

# Endeavour Silver Corp.

## First Quarter 2014 Financial Results

### Conference Call Transcript

**Date:** May 13, 2014

**Time:** 12:00 PM PST / 3:00 PM EST

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

**Dan Dickson**  
Chief Financial Officer

**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, and good morning, everyone. Welcome to the Endeavour Silver Corp. first quarter conference call. With me on the call today is Dan Dickson, Endeavour's Chief Financial Officer. Unfortunately, due to travel schedules and flight delays, Brad was not able to make the call as planned today, but I'm confident you're in good hands with Dan to respond to all of your questions on our Q1 results.

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 2014 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 law.

So, thank you for your patience with that, and I'll now turn the call over to Dan Dickson.

**DAN DICKSON:**

Thanks, Meg. The format for today's call is similar to what we've done in the past. I'll touch all the highlights for the quarter results, touch on a couple of other matters, then open it up for questions, which is what we feel is the most valuable part of these calls.

Silver production as announced early in April was 1.9 million ounces of silver, up 27% from Q1 2013. Gold production was up 23% from Q1 2013 to 18,500 ounces, putting us on a silver equivalent basis of 3 million ounces of production in Q1. This strong production profile was primarily from Guanaceví, which had significantly higher grades than the reserves and resources, and good output from both Bolañitos and El Cubo.

From an earnings standpoint, that translated to \$4 million of income in Q1 2014, or \$0.04 per share. On an adjusted earnings basis, we reported \$0.05 a share at \$5.5 million of income and EBITDA of \$19.3 million. The decrease of 38% was primarily on margins.

As everyone in the precious metals space is well aware, we've seen shrinkage in prices on gold and silver over the last year. Our realized price for silver fell 30% to \$20.50 and our realized gold price fell 19% year-over-year to \$1,306. That generated revenue of \$53 million in Q1, which was a decrease of 24%, translated into cash flow from operations before working capital changes of \$18.3 million and mine operating cash flow before taxes of \$25.4 million.

It was a very strong quarter for Endeavour. Our guidance for 2014 is 6.8 million ounces of silver and 70,000 ounces of gold, so we are well ahead at this point. But nonetheless, we did have some fatalities at the end of the quarter and no matter how good our production is, what come first is our employees and the safety of our employees. We did press release the fatalities on March 31 and April 7, and again, it's more important for us to make sure our employees are safe. We operate in safe manner and continue to make sure that safety comes before production.

Subsequent to those fatalities, we developed a three-pronged approach to safety: one, we shut down the each of the mines for two days for re-induction of our training programs; two, we brought in a consulting group to evaluate our safety programs and they're putting together a report now; and three, we've hired experienced staff to work at the face training on a day-to-day basis for a continuous time to make sure our employees are looking for the risks that are at a face of a mine at all times. So again – it's not about production – it's about employee safety.

So with that, I'll open it up to 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 telephone. You will 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.

The first question is from Chris Thompson of Raymond James. Please go ahead.

**CHRIS THOMPSON:**

Hi Dan. Congratulations on a good quarter. A couple of quick questions here. Looking at Bolañitos at the moment, as far as the plant recoveries are concerned, what's the chance of increasing those recoveries on the silver and maintaining gold at current levels?

**DAN DICKSON:**

Yes, thanks, Chris. For Bolañitos, we did just under 87% on silver. We expect that to line up closer to 90%. It's just timing basically, of when we go through; we had some filter press issues at the end of Q1 that delayed being able to push out some of the silver and gold at the end of the quarter – not a lot but enough to affect the recoveries there for Bolañitos.

At El Cubo, it was actually the opposite effect. At the end of December we had some stuff sitting in circuit that we were able to push out, and we run these numbers on a per tonne basis directly that got put into the front of the plant during the quarter.

**CHRIS THOMPSON:**

Great, thanks. Guanaceví, remind us again; I mean, what does the mine plan look like for the remainder of this year? I mean, those were incredible grades in Q1.

