Endeavour Silver Corp.

2020 Q3 Conference Call

Conference Call Transcript

Date: **November 5, 2020**

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

Speakers:

Galina Meleger
Director Investor Relations

Bradford Cooke
Chief Executive Officer

Dan Dickson
Chief Financial Officer

Godfrey Walton
President and Chief Operating Officer

Don Gray
Chief Operating Officer

Operator:
Welcome to the Endeavour Silver Corp. Third Quarter 2020 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. 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 Galena Meleger, Director, Investor Relations. Please, go ahead.

Galena Meleger:
Thank you, Operator. Good morning, everyone, and welcome to the Endeavour Silver 2020 Third Quarter 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; our Chief Operating Officer, Don Gray; and our President, 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 in mineralized zone.

While 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'd like to thank you again for joining our call.

I will now turn it over to our CEO, Brad Cooke.

Bradford Cooke:

Thank you very much, Galena and again, welcome, everybody to this conference call on our third quarter financial results.

First of all, I would like to welcome Don Gray to the group. This is his first earnings call as our new COO. I'd also, especially, like to recognize Godfrey Walton who was with me when we went to Mexico in 2003, looking for an asset we can build a company around. This is Godfrey's last earnings call, and so kudos, Godfrey. It was a great run.

Moving on to our press release this morning. I'd just like to open with comment on the quarter. It was our best quarter in 18 months. In fact, our best quarter in a long time, when you consider the changes of revenue cash flow and earnings, all sharply higher this year compared to the same quarter last year.

Our cash costs and all-in sustaining costs were significantly lower year-on-year, and this improved our operating performance combined with the higher precious metal prices, generated a significant return to profitability again for the first time in six quarters. As a result, our cash and working capital positions also increased substantially during the third quarter.

Let's drill down a little bit into the numbers. Our revenues were up 29% to just shy of $36 million in the quarter. Our cash flow jumped almost 400% to $10.3 million year-on-year. Net income or earnings came in at a positive $0.5 million compared to almost $7 million loss a year-ago.

I should point out that we did carry a significant increased metal inventory through the quarter end, largely because of the summer run-up in metal prices and then the significant correction at the end of September. We chose not to sell a significant amount of silver and gold at the end of the quarter. We carried it in inventory, and the cost of that inventory is about $6 million (phonetic 03:55) but the mark-to-market of that inventory at the end of September was in the order of $15 million. What that implies is that if we had sold that metal, our earnings would actually be in the $10 million range, not the $0.5 million range.

Production in the quarter was just shy of a million ounces of silver and 10,000 ounces of gold for 1.8 million ounces of silver equivalents. I mentioned already our balance sheet cash was up 47% to just shy of $45 million, and working cap is up in the $54 million range up 21% year-on-year.

Moving to the operations, Guanacevi continued to outperform with both silver and gold grades well above plan. We were affected by significant rainfall in the rain season in Q3. As a result, throughput was only 911 tonnes per day in the quarter with a 1,200 tonne plant that implies that, as we bounce back here exiting the rain season in Q4, there's actually more production at lower costs in our future at Guanacevi.

I should point out, however, that the improved rates are accompanied by higher royalty payments. We're mining property at Guanacevi where there are very significant royalties paid. Our costs will slowly rise as the middle price rises just due to the royalties.

Bolanitos continued to improve. It's not quite on plan yet, but we achieved a 1,075 tonnes per day into a 1,200 tonne plant. Again, implying that there's still room for improvement on throughputs. Gold grades were on plan, silver grades remain below plan, but costs were fine. All three assets generated free cash flow in the quarter.

Last but not least, El Compas is pretty much on plan. Throughput steady, gold grades on plan. Silver grades below plan, but we're doing fine there and making a little bit of money. It's our smallest mine. Guanacevi, our largest mine, has by far the biggest impact on our financial performance.

I think on that note, Operator, let's wrap up my comments and open it up for Q and A.

Operator:

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

Our first question is from Heiko Ihle, who is H.C. Wainwright. Please go ahead.

