

Endeavour Silver Corp.

2015 Fourth Quarter and Year-End Financial Results Conference Call Transcript

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

Bradford Cooke
Chief Executive Officer

Godfrey Walton
President and COO

Dan Dickson
Chief Financial Officer

Terry Chandler
VP Corporate Development

OPERATOR:

This is the conference operator. Welcome to the Endeavour Silver 2015 fourth quarter and year-end 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 Meg Brown, Director of Investor Relations. Please go ahead.

MEGHAN BROWN:

Thank you operator. Good morning everyone and welcome to the Endeavour Silver 2015 fourth quarter and year-end earnings conference call. On the call 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 of 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 2016 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 and 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.

With that I will turn the call over to Endeavour's CEO, Brad Cooke.

BRADFORD COOKE:

Great. Thank you very much, Meg, and welcome everybody to this 2015 financial results call. As usual, I'd like to start by hitting the highlights of today's news and then we'll look forward to 2016 and open it up for Q&A.

On the financial side Endeavour saw its revenue decrease by 7% last year to \$184 million. That



was primarily due to the lower metal prices. Our operating cash flow, though, increased 20% to \$35.2 million and that was a reflection of our increased output. EBITDA was down 20% to \$34 million, and we recorded a net loss of \$149.9 million, primarily due to the impairment of El Cubo, and to a much lesser extent, also Bolañitos. That impairment simply reflects the short mine lives and the impairment of reserves and resources that don't make it at \$15 silver.

Moving on to our cash costs, we beat guidance and saw them pretty much parallel to last year at \$8.39 per ounce of silver, and that's with the gold credit. Our all-in sustaining costs also beat guidance, falling 7% to \$15.62 per ounce silver net of the gold.

We finished the year with cash at \$20.4 million, working cap was \$17.2 million, and subsequent to year-end we reduced the line of credit to \$20 million and converted it into a two-year term loan. Also subsequent to year-end we raised \$5.5 million on an equity financing through the ATM facility to augment our working capital and facilitate our growth projects, primarily at Terronera.

On an operating basis we had a very strong year, meeting once again, I think for the third year in a row, our silver production guidance, which was flat at about 7.2 million ounces. We met our gold production guidance, which was down a bit from the prior year at 60,000 ounces and our silver equivalent production last year came in at around 11.4 million ounces.

There were a number of accomplishments at the sites, but we've already covered those from our call in January, so I think what I'll do is just turn my attention to 2016. As per our guidance, we expect to be just chugging along at capacity at Guanaceví this year. We had another very strong year last year and -tax free cash flow for many years and we expect it to continue to do so even at these level prices.

Same thing with Bolañitos: it's operating at close to plant capacity for the first few months of the year and then we'll decline to the current mine output, which is approximately half of the 1,600 tonnes per day plant capacity, and that simply reflects the transition of Bolañitos from mining at the Lucero mine to mining at the La Luz-Asunción mine. It's also our lowest-cost producer and we expect it to remain so this year.

Last but not least, El Cubo, we had accomplished an incredible feat of



not only expanding the operation and completely modernizing it, but driving the all-in sustaining cost down from \$42 an ounce when we bought the mine to below \$20 at the end of last year. That, however, is not \$14, so we made the difficult, but right, choice this year to slowly ramp down production at El Cubo to care and maintenance towards the end of the year and we do expect to make a little bit of free cash flow from El Cubo this year.

So the focus for the company in 2016 is basically threefold: make money at each of the mines, and that's well under way; focus on advancing the Terronera project, which represents the next significant leg of growth for the company. We did defer the prefeasibility study late last year by a full year to allow us to more aggressively explore and expand the resource base at Terronera. We've set a \$7 million budget for that, so we're in a position by late this year to complete a prefeasibility study and hopefully go to the Board with a bigger and better project. That's the point of this year's exercise: grow the resources and improve the economics through drilling and engineering.

Last but not least, we're still quite active on the M&A front. We are obviously looking at both brownfields and greenfields opportunities, and brownfield opportunities, there's a couple of things at Guanaceví and Bolañitos that we're trying to do. In terms of greenfields, it's really hard to find a highly profitable silver mine for sale nowadays. People who own them don't want to sell them, and what is available, in production anyway, is typically not that interesting at low metal prices, to qualify that statement. But we are seeing some interesting developments and advanced exploration opportunities, and that's probably where our focus will be short-term.