**DAN DICKSON:**

Yes, the grades were fantastic and it came from Porvenir Cuatro. We were well aware that we had a pocket of high grade silver and gold. It was running up in the range of 380 grams per tonne silver, 0.8-0.88 grams per tonne of gold in Porvenir Cuatro. The pocket was a little bigger than expected. There is obviously variance when drilling but nonetheless, we've seen that come back down to 43-101 reserve grades, which is about 250 grams per tonne silver. We've already seen that here in April and May, so expect that to come back down in Q2.

**CHRIS THOMPSON:**

Great, thanks for that. Just very quickly on El Cubo, are we still on track for 1,500 tonnes a day by year end, do you think?

**DAN DICKSON:**

That's a good question. We do think we're on track for 1,500 tonnes per day by year end. I mean, that's the goal. As a lot of people are aware, we stopped processing ore from Bolañitos at El Cubo to allow El Cubo to ramp up 1,500 tonnes per day out of the mine. We're basically seven quarters of the eight quarters into our turnaround program from the mine operation standpoint. We still see it's going to be a little bit lumpy going forward but nonetheless, we do see the potential to get 1,500 by the end of the year and we're not changing our guidance on that at this point.

**CHRIS THOMPSON:**

Great, thanks. Then finally, obviously with your cash generating ability, what's the strategy with regards to the balance sheet now? Are you going to be paying off some of that debt? What should we model?

**DAN DICKSON:**

Yes, it's a good question. On the balance sheet we added \$9 million of cash from December 31 to the end of March and actually reduced our debt by a million, from \$33 million to \$32 million. The plan is to push that credit facility down to around \$25 million, low 20s for the year, so we're going to focus on still strengthening our balance sheet and ensuring that we increase our reserves and resources going forward. That's the plan for 2014.

**CHRIS THOMPSON:**

Great, Dan, thanks a lot.

**DAN DICKSON:**

No problem, Chris. Thank you.

**OPERATOR:**

As a reminder, it's star, one, to ask a question. The next question is from Bhakti Pavani of Euro Pacific Capital. Please go ahead.

**BHAKTI PAVANI:**

Hi, Dan. Just a quick question. You know, in the press release, you guys mentioned that you would be increasing exploration and mine development expenditures in the second and the third quarters. Could you provide some colour on where those—I mean, which mine are you focusing more at the moment?

**DAN DICKSON:**

Yes, we spent just under \$2 million in Q1 on exploration and our budget for the year was just over \$10 million for all of 2014. The primary focuses are Bolañitos and El Cubo, evenly split, and then also another \$2 million at San Sebastián. We just put rigs on site, or got rigs on site, late April that started turning last week. So there's \$2.5 million at San Sebastián and the rest is split between Bolañitos and Cubo of the remaining \$8.5 million.

**BHAKTI PAVANI:**

Okay, and just a last one. The metal prices have been under pressure quite a bit. Have you guys thought on any kind of hedging strategies for your production going forward?

**DAN DICKSON:**

Yes, there's no doubt the prices have been under pressure in Q2, which is pretty normal from a seasonal pattern. Q2 is always a suppressed quarter for the precious metals. Our hedge program is nothing over quarter end. If we see prices run, or drop for that matter, we'll enter in certain things that are under 90 days, but we don't do anything that's long term or even over quarter end. So, you're typically looking at hedge programs, if we do something, 30 days to maximum 60 days and that's just trying to be opportunistic on a price front. But other than that, we don't hedge long term.

**BHAKTI PAVANI:**

Okay, thank you very much. That's it from my side.

**OPERATOR:**

The next question is from Chris Lichtenheldt of Dundee Capital Markets. Please go ahead.

**CHRIS LICHTENHELDT:**

Good afternoon, guys. You still guided to \$44 million of capex in the year and you spent less than a quarter of that in first quarter. What's the timing of that like? Will it be sort of back-end heavy this year?

