

Endeavour Silver Corp.

First Quarter 2015 Financial Results

Conference Call Transcript

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Speakers: **Meghan Brown**
Director, Investor Relations

Brad Cooke
Chief Executive Officer

Dan Dickson
Chief Financial Officer

Godfrey Walton
President and Chief Operating Officer

OPERATOR:

At this time, I would like to turn the conference over to Meg Brown, Director of Investor Relations. Please go ahead, Ms. Brown.

MEGHAN BROWN:

Thank you, Operator. Good morning, everyone, and welcome to Endeavour's 2015 First Quarter Conference Call. On the line today we have the Company's CEO, Brad Cooke; as well as our President and COO, Godfrey Walton; our CFO, Dan Dickson; and our VP, Corporate Development, Terry Chandler.

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 2015 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. The Company does not intend to and does not assume any obligation to update such forward-looking statements or information other than as required by applicable law.

So with that, I'll turn the call over to our CEO, Brad Cooke.

BRADFORD COOKE:

Thank you, Meg, and welcome everybody to this Q1 financial results call. As usual, I'll start off just hitting the highlights. Endeavour returned to positive earnings in the first quarter this year. That was largely due to our improved operating cash flow and EBITDA, and that was driven by our reduced cash operating costs and all-in sustaining costs. Compared to the last quarter of last year, we're significantly improved on the cost side.

Revenues in the quarter were \$51 million. Cash flow was \$13.8 and earnings of \$1.4 million, all of which were sharply higher compared to Q4 of last year; down compared to a year ago, though, when we had a very strong first quarter in 2014.

Looking forward to the second quarter, as we have previously announced, there's a Phase 2 mine expansion now under way at our El Cubo mine, an almost 50% mine expansion to

primarily drive our unit costs down into the money at El Cubo. We expect to deliver that ramp-up by the end of this quarter, so the first full quarter at the new capacity at El Cubo will be Q3. That should help to continue driving our operating costs down both at El Cubo and on a consolidated basis. I should point out, however, that mine expansion involves an additional \$4 million of capital investment at the mines at El Cubo, and that, coupled with an increase in our exploration expenditures this quarter and moving into Q3 as well, means that our all-in sustaining costs will drift higher in Q2/Q3, and then we'll look to Q3/Q4 as a snapshot of what all three mines look at steady state.

So I think that's all my comments for the results today, and I'll turn it over to Q&A.

OPERATOR:

We will now begin the question and answer session. If you'd like to ask a question, please press star, and one on their touchtone phone. You'll hear a tone to indicate you're in queue. For participants using a speakerphone, it may be necessary to pick up your handset before pressing any keys. If you wish to remove yourself from the question queue, you may press star, and two. There will be a brief moment while we poll for questions.

Thank you. Our first question is from Benjamin Asuncion from Haywood Securities. Please go ahead.

BENJAMIN ASUNCION:

Good morning, gentlemen. Congratulations on what looks to be a really solid quarter here. I've got a few questions. Just insofar as the comments on trying to unbundle what the peso movement versus what your onsite operating improvements are in reflection of direct costs. Can you give me a sense of where your costs have moved to exclusive of the peso, and how does that compare to what you're benchmarking for, call it, the back half of this year?

DAN DICKSON:

Yes, Ben, it's Dan here. Thanks for the question. Also not overly an easy question, but I think I do have an answer for you. Guanaceví, we were up in the \$100 for cost per tonne and we ended up at about \$88 for the quarter—or \$87 for the quarter. Just under \$7 of that was related directly to the peso, and similar actually for Bolañitos, too; I think it was about \$8 of that.

One of the key things that probably wasn't articulated through Q4, is that's when there was a significant peso drop. Bolañitos and Guanaceví both carry stockpiles, so essentially those costs were hung in our stockpile inventory and our finished goods inventory for Q4 and really flowed through here in Q1 with, again, a little bit more depreciation because of the peso. Because you'll see from an El Cubo standpoint, I think we were \$88—\$87, \$88 here in Q1 compared to Q4 where we were about \$87. So the depreciation of the peso in Q4 came all the way through El Cubo because we don't have a stockpile or any really significant levels of finished goods at El Cubo. So the rest of that drop at Guanaceví was just the reduction in our costs, focusing on where silver prices are now and what we can spend at site. Same with Bolañitos, so we are ramping down a little bit—or we are ramping down at Bolañitos from 1,600 to 1,200 tonnes this quarter, so we would have less contractor costs going through, and same thing, just cognizant of where are costs are at with today's price environment.