So I think operator, that's the sum of my comments to start the call. Why don't we open this up for questions and answers?

OPERATOR:

We will 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 are 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.

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



ahead.

HEIKO IHLE:

Hey, guys. Congratulations.

BRADFORD COOKE:

Well, thank you, Heiko. Good to hear from you.

HEIKO IHLE:

Always is.

HEIKO IHLE:

Hey, Brad, can you just quantify a little bit the estimate for free cash flow from El Cubo? I mean, in our model we're using low- to mid-seven figures, but does this figure that you guys are leading to include the closure and initial care and maintenance expenditures which probably will be incurred in the latter part of this year?

BRADFORD COOKE:

Well, I'll start and then Dan can finish. We're not proposing to go to full closure, but to go into care and maintenance, and there is a consideration for severance of the workforce and care and maintenance and security at the site. So maybe, Dan, you can address this question?

DAN DICKSON:

Yes. Free cash flow, when we ran it in January using a \$14 silver price, was high single digits, somewhere between \$7 million and \$9 million, and then severance, which would be incurred at the end of this year would be about \$3 million to \$3.5 million. Again, as Brad touched on, we're not going to closure for 2016. It would be something that we'd want to keep that optionality available going forward.

HEIKO IHLE:

Closure was the wrong word. I think I meant shutdown expenditures is the word I was looking...

DAN DICKSON:

Yes. Care and maintenance will run about \$1 million annually and



really divvied out among security and our maintenance group.

HEIKO IHLE:

Regardless, the number is quite a bit higher than what I had, so that's good to know. I assume now with \$15 silver it's probably another million or two, which brings us into potentially low double-digits or low-eight figures, even.

Then so you had an impairment of \$134 million at El Cubo, and then there was another \$83 million that were in 2014. Are there any more impairments that may be incurred in 2016 at El Cubo?

DAN DICKSON:

At El Cubo, no, there won't be any more impairments.

BRADFORD COOKE:

Basically accounting policy is to write it down if you're taking it to care and maintenance, so that's what we did.

HEIKO IHLE:

Got you. Is it fair to say that \$20 silver may lead to reopening at El Cubo? You guys have made such amazing strides in turning this thing around from where it was when you bought it a couple of years ago and I've been there a couple of times and I saw the turnaround firsthand. Is it fair to say that \$20 silver may lead to reopening of the site?

BRADFORD COOKE:

Somewhere in that range. We'll be in a better position to talk about which price it's a go when we're closer to \$20—we manage it below \$20 in an all-in sustaining basis in the fourth quarter. But perhaps what's more important about Terronera going forward is that we are going to use this year to take a look at a couple of technologies. We don't want to talk in any detail, but we think there are opportunities to improve the costs further and they will require significant testing. So, we're going to try and take advantage of this ramp down to care and maintenance to see if we can find other ways to reduce the operating costs at El Cubo.

Ask me later in the year about the trigger price for bringing it back on.



HEIKO IHLE:

Got you. Well, thank you guys so much for the quarter and for taking my question. I'll get back in queue.

BRADFORD COOKE:

Thanks, Heiko.

OPERATOR:

The next question is from Jessica Fung with BMO Capital Markets. Please go ahead.

JESSICA FUNG:

Hi. Good morning. So, I just had a question on the IVA refund or receivables. I know that it's something that you guys are trying to tap into in order to pull it forward. Can you go through what the process is, and when you expect you might receive this refund? Also, is it in pesos or is it in dollars?

DAN DICKSON:

Thanks, Jessica. This is Dan. It's a good question. It's something we've been working on now for the past year. To answer the last part of that question, it's all denominated in pesos. It's receivable from the government. It's the value added tax refund and through 2012 to 2013, or even dating back longer than that. We would typically have a float of about four months, and Mexico has got a different system in that some of our refunds come from the federal level, some come from the state level. When the refunds come from the state level, they come a lot slower than what we've seen from the federal level.

We've got IVA dating back to 2014 related to our El Cubo entity that's given at the state, and we've gone through a number of hoops. Basically, we submit all the invoices that we pay out to our vendors to collect that IVA back, and typical lag time, like I say, federally is two to three months; obviously, at the state level, it's a lot longer than that.

