

Endeavour Silver Corp.

Third Quarter 2022 Financial Results

Conference Call Transcript

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Speakers: **Galina Meleger**
Vice President, Investor Relations

Dan Dickson
Chief Executive Officer

Don Gray
Chief Operating Officer

Christine West
Chief Financial Officer

Operator:

Welcome to the Endeavour Silver Corp. Third 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 conference call.

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 under the Disclosure portal.

With us on the call today is Dan Dickson, Endeavour's Chief Executive Officer, Don Gray, our Chief Operating Officer, and Christine West, our Chief Financial Officer.

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

Dan Dickson:

Thanks, Galina, and good morning, everyone.

Before getting into the quarterly results, I want to take this opportunity to reflect on the sudden passing of our Chairman and Founder, Bradford Cooke, this past August. All of us at Endeavour were shocked and very saddened when we learned of this tragic news. We've been deeply touched by the outpouring of love and support by the global business community and the many thoughtful messages of condolences.

Brad co-founded Endeavour Silver in 2003, and he was the driving force behind its many successes, creating the strong foundations that underpin the Company to this day. He was instrumental in building Endeavour from the ground up into a mid-tier silver producer with an industry-leading growth profile. While his vibrant personality, insights and sense of humour will be deeply missed, we are inspired by his pursuit of creating shareholder value. Collectively, we now carry a greater sense of duty to deliver on our objectives and carry forward Brad's legacy.

When we had our earnings call three months ago, I spoke about the economic backdrop and market turbulence. Certainly, as an industry, we are facing significant external challenges. Many of the same risks and trends continue to impact equity valuations for miners in Q3, including cost inflation, rising interest rates and lower prices. Both silver and gold reached two-year lows in September. Margins are being squeezed on both sides. While we remain proactive in managing this environment, I remain optimistic about our future. Our safe production performance, the strength of our balance sheet and our Management Team allows this. We remain bullish in our long-term view, given the demand fundamentals of silver. While short-term movements in price must be considered and managed, our overall strategic focus remains the same, which means advancing our exceptional growth projects.

This quarter, we generated revenue of \$40 million, which was impacted by withholding metal sales and lower realized silver prices. Earnings declined by 67% to a loss of \$1.5 million, or a

loss of \$0.01 per share. Operating cash flow before working capital changes fell by 4% to \$7.3 million, or \$0.04 per share. We continue to carry metal and finished goods inventory with a market value of \$35 million at quarter end. Given that almost one quarter's worth of metal remains in finished goods, our financial metrics remain muted.

Our cash balance decreased from \$103 million at the end of Q2 to just under \$70 million at the end of Q3. This drop was large due to the \$35 million cash payment for the Pitarrilla acquisition, while mine operating cash flow continues to be invested to prepare the Terronera project for construction. If we were to realize the sale of our carried inventory, valued at over \$35 million, our cash balance would approach \$100 million.

Q3 was a quarter with several significant developments and decisions.

First off, we have a 10% upwards revision to our consolidated production guidance, guiding 7.6 million to 8 million silver equivalent ounces produced in 2022, which marks the second year in a row we've done so.

On the exploration front, we released very positive drill results at Guanacevi, including encouraging results extending the (inaudible) dose area.

We also released positive drill results at Parral, where we see potential for resource expansion to depth and along strike on the Veta Colorada structure. Drilling will lead to meaningful resource growth, and we look forward to publishing a resource update early next year.

We divested El Compass, where we ceased operation in August of 2021, for \$5 million, and as previously noted, we completed the acquisition of the Pitarrilla project from SSR Mining for \$70 million in cash and shares. This is a big milestone and a noteworthy addition to our growth pipeline, as it's considered one of the world's largest undeveloped silver deposit.

Lastly, following Brad's passing, Rex McLennan was appointed our Chairman. I look forward to working closely with Rex to ensure Endeavour continues to create long-term value for all stakeholders, including our shareholders, employees and communities.

Operationally, I want to recognize the team at Guanacevi for continuing to lead the way in safe production performance. This September, Guanacevi reached over 2.5 million hours of work without a single lost time injury. We are proud to celebrate this milestone with all our team members.

Consolidated silver production for the quarter was about 1.5 million ounces. This is a 12% year-on-year increase and 7% higher quarter-over-quarter. The growth in silver production was primarily driven by the higher grades from the El Curso ore body at Guanacevi, as production targets were reached despite lower gram/ton throughput. Our consolidated gold production decreased by 17%, primarily due to the closure of the El Compas operation last August. This quarter, we produced 2.2 million silver equivalent ounces totaling 6.3 million silver equivalent ounces for the nine months ended September 30, 2022. We are well positioned to meet or exceed the high end range of our improved production guidance. If we can exceed guidance, it'll be the second consecutive year.