Heiko Ihle:

Hi, Brad. Thanks for taking my questions and congratulations on a very good quarter here.

Bradford Cooke:

Thank you.

Heiko Ihle:

Hey, just going to the financials here, I'm looking at the—your deferred income tax assets has gone from $7.14 million at the beginning of the year to $5.3 million today. Going through that segment disclosures chart on Page 15 of your financials, it looks like the improvement was almost exclusively related to Bolanitos. Should we expect further improvements for the Company there? I mean because that's—I don't want to say free money, but it's certainly good cash flow if you get paid back.

Dan Dickson:

Yes. Heiko, Dan Dickson here. Thanks for the question. You did touch on—our deferred tax actually went from $7 million to $5 million. Basically, we're actually using up that deferred tax asset, which is a non-cash item. What's happening in, we've made significant profits in Bolanitos this year, but we've been offsetting those profits against previous year's losses. We have lost care for as we use. Ultimately that reduces the value of that deferred income tax assets. We are benefiting.

We will see more profits in Q4, likely from Bolanitos and Guanacevi. Guanacevi, we also have loss carry forwards there. I don't expect to have a current income tax expense in Q4 other than for special mining duty, but will us grind away from that asset and having expense on a non-cash basis.

Heiko Ihle:

Got it. Perfect. Thank you. Then a completely different question. Can you just walk us through how your plans in Mexico have changed since you restarted operations with safety-related to COVID? Has there been meaningful changes? Are people adhering to the safety precautions properly? It seems like your safety records there is pretty good. Just if you could provide some more colour that would be great. Thank you.

Bradford Cooke:

Thanks, Heiko. Let me give you a very high-level comment, and then I'll turn it over to Godfrey and Don. Quite fortunately, we were able to move very quickly to put our

COVID precautions in place, both our prevention plan and our urgency response plan. Then by and large, it's served us very well stopping COVID at the gates of the operations.

Our actual workforce that is mine and plant that had minimal impacts from COVID. We've had some office workers impacted by COVID. All eventually return to work, but maybe I'll ask Godfrey and Don to give you a little more colour on our plans since the first and second quarters.

Godfrey Walton

Hi, Heiko. This is Godfrey. Yes, we actually have pretty intense protocols to make sure that we do stop COVID at the gate, as Brad mentioned. We make sure that every worker as they come in, their temperature is checked, they're sprayed down, everybody is wearing a mask 100% of the time. You're sprayed down body wise, front and back, and your vehicles also sprayed down as you come in. It's pretty intense. Unless you're actually there, Don and I went over the last month or so, and we've been in and out of the different operations. It's, to me, very, very good.

I was very impressed with how far we're being. Yes, we've had a few cases, but typically, we've got about 11-15 active cases at any one time. Nobody seriously infected, but that has been done very effectively, I think.

Don, do you have anything else to add to that?

Don Gray:

If I can just add that the screening is pretty comprehensive with temperature checks and checking symptoms and that kind of thing. When there is somebody detected that could be coming in, we do send them right out for testing. The testing under our operations, we can turn that around very quickly, so if we do identify somebody that does test positive, we take the proper precautions for quarantining, and then also our medical response has been quite good. We have really good response, probably the response is just as good or better as you get just about anywhere in the world. It actually is really good. I think from that perspective, we're taking out the proper precautions and measures to take care of our people as well as make sure that the operation can maintain continuity. Very informative.

Bradford Cooke:

Sorry, just add one thing Heiko is, we have doctors at all our operations, and we've increased the number of doctors just to help out with the screening and evaluation of people. I would say we probably tripled the number of doctors we have on staff now, just during this COVID, just because it does take up quite a bit of time for them when shift changes on. If you've got a couple hundred people coming through the gate, it takes quite a bit to get them all checkout and evaluated.

Heiko Ihle:

Very good. It's nice to hear the whole team chiming in on an answer to singular question. That's actually really good how are you guys play off of one another. Thanks for taking my questions. I'll get back in queue.