BENJAMIN ASUNCION:

Okay, perfect. Just touching on Guanaceví for gold production for the year, are we still looking at maintaining 6,000 to 7,000 ounces as per the revised guidance?

GODFREY WALTON:

Hi, Ben, this is Godfrey. Yes, we are still looking at maintaining that 6,000 to 7,000 ounces.

BENJAMIN ASUNCION:

Okay. Is your outlook on grade sort of changed then for the remainder of the year?

GODFREY WALTON:

Do you mean for the gold grade or for our silver, or both?

BENJAMIN ASUNCION:

I guess for both. I mean we saw—I thought the grade was somewhere around 275 grams per tonne, and you obviously delivered a stronger quarter than that.

GODFREY WALTON:

Similar to last year, yes; grades was coming in around the 300 gram per tonne range, and we do expect to keep that level for the—for most of the year. It will drop off towards the end of the year.

BENJAMIN ASUNCION:

Okay, and on the gold side, are we still kind of looking around 0.6 grams per tonne for the remainder of the year?

GODFREY WALTON:

Yes, yes, that should still be able to be possible for the balance of the year.

BENJAMIN ASUNCION:

Okay, and just last question here. Insofar as El Cubo, just to reiterate, I guess the ramp-up that Brad had mentioned in the opening comments was to the 2,200 tonnes a day by the end of this quarter? That's correct?

GODFREY WALTON:

That is correct, yes.

BENJAMIN ASUNCION:

Okay, and great expectations when we're looking throughout the year. When do you think we'll start to see some of the better grades coming through from the mine?

GODFREY WALTON:

As we continue with our development, we are increasing development at El Cubo to be able to do that 2,200 tonnes per day, and, you know, you go through high and low grade sections, and until we have enough development so that we can actually choose where we mine from rather than just taking what's in front of our face, you know, that's—we'll have days where we're high grades and days where it's low grade. So it's going to be later this year before things smooth out and we get a steady state average grade coming through.

BRADFORD COOKE:

If I could chip in, Ben; it's Brad here. So the focus clearly is on tonnes this quarter. We're not forsaking grade, but we're just trying to hold the fort on grade. Then once we've got the mine operating at its new expanded capacity, we'll return our attention to grade. Like Godfrey said, we need to get some more development done before we can really focus on grade, so you'll see that more in Q3, Q4.

BENJAMIN ASUNCION:

Okay, perfect. Well, thank you very much for answering my questions, gents.

BRADFORD COOKE:

Thank you, Ben.

OPERATOR:

The next question is from Bhakti Pavani from Euro Pacific Capital. Please go ahead.

BHAKTI PAVANI:

Hi, guys. Just a couple of questions from my side. I was just curious at Bolañitos, from which ore body is the ore coming from?

GODFREY WALTON:

Hi, Bhakti, this is Godfrey. We've got mineral coming from the Lucero mine, which includes Daniela, Karina, La Joya, Lana, and a little bit from Lucero itself. So a lot of it's coming from there and we're now starting to bring in mineral coming from La Luz. We have a ramp that goes from the plant right into the La Luz vein, and so ore was coming from there towards the end of the quarter.

BHAKTI PAVANI:

Okay. So, there's been a line ramp-down at Bolañitos from 1,600 to 1,200 tonnes per day, and I believe the additional output at El Cubo will be processed at Bolañitos, correct?

GODFREY WALTON:

That is the plan, yes.

BHAKTI PAVANI:

So while you guys are developing the ore body of La Luz-Asunción, what is the timeline for developing that ore body?

GODFREY WALTON:

Well, as I mentioned, the ramp has connected the La Luz area—or the Asunción La Luz zone—

to the plant, and we are bringing ore out that way now, and that will allow us to increase our production from there as we reduce our production from Daniela, Karina, and La Joya.

BHAKTI PAVANI:

Okay.

GODFREY WALTON:

So it's started already.

BHAKTI PAVANI:

Oh, okay. All right, that's it from my side. Thank you very much.

BRADFORD COOKE:

Thanks, Bhakti. It's basically similar to El Cubo, we're in the process of ramping up the La Luz-Asunción area, but it will take most of the year, and there's a lot of lateral development ongoing at La Luz-Asunción as well.

BHAKTI PAVANI:

Okay, thank you.

OPERATOR:

The next question is from Malcolm Gissen. He's a private investor. Please go ahead.

MALCOLM:

Good morning, gentlemen.

GODFREY WALTON:

Hello, Malcolm.