We've looked at every channel to try to get those funds back. We've even considered now talking with another arm of the government that will loan against IVA just to see what we do with that. We've gone through legal channels, and it's not that the IVA is

not collectible and it's not good IVA. We've got audits done on those balances. It's just the function of the government saying, okay, we want this gentleman's identification before we give it back. We want maps of the mine to give it back. On every month they've been asking for that and it's just been growing and it's effectively delay tactics, and it's not precluded just to us. We've seen it across our peer group in Mexico and beyond the mining industry as well. It's a common problem right now at state levels in Mexico.

BRADFORD COOKE:

Dan, do you want to speak to the legal aspects of the El Cubo past due?

DAN DICKSON:

Yes. They've come back and acknowledged that what they're doing is illegal; however, they continue to do it. We filed injunctions in April of last year just to speed that up and put some pressure at the state level, and we should have fruition there by the end of the summer if it has to go that far. We expect that the government will actually kind of move off that and pay our IVA back rather than having to finalize the court information with it, because in that case we receive 13% interest.

Again, we did it as a pressure tactic in the fact that we want our IVA back. We file all our tax returns properly; we've done everything that we're required to do to get that IVA back; and as I say, we get everything back from the federal level, so it's just the state level, and it's not uncommon and it's not exclusive to us. It's just one of the challenges of operating in more of a developing world like Mexico right now.

BRADFORD COOKE:

So this is the first time, though, that we've really had a very chunky past-due and it's particular to certain invoices relating to El Cubo, and it's illegal. They've recognized it's illegal. Notwithstanding the fact that if we go the legal route we're going to get 13%, Dan, what is the normal rate of interest on IVA?

DAN DICKSON:

You get inflation back in Mexico, which hovers about 4%. So it'd be 4% plus that 13%.

BRADFORD COOKE:

So are we optimistic that we'll see it this year?

DAN DICKSON:

I'm always optimistic.

BRADFORD COOKE:

Good. Does that help, Jessica?

JESSICA FUNG:

It absolutely does, yes. I just wanted to get a sense if that was something we might see in the next couple of quarters or is it something that's two years away, so this is...

DAN DICKSON:

No. I would expect it to be in fiscal 2016, a good chunk of it.

JESSICA FUNG:

Okay. Okay. Perfect. My second question is on the carrying value of El Cubo, I just wanted to clarify; so you guys have written down about \$109 million at El Cubo from \$114 million. The sort of delta, it seems like that's the deferred tax asset that's remaining.

DAN DICKSON:

No. It's not a deferred tax asset remaining. It'd be our estimated cash flows less all taxes paid, less severance for 2016.

JESSICA FUNG:

For this year, okay. Got it. Perfect. That's all my questions. Thank you so much.

BRADFORD COOKE:

Thanks, Jessica.

BRADFORD COOKE:

The next question is from David Garcia of Thomson Reuters. Please go ahead.

DAVID GARCIA:

Hi. Thanks for the call. Two quick questions, one on taxes and one on possible new deductions. On taxes, I was curious if you could share how much these new mining taxes in Mexico that went into effect in 2014, have cost the company in 2014 and 2015, as well as what you may expect this year. I'm referring, of course, to the new 7.5% mining royalty and then the 0.5% precious metals tax. On deductions, it's my understanding that there's an effort to lobby the government to allow miners to deduct exploration costs. My understanding is this would not require a vote in the Congress and this could happen.

I'm curious if you could tell us how much that might save the company, say, this year or even over the course of, say, the next five years, if there's some sort of estimate. Thank you.

DAN DICKSON:

Hey, David. It's Dan again. I'm excited. I don't get this many questions about taxes typically on these calls. The special mining duty in 2014 impacted us about \$4.5 million and just the 7.5% EBITDA taxes essentially is what it is. In 2015 it was \$3 million. The 0.5% royalty in 2014 was just under \$1 million and, again, same thing for 2015. So, a significant impact is how we saw it and we clamored against that when it came in, in 2013. So if you multiply that out over the five years, and just using even 2015's, the impact of being \$4 million, that's significant to us as a market cap and significant to us as cash flow, and hence why we are involved with the rest of our peer group with regard to lobbying against the government at such a strenuous tax on us, especially when prices were starting to dip.

But governments never do anything at the most appropriate time. I don't want to get into how governments manage their countries, but in reality, the other question you had about exploration, it's difficult and there's a lot more grey around that exploration legislation. For those of us who are operating, it's hard to distinguish between what's exploration and what's operating, so for us, we would take that deduction immediately.