For the quarter, our cost per ounce metrics have been tracking relatively in line with guidance and the first half of 2022, with cash cost averaging a little over \$10 per ounce and all-in sustaining cost averaging a little over \$20 per ounce, net of the gold credits. The additional

production from the exceptional grades have allowed us to maintain our cost guidance on a per ounce metric, but industry-wide inflation continues to be highly relevant. Our direct operating cost per ton has increased 12% year-over-year due to the inflationary pressures across a number of inputs. We are aggressively pursuing cost management initiatives to mitigate inflationary pressures, where possible. We're working to ensure that our higher costs do not remain a permanent feature of the business going forward.

Guanacevi delivered yet again another stellar quarter. As compared to Q3 2021, silver production was up 13%, with silver grade being 21% higher. This more than offsets the 7% decrease in tons during the quarter. Similarly, higher gold grades were offset by the lower throughput, delivering flat gold production. The improved grades from the El Curso area, which is subject to a royalty that is based on silver prices and contributes about two-thirds of our mine output, is the primary factor. Grades from El Curso have slightly exceeded model estimates to date.

At Bolanitos, production results are largely in line with expectations, and we are on track to meet our annual target of 2.4 million ounces silver equivalent. While gold rates were below target, silver grades were up 36% year-over-year.

Mine development continues to be important for Bolanitos, which pushed our all-in sustaining cost to \$48 per ounce in Q3. I would stress that our operating costs were \$6.73 per ounce, and while all-in sustaining cost is an important metric Management uses, we understand the long-term value of mine development and ultimately expect to recover this investment over a period of time, not in a singular quarter.

In Q3, Bolanitos' free cash flow was negative \$1.9 million, and that includes their capital and exploration expenditures, which totaled \$3.7 million for the quarter. Annually, Bolanitos has generated \$1.6 million of free cash flow and annual operating cash flow of \$11.4 million year to date. Clearly, improving cash flow at Bolanitos will continue to be an area of focus as we move into 2023.

Moving to our growth pipeline, Terronera remains a top priority. It's a transformative asset that will make Endeavour the fastest growing silver miner, with close to 100% production growth in two years. It is strategic for the Company for many reasons: one, it is a mine with reserves that supports over 10 years of operations; and, two, it's a low-cost mine that will drive significant profitability.

As many of you know on this call, we've been working diligently with project lenders to complete a financing package ahead of a formal construction decision and receipt of amended permits. As part of this, we've completed ESG requirements as laid out by the Equator Principles, with third-party verification. In the meantime, the Board has approved and elected to de-risk various aspects of the project in a disciplined manner to minimize risks towards the construction decision.

We currently have approved a \$41 million budget, of which \$29 has been spent to date. As we commenced with the procurement of many long-lead items, we were fortunate to have secured a number of key contracts before the spike in costs and supply chain issues accelerated. The vast majority of the mobile mining fleet has now been delivered to site. To date, we have received 30 Sandvik and Getman units, including jumbos, bolters, scoops, dump trucks, screens, and other support equipment. Major mill equipment has been ordered, we expect delivery of the SAG mill primary crusher and pebble crushers in the first half of next year, and

the team has kicked off earthworks for the plant area, started preparations on Portal No. 2, and started to prepare the area for a permanent camp facility that will accommodate 550 personnel.

As you can hear, we're working on multiple fronts to advance Terronera and achieved good momentum with pre-development activities. In the coming months, we look forward to providing an update on the financing.

While Terronera is our nearest source of growth, we also completed the acquisition of the Pitarrilla project in Q3, one of the largest undeveloped silver assets in the world. Pitarrilla has the potential to be a large-scale cornerstone asset. We are nearly complete verifying this historic resource and believe it will add over 500 million ounces of silver to our consolidated mineral resource inventory, effectively tripling our total precious metals resource estimate. Next year, we will turn to attention to extending the underground ramp and developing crosscuts for underground drill pads to drill vertical feeder structures. Fully understanding these structures will be a crucial part of our next steps at Pitarrilla.

With this, let's stop here and open up for questions. Operator?

Operator:

Thank you. We will now begin the question-and-answer session. We will pause for a moment as callers join the queue.

