

# Endeavour Silver Corp. Third Quarter 2016 Earnings Conference Call Transcript

**Date:** November 3, 2016

**Time:** 11:00am PT/2:00pm ET

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

**Bradford Cooke**  
Chief Executive Officer

**Godfrey Walton**  
President and Chief Operating Officer

**Dan Dickson**  
Chief Financial Officer

**Dale Mah**  
Vice President Corporate Development

**OPERATOR:**

Welcome to the Endeavour Silver Third Quarter Earnings 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 Meghan Brown, Director Investor Relations. Please go ahead.

**MEGHAN BROWN:**

Thank you Operator. Good morning everyone and welcome to the Endeavour Silver Corp. Third 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 Dale Mah.

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 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.

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

**BRADFORD COOKE:**

Thanks Meg, and welcome all. Endeavour posted another strong quarter in Q3 2016 with net earnings of \$5.6 million compared to a loss in the same quarter last year. That was really driven by our increase in EBITDA, up 700% to \$10.8 million, cash flow from operations up 72% to \$8.2 million, mining operating cash flow up 48% to \$17.8 million, and revenue interestingly enough basically flat at \$42.1 million.

So the jump in earnings and cash flow was primarily due to the higher prices, more efficient

operations, and lower costs, given the slightly lower production that we experienced compared to the same quarter last year.

Silver production was down 29% to 1.3 million ounces compared to the same quarter last year. Gold production was off 6% to 14,000 ounces. Silver equivalent production was \$2.4 million in the quarter.

We acquired the perspective Parral exploration properties in the Parral District of Chihuahua, and while they're still being treated as exploration properties, the thinking is that it also can be advanced fairly quickly to an economic study and possibly even a production decision within a year or so.

As a result of our robust quarter with both Bolañitos and El Cubo being well ahead of the annual plan on both production and costs, the only disappointment really was Guanaceví; it's low on production and high on costs. But we are finally starting to see the changes that we put in place in Q2 and early Q3 starting to improve both the output of the mill and we're also seeing, I think, some improvement on costs as we go forward.

As a result of the improved financial performance, we saw our cash jump to \$83.2 million at the end of the quarter and working capital was \$91.9 million at the end of Q3. We did increase both our production guidance and our capital and exploration budgets and currently have 12 drill rigs working on six projects to grow our resource base. Currently, we're actively drilling at Guanaceví, Bolañitos, El Cubo, Terronera, and Guadalupe y Calvo.

So those are the highlights for the call and we'll open it up now for questions.

**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 comes from Bhakti Pavani with Euro Pacific Capital. Please go ahead.

**BHAKTI PAVANI:**

Good morning, guys.

**BRADFORD COOKE:**

Hello, Bhakti.

**BHAKTI PAVANI:**

Could you maybe provide some color on the development at El Compas? Are you guys still drilling there? What's the status of the results study?

**GODFREY WALTON:**

Hi Bhakti; this is Godfrey. Thanks for the question. Yes, we are still drilling there and the current guidance is that we will be looking at completing a PEA later this year and releasing that information next year. So everything is still moving forward. We're still drilling, still looking at doing some metallurgical testing, and looking at all the requirements we need to complete to get the plant up and running again.

**BHAKTI PAVANI:**

When do you anticipate the drilling to be completed there?

**GODFREY WALTON:**

Well, as we mentioned on the tour, we're going to be drilling there for quite a long time and we'll do enough to be able to feel comfortable with releasing a resource for the PEA, but I expect to be drilling through next year. Then as we acquire other projects in the district, I think we'll be continuing to drill on those as well. So, it's not going to be finished by a set time. It's going to just keep on going.

**DAN DICKSON:**

Godfrey can you give some clarity to Bhakti? Like, Bhakti, for 2016 we announced 3,000 metres of drilling that would be done by the end of the year, which I think with the PEA and drilling was about \$2 million. Godfrey, where are we on that 3,000 metres? Maybe that would give some clarity to Bhakti.

**GODFREY WALTON:**

Okay. Well, we actually increased that amount because we have two drill rigs turning. We will be completed that phase by the end of the year. That was the original plan, and so we're about halfway through that, but then we'll obviously be increasing the drilling for next year.

**BHAKTI PAVANI:**

Okay. Thank you. With regards to Terronera, what's the status there? I guess you need to make a decision by year-end, right?

**GODFREY WALTON:**

We are planning on finishing a PFS and as we mentioned in our guidance, we'll be releasing that early next year as well.