**DAN DICKSON:**

Q2 and Q3 heavy, Chris. The plan is always to take a little longer to ramp up in January, coming out of Christmas break in Mexico. We do hope to try to beat our \$43.9 million capital expenditure but can't say that until we get further deeper into the year, but Q2 and Q3 are the big plan for most of that and then it curtails off in Q4. The big part of that \$43.9 million is mine development; that's pretty homogenous throughout the year, so that was \$21 million of that \$43 million. So, you'd see that kind of – on quarter it's – the equipment purchases or changes in the plant that we're making that were going to primarily happen in Q2 and Q3.

**CHRIS LICHTENHELDT:**

Okay, great. Then just secondly, you got little more high grade out of Guanaceví than you expected and in turn, a little more cash. Have you given thought to increasing the exploration budget?

**DAN DICKSON:**

Not at Guanaceví, at this time. We're happy to spend our money that we have available on Bolañitos, El Cubo and San Sebastián. We see there's better potential there for significant growth in our reserves going forward for 2014 than at Guanaceví. We still have plans of exploration at Guanaceví, but at this point in time where prices are below \$20, we're not allocating any extra funds to Guanaceví other than what we allocate at the beginning of the year, which is about \$1 million.

**CHRIS LICHTENHELDT:**

Okay, but would you consider spending more at El Cubo and Bolañitos given that you've produced more cash now, like increasing the budget overall, I guess is my question?

**DAN DICKSON:**

Yes, it's something we look at all the time. I mean, if silver moves up to \$22, \$23, we'd be happy

to put another drill in the ground to do some work. But at this point in time, I know we've pushed some exploration forward to happen in Q2 rather than Q3, which will give us room to do more exploration later in the year. But again, at today's prices, it isn't something that we're going to guide out to the market.

**CHRIS LICHTENHELDT:**

Okay, I gotcha. Thanks a lot.

**OPERATOR:**

As a reminder, it is star, one, to ask a question. The next question is from Benjamin Asuncion of Haywood Securities. Please go ahead.

**BENJAMIN ASUNCION:**

Hey, Dan. Just a couple of kind of housekeeping questions here. Of that \$21 million in development capex for 2014, can you break apart what development capex was spent in Q1, and then perhaps also if you can itemize it by operation?

**DAN DICKSON:**

Yes, I actually can. Of the \$21 million that was spent, I believe—here, I can—just give me a second and I'll actually make sure I give you the absolute right numbers. So, we've spent \$9.3 million total in capital in Q1. Of that \$9.3 million, approximately \$6.5 million was on mine development; \$3.5 million was at El Cubo; \$1.5 million was at Bolañitos and \$1.6 million rounding at Guanaceví.

**BENJAMIN ASUNCION:**

Okay. So are development rates kind of in line with what your expectations are in terms of being able to kind of track your internal estimates?

**DAN DICKSON:**

They are. They actually were. In the MD&A, we put disclosure with regards to how many kilometres each of that represented, which I don't have in front of me right now, or I can't recall in my mind. But as far as Guanaceví is a little bit behind and Bolañitos and El Cubo were on track. In fact, El Cubo was ahead of track up until our accident in April.

**BENJAMIN ASUNCION:**

Okay, and can you give us a sense of what throughput rates have looked like post-quarter end, either in April or kind of what you're seeing now in terms of your current run rate?

**DAN DICKSON:**

Yes, that's a very fair question. Bolañitos has been pretty standard with what we saw in Q1, with the two-day shutdown. At Guanaceví, it took little longer to get up and going after the shutdown of Porvenir Cuatro for the investigation and the two days, but it's now running to expectations at 1,200 tonnes per day, and El Cubo has taken probably a little bit longer to get up and going after the investigation. There's a lot to go on there. It's really a culture change.

