

Endeavour Silver Corporation

Fourth Quarter and Year-End 2014 Financial Results Conference Call Transcript

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

Dan Dickson
Chief Financial Officer

Godfrey Walton
President and Chief Operating Officer

Terry Chandler
Vice President, Corporate Development

OPERATOR:

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

MEGHAN BROWN:

Thank you, Operator. Good afternoon, everyone, and welcome to the Endeavour Silver Fourth Quarter and Year-end Conference Call. On the line today, we have the Company's President and Chief Operating Officer, Godfrey Walton; as well as 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.

With that, I'll turn the call over to Endeavour's CFO, Dan Dickson.

DAN DICKSON:

Thanks Meg, and thanks to everybody joining our call here to talk about our 2014 financial information. We want to apologize that Brad Cooke is out on personal leave just for this week, attending matters back east with his family. We wish him the best and he should be back in the office on Monday.

What we try to do with these calls is give our investors the opportunity to ask questions and clarify detail in our financial statements or in our MD&A at this time. I'll touch on some highlights from Q4 and the year, and then we'll open it up for questions.

In Q4, we produced two million ounces of silver and 15,000 ounces of gold. The silver was up compared to 2013, and gold was slightly down, for a silver equivalent of 3.1 million ounces of silver. Cash costs in Q4 were \$8.33 on a consolidated basis, that's up 12% from the prior year;

and all-in sustaining costs were up 8% from the prior year to \$15.37. On an annualized basis, cash costs came in at \$8.31, ahead of our target that we set in January of 2014; and all-in sustaining costs came in at \$16.79, again beating targets for 2014.

Total production for 2014 was 7.2 million ounces of silver, ahead of guidance; and gold fell a little bit short, coming in at just under 63,000 ounces of gold.

Some of the other highlights that we had for 2014 included El Cubo, where we were able to ramp up to 1,500 tonnes per day through the plant in December. It was reflected in the production out of El Cubo. Clearly in Q2 and Q3 we struggled a little bit, but we're back on track at El Cubo. Cost per tonne at El Cubo in Q4 came in at \$90 per tonne. Of course, we continue to delineate our new discoveries at all three mines, to make sure that we have further production going forward for a long time at each operation.

On an annualized basis we had a net loss of \$74.5 million. This is reflective of an impairment that we've taken on El Cubo, reflecting the lower price environment that we were in in 2014. On an adjusted earnings basis, we had a loss of \$17.2 million, compared to last year earnings of \$11.1 million; again, primarily reflective of lower silver and gold prices, and new mining duty taxes in Mexico, offset by our lower production costs.

So, with that, I'm going to open it up to questions. As Meg alluded to, we do have our COO, Godfrey Walton, here, and our Head of Corporate Development, Terry Chandler.

So, with that, Operator, I'd ask if we could open it up for questions.

OPERATOR:

Thank you. We will now begin the question and answer session. If you would like to ask a question, please press star and one on your touchtone phone. You will hear a tone to indicate you're in queue. For those using a speaker phone, it may be necessary to pick up your handset before pressing the 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.

The first question is from Benjamin Asuncion of Haywood Securities. Please go ahead.

BENJAMIN ASUNCION:

Good afternoon, guys. Thanks for taking my questions here, just a few things here on operating costs. I guess, just trying to get a handle on what the impact of favourable FX movements were on your operating costs, if we were to look at on a per-tonne basis, would you be able to break that apart by asset?

DAN DICKSON:

Yes, it's actually very similar at each asset. About 60% to 65% of our costs are incurred in pesos and of that 65%, half of that is labour, so 33/34%, and the labour across all three operations are very similar. One is 30% of our cost is labour, the other two are 32% and 33%, respectively. So, the impact from an FX standpoint in Q4 was about \$4.00 to \$4.50 per tonne, give or take, at each operation.

BENJAMIN ASUNCION:

Okay, perfect. Would we be able to just sort of touch on the guidance that you gave at the beginning of the year for—I think your global op costs were, on a consolidated basis, \$90 to \$94 per tonne. Could you give us a breakdown of what that was on a per asset basis, and maybe what the FX rate, like what the implied peso rate was used when you set those?

DAN DICKSON:

Yes, the implied rate that we used when we set that was 14.5 to 1. Clearly, we're above 15 to 1 right now, and 14.5 to 1 was what we set it at. The breakdown for cost per tonne was \$86 and change at Cubo, \$85 at Bolañitos, and I want to say \$104 at Guanaceví. The impact today's FX rate would be on that is minor, I'd say it's 2% to 3%, so we're probably ahead from that standpoint, but again it's pretty early to tell for the year, and then even for Q1 2015.