The first question is from Heiko Ihle with H.C. Wainwright. Please go ahead.

Heiko Ihle:

Dan and team, can you hear me okay?

Dan Dickson:

We can hear you well, Heiko.

Heiko Ihle:

Very good. You mentioned ongoing inflation in your release. Not a big secret there, obviously, but, I mean, more important than the inflation almost, are there any parts and availability bottlenecks that you're encountering already; and building off of that last question, are you pre-buying any components because you anticipate shortages, or you feel like delivery timelines are getting worse, and if so, what are they?

Dan Dickson:

Yes, that's a very good question. I think we've been insulated from that a little bit because of all the equipment that we've been buying from Sandvik since 2019. We replenished our mobile fleet at both Bolanitos and Guanacevi over the last three years, and a lot of the parts that we're getting from Sandvik, as critical parts from a mobile fleet standpoint, we haven't had any issue with, and ultimately no disruptions. From a plant standpoint, a lot of our critical spares sit on-site, the ones that we've identified. I mean, I'm sure there's things, time that we need to get various parts, but I've not heard of any issues that we've had lately with that. So, for us, it hasn't been much of an issue, maybe, because of where we've been situated, but I have heard that across the industry a little bit, from other groups, it's just, like I say, it hasn't impacted us to this date, and we think we're in really good shape going forward.

Heiko Ihle:

Very good, thank you, and I apologize for bringing up inflation again. Just a quick clarification

there. You're spending \$41 million at Terronera this year. Any idea on what you think you'll need for the site in calendar '23? I mean, is there any big ticket or any long lead time items that aren't there or like in a certain part of the supply chain, and would you be willing to guesstimate, maybe, the development expenses, or just, in general, expenses for the site for next year?

Dan Dickson:

Yes, I can't give overly clarity on that, until we actually have a formal construction decision. I mean, ultimately, right now, billed cost for the feasibility study is \$175 million, and of course we've seen inflation since that \$175 million, and as I alluded to kind of in my preamble, is ultimately we've locked in a lot of our costs, with the mobile fleet already being there and a lot of—12 critical parts for our mill being already ordered. I think we did a good job of that this year to kind of get ahead and lock some of those prices in. We will see cost creep from that \$175 million when it's all said and done. We've been trying to optimize that project this year as we work through kind of the amended permits and trying to get this debt package in place, and ultimately, when we come out with that, we'll probably, at that point, be able to discuss more in detail the total cost to build Terronera, which will be slightly higher—I don't expect significantly higher, but slightly higher—and then give that timeline. The timeline to build it is still about two years, hopefully, we can beat that a little bit, and I would guess that \$175 million, plus inflation, is pretty homogenous over that two-year period. So, until we come out with budgets, which will be January of 2023, I'd probably leave it at that, Heiko.

Heiko Ihle:

A fair answer, I appreciate it, I'll get back in queue, and God bless Brad.

Dan Dickson:

Yes, thanks, Heiko. Thanks for your questions.

Operator:

The next question is from Jasper Wijk with ValPal. Please go ahead.

Jasper Wijk:

Thank you. The silver and gold grades have been elevated at Guanacevi over the entire year due to high-grade ore from the El Curso orebody. Do you expect similar grades moving into 2023, or do you expect them to fall, to come down a little bit?

Dan Dickson:

Yes, that's a very good question, Jasper, thank you. We have seen elevated gold grades from the El Curso orebody, and if you follow this year's drill results from Guanacevi, we've actually put out some really nice results from a width standpoint and from a grade standpoint. Ultimately, we might see that grade come down a little bit, but I think it will be higher than where our reserves sit at this point going into 2023.

Jasper Wijk:

Thank you. A follow-up question. As of now, we have roughly two-thirds of the ore coming from El Curso. Moving into next year, how much—do you think that will increase or roughly remain the same in percentage?

Dan Dickson:

We expect it to stay relatively the same for next year, as well.

Jasper Wijk:

Okay, and the overall trend for three years from now, will it become more dominant, or do you think it will kind of stay the same?

Dan Dickson:

The expectation is it would be the same. With the contract that we have with Ocampo, which is a Frisco company, we're required to produce about 600 tonnes per day, and we've been doing a bit better than that, 650 tonnes per day from El Curso. Based on the reserves and resources, and kind of the allocation or the split between our reserves over at Santa Cruz Sur and Malachi, the expectation kind of over the next two to three years would be that that El Curso production remains about 650 tonnes per day.

