# Endeavour Silver Corp.

# First Quarter 2018 Financial Results

# Conference Call Transcript

**Date:** **May 3rd, 2018**

**Time:** **9:00 AM PT / 12:00 PM ET**

**Speakers:**

**Bradford Cooke**
Chief Executive Officer

**Godfrey Walton**
President and Chief Operating Officer

**Dan Dickson**
Chief Financial Officer

**Galina Meleger**
Director of Investor Relations

**OPERATOR:**

Thank you for standing by. This is the Conference Operator. Welcome to the Endeavour Silver Corp. First Quarter 2018 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 Galina Meleger, Director of Investor Relations. Please go ahead.

**GALINA MELEGER:**

Thank you, Kyle. Good morning everyone and welcome to the Endeavour Silver Corp. 2018 First Quarter Financial Results Conference Call. With me on the line today we have the Company's CEO, Bradford Cooke, as well as our President and Chief Operating Officer, Godfrey Walton, and our Chief Financial Officer, Dan Dickson.

Before we get started, I'm required to remind you that certain statements on this call will contain forward-looking information within the meaning of applicable securities laws. These may include statements regarding Endeavour's anticipated performance in 2018 and future years, including revenue and cost forecasts, silver and gold production, grades and recoveries, and the timing and expenditures required to develop new silver mines in mineralized zones. We do not intend to and do not assume any obligation to update such forward-looking information other than as required by applicable law.

On behalf of Endeavor Silver, I would like to thank you for joining our call and I'll now turn it over to our CEO, Bradford Cooke.

**BRADFORD COOKE:**

Thank you very much, Galina, and welcome everybody to our Q1 financial results call. I'd like to start, as usual, with a brief overview of the results released this morning and then we can open it up for Q&A.

Our first quarter this year, I think, was certainly better than last year with revenue and cash flow and EBITDA all up year-on-year. Earnings did dip, however, due to higher depreciation and depletion; still positive but lower than last year Q1. We did pre-release our production and obviously we had a good start to the year in terms of rising production. Silver on Q1 was up 25% to 1.35 million ounces; gold production was up 13% to 13,200 ounces; and silver equivalent production was up about 20% to 2.3 million ounces. What that did was drive slightly higher revenues up 11% to $40.3 million, mining operating cash flow up 16% to $13.8 million, cash flow from operations up 30% to $11.6 million, EBITDA up 24% to $11.1 million, and that resulted in net earnings decrease of 61% to $2.3 million.

On a per mine basis, Guanaceví continues to be our highest cost mine, but we did see incremental improvement month-on-month during the quarter. We are expecting a similar quarter at Guanaceví in Q2 as we're in the middle of the productivity optimization program launched in January, but we are obviously still optimistic that Guanaceví will come out of that program in Q3 and Q4 with significantly better performance.

El Cubo contributed to our lower cost sites primarily to its higher production and higher grades, and Bolañitos continues to be our lowest cost mine, notwithstanding slightly lower grades in Q1. In fact, on a per mine basis, Bolañitos and Cubo, silver production was up year-on-year. The only holdback was Guanaceví slightly lower in the first quarter of this year compared to the first quarter last year.

On the gold production side, again, Guanaceví and Cubo were the outperformers and it was actually Bolañitos due to lower gold grades that slightly underperformed the first quarter of last year.

How that drove revenue, we saw Guanaceví revenues slightly down year-on-year but Bolañitos and Cubo revenues were both up sharply and how that translated into our costs, we saw a slight increase in Guanaceví cash costs, but a dip in Guanaceví all-in sustaining costs, whereas both Bolañitos and Cubo, on both the cash basis and an all-in sustaining basis were significantly lower costs in Q1 2018 compared to Q1 '17.

That's the brief overview and I think, Operator, let's open it up for Q&A.

**OPERATOR:**

Certainly. 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 will 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, then two. We will pause for a moment as callers join the queue.

Our first question comes from Mark Reitman (phon 5:13) of Noble Financial. Please go ahead.

**MARK REITMAN:**

Good morning. First on Guanaceví, beyond the improvement in plant throughput to 1,050 tonnes per day in Q4, I think you've said an average of 1,000 tonnes per day in 2018 and then access to the new ore bodies in Q4. What specific enhancements are being made there? I think you've said second quarter kind of expect the same performance as Q1, but what can we expect over the next several quarters in terms of grades, recoveries, and just overall improved financial performance?