Some of the preliminary stuff that we're getting out the report says our safety programs are fantastic. It's the connection with the employees to make sure they're following those protocols, so we've tried to do more training and tried to unlock what's going to connect with those employees to make sure that safety comes before production. So, it's been a little bit slower going on, not all just because of safety; your regular day-to-day complexes with it. But, in general, the mines are doing what we'd expect them to do at this point.

**BENJAMIN ASUNCION:**

Okay, perfect. Well, thank you very much.

**OPERATOR:**

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

Pardon me; there is one more question now from Joan Lappin of Gramercy Capital. Please go ahead.

**JOAN LAPPIN:**

Hi. I was a little late getting on the call. What assumptions are you using for silver prices for the rest of this year and next year?

**DAN DICKSON:**

For reserves and resources, which is kind of the underlying price assumptions for us in our 43-101 reports, we used \$22 silver and at least \$1,300 gold, or thereabouts. As far as prices for 2014, we used \$20 in our budgets at the beginning of the year and for 2015, we would just use \$20 as well. Not that we're considering what really the prices are in 2015 at this point; we go through that budget process in Q4 for the Company.

**JOAN LAPPIN:**

So, what are the factors that you're seeing in terms of reality?

**DAN DICKSON:**

Well, the reality is there in the spot market right now; silver's trading just below \$19.50; it's probably around \$19.40 or \$19.44. For the quarter, we sold our silver at \$20.50, so we're a little ahead on that standpoint, but we build in the volatility, where we've got cushions in our budget to make sure that we can do our capital programs and our exploration program, that if silver dips lower, we're okay, and then if silver even dips lower than, let's say \$18, we've got other measures we can take at the operations to reduce costs. If we had to, we could reduce tonnes, increase grade, things of that nature. But for Bolañitos, our mainstay operation in Guanajuato, it's really what we call price proof. If silver dropped to \$12, \$13 then we'd have an issue and have to start considering changes there.

At Guanaceví, we think can operate around \$16, \$17 price at grades that are closer to the 43-101 reserve grades, and then at El Cubo, same thing; about \$16, \$17 at this point's kind of the breakeven where we get nervous about having to adjust capital programs or ramp up to 1,500 tonnes per day, et cetera, et cetera. So, we think we've got good protection from the silver price and gold price at this point. Where it's going to go from here, Joan, unfortunately, I don't have the crystal ball, but we do see Q2 kind of being stagnant, where it's going to be here until the end of June and then, hopefully, it picks up in the third quarter or going into the fall.

**JOAN LAPPIN:**

What would you fantasize would make it turn up?

**DAN DICKSON:**

Joan, I fantasize about \$75, \$100 silver. No. In reality, I don't get overly concerned with where the silver prices...

**JOAN LAPPIN:**

I mean, \$50 would be good. We'd take \$50, wouldn't we?

**DAN DICKSON:**

Absolutely, that would be great. Even \$30 is good and even \$25 is better than \$20. I mean, a higher price is always better for sure. I just like to keep these calls more in line with what we can control as a company and discuss our costs and our capital structure and our exploration spend so our investors and our analysts understand where the Company is going and what we're trying to do.

**JOAN LAPPIN:**

Okay. Well, thank you.

**OPERATOR:**

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

**DAN DICKSON:**

Thank you. I want to thank everybody for dialing in. I think one of the key things for the quarter on Endeavour was our strong production. That translated into our income statement. Our cash costs are going to be very favourably looked at among our peer group. We were \$4.87 for Q1. Our all-in sustaining cost, which is the metric that we're all now using in the peer group, was \$12.15, which is very favourable; significantly down from Q1 2013, down 50%.

So the company is doing what it has to do in a market like what we're in. We hope to continue to do that. We do expect Q2 and Q3's exploration spend and capital spend to increase, with cash and sustaining costs coming up a little bit. But nonetheless, we think these are very strong numbers and happy to report out to our shareholders. Thank you.

**OPERATOR:**

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