

Endeavour Silver Corp.

2018 Third Quarter Financial Results

Conference Call Transcript

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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:

Welcome to the Endeavour Silver Q3 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, one on your touchtone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, zero.

I would now like to turn the call over to Galina Meleger, Director, Investor Relations. Please go ahead.

GALINA MELEGER:

Thank you, Operator. Good morning, everyone, and welcome to the Endeavour Silver Corp. 2018 Third 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.

With that, and on behalf of Endeavour Silver, I would like to thank you for joining our call today and I'll now turn it over to our CEO, Bradford Cooke.

BRADFORD COOKE:

Thanks very much, Galina, and welcome, everybody, to this conference call on Endeavour's third quarter financial results. As I always do, I'd like to start with some highlights and then we'll open it up for Q&A.



The headline results released today include a net loss of \$5.5 million, or about \$0.04 a share, but that was off the back of cash flow of \$6.9 million, up 21%, compared to the same period last year. Revenues for the quarter were down 6%, compared to 2017 Q3, at about \$37.6 million. Our cash costs were up slightly, 9% to \$8.86 per ounce, net of gold credits, but all-in sustaining costs were actually down 8% at \$16.14, again net of gold credits. Working cap was a bit lower due to our spending during the third quarter at about \$57.4 million. No debt on the books, so we still have a healthy balance sheet.

Production, silver production increased 13% to 1.4 million ounces, gold production was down a bit, 5% to 13,000 ounces, and silver equivalent production was relatively flat quarter-on-quarter at 2.4 million ounces, using a 75:1 ratio.

In general, our financial performance in Q3 was impacted by the lower metal prices, and our earnings performance was particularly impacted by the higher depreciation and depletion charges, primarily at Guanacevi, where production continues to lag behind plan. We've been working very hard at Guanacevi this year and we are still very optimistic that Q4 will show significant improvement at Guanacevi. We were also impacted during the third quarter by a brief shutdown at the new El Compass mine, but it's back up and running here mid-October and we are still expecting to declare commercial production at El Compass this quarter. El Cubo continued to have strong outperformance, carrying on from the first quarter two quarters of the year, Q3 was no different, and Bolanitos actually suffered from a drop in gold grades in Q3, but we are seeing them coming back up already in October. We did complete a large part of our exploration and developing spending in the third quarter. That's the main reason why our working capital took a dip.

Looking ahead to the fourth quarter, we do expect to both improved operating and financial performance, largely due to our expectations of higher throughput and grades at Guanacevi, stronger gold grades at Bolanitos, and initial commercial production at El Compass. We should also, I think, this quarter realize the full benefit of our short-term cost reduction program that we initiated late in the third quarter.

So, lots of things going on on the operation front. I'll just briefly touch on our development projects. At Terronera, we released an updated PFS, or Prefeasibility Study, showing a significant improvement in both operating and financial metrics.



I think the real headline there was the all-in sustaining costs estimated for Terronera came in at a very low \$1.36 per ounce of silver, net of the gold credit.

So, I think that is the sum of my initial comments and, Operator, let's open it up now for questions and answers.

OPERATOR:

Certainly. We will now begin the question and answer session. To join the question queue, you may press star, 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, two. We will pause for a moment as callers join the queue.

Our first question comes from Heiko Ihle with H.C. Wainwright. Please go ahead.

HEIKO IHLE:

Hey, guys. Thanks for taking my questions.

BRADFORD COOKE:

A pleasure, Heiko. How are things?

HEIKO IHLE:

Life is good, thank you very much for asking. You just mentioned the full impact of the cost reduction program that we're likely going to see in Q4. Can you just sort of quantify it? I went through the release and some articles about it. I mean, it sounds like it's head office on down, you know, that was announced back in August. Do you want to just sort of quantify what you think we'll see in Q4, and then maybe also Q1 of—or even full year '19?

BRADFORD COOKE:

Sure. I'll just give you a brief overview and then I'll let Godfrey give you some details. The idea behind the cost cutting was that we saw, obviously, the initial drop in gold and silver prices in the summertime, and having been through this before and knowing that we're in the middle of a significant spend not only at Terronera, but also at Guanacevi, where the new Milache and Santa Cruz Sur mines are in development, so knowing that we were in the middle of a spending phase, a capital spending phase, we felt it was very important not only to focus on how to reduce exploration capital and operating costs, but to use the head office as an example. So, maybe over to Godfrey for some details.

GODFREY WALTON:

Sure. At the operations, a big reduction is really upcoming development, and so development is now paying for itself by being focused on the actual veins themselves, as opposed to out in the waste. We've also done a number of reductions in acquiring new—a variety of new things for the operations, nor would go out and buy extra supplies, extra maintenance things, we've cut back that a lot, and then we've stopped hiring extra people. So, those are really the main things that we've reduced.

BRADFORD COOKE:

We had some layoffs of contractors at the various operations. Dan, do you want to contribute to that?

DAN DICKSON:

Yes, I think, from head office standpoint, it's across the space. So, where we started from is up here in Vancouver, Heiko, where we cut back on our Investor Relations, reduced road shows, conferences, for lack of a better term, grind our advisors, being tax legal, look to do things in-house, but delay certain things, and ultimately, also, in exploration, we finished our Terronera drill program drill program for the year. We've reached about \$11 million in exploration, our total budget approved by the Board was up to \$14 million, and we've basically got two drill rigs going—internal drill rigs that we own going in and there is no external drilling happening at this point.

As far as specific quantities for Q4, the main items end up being from waste development to ore development, which should save about \$2 million at Guanacevi and \$1 million some at Bolanitos. So, all in all, you'll see it in our all-sustaining costs, a reduction, more so than what we'd see in our cash costs in Q4.