**BRADFORD COOKE:**

Well, I'll give a general answer and Godfrey can give you some specifics. Basically, there's two initiatives to turn the corner at Guanaceví. One is this productivity optimization program, which isn't really retraining people how to do their jobs, it's retraining them on how to understand the management systems that make their jobs better and easier, so maintenance schedules and equipment availability schedules, personnel availability schedules, supervision, all these types of management systems are what's getting a full scrutiny at this time.

The other main driver to return Guanaceví to profitability is the development of two new ore bodies previously discovered and now under development. Milache will be the first to come on later this year. We've already extended the mine access ramp above the ore body and we're now ramping down towards the ore body at Milache. So, developing two new ore bodies really refreshes the outlook at Guanaceví for several years because typically in these epithermal vein systems, the tops of the ore bodies are obviously shallower but also typically higher grade, whereas the bottoms are deeper and lower grade, and so it will obviously drive lower cost at the tops of ore bodies and higher costs at the bottom. The current operations at Guanaceví are literally at the bottoms of the Porvenir Norte and Santa Cruz ore bodies, so opening up two new ore bodies does refresh the operations for years to come.

Godfrey, do you want to comment on productivity?

**GODFREY WALTON:**

Sure. Hi. This is Godfrey. Thanks for your question, Mark. The expectation is that we will be driving into Milache on four different levels starting in August. We're in the process of just finishing off the water, the paleta (phon 7:55) for any potential water that we're going to hit in the mine. We're also fishing off the ventilation. Having four accesses open into Milache will provide the extra tonnes that we need to fill the plant and allow us to actually drop our costs quite a bit more. We were already cutting our costs with some of these efficiencies that we're doing, both in the mine and in the maintenance area, and so we expect Guanaceví to do actually do quite well.

Then we will be starting on Santa Cruz Sur within the next month or so and that will also bring us a lot more mineral and a lot higher grade than we're currently processing.

**MARK REITMAN:**

Okay. Then just second on Terronera, could you just walk us through the expected permit and Board approvals and the tranches of expect financing? Is the Board expected to approve a production decision at its May meeting, pending permit approvals, or will a separate call be arranged once the permits are in hand?

**BRADFORD COOKE:**

We already had this discussion at the Board level at our March meeting and what they've asked us to do is go and finish the optimization of the pre-feas, get the final two permits from the Government, arrange the first tranche and financing, and come back to the Board for a production decision. We are still expecting all of that to happen this quarter. It's quite a to-do list at Terronera. With luck we'll break ground by the end of quarter, but I can't actually forecast which month, for instance, the Government's going to give us the permits. They've indicated that they're getting close and we'll take them at their word for that. We hoping this quarter to finish all that off and get going on Terronera.

**MARK REITMAN:**

Okay. Thanks. I'll hop back into queue.

**OPERATOR:**

Our next question comes from Heiko Ihle with HC Wainwright. Please go ahead.

**HEIKO IHLE:**

Hey, guys. Thanks for taking my question.

**BRADFORD COOKE:**

Hi, Heiko.

**HEIKO IHLE:**

Hey. You ended the quarter with $36.6 million. It fell a little bit from a year-end 2017 and essentially offset by lower accounts payable and other current liabilities, right. Just sort of walk me through your cash plans for the rest of the year. Obviously you have some expenses in Mexico coming up with El Compas. Maybe if you just sort of walk us through quarter-by-quarter, if that's possible.

**DAN DICKSON:**

Hey, Heiko; it's Dan. Hope all is well. I don't have the quarter-by-quarter breakdown. We actually don't release that in our guidance, but I can tell you for Compas, I mean the specific question on that, we had a projected capital expenditure of $7 million for the year; we spent $3 million of that in Q1. Right now, with Terronera we're waiting on permits and waiting on Board approval to move ahead with that and timing. That's going to greatly affect our cash flows and obviously we need financing to help move that forward. Until we have Terronera finalized, I'd be a little bit wary about talking about each specific quarter in such manner, but we know that Bolañitos added $3 million of cash to our balance sheet, Cubo added $3.5 million to our balance sheet, and Guanaceví was actually negative free cash flow in the quarter. We expect that to continue and we expect Guanaceví to actually start to contribute to the cash balance.

It really comes down to capital expenditures planned for the year with our exploration expenditures. We spent about $2 million in Q1 on exploration and we have a plan of $11.1 million for the year. Effectively, what we saw in this quarter is going to be continuing through the year, but then you've got the curveball coming in of Terronera. Then with Compas coming offline, we're done spending that here at the end of April. It should improve, and we should hover right where we are.

