decision for Terronera, we're going to be able to come out with a new estimate from a capital standpoint, taking into consideration what we've already purchased, which would be locked in and then inflationary costs that would be built into the project.

Again, I think we'll come out with that when we come out with the development decision, but there's definitely been inflation across the space, and we're quite mindful of that and want to

make sure that, when we go to build Terronera, we have a budget that's actually reflective of what's happened out there and what we can purchase for and be able to guide the market appropriately.

Joseph Reagor:

Okay, maybe a little bit further detail there. What percentage of the \$175 million did you guys already lock in?

Dan Dickson:

We've locked in almost—so we've got a \$41 million development budget which includes equipment that we've already purchased. As far as the \$175 million, what percentage is already locked in? I don't have that in front of me, but I'm guessing it's more towards the 25%, 30% range.

Joseph Reagor:

Okay. Okay, fair enough. I'll figure something else in there.

Then looking at Guanacevi, and I think Jake tried to get at this, too. Even with the guidance raised, it feels as though there's still some room to the upside there. If grades were, even for silver at least, 50 grams lower than they were even in Q1, you know, you would easily get to the midpoint of guidance, of the revised guidance there, and that's even at the low end of your tonnage guidance.

Is it that you guys have some concerns with that the tonnage may end up being a little lighter than originally expected? I know you said you've been behind schedule, but is there some thought that you might not be able to catch up, or is the grade really going to fall that much? Like how do I account for that?

Dan Dickson:

Yes, no, I think it's a fair question and we don't expect our tonnage in the second half of the year to be lighter. In fact, we expect it to be better than in the first half of the year just because of the work that we've done in the plant and our expectations. One of the things that makes it difficult for us to guide is how much third-party ore comes to the plant. With the higher prices, more ore comes to the plant, and we actually saw some of the highest grade ore delivered to the plant by third-party miners in the first half of the year.

That's one aspect of it that we have to be cautious of when we guide what grades are ultimately going forward. That can vary, like I say, just because of prices. We don't specifically have transparency into the mines of some of the third local miners of what grades they're going to have. Ultimately, they don't probably really know either, so we're taking a guesstimate there.

Ultimately, as we move into down the El Curso ore body, we do have estimates done through reserves, and we have to use that as a guide. Now, we have been seeing higher grades in those reserves, but we can't just go and change our reserve grades with the idea that it's going to improve, other than us putting out further data on it. I think we're being relatively cautious with our expectations of where grades are going to be in the second half of the year. But yes, there's quite a possibility that we beat that middle guidance for sure if grades continue to be elevated compared to what we had in our operating plan.

Joseph Reagor:

Okay and then on the third-party ore, just real quick, how many tonnes of third-party ore did you

process in the first half?

Dan Dickson:

In the first half we did about 13% of our tonnes were in third-party ore. I think almost 15% in Q2 and 11% in Q1.

Joseph Reagor:

Okay. All right, thanks. I'll turn it over.

Dan Dickson:

Thanks, Joseph. Very good questions. Thank you.

Operator:

The next question is from Justin Stevens with PI Financial. Please go ahead.

Justin Stevens:

Hi, guys. Yes, congrats on the fantastic, really solid start to the year here.

I think I was going to start just by following on from Joe's question there. When you guys pay for third-party ore, is that at a percentage of metal content, or do you pay sort of a flat rate per tonne?

Dan Dickson:

No, we pay as a percentage of metal content. When it's delivered, we actually make a payment, and it's about 60% to 66% just depending on what's in that ore of payment per tonne on metal content. With the higher metal content coming in, with higher prices, we pay more on a third-party ore basis. That shows up in our overall costs per tonne.

Justin Stevens:

Got it. Yes, that makes sense. I think the other sort of question I had was in terms of the El Curso. Obviously, you guys are paying higher royalty rates for all the ore that comes off that lease. Do you have a rough idea in terms of either tonnage or metal content in terms of the Guanacevi feed, what is coming from the leased properties versus sort of the existing (inaudible 23:42)?

Dan Dickson:

Yes, at El Curso we're required under our agreement with Frisco that over—minimum 600 tonnes per day comes from El Curso. Ultimately, almost half. I think we've been closer to 60% to 65% of our throughput is related to the El Curso material for the first six months of the year.

Justin Stevens:

Perfect, that's great. I guess the only other question I had was I know obviously you put out a couple lines on Bruner gold, looking to twin some holes and sort of validate the historical resource there. Any updates just to the timeline or sort of how that's going?

Dan Dickson:

Yes, we've got geologists on the ground. We actually don't have drills on the ground yet. That was planned in the fourth quarter, end of third quarter, into the fourth quarter. With where prices are, we could look to slow that down, but at this point in time it's on schedule for, like I say, end of third quarter, early fourth quarter.

Justin Stevens:

That's for the drilling and then by the time I guess you get results, (inaudible 24:46) and then actually look at the modeling, it would probably be into next year then, right?

Dan Dickson:

Into next year or the end of Q4.

Justin Stevens:

Got it. Great, all right. That's it for me. Thanks so much.

Dan Dickson:

Thanks, Justin. Good questions.

Operator:

There seems to be no more questions. This concludes the question-and-answer session. I would like to turn the conference back over to Dan Dickson, CEO, for any closing remarks.

Dan Dickson:

Thanks, Operator.

And I want to thank everybody for attending today's call. I know it's the doldrums of summer.

I think we've put together a really good first half of the year with our operational performance, and I expect the second half of the year to be hopefully as good as the first half of the year. Of course, the same things that we're working on in this Company is trying to put Terronera forward and ultimately put a finance package together so we can announce the development for us to continue to grow in the silver space and keep pushing to what our goal is to become a senior silver producer. Thanks again for everybody attending, and talk again.

Operator:

This concludes today's conference call. Thank you for participating, and have a pleasant day.