HEIKO IHLE:

I think this has been one of the most—in over a decade, of doing this, this has been one of the most comprehensive answers I've ever gotten on a conference call, as an answer, and for that I commend you. Thank you very much.

DAN DICKSON:

As far as your 2019 question, Heiko, which we actually didn't answer, we don't put out guidance on 2019 costs and production until January, the reason being we are going through that process as we speak, of looking at mine plans, various levels of mine plans, and obviously at today's prices, it's

something that we're trying to figure out what's the best fit for us going forward, and we just don't like to comment on that till we're final.

HEIKO IHLE:

Fair enough. Okay, perfect. I'll hope back in queue. Thank you, guys.

BRADFORD COOKE:

Thanks for your question.

OPERATOR:

Once again, if you have a question, please press star, one. Our next question comes from Chris Thompson with PI Financial. Please go ahead.

CHRIS THOMPSON:

Hey, good morning, guys. Thanks for answering my questions. A couple of specific questions, I guess, on the operations here. Going to El Cubo, first of all, I noticed you've been cutting back on your sustaining CapEx there on Villalpando. Are you compromising the mine life in any way doing this? Maybe if you can comment on that.

GODFREY WALTON:

Hi, Chris, this is Godfrey. Thanks for the question. No, we are not compromising the mine life (inaudible 10:49) in vein development. We've looked at it very carefully and we don't see any (inaudible 10:59).



BRADFORD COOKE:

In fact, I think the extension to that question, Chris, is that our main access ramp for Villalpando-Asuncion has actually reached the bottom of (inaudible 11:10), so all of the future development is basically vein development moving up from the bottom.

CHRIS THOMPSON:

Okay, all right, thanks for that, guys, and just Bolanitos quickly. Previously, I think you mentioned you'll be winding up the throughput from 1,200 to 1,400 tonne a day. Two questions, I guess, on that. Is timeline and additional CapEx required to do that?

GODFREY WALTON:

No, it's not. It's a matter of just accessing more faces and more levels, and that's all as part of the plan. We always keep (inaudible 11:52) develop and what we can access, and so it's really just a matter of mining a little bit more.

BRADFORD COOKE:

Because it's adding the number of faces, it is a ramp-up period throughout the quarter.

CHRIS THOMPSON:

Okay. So, we can see—expect, I guess, 1,400 exiting the year; is that right?

BRADFORD COOKE:

That's correct, yes.

CHRIS THOMPSON

Okay, perfect, thanks for that. Then, just finally, Guanacevi. Obviously, Milache and Santa Cruz, you're going to be turning those on. Have you got any sense of blended grade? I mean, what should we putting in our model from a grade perspective when those are fully led into your production?

GODFREY WALTON:

Really, you know, Santa Cruz Sur is not going to show up in production until next year. We'll hit the vein late this year, but it really won't impact production. Milache will, but it'll be slowly increasing the grade, because we're not going to access (inaudible 12:59) levels, but you're basically initially just drifting on ore. You're not developing stopes until probably December. So, that's when you'll start seeing more grade change.

DAN DICKSON:

Chris, if you look through our reserves and resources, which I know you do, the Milache resource and the Santa Cruz resource are in the 340 range, 340 silver equivalent range, and that would be coming through in 2019, which is in our internal mine plans, being higher grades in 2019, 2020 and 2021, than what we're seeing currently. Partly, for 2018, our grades are lower than what the plan was for the year, because Milache and Santa Cruz haven't come on as quickly as originally guided or hoped.

CHRIS THOMPSON:

Right, okay. I know the asset here has a history, or you've taken, I guess, throughput up beyond 1,000 a tonne a day. I mean, is that realistic for next year? I know you don't want to give guidance on that, but what's your sense about tonne per day here?

GODFREY WALTON:

Chris, we're looking at our mine plans for next year and we're just looking at what the best throughput will be, but we are thinking about the 1,200 range. It's still early days in actually putting an exact number to it.

CHRIS THOMPSON:

No, that's good, that's what my model has. Then, finally, I guess, Terronera, obviously, we're still waiting for a couple of permits there. A bit of colour on that, guys?

BRADFORD COOKE:

Terronera. So, we're waiting patiently for the final permits from the government. Specifically, we got a letter from CONAGUA, the water authority, basically instructing us to go back to SEMARNAT, the environmental authority. So, we were waiting for the water authority and we now have that letter. We're going to be going back to SEMARNAT in October.

That's normally a 90-day exercise. We're trying to move it faster, but, as you know, we're in a transition period for a new government in Mexico. So, while we would love to have all of our permits by December, we certainly can't guarantee that because of the change in government.

CHRIS THOMPSON:

Right, right. Okay, perfect, guys. Thanks a lot.

BRADFORD COOKE:

Thanks for your questions, Chris.

OPERATOR:

Once again, if you have a question, please press star, one. There are no more questioners at this time. This concludes the question and answer session. I would now like to turn the conference back over to Bradford Cooke for any closing remarks.

BRADFORD COOKE:

Well, thank you, Operator, and thanks all again. I think I'd just like to conclude by saying that, in addition to our upbeat expectations for both operations and financial performance in Q4, taking a broader look at the markets, I think that this is a challenging time of year for all equities, particularly for gold and silvers, but we do, based on our research, think that there will be a turning point with significantly better bids for the precious metals before quarter end. Our cost cutting program was not intended to be permanent or long term, especially on the capital side. We just felt that a short-term response was needed for this short-term dip in the precious metal prices. So, we are upbeat on precious metal prices for next year.

That's our comments for our Q3 conference call and we look forward to talking to you again in the new year. Thank you.

OPERATOR:

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