**HEIKO IHLE:**

Given the (cross talking 11:57)—go ahead.

**BRADFORD COOKE:**

Heiko, I was just going to say that with regard to our capital spending program and cash balance, we clearly intended to use our cash to build El Compas and we're through the bulk of that spend now. There's still some sustaining CapEx to spend through the rest of this year, but all of the development CapEx has pretty much been spent and we're in commissioning now, so we think that Compas is going to be significantly accretive to our production in the second half. The other part of the production growth formula for us was getting Guanaceví back on track and, again, we're forecasting a significantly better second half for Guanaceví compared to the first half, so that will also help our cash balance.

With regard to the capital spend at Terronera, we are diligently working on a first phase of debt financing, which we hope to have in place this quarter, and that will completely fund this year's Terronera CapEx and actually spill into next year's CapEx. We will need a second debt tranche later this year to fund the bigger budget next year. In terms of the overall financing package to build Terronera, were looking at about $25 million Phase 1 debt, $25 million Phase 2 debt, and about $20 of cash, cash flow and/or equity if the stock gets better. That's how we're financing Terronera.

**HEIKO IHLE:**
Okay, $25 debt; $25 debt; $20 debt, equity, cash flow; we will see.

**BRADFORD COOKE:**
Right. We still are optimizing the pre-feas, so the CapEx is not set in concrete yet; it may go up a bit, it may go down a bit. We're still working on that and we hope to have that definitive optimized pre-feasibility study out this quarter.

**HEIKO IHLE:**
Okay. Fair enough. You've got some pretty meaningful inventories there in both gold bullion and in concentrates. I calculated it earlier today and it was $2.7 million in silver then about $2 million in gold. At what price—and the answer might be never—would you ever consider hedging some of that?

**DAN DICKSON:**
Hey, Heiko. That's just our quarter-end typical inventory balance that we have. We ship out almost on a weekly basis. The payback time on when we sell that inventory, we'd sell it shortly after quarter-end or month-end, and we get paid within a month. Typically when we think about hedging our inventories, at that we could do offtake agreements if we felt prices were going to fall, and sell it all, but we see that just being consistent and at no point putting a hedge on that.

**HEIKO IHLE:**
Fair enough. Okay. Very good. Thanks, guys.

**BRADFORD COOKE:**
Thanks, Heiko.

**OPERATOR:**
Our next question comes from Ryan Thompson with BMO Capital Markets. Please go ahead.

**RYAN THOMPSON:**
Hey, guys. Thanks for taking my call. Most of my questions have already been asked, but I just have a few sort of housekeeping things for my model. First of all, could you just address the higher depreciation expense and how we should think about that going forward?

**BRADFORD COOKE:**
Yes. Thanks, Ryan. At Guanaceví we had a big jump in depreciation and depletion, and it's just a function of we put $18 million dollars of development into Guanaceví last year. We didn't have a significant bump in reserves, partly with the challenges that we had experienced in the beginning of the year and partly because we went with a more conservative reserve calculation last year. A lot of people probably on this call are familiar with that we have very conservative reserve parameters that we're within 10 metres of a working face for proven and 25 more metres from that on probable ounces. With Guanaceví we'll effectively be depleting most of that mine development that we put in last year in 2018. That's the biggest driver.

If you recall, in 2015 and 2016, we put very little capital, when prices were low, into those mines, and we've depleted all that stuff which were a lot smaller enumerators than what we're dealing with now. So, we'll expect that to come through in Q2 and Q3 to be very similar at Guanaceví for a depreciation rate.

**GODFREY WALTON:**
Just to augment that, obviously developing two new ore bodies means that we'll be moving significant resources into reserves this year, so that formula should change.

**RYAN THOMPSON:**
Okay, and Cubo, should we expect similar run rates as well?

**BRADFORD COOKE:**

Yes. I'd expect similar run rates for Q2 and Q3 from Q1.

**RYAN THOMPSON:**

Okay. Yes. That's helpful. Then just another one, I noticed the royalty payment at Bolañitos sort of ticked up a bit; is that just a one-time event or is there higher royalty going forward?

**DAN DICKSON:**

There're two things that flow through royalties under cost of sales for Bolañitos: that's the special mining duty that's paid to Government and then the 0.5% royalty for the Government. In Q1, the tick-up was just special mining duty. I would say you would expect similar for Q2 and Q3, Q4. Compared to last year, it was just at the beginning of last year we had an adjustment for taxes paid in Q1.