Jasper Wijk:

Okay, thank you. That was everything for me.

Dan Dickson:

Thanks, Jasper. Good questions.

Operator:

The next question is from Craig Hutchison with TD Securities. Please go ahead.

Craig Hutchison:

Hi, guys. I was going to ask a similar question with regards to Guanacevi and the grades, but I think you kind of answered that, but just maybe for Q4, specifically, you guys are trending above guidance, is there anything to believe that it wouldn't be very similar to Q3 in Q4?

Dan Dickson:

Yes, the only change between Q4 and Q3, it will come down to December, and, obviously, around Christmas period time things do slow down a little bit, sometimes we see throughput decrease a bit, but I would agree with your observation, that if we have a similar quarter in Q4 as we did in Q3, we'll be able to exceed guidance. We always try to be a little bit conservative and cautious here, and like I said, there's things in December that impact kind of a slowdown a little bit around operations, but if everything goes well, we could exceed guidance two years in a row.

Craig Hutchison:

Okay, great, and then just the financing for Terronera, I know you mentioned it's still a couple of months out, but any kind of updates on that, kind of what are the final due diligence procedures here, and then maybe a similar question would be amended permits, timing around that?

Dan Dickson:

Yes, from a debt standpoint, I mean, we've gone through a lot of work with regards to ESG and documentation, obviously the feasibility study, and we've done work around optimizing that feasibility study, as well, so getting kind of advisors to the banks updated kind of narratives, and support for any optimizations that we're doing. Ultimately, we see projects relatively the same, like the inflation increase on capital. Hopefully, it can be offset, potentially, by increases in throughput or slight little changes into the operations, that will offset a little bit of those inflationary costs that we've seen. Hopefully, we can get through some of this stuff by the end of this year, probably into next year a little bit. Things take a little bit of time, and I understand that, but we want to push and get moving on that.

As far as the amended permits go, the same thing. We've actually submitted a lot of our amended permits that we require, a little bit of work to be done to recharacterize some things, that we've got to do internally, but normal course stuff that we expect to get, it's just sometimes things slow down in the government and it's out of our hands and out of our control. We're doing our best to be able to push that and make it as easy possible on the government. We have been getting permits on various projects, with Guanacevi or Bolanitos, with various movements in permits at Terronera, so nothing's been stalled, it's just, like I say, the slowness of the government, and hopefully we can get that done, some of it by the end of this year, some of it will go into next year, but I would state, from a permit standpoint, we have all the permits to start construction. The amended permits will give us flexibility for our operations. Because of timelines, some do need some renewals, but those renewals are kind of normal course items, as well.

Craig Hutchison:

In terms of the permits for, I guess, production or operations, is it around tailings, or maybe what physically is required?

Dan Dickson:

We're amending permits around one of the portals for a higher staging area, we're amending permits to get bigger waste dump areas. ANEHA (phon 22:30), which is the Archaeological Department, they're clearing the tailings facility, but that's already been cleared by CONAGUA and SEMARNAT. So, like I say, it's generally normal course stuff.

Craig Hutchison:

Okay, thanks, guys.

Dan Dickson:

Thanks, Craig, thanks for those questions.

Operator:

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

Nick Giles:

Yes, thank you so much, Operator. This is Nick Giles calling in on behalf of Lucas. I think most of my questions have been answered so far, but maybe just one quick one. When you look a little further down the pipeline, which exploration assets could be next, what kind of looks most promising for maybe near- to medium-term development? Thank you so much.

Dan Dickson:

Yes, thanks, Nick, I think that's a very good question. One project we haven't really touched on much, we did put out good results this year is the Parral project, which is in Chihuahua. We've been working on Parral now. We acquired it in 2016, put out a resource by the end of 2019, which defined about 43 million ounces of silver. Unfortunately, with COVID, we didn't start drilling there again until mid-2021, and since then we've actually put out really good results, with better widths and better grades than we've seen. We're targeting a certain resource number, which is about 60 million, 65 million ounces of silver, and then we're going to put an economic study on it. I think, with the acquisition of Pitarrilla and having Parral, we've got a nice growth pipeline behind Terronera even, and ultimately, they're totally different scale projects. Pitarrilla is obviously one of the world's largest undeveloped silver projects and we're going to look at that kind of with an open mind, but with the idea that perhaps that will be an underground operation, as well, and Parral is a bit smaller than what Pitarrilla would be. It's an old, historical district,

there's old historical workings there, so we actually have development already down to where we're drilling, from an exploration standpoint. With the success that we have with Parral, from a drilling standpoint, and if we can continue to have that success, we will put an economic study on Parral, and that could be Option B if Pitarrilla takes longer or if we need different economics there. So, between Terronera, Parral and Pitarrilla, I think we have one of the best growth profiles in the space.