Bradford Cooke:

Thanks, Heiko.

Operator:

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

Craig Hutchison:

Good morning, good afternoon. I was wondering if you could give me some more clarity in terms of grades as how we should think about Q4 here, in particular, Guanacevi. Should we assume similar grades to Q3, which are obviously very high?

Bradford Cooke:

Again, high-level short answer yes. Godfrey?

Godfrey Walton:

Hi, Craig. This is Godfrey. Yes. I think you're going to see grades continue at Guanacevi. A lot of the grade that we're getting is coming from property called Ocampo that we do pay a higher royalty on. The grade needs to be good. It's also coming from third-party or that we're buying, which is part of our social license to continue operating at Guanacevi. I think the grades you're seeing like we see at Ocampo and at Bolanitos are going to be similar in Q4 as they were in Q3.

Craig Hutchison:

Okay. Thank you. Maybe just in terms of accounting question, depreciation was fairly high in the quarter. Should we expect similar levels in Q4 as well?

Dan Dickson:

Yes, Craig. Dan here. I mean, ultimately our depreciation is high. We're very conservative in that standpoint. We depreciate on proven and probable. I would expect very similar depletion and depreciation in Q4.

Craig Hutchison:

Okay. Thanks, guys.

Dan Dickson:

Thank you for your question.

Operator:

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

Joseph Reagor:

Hey, guys. Thanks for taking the questions. I guess first thing, Terronera. Any update there on timeline to making a construction decision?

Bradford Cooke:

Well, Chris, it's subject to the feasibility study which is underway and expected next summer. But, Don, do you want to comment?

Don Gray:

Yes. We just, as you know, awarded the feasibility study work to win consultants and there's starting out. We'll be looking at the feasibility report being completed sometime mid next year. Then we'll be able to go to the Board with the recommendation as to when to start construction. Right now, the timeline is what we have in the TFS, but subject to any additional work, we do in the FS, in the feasibility study.

Bradford Cooke:

The current pre-feasible construction schedule, once we break ground is, I believe, 18 months to start up commercial production. We've got lots of work to do, but we're finally into the final feasibility process.

Joseph Reagor:

Okay, fair enough. Then thinking about next year, I know it's a little early to provide guidance probably, but from a modeling standpoint, should we be thinking about the Guanacevi and Bolanitos returning to normal operating rates near their plan capacity? Or should we be thinking about a certain percentage of plant capacity for the next 12 months?

Bradford Cooke:

Yes, I don't think we're going to average 1,200 tonnes per day at either operation next year, we're certainly going to be bumping up against it on a regular basis. The reason why I'm cautious about talking about operating at full capacity is simply rain seasons are a bit unpredictable, and COVID is still out there, but yes, it will be in our plan to operate close to capacity.

Joseph Reagor:

Okay. Thanks for the colour. I'll turn it over.

Bradford Cooke:

Thanks, Joe.

Operator:

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

Lucas Pipes:

Good day, everybody. I wanted to ask a question on the direct production costs per tonne, and there has been a lot of noise in that metric between COVID and then some other challenges here to date. Looking at the third-quarter, very nice performance across the board, but it's still a $110—over $110 per tonne. Do you think we can get below $100 per tonne figure? Maybe back into the $80 to $90 range? I would really appreciate your thoughts and the various puts and takes here on that. Thank you very much.

Dan Dickson:

Yes, Lucas, thanks for the question. Dan here again. It's a very good question. It's hard to speak to it just on a consolidated basis and getting below $100 on a consolidated basis for Q4 probably will be difficult only because a significant driver to all this is Guanacevi, and Godfrey touched on it. We've been buying a lot of tolled (phonetic 18:53) ore out of Guanacevi, it was almost 11% of our production in Q3. Ultimately, when that ore comes to us at these high prices, we take it, it keeps ounces in the ground for us for another day, and ultimately, it's high-grade ore. We pay a significant portion for it. We roughly make about 30% to 35% profit off that ore on a cash basis. We expect that to continue because as prices go up more of this tolled ore comes available.