**RYAN THOMPSON:**

Okay.

**BRADFORD COOKE:**

Just to be clear, that's all Government taxation.

**RYAN THOMPSON:**

Okay. That's the 7.5% EBITDA tax or the..?

**DAN DICKSON:**

Exactly. Exactly.

**RYAN THOMPSON:**

Okay. Got it. That was all I had. Thanks, guys.

**BRADFORD COOKE:**

Thanks, Ryan.

**RYAN THOMPSON:**

Our next question comes from Dalton Baretto with Canaccord Genuity. Please go ahead.

**DALTON BARETTO**:

Hey. Good morning, everybody. Brad I'd like to circle back to this efficiency program that you have going at Guanaceví. What's the intent there; is it higher production, is it lower cost, or is it both?

**BRADFORD COOKE:**

It's both. Again, coming back to the theme of analyzing and improving our systems, we hired an international consulting firm called Jamieson (phon 18:35). They've embedded four senior mining people into our workforce, so that during the seven months' productivity program they will actually meet and discuss with every single employee and contractor the purpose of the program and how to achieve the goals of the program. We call it the program, or they called their program, Enfoque 2018—Focus 2018. It's a way to revive, not only the efficiency of the workforce but the attitude of the workforce. We recognized last year we had an operating problem there.

**RYAN THOMPSON:**

(Inaudible 19:13) So, which system?

**BRADFORD COOKE:**

I know we're obviously equipment maintenance, personnel maintenance, supervision techniques, (inaudible 19:22) techniques. Godfrey, do you got anything you want add to that?

**GODFREY WALTON:**

Yes. The program is looking at it goes down to dilution, mining methods, and so it's a complete revamp of how we approach the mine maintenance and even down to getting the guys in and out of the mine, just making everything far more efficient so that during a shift, instead of taking an hour to get it to the face, they're at the face in 30 minutes. Those kind of efficiencies allow them to spend more time actually mining what they need to mine and making sure the equipment—we used to bring all our equipment out on surface for maintenance at the end of each shift; now that's all done at the face underground. Again, so you're getting far more for better utilization of equipment, better life and better utilization of people in the operation.

**BRADFORD COOKE:**

So, what's next in the program (cross talking 20:30)—let me just finish on this one—Q1 was basically focused on equipment and personnel availability, so Q2 is focused primarily on pushing the waste development, that is the access to more stopes, because that's the key to increasing the production and driving cost down.

**RYAN THOMPSON:**

Yes. I guess what I'm trying to understand, though, is how this actually impacts your financials. You talked about personnel utilization and equipment utilization. Does that mean you're going to have less people, like is there a labour savings there; are you going to have less equipment; is there an equipment savings? That's the part I'm trying to understand.

**GODFREY WALTON:**

Well, looking at the equipment, for example, before we started this I got the request, we need three new scoops. I said, okay, are you sure, and this doesn't sound quite right. Having gone through the process, we recognized that we've got extra scoops and so a), we don't need three new scoops; and b) that we actually have more scoops than we need. So, that's part of the efficiency. We've already seen costs coming down on a cost per tonne basis. By having people spend more time at the face, they can actually mine more, so our tonnes are going to go up in the production side. The focus on where we are going to be mining waste and where we're going to be accessing new zones is all getting reorganized. So, costs are coming down, tonnes are going up.

**DAN DICKSON:**

Dalton, this is Dan Dickson here. You're looking at it probably from a modeling standpoint, if you look back at the history of Guanaceví, we've historically run our cost per tonne in the low $90s, high $80s some quarters, and right now and in last year we were at $110 per tonne, $112 per tonne, in this quarter $120 per tonne. That's a function of the lower throughput that's going through. I mean, Guanaceví used to run at around 1,200 tonnes per day and now we've obviously dipped into the high 800s or low 900s some quarters. With the increase in tonnes, obviously we're going to drive down our cost per tonne, but also with the efficiencies, we're going to drive out some of the cost through that. I would expect that we can get back into a low 90s when we get those tonnes back up and that's the plan going forward.

In that $120 cost per tonne, some of the external consultants right now, that's $6 of the $120. So, when Jamieson's offsite, that $6 should come out. Then obviously gaining the efficiencies from a labor standpoint, less diesel going through, etc., etc., that will help. But the biggest driver to our cost per tonne is getting those tonnes from 800, 900 tonnes per day up to the 1,100, 1,200 tonnes per day that we know this mine has historically done.