But yes, if something happens through Congress and that gets repealed—we've heard over the last few years a lot of things back and forth, whether it was going to get repealed, whether the 7.5% was going to get lowered. We've never seen anything out of the government. It seems to come from the mining industry more than it seems to come out of government, to be honest, or I should say also sometimes it comes out of government, but those are

in back rooms and then we never see anything in the public space.

BRADFORD COOKE:

Does that help, David?

DAVID GARCIA:

Yes, that does help certainly on the tax question, but what about the second question about the possibility of deducting exploration costs in the same year they're exercised? What kind of positive impact might that have if that does get approved, say, for this year 2016 or even over the next few years?

DAN DICKSON:

Yes. Sorry, David. I should've been more clear with that. Prior to 2013, all explorations were deductible immediately and that changed for 2014 and 2015. But the impact on us is really at our exploration properties. Effectively at Terronera we don't get to deduct 100% immediately; it's amortized over 10 years. At our operations where we're drilling to know where we're going along the vein, we deem any drilling there to be operating costs and we get that full deduction. As far as all the experts' analysis and consultation that we've done is we're doing it appropriately. So for us, it really wouldn't have that much of an impact.

BRADFORD COOKE:

David, it's really primarily for exploration on non-operating properties. That's Dan's point: that the exploration on operating properties you can deduct still whereas on non-operating properties that's the issue and, of course, what happened with this new tax is that people were looking at lower cash flow and it's cash flow that drives greenfields exploration. So what Mexico has seen in the last few years is a sharp falloff in greenfields exploration, which means fewer jobs, supplies, and services. We're hoping they'll allow that deduction back in and it should have a benefit for the country.

DAVID GARCIA:

Great. Thank you.

BRADFORD COOKE:

Thanks for your question.



OPERATOR:

As a reminder, if you have a question, please press star, then one.

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

HOWARD FLINKER:

Hi, Brad.

BRADFORD COOKE:

Hello, Howie; how are you?

HOWARD FLINKER:

Good. You?

BRADFORD COOKE:

Good. Good.

HOWARD FLINKER:

A comment and a question. With oil at \$35, Mexico is effectively bust. They're going to take a long time to pay you. That's also why they're squealing so much when Trump threatens to disrupt trade between the two countries. Mexico is really strangled for cash.

At \$15.70 or \$15.75 silver, the current conversion rate of the peso is 17 to 18, something like that?

BRADFORD COOKE:

Correct.

HOWARD FLINKER:

Could you make money, real money, fully accounted?

DAN DICKSON:

Depends what operation you're talking about, Howie. At Guanaceví we



can; at Bolañitos we will; at El Cubo we will this year, but the key for El Cubo is the investments and with the underground vein mining. In this past year our all-in sustaining costs were north of \$20 per ounce and our best month, or best quarter, was in the range of \$17 per ounce. So, even with the peso depreciating, it's getting closer, but we're still not there and, hence, why management made the decision to go in care and maintenance.

HOWARD FLINKER:

That's just all-in sustaining. That's not complete costs, because all-in sustaining...

DAN DICKSON:

All-in sustaining includes our G&A costs out of Vancouver, it includes all our capital costs.

HOWARD FLINKER:

Does it include tax?

DAN DICKSON:

If you're not making money, you're not paying tax.

HOWARD FLINKER:

Right. All-in sustaining costs, in most cases, excludes original capex and original exploration. Are you including that too in your calculation?

DAN DICKSON:

No. No. Those are sunk costs in our opinion now.

HOWARD FLINKER:

Well, see; it's still costs. Sunk or not, it's money gone. Okay. Overall, combining the two, would you make a little bit of money...?

DAN DICKSON:

We expect to have earnings at these prices with meeting our guidance at Bolañitos and Guanaceví and El Cubo for 2016.

HOWARD FLINKER:

Presuming the peso doesn't rally?

DAN DICKSON:

Or prices drop.

HOWARD FLINKER:

Right. Okay. Good. Thanks.

BRADFORD COOKE:

Well, thanks for your question, Howie. I see there are no more questions. It's still open if anybody wants to join the queue. Otherwise, operator, we can wrap up.

OPERATOR:

It looks like there are no more questions at this time. I would like to turn the conference back over to Mr. Brad Cooke for closing remarks.

BRADFORD COOKE:

Well, thank you everybody for listening in. It's obviously tough to decide to take a mine down to care and maintenance and write off the accrued value there, but nonetheless, we have hopes for all three of the mines and we're very active at Terronera. Terronera clearly is a featured project for this year. Stay tuned for our second quarter call. 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.