BENJAMIN ASUNCION:

Okay, then just sort of the last thing, on some housekeeping things, just in regards to some of the taxes that came through in the fourth quarter, can we just touch on what your tax loss carry-forwards are at each of the operations?

DAN DICKSON:

Yes. We did have a higher current tax expense in 2014 than what some people would expect with the earnings level. In 2014, effective January 1st, Mexico reformed their taxes. Prior to 2014, we were able to do consolidated tax returns in Mexico. Effective 2014 and going forward, the consolidation regime does not work for Endeavour, so each entity and each mine which is held in different entities effectively filed their own tax returns. At Guanaceví, we have no tax loss carry-forwards; at Bolañitos, we have no tax loss carry-forwards; at El Cubo, we have \$95 million of tax loss carry-forwards.

BENJAMIN ASUNCION:

Okay, perfect, and just one last thing, then. At Bolañitos, based on what your internal projections are for guided costs and production, are you looking at paying taxes, or does that imply taxes then for Bolañitos in 2015?

DAN DICKSON:

Yes, we do expect to pay taxes in 2015 at Bolañitos and Guanaceví. At El Cubo, obviously, we have a lot of protection with the loss carry-forwards, especially at these prices. So, Bolañitos and Guanaceví will pay taxes, provided we stay at these silver and gold prices.

I should add, to just extend on your second question, Ben, we did pay more current taxes also because of that catch-up from the deconsolidation. In the past, we were able to defer revenue year to year to year. With the new tax rules, we are unable to do that. We effectively had a catch-up of about \$7 million of taxes paid to the Mexican government because of that change and the deconsolidation regime.

BENJAMIN ASUNCION:

Okay, perfect. Thanks a lot Dan, and that's it for me right now.

DAN DICKSON:

Thanks, Ben.

OPERATOR:

As a reminder, it is star, one to ask a question. The next question is from Chris Thompson of

Raymond James. Please go ahead.

CHRIS THOMPSON:

Good afternoon, guys. Thanks for taking my question. I've got a question or two here relating more to operations than anything else. Just looking at El Cubo at the moment, I know you mentioned, I think, earlier this year, you know, plans to re-optimize the mine. It's good to see, obviously, that throughput is at about 1,500 tonne a day. I guess the big question here is, is that sustainable?

GODFREY WALTON:

Hi, Chris. This is Godfrey. Yes, it is sustainable. We've managed to continue that and actually increased production there in 2015, so it is sustainable, and we're working on a variety of plans that we'll be coming out with sometime later on in Q1.

CHRIS THOMPSON:

Right, okay, and just remind me again, Godfrey, the high-grade zone that you're hoping on developing into, how's that going? Can you give us a sense of accomplishment there?

GODFREY WALTON:

Well, there are actually two areas that we're really focusing on. One is Santa Cecilia, which are narrow veins, but very high grade, and we've looked at increasing our production from there; and then the new area, Villalpando-Asuncion, we've got some good development going on in that area and it's helping us be able to meet that initial guidance of 1,500 tonnes a day.

CHRIS THOMPSON:

Okay, right. What sort of grade should we be expecting on a forward-going basis, quarter-by-quarter for this year?

GODFREY WALTON:

We guided 134 grams per tonne silver and 1.6 grams per tonne gold.

DAN DICKSON:

The guidance is 125 grams per tonne silver and 1.68 grams per tonne gold, and the variability

between quarters was quite minimal, Chris. To kind of even elaborate on the earlier question, we came out with guidance the end of January, we used \$18 silver and \$1,260 gold as our budget and projections, and since we're in a \$16 silver environment right now—and we had that fear, so to speak, when we were going through the budgeting process and our sensitivities, is we realized that El Cubo at \$18 silver was in a difficult situation, from a positive cash flow standpoint. We thought we could get there, but it didn't give us a lot of room. So, now that we're in a \$16 silver price environment, albeit it's still at \$1,200 for gold, is we've been working on these alternative plans to see if we can create a situation where we can have at least breakeven cash flow, if not positive cash flow, out of El Cubo.

CHRIS THOMPSON:

That's good news. Looking at the recoveries, any chance of getting a better gold recovery here at El Cubo?

GODFREY WALTON:

I think we are—we have been sort of shaving it and getting it a little bit better, but I think those are about where they're going to sit.

CHRIS THOMPSON:

Okay, and just on to Guanaceví at the moment, at Milache, can you give us an update there and do you see that fitting into the mine plan any time soon?

GODFREY WALTON:

Milache is not being brought into the mine plan at current prices. We're looking for little bit higher prices before we start development. There's about eight months of ramp development before we get into the ore, so I don't see it actually being in production this year. We're focusing our production this year on Santa Cruz and Porvenir Cuatro and North Porvenir.