**RYAN THOMPSON:**
Okay. You think you'll get there by Q3 this year?

**BRADFORD COOKE:**
That is what we're expecting, yes.

**RYAN THOMPSON:**
Okay. Perfect. Then maybe just switching gears to Terronera a little bit, you've put out new guidance on kind of what you're thinking in terms of a production rate. I know that you have feasibilities coming out this quarter. Can you give us some early guidance in terms of what you're thinking directionally on CapEx and OpEx as a trade-off to that lower production rate?

**BRADFORD COOKE:**
Yes. We were at 2,000 tonnes per day in the initial pre-feas a year ago. We're now targeting 1,500 tonnes per day in the soon-to-be published optimized pre-feas. We did quite an extensive analysis based on the existing reserve base of what the optimal throughput would be, and 1,500 tonnes was the answer. We've already got two mines at that rate—Bolañitos and Cubo—and these ore bodies are all very similar. I guess what's different about Terronera is that we modeled a 7-year mine life last year, but through infill drilling of the inferred resources this year, we can get, I think, much closer to a 10-year life, not for release in June but certainly by year-end when we finish the drilling program. That obviously helps the economics of Terronera as well. It also naturally breaks into two phases, so that's why we broke the CapEx into two phases.

During the first year of operations at Terronera, it's totally focused on underground development and opening up new areas for scoping. So, the average for the first year was only going to be 750 tonnes per day anyway, so we targeted a two-phase CapEx program—750 followed by another 750—and that's why we're able to break our debt facility into two pieces as well.

**RYAN THOMPSON:**

Okay. Great. Just maybe one last one back on Guanaceví; I noticed that the sustaining CapEx this quarter was only about 10% or 12% of your overall guidance for the year. So, is it heavily back-half weighted?

**DAN DICKSON:**

Not heavily back-half weighted. We should see that pick up in Q2. As Brad said, part of the Jamieson program here is going to be driving mine development and waste development specifically so we can open up more stopes, so I'd expect more of that to pick up in Q2 and Q3.

**RYAN THOMPSON:**

Okay. Perfect. That's all for me, guys. Thank you.

**BRADFORD COOKE:**

Thanks, Dalton.

**OPERATOR:**

As a reminder, if you'd like to join the question queue, please press star and one. We have a follow-up question from Mark Reitman with Noble Financial. Please go ahead.

**MARK REITMAN:**

Yes, just a quick clarification. I think the last time we spoke you had expected kind of on the financing at Terronera the debt financing was going to be $20 million to $25 million during the second quarter, kind of followed by $30 million of debt and $20 million of equity, and that could be cash from cash flow. The numbers you've just provided aren't too far off the mark, but I was just curious as to that last piece. You had mentioned debt. Do you think that last portion, that $20 million, that a portion of that could be debt, or is your expectation still equity?

**BRADFORD COOKE:**

No. It's still the formula of $25 debt, $25 debt, and $20 of cash, cash flow, and/or equity, but instead of having to put the (audio interference 27:00), in terms of putting up the equity, we're pretty sure we can put the first debt tranche in place this quarter and that funds all of this year's expenditures. Really, the need for cash, cash flow, and equity comes at year-end to fund next year's completion of the CapEx program. We'll take a decision on whether we use our cash or cash flow or equity later in the year, where there's also, obviously, that second debt tranche to be put in place by the fourth quarter.

Our thinking hasn't changed. We'll hang our definitive thinking on the optimized pre-feas, but I think $70 million is pretty close to what we expect in terms of CapEx.

**MARK REITMAN:**
Okay. Then lastly with respect to exploration, kind of where are you seeing the most promise, and could you kind of provide an update on how you're thinking about Parral.

**BRADFORD COOKE:**
Well, I think that at the three operating mine sites, the low-hanging fruit was obviously picked some time ago, so we are just adding incremental ounces at Guanaceví, extending existing stopes. We've had a very good track record of replacing reserves at Bolañitos, so we fully expect to do that again this year. Cubo, we've got some brownfields targets we're testing this year. Moving on to Compas, we haven't said much this year about the exploration upside, but we did finish last year with a couple of discoveries on the Calicanto property and we've got numerous other targets, both at Calicanto and El Compas, to drill this year. Across the board you're going to see kind of incremental ounces added to the three operations and then hopefully some significant growth of resources at El Compas and possibly even Terronera.

We are drilling Parral. It's actually our biggest drill program again this year and it's the area that we think has perhaps the fastest resource growth potential.