**BHAKTI PAVANI:**

Okay. Just quickly on El Cubo, is there any opportunity to further reduce costs at that mine?

**GODFREY WALTON:**

Well, we're always looking at ways to reduce our costs and El Cubo is one of those operations. We're examining whether we can increase the amount of long hole drilling that we can help to reduce costs, but they are fairly tight right now, so I don't see a big change in costs, but we will be continuing to look at that.

**BHAKTI PAVANI:**

Okay. Thank you very much. That's it for me.

**OPERATOR:**

The next question comes from Justin Stevens with Raymond James. Please go ahead.

**JUSTIN STEVENS:**

Hi, guys, just a few questions for me. At Guanaceví you said you expect to tame the plant production level in the fourth quarter here. Would you say you think you're going to be able to remain on the mine plan going forward, and do you guys have any other significant development you need to do in order to get to new orebodies?

**GODFREY WALTON:**

Thanks. This is Godfrey. At Guanaceví, as Brad mentioned we are a little behind the overall plan. We are aiming to get back to the 1,200 tonnes a day that we had talked about earlier in the year and that is moving forward. We've revitalized the electrical and ventilation and development that was causing us some delays. So, we won't hit the actual guided targets, but we will be close to the 1,200 tonnes a day by the end of the year.

To get into new orebodies, we do need to do some development, and that includes Milache. We've got about a year's development to get over to that orebody. Then we also need to do some development to get into Santa Cruz Sur.

**JUSTIN STEVENS:**

Sounds good. Can you give me some sort of rough split on where the fourth quarter ore will be coming from there?

**GODFREY WALTON:**

Most of the ore is coming from Santa Cruz itself. About 75% of it comes out of Santa Cruz and then about 25% comes from North Porvenir, Porvenir Central, and there's a tiny little bit coming out of Porvenir Cuatro.

**JUSTIN STEVENS:**

Perfect. Just one more for me; at Bolañitos do you expect to maintain sort of similar grades that we saw in Q3, and similar sort of ore mix from LL-Asunción and the historic stockpile as you drive your throughput down to 800 tonnes a day?

**GODFREY WALTON:**

The stockpile is complete at this point, but the grades we do expect to be there about those numbers. So, the 75 grams to 80 grams silver and about a little over 2 grams gold.

**JUSTIN STEVENS:**

Sounds good. Thanks it for me. Thanks.

**OPERATOR:**

The next question comes from John Paul Tsotsos with BMO Capital Markets. Please go ahead.

**JOHN PAUL TSOTSOS:**

Hi, guys. Congratulations on the quarter. I have a couple of questions. I guess I'll start off with some cost questions. Just looking at the mining cost at Bolañitos, this quarter you are at about \$26 per tonne whereas the last quarter it was around \$48 and the previous quarter around \$38. I was wondering if something had structurally changed and what you guys are thinking the cost per tonne are going to be going forward at Bolañitos.

**DAN DICKSON:**

Hey, John Paul, this is Dan. We had some historical stockpiles at Bolañitos from before we acquired it and we've been running that historical stockpile through the plant, which effectively took us from 1,000 tonnes per day up to almost 1,500 tonnes per day in the third quarter. From a cost perspective, those tonnes never had any costs assigned to them when we purchased Bolañitos for less than \$7 million, so effectively, we had free tonnes going through.

In the MD&A we talk about on a total basis our cost per tonne was \$48 per tonne this quarter. In reality, if we adjusted that out to remove those free tonnes, we should be in the \$63 per tonne range. You've touched on it. Immediately in the mining costs, you have of \$28 versus kind of a historical \$40. We'll be always in the high \$30s, or we expect to be in the high \$30s.

**JOHN PAUL TSOTSOS:**

Okay. Perfect. Now, for Guanaceví, the same question with regard to cost. Mining costs went up last quarter by about \$16 per tonne. I was wondering what your expectations going forward would be for Guanaceví.

**DAN DICKSON:**

Our expectations going forward for Guanaceví is for it to come down. I know Brad touched on that quickly on his interlude into this conference call. Really, our tonnage at Guanaceví dipped at end of Q2 and into Q3 and we expect that to come up. It will help those costs. We also have some refurbish costs that are running through our cost per tonne, just to reorganize the ventilation, things that we typically expense.

Then additionally, in the first half of the year, we actually had some historical stockpile there as well at Guanaceví that we reduced. We ended up having additional tonnage to what our actual

estimate was over the last 10 years of stockpiling that material. But we are at \$93 cost per tonne, which was significantly higher than Q1 and Q2. I expect it to drop back down into the mid-\$80s at minimum here in the fourth quarter and then into 2017.