Nick Giles:

Great, that's really great to hear, and maybe, if I'm not mistaken, just with the proximity of Parral to Guanacevi, do you see any operational synergies there or do you see it as just kind of two standalone projects?

Dan Dickson:

They'd be two standalone projects. I mean, ultimately, there still needs to be a plant at Parral. There are plants in that district privately run, small government plants, but just the way that those operations are, I think they're still three-and-a-half, four hours part. There wouldn't be all that much—I mean, of course, spreading across our centralized systems, which, for our regional work, our technical advisors, our accounting groups, our legal groups, you get synergies that way, but they would be standalone operations when it's all said and done.

Nick Giles:

Got it, got it. Well, thanks for the detail, and continued best of luck.

Dan Dickson:

Thank you, and thanks for the questions, Nick.

Operator:

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

Joseph Reagor:

Hey, Dan and team, and thanks for taking the questions.

Dan Dickson:

Hey, Joe, happy to hear from you.

Joseph Reagor:

On Terronera, theoretically, sometime early next year you guys make an official construction decision—I know you can't officially say that, but, theoretically, let's assume you did. What would be the expected timeline to production from a construction decision, given you guys have done some work already? Like, I'm assuming it's changed a little bit from maybe the PFS.

Dan Dickson:

Yes, ultimately, the feasibility study had a two-year timeline to go, and because of what we've been doing and all the early works that we've been doing, hopefully, from when we announce the construction decision, it would be shorter than that two years, but I'm not willing to kind of put it out there until we actually have that construction decision, that timeline.

Joseph Reagor:

Okay, and could you quantify how much time you've taken off so far, or is that something you'd rather wait on?

Dan Dickson:

That's a roundabout way to ask the same question, but, ultimately, I think we could be under the two years.

Joseph Reagor:

Okay, fair enough. Then, Bolanitos, kind of looking at what the resource was at the beginning of the year, how many tonnes you've taken out of it this year, unless you've added a significant amount, which I guess we'll find out in the year-end resource update, but would you expect that mine to start winding down towards the end of next year, or the year after, and then when it does wind down, would the expectation be to do something similar, you know, to sell it off, like you did El Cubo, or would you repurpose some of the equipment from there to one of your other projects?

Dan Dickson:

Yes, I mean, I'll be able to answer that in the way that—at Bolanitos, we do have, like you say, two kind of years of reserves, based off of reserves and resources last year, and we've been drilling there this year and we've been adding some resources, and we'll get that out when we put out the new reserves and resources. It'll actually be in January, as opposed to the end of this year. Bolanitos, we've been there for 15 years, we've never had more than two to three years of reserves. There are times, and especially where we're seeing today, where prices are, and maybe yesterday would be a better example, it makes it look like Bolanitos is probably coming closer to the end, but taking into account the resources, as well—sorry, indicated resources and our inferred resources, I'm hoping we can get past 2024, and into 2025, and we still have a lot of exploration potential there, areas that we can go drill. It's not necessarily we'll find big, large structures that gives us 10 years, but if we can keep on incrementally adding another year or two years, we can keep pushing forward.

So, the idea, hopefully, is that we end up being at Bolanitos kind of three, four, five more years, and at the end of that life, when it does happen, we'll look at all alternatives, whether that's selling the asset or dismantling and moving parts of it, but we'd consider what we have else to move. But, I wouldn't be giving up on Bolanitos yet. I think there's also ability to acquire concessions in that area, as well, that will help extend mine life. So, there's lots of time and lots of optionality still left at Bolanitos.

Joseph Reagor:

Great to hear. All right, I'll turn it over. Thanks, Dan.

Dan Dickson:

Thanks, Joseph. Good questions.

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:

Thanks, Operator.

Again, I'd like to thank our Operating Team at Guanacevi with a successful safe production quarter, again reaching 2.5 million manhours without an LTI, and I think that's a very important thing.

Ultimately, we're in an interesting period, and we'll see where silver and gold prices go. I think it's important to note that our management's job is to manage through these periods, but the long-term outlook, with Pitarrilla, Parral and Terronera, I think the Company's set up to do very well over the next handful of years.

Thank you, everyone.

Operator:

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