**MARK REITMAN:**
Okay. Then I guess that was really the penultimate question. The last question is on a prior conference call you got a question regarding the M&A environment. I was just wondering if you could update that, your thoughts on the M&A environment, and then Endeavour's criteria for acquisitions, whether it be minimum resource and reserve requirements, annual production profile, geographic preference, or even return requirement.

**BRADFORD COOKE:**

Well, I think the M&A environment is fantastic, and the reason is that asset prices are still seriously depressed. Just a quick reflection, we were able to use the bear market to acquire El Compas and Parral and put them into our pipeline and we're still at it. We're still working hard on trying to flush…

**MARK REITMAN:**

But the last call you weren't as enthusiastic. You had mentioned that...

**BRADFORD COOKE:**

Well, let me say that in terms of opportunities they are few and far in between. You just have to have scorched-earth policy in looking at everything, so that hasn't changed. It's really—there's not a whole lot of good quality projects out there. But that said, the prices are depressed, so we're still optimistic that we'll be adding to our pipeline this year.

**MARK REITMAN:**

But you said, okay, lack of good quality projects; I mean, one man's trash is another man's treasure, so could you kind of defined kind of your criteria in terms of what would meet your criteria, because I think on the last call you did say you were kind of redoubling your internal efforts to try to build internally to internally identify and source acquisition candidates.

**BRADFORD COOKE:**

Yes. Well, our philosophy is if you can't buy it, you have to find it, so the best example of that is Terronera. Our other philosophy is that anything we buy, that we have to have as a basic principle the ability to make it bigger and better. If we can't add value to it, there's not a whole lot of interest in doing M&A. That's why Endeavour has this track record of getting into small mines in historic districts that were unloved and for sale. It was our ability to recognize an unfilled potential at each of the four mines we have now that has been our secret sauce. There may be some more of that, but, again, the low-hanging fruit was picked years ago, so you really have to look far and wide to find more opportunities like that. Beyond that, we love discoveries. You'll hear later this year; our Chilean portfolio is coming right along, and we haven't talked about it—it's not on the website—but we're hoping that we'll have something to talk about in terms of home run projects later this year.

**MARK REITMAN:**

But are you seeing more opportunities in one country versus another, and in terms of when you're looking at potential acquisitions, does it not have to be in production already? I mean, you're looking at it from the standpoint if you feel like you can invest the capital and beef up the resources and reserves. Just specifically, I'm just trying to get specifically kind of what your criteria is. Is there a minimum in terms of the size, in terms of being able to make a meaningful impact on your portfolio and production profile? Anything would be helpful in that regard.

**BRADFORD COOKE:**

Sure. Just in terms of our M&A strategy, principle number one, we're focused primarily on silver, gold or silver plus anything; principle number two, we'll look anywhere in the Americas with the exception of certain no-go countries, like Venezuela, Bolivia, etc.; principle number three, we are looking across a spectrum of projects from production to preproduction to advanced exploration to early exploration, that's what I mean by scorched earth. We'll look at almost anything because it's really of the ability to form a unique opinion on what you can do with an asset that is the difference maker. Everybody's looking at everything, so it's really your ability to recognize potential and how to unfold it.

To get more specific, in terms of where are we going with our M&A strategy, we'd like to grow the business by double over the next five years; that is double our production and reduce our cost to the lowest quartile over the next five years. A combination of M&A plus organic growth will get us there. Our current pipeline gets us halfway there, so there's still a need to continue adding projects to the pipeline. If, for instance, we were to acquire a producer, where could we add value? Well, maybe they have some resources that are not in the mine plan and just investing the money to move the resources into the mine plan gives you a much more robust project. If it's a preproduction or a development stage project, then we have the diversified management group, the skill sets to build and operate, so get mines permitted, built, and commissioned.

**MARK REITMAN:**

Okay. Great. Thank you.

**BRADFORD COOKE:**

Of course, exploration—I mean, our Exploration Group has a great track record, so we love the exploration side as well.

**MARK REITMAN:**

Okay. Well, thank you.

**MARK REITMAN:**

Thank you for your question, Mark, and actually everybody. I think that's it.

**OPERATOR:**

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

**BRADFORD COOKE:**

Thanks, Operator. Again, thank you all for attending today's call. A good start to the year, I think you'll see a somewhat similar second quarter, and then the production growth that we've guided for the year will show up primarily in Q3 and Q4. Thanks for attending and stay tuned.

**MARK REITMAN:**

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