It's got a lot of benefits to us. A, we get to go find out where that ore is coming from and gives us a little bit of exploration opportunity, and like I say, ultimately keeps it in the ground.

The other aspect is the El Curso concessions that we leased from Ocampo. We pay a $12 processing fee per tonne on that material, and then we also pay a royalty cost on that material. We picked up the El Curso concessions effectively at no cost, but we do pay a very high royalty on it. Over $20 we payed 30% NSR on it. Effectively, in Q3, we paid about on, across all our tonnes, we paid almost $28 of royalty per tonne in there. That's really driving up our cost per tonne.

Guanacevi, and the reason why Guanacevi started at a $146 for Q3 when, ultimately, we operate at around $100 per tonne on just basic mining processing and indirect costs. At Bolanitos, we're right in line with our cost per tonne, in line with budgets, in line with historicals at $68. If we hit this throughput tonnage, we should be around that if not a little bit lower, if we can get to 1,200 tonnes per day.

At Compass, it's just a high variability because of the size of the operations. It's only 250 tonnes per day. Ultimately, we spent almost $1 million, a little bit more than $1 million this quarter than what we had planned. But because it's such a low amount of throughput and scope of that operation, it really hits the cost per tonne. It doesn't have a huge impact consolidated, but obviously, on an operation's level, we get big variability there. We do expect to come down.

We put in a lot of training, safety, real safety programs been there, trying to increase our level of safety commitment at Compass. We hope it's going to come down in Q4. We're monitoring it, and we want to make sure that those cost will come down to improve the free cash flow there, but I don't see it coming under a $100 consolidated. I hope we get into the $100 to $105 for Q4.

Lucas Pipes:
That's very helpful. I appreciate that colour. Then as a second question, just checking in on Chile. Can you update us on where you're spending your time there and what are some of the milestones that investors should be looking forward to the coming, call it, next two or three quarters? Thank you.

Bradford Cooke:
Who wants to take that one? Godfrey?

Godfrey Walton:
Sure, I could take that one. In Chile, we are currently drilling at the Paloma property, and we're following up on an intersection that we got last year in our first hole. We've completed couple of holes now. We have not got any assays at this point, but we expect to continue drilling until Christmas. Then the season will pretty much close down because we're up at about 5,000 metres.

Once we have our results early next year, we will be able to put those out. We're encouraged with what we see in the core, but we don't have any numbers yet, and we won't until Q1 next year. It's going to be the time for that.

On into the rest of the year, because Chile's in the southern hemisphere, most of the activity is happening now, or in the fall. So, we're busy right now looking at other properties and evaluating what's happening up at Cerro Marquez and talking to a variety of people about that property. Then it'll go quiet during our summer and become active again in the fall and through Christmas.

Bradford Cooke:
Just if I can chip in, for the rest of our listeners, the context of our portfolio in Chile is that these are all high impact world-class targets. For instance, Paloma, we

consider to be a multi-million ounce gold target. We're just getting into the drilling now.

We are going to be patient. It's a big area to drill, but like Godfrey said, we're seeing all of the things that we want to see in the quarter. (Inaudible 24:03) silica, hydro-thermal (inaudible 25:05), sulfides, and other related geological factors that indicate the presence of gold, but we don't have the assays yet.

Joseph Reagor:
Got it. Gentlemen, thank you very much for the information and best of luck.

Bradford Cooke:
Thank you.

Operator:
Once again, if you have a question, please press star then one.

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

Joseph Reagor:
Hey, guys. I just had one more. At El Cubo, any update there? I mean, with higher prices, is there some, let's call it, mineralized material that was outside the resource that might come in, or if you've been able to get any further in talks for neighbouring projects? Just any colour you can give us.

Bradford Cooke:
Well, the good news is that at these low prices, we are getting a lot of inbound inquiries about a sale. The bad news is that it doesn't really change, the higher prices don't really change the amount of ounces in the ground.