MALCOLM:

Ben asked about six of the questions that I was going to ask, but I did want to ask you about continued growth in terms of organic growth versus acquisitions. Knowing Brad, I have to believe that he's still looking at a lot of opportunities, and with commodity prices where they are, there should be lots of opportunities. Can we expect that you will continue to do so and make

acquisitions in this environment?

BRADFORD COOKE:

Thanks for your question, Malcolm, and I think the short answer is certainly yes. We've lived off of both strategic acquisitions as well as organic growth; brownfields, discoveries, and new mine developments, and we certainly expect that combination to continue. Obviously the next phase of our growth is our high grade discovery at Terronera, and it's in prefeas now. We hope to have some preliminary economic numbers shortly on the way to a full prefeasibility study by the end of the third quarter, and that's—that clearly represents the next leg of our growth.

But we're not forsaking M&A. Terry here has been working with me on generating and evaluating ideas in the sector, and, you know, we think that the principle buy low, sell high applies to properties and companies as well as to investors. So we are scouring the planet looking for opportunities, and we'd like to think that we can consummate at least one this year.

MALCOLM:

Is there a geographic limitation on that?

BRADFORD COOKE:

Well, we were restricted to Mexico up until a couple years ago, and then we started expanding our horizons. So we have an exploration office in Chile and we're certainly looking there. We're looking in Peru, in Canada and the US, and we're starting to think about other Latin American countries as well. We're also thinking about gold. I mean, there's such a scarcity of quality silver projects out there that even though we think there's a couple of interest, there's more available in the gold sector as well. Our strategy basically is Mexico first but we'll go to Canada, the US, Chile and Peru, and silver first, but we'll go with silver plus anything, and gold obviously was a very significant by-product. So M&A strategy is still in our plans for this year.

MALCOLM:

Thanks, Brad. I hope to see you and Godfrey soon in the Bay Area.

BRADFORD COOKE:

Okay, thanks, Malcolm.

GODFREY WALTON:

Thanks, Malcolm.

OPERATOR:

The next question is from Christos Doulis from PI Financial. Please go ahead.

CHRISTOS DOULIS:

Good morning, guys, and congratulations on the decrease in costs; certainly beat my expectations. Most of my questions have already been covered off, but I just wanted a little more clarity on Bolañitos. So ramping down to about 1,000 tonnes per day until Asunción is able to fill it, and so what do you think Q2 and Q3 looks like here for throughput at Bolañitos?

GODFREY WALTON:

Hi, Christos, this is Godfrey. In Q2 here we're looking at 1,200 tonnes per day from Bolañitos, and that's progressing very well. Then in Q3 we're actually looking at 1,000 tonnes per day from Bolañitos.

CHRISTOS DOULIS:

Okay. That's it. Everything else has been covered. Thank you so much.

BRADFORD COOKE:

Great. Thanks, Christos.

OPERATOR:

The next question is from Howard Flinker from Flinker & Company. Please go ahead.

HOWARD FLINKER:

Hi, Brad.

BRADFORD COOKE:

Hello, Howie.

HOWARD FLINKER:

Why was D&A so much lower in this quarter than in last year's first quarter?

DAN DICKSON:

Hey, Howie, it's Dan.

HOWARD FLINKER:

Hey, Dan.

DAN DICKSON:

A big thing was the Canadian dollar went from \$0.94 down to I think we averaged about \$0.81 to the US dollar.

HOWARD FLINKER:

Oh, right.

DAN DICKSON:

That's a big chunk of it. Q1 of 2014 we had some layoffs at the corporate office as well, so it's just, again, from silver prices at the beginning of last year up in the \$20s and now we're at the \$16 range. We run a pretty tight ship here in Vancouver. I think we only have about 13 people in the office at any given time, so we're very cognizant of what we're spending at the corporate level to make sure that from a cash flow standpoint consolidated that we're doing the best that we can.

HOWARD FLINKER:

You heard G&A. I said D&A; depreciation and amortization.

DAN DICKSON:

Oh. I hope you liked the explanation on G&A then.

HOWARD FLINKER:

Yes, I took it down verbatim. I'll memorize it.

DAN DICKSON:

Depreciation and amortization, the biggest thing is we deplete on reserves. So at Bolañitos, we had actually depleted a lot of our mine development as of last year, and then we start depleting

the new development that we did in 2014 here in 2015. Then we also had impairments to El Cubo, so additional impairments that really brought down our D&A.

HOWARD FLINKER:

Okay, thanks.