CHRIS THOMPSON:

Fantastic, okay. Then, just finally, just moving over to Bolañitos, Godfrey, can you give us a sense just of the mine plan this year, what veins are you shutting down? Give us a sense as far as the split, as far as mine production per vein, percentage wise.

GODFREY WALTON:

Per vein, well, I'd say the first four to five months, most of the mineral will be coming from the La Joya/Daniela/Karina area, with maybe 25% coming out of La Luz. After mid-year, the Daniela/Karina/La Joya will be actually shutting down and 100% of the ore will be coming from La Luz.

CHRIS THOMPSON:

La Luz, okay.

GODFREY WALTON:

So, we expect to have the ramp that we've been driving from the plant site to La Luz actually hit the La Luz vein in another month, month-and-a-half, and that will give us the access that we need to be able to keep the tonnage moving.

CHRIS THOMPSON:

Great, Godfrey, thank you very much. Thanks, guys.

DAN DICKSON:

Thanks, Chris.

OPERATOR:

Next is a follow-up question from Benjamin Asuncion from Haywood Securities. Please go ahead.

BENJAMIN ASUNCION:

Hey, guys, just one other thing here on the development front. Can you just walk us through what permits you have for San Sebastián, the current plan in terms of timing for the study on which we should look for, a decision point, and what are your thoughts of its advancement in the context of where we are, in and around the sort of \$16 silver?

GODFREY WALTON:

Ben, thanks for the question. This is Godfrey. We have a MIA, which permitted a 500-tonne-a-day operation. To actually go into production, we need what's called a change of soil use permit.

We're in the process of applying for those, and we estimate it'll be about six month's permitting timeframe to receive those permits.

We have done the mine plan for the PFS, we've done a lot of metallurgical testing, we're doing another round, but we know we've got good recoveries up in the 85% to 90%, averaging around 88%. So we're just finishing off a few of those details. We will be drilling some more holes to tighten up the resource and move more of it into the indicated category, and we're expecting to have the PFS ready by mid-year, so that we can go to the Board with a revised plan, and something that is economic at these prices, in time to get all the approvals we need, get the financing in place, when the permits are issued.

BENJAMIN ASUNCION:

Okay. So, the initial scaling, I guess we're talking about some different alternatives and I guess a footprint design for a larger scale, but the additional permits that you have would be that 500 tonnes a day?

GODFREY WALTON:

The MIA is for 500 tonnes a day. The initial plan has always been to go in at 1,000, but build a footprint that'll take 2,000, so it's expandable, and the reason we went for the MIA at 500 was to expedite that process, because actually expanding it from 500 to 1,000 is far simpler than going directly to the 1,000, or even to the 2,000-tonne-a-day operation.

BENJAMIN ASUNCION:

Okay, and can you provide a general ballpark in terms of order of magnitude for what the capex would look like for this?

GODFREY WALTON:

We've been looking at around \$70 million as the number, and that seems pretty firm and that's what we're talking to people about as potential financing.

DAN DICKSON:

Ben, we've engaged external engineering firms to help with that process. We still have a little back-end work to do to completely firm it up, but I think we're down the path where we know

what we're doing and where we have to source some of that stuff from. We do have experience from expanding the plant at Bolañitos and then rebuilding the El Cubo plant, and we know what plants cost and we know how to do it, and we have the right construction companies and engineering companies that have delivered with that, right around the same range that we're looking at. I think, through the fourth quarter, when we started looking at it, we had some ideas and good estimates in our own heads, and I think going through this process we've firmed up those estimates and are a lot more comfortable with it, but we still have a little bit more work to do before we publish any numbers related to that stuff, and that's just us finishing off the back-end to make sure we cross our t's and dot our i's.

BENJAMIN ASUNCION:

Okay, and just in terms of the financing side, is there any sort of excess capacity with your current lenders to absorb what you would need for the capex?

DAN DICKSON:

At this point, we've just started looking at how to finance what we need. Obviously, at today's prices, we have less cash flow available to take from our current operations to build San Sebastián, so we're looking at all buckets of alternatives to see what we need, and that includes talking with our current lender, Scotia, what they have, but we're too early in the process to kind of comment on where we are down that road.

BENJAMIN ASUNCION:

Okay, perfect. Well, thanks a lot, Dan and Godfrey.

DAN DICKSON:

Thanks, Ben.

OPERATOR:

There are no more questions at this time. I will hand the call back over to Dan Dickson for any closing comments.

DAN DICKSON:

Thank you, Operator, and I want to thank everybody for coming. We hope to put out some news

regarding exploration in the coming months, and then we'll have our Q1 that we'll be rolling into sooner than expected for the accounting group, like myself. So, have a good day and talk to you soon.

OPERATOR:

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