Our decision to close was because we exhausted reserves, and the remaining resources we felt we're just too small for us to restart a 1,500 tonne plant. We have been, as you know, actively scouring the district for opportunities and continue to do so, but there's no decision that has been made whether to buy something and restart or just sell the whole thing yet.

Joseph Reagor:
Okay, thanks.

Bradford Cooke:
Thanks, Joe.

Operator:
The next question is from Chris Thompson with PI Financial. Please go ahead.

Chris Thompson:
Hey, good morning, guys. Brad, I think this is probably a question for you. It's a little bit, maybe just broad, obviously with higher margins we're experiencing right now on the back of good metal prices and, obviously, your reduced costs, that speaks to higher cash flow.

I wonder if you could just give us a sense of how you would apportion this cash flow by a way of preparation for Terronera, obviously, what's happening with Parral, and maybe the need for mine life expansion through drilling and discovering actual operating assets.

Bradford Cooke:
Good points, good question, Chris. Thanks for your question. Obviously, with a rising cash balance, and we've really only had one quarter of that, it gives us a lot more flexibility in what to do. We've always, historically, balanced our capital spending from our cash flow modeled each year.

We spend, at least at the three mines, only out of our cash flow. Now that we've got lots of free cash flow, it opens up other possibilities. For instance, we took two years off from drilling Terronera while we focused on our economic studies. As of September, we've resumed drilling on a number of very interesting undrilled veins at Terronera to try and continue boosting the resources there.

Same thing at Parral. We took a one-year break from drilling Parral, which is intended to follow Terronera in our development pipeline, but I think it's safe to assume that there will be aggressive drilling programs on both Terronera and Parral next year. So, in terms of allocating some of our free cash flow, there's two projects.

We'll continue with our brownfields exploration around Guanacevi and Bolanitos. They're not going to grow. Those programs aren't going to grow or shrink. They're just steady on. Chile, we're drilling now and we hope to be drilling Aida (phonetic 27:52) next year as well.

So, there's kind of discretionary exploration expense that we'll consider, and then just building up our cash for the equity component of the $100 million Capex to build Terronera. So, those are our considerations. No decisions made yet. We typically do year-end planning, but just give you an idea of what we would do.

Chris Thompson:
Great. Thanks, Brad. Brad, I just want to ask another quick question. I'll sneak one in. Obviously, higher metal prices, both for gold and silver. Can you speak to the effect that this might have on resource space at, I guess, Guanacevi and Bolanitos, if any?

Bradford Cooke:
Because the veins have clean walls, and these are not disseminated bodies with low-grade halos, I don't think there's much change in our approach. We're going to mine the veins, are the cutoff grades can drop a bit, but we're mining such high grade at both operational assets that certainly, at Guanacevi that had zero impact. At Bolanitos, we'll look at whether or not we can bring some of the lower-grade resources into the mine plant, but that's probably the only impact.

Chris Thompson:
Great, Brad. Thanks a lot. Thank you.

Bradford Cooke:
Thank you.

Operator:
This concludes the question-and-answer session. I'd like to turn the conference back over to Bradford Cooke for any closing remark.

Bradford Cooke:
Thank you, all, for tuning in for our third-quarter call on our financial results. It's been a great quarter. We expect bigger and better as we go forward. We've got, I

think, one of the best outlooks in the sector with leverage to cash flow, not only from higher metal prices but falling costs. Leverage to production growth through our own organic growth profile with not one but two projects awaiting development; Terronera, which is largely permanent and Parral, which even though it's an advanced exploration project, looks like it has the potential to be a new mine down the road. Last but not least, leverage to new discoveries, potentially world-class, with three drill-ready targets in Chile.

Very exciting times for us. We're at a catalyst rich time for the Company, and we've come through that transition phase where we undertook, in the last six quarters, operational turnarounds to try and get out of the doldrums during the bare market, and we've succeeded. So, lots of catalysts to drive value for the shareholders over the next year. Thank you very much.

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