BRADFORD COOKE:

Thanks, Howie.

OPERATOR:

Just as a reminder, if you'd like to ask a question, please press star, and one on your touchtone phone. The next question is from Benjamin Asuncion from Haywood Securities. Please go ahead.

BRADFORD COOKE:

Ben, are you there?

BENJAMIN ASUNCION:

Hi, guys. Just if I can here get a breakdown based on the guidance revision that you had? Any chance to get a segment on what the op costs on a per tonne basis are; what your expectations are for kind of 2015 guidance by mine?

DAN DICKSON:

Yes, we...

BRADFORD COOKE:

We released that, didn't we?

DAN DICKSON:

Yes, we do release that. Let me just jog my memory here. The by-mine basis, our guidance for Bolañitos was \$84, our guidance for El Cubo was \$85 for the whole year, and I believe our guidance for Guanaceví was \$104.

BRADFORD COOKE:

Yes, I think that's right.

DAN DICKSON:

Mine by mine.

BENJAMIN ASUNCION:

So I guess just on Guanaceví then, I mean even layering back in that sort of \$7 peso moving and unwinding that, I mean you're still markedly below what your guidance is. Was there anything unusual or any other sort of accounting transitions that would've accounted for that lower cost, or is that kind of the new base going forward?

DAN DICKSON:

Yes, I would say that's the new base going forward. When we go through all our own budgeting process, we're typically finalized by the end of October. That depreciation drop all happened in October, November, and December. I'm trying to remember what we used from a budget standpoint, whether it was 14 or 14.5 from foreign exchange rate. But also just even cost-cutting measures.

I like to think that we're very conservative in our budgeting process. I mean you see that sometimes with our grades that we have, but we do expect Bolañitos and Guanaceví kind of to come up a bit in Q2, Q3 as activity ramps up. Just even around development you'll have more staff on site dealing with that stuff. But, yes, hopefully this is our new norm, and we expect it to be somewhere around there.

BENJAMIN ASUNCION:

Okay, so about, let's call it, you know, adding the \$7 back, 94/95, you know, that's a pretty sustainable level without any unusual activities at Guanaceví?

DAN DICKSON:

Exactly.

BENJAMIN ASUNCION:

Perfect. Thank you very much, Dan.

DAN DICKSON:

No problem.

BRADFORD COOKE:

Thanks, Ben.

OPERATOR:

There are no more questions at this time. I will now hand the call back over to Brad Cooke for closing comments.

BRADFORD COOKE:

Thank you, Operator, and thanks, everybody, for sitting in. We delivered a pretty strong quarter in Q1, and we do expect to continue our focus on cost containment going forward. Currently the ramp-up at El Cubo should help drive those unit costs down and also our consolidated costs, but the first full quarter will be Q3 where we see what all three mines look like on a steady state basis. Guanaceví is just chugging along steady state for the year, and looks like it's on track for another very good year. Bolañitos we did forecast a ramp-down, as you heard from Godfrey, and that's now under way. We're working at La Luz-Asunción discovery to try and open it up for expanded production later this year. Aggressive drilling is under way at all three mine sites, and clearly we want to continue our track record of making new discoveries and moving them to new mine development.

Terronera represents the other real value creation team for the Company this year. If pushing the production up at El Cubo to drive our costs down creates short-term value for stockholders, I think the long-term value proposition is this prefeasibility study now under way at Terronera, and hopefully going to the Board for a production decision later this year.

We did, if you recall, receive our umbrella government approval of the environmental study at Terronera late last year. We did initiate the prefeas late last year. Preliminary economic numbers will come out here shortly in the next week or two, and that's on the way to a full prefeas at the end of September. Permitting is under way. There's a lot more work that needs to be done in this second and third quarter at Terronera. I think, Godfrey, 5,000 metres of drilling, primarily infill?

GODFREY WALTON:

Infill, that's right.

BRADFORD COOKE:

To move inferred into indicated so that we can use that entire number; indicated number for the prefeas. We're hoping to go to the Board with a feasible and permitted project late this year.

I have also started kicking the tires on what's out there in the financial markets in terms of financing Terronera on a standalone basis, and I'm encouraged actually. We've received some indicative term sheets and expressions of interest from a number of bankers, and metal traders, and others. We will move that process along through the second and third quarter as well so that we have clarity on how to finance and build Terronera at the same time that we're going to the Board for a decision.

So that's our outlook for the short term, and again, thank you everybody for sitting in. We'll talk to you at Q2. Thanks, Operator.

OPERATOR:

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