**JOHN PAUL TSOTSOS:**

Okay. My questions from then are going to be around the guidance and budgeting around Guanaceví. First, with sustaining capex, there's been kind of some changes over the last few quarters and you have adjusted from your original guidance. What's your expectation now for guidance for the full year for Guanaceví? What's the number that's out in the market?

**DAN DICKSON:**

The full guidance—in the MD&A we probably have more detail on this, page 27—the full guidance for Guanaceví's capital program in 2016 was \$14.1 million and most of that was mine development, about \$9.5 million to \$10 million was mine development. Additionally in this quarter we talked about an initial \$3.8 million of capital budget across the three assets and that really comes down to items that we want to source, that we're looking at sourcing here in the fourth quarter that would really relate to 2017, and we want to be up front with the market. If we go through that \$14.1 million budget, it just comes down to timing. We don't necessarily have clarity of whether we'll get those things delivered and, hence, recognizing those costs. Certain things we want to get refurbished.

So, of that \$3.8 million breakdown, \$1.8 million related to Guanaceví. Hopefully we can get some of that spent here in the fourth quarter so we hit the ground running in 2017. On a total basis, without even adjustment that we announced here this morning, you're looking at about \$15 million to \$16 million of capital spend at Guanaceví for the year.

**JOHN PAUL TSOTSOS:**

Okay. Thanks for clarifying that for me. The other part of this was the exploration expense at Guanaceví. You guys were guiding somewhere around \$1.3 million for the year?

**DAN DICKSON:**

Yes, and we're still on track for that \$1.3 million.

**JOHN PAUL TSOTSOS:**

Okay. There have been a lot of questions already about El Compas and Terronera, so on the site visit, you guys were talking about staffing and I was just wondering how things were progressing with that, with staffing. Do you have any additional color on there?

**BRADFORD COOKE:**

Yes.

**GODFREY WALTON:**

Hi, JP this is Godfrey. Go ahead, Brad.

**BRADFORD COOKE:**

Go ahead, Godfrey.

**GODFREY WALTON:**

Okay. We have not staffed up as yet. We have a small exploration group that are active on site and we have Alfonso that I think you probably met while you were on the tour. But until we've got some clarity on just what we're going to do on the plant and costs and things like that, we will be probably looking at staffing up in Q1/Q2 next year.

**JOHN PAUL:**

Okay. Does that include the GM role and the VP Operations that you were looking for?

**GODFREY WALTON:**

The GM role, yes, Alfonso is our interim GM there while we're going through this data collection phase to get a better feel for the costs. In regards to the VP of Operations that covers all the sites in Mexico, we're moving forward on that and I think in Q4 here we'll be able to make an announcement of somebody who will be joining us.

**JOHN PAUL:**

Okay. That's great news, guys. I look forward to hearing the details.

**GODFREY WALTON:**

Okay. Thanks very much, JP.

**BRADFORD COOKE:**

Thanks, JP. Just a reminder that the critical timeline on El Compas is actually the mine development, which we're primarily going to do with a contractor, so the staffing up can actually take a couple of quarters primarily at the plant. Next question.

**OPERATOR:**

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

**HOWARD FLINKER:**

Hi, Brad.

**BRADFORD COOKE:**

Hello, Howie.

**HOWARD FLINKER:**

Can you tell me or can you guess how much the reduced peso reduced your costs, and if fuel was cheaper this year than last year? I forget the year-over-year change in oil.

**DAN DICKSON:**

Hey, Howie it's Dan. I don't have a specific drop in the fuel cost out of Mexico, but for us, fuel is way down the list for one of the key costs for us. We're not open-pit mining where diesel is a big factor. All our underground machines are relatively small and I believe it's our ninth cost on our purchase basis. So, normally I would have that. I just don't—Pemex controls prices down there and it's definitely lower than what we pay here in Canada or the United States.

**HOWARD FLINKER:**

That's right. Yes. The prices are depressed, I forget. The peso?

**DAN DICKSON:**

Yes. From a foreign exchange standpoint, 33% of our costs come from labor being underground vein mining, which has a direct impact obviously to the depreciation in the peso. Our estimates of the drop in our cost year-over-year, it's amounted to just under half, probably 40% to 45%. So, again, in Q3, the peso got up to the high 19s. It's come back a little bit and it's in the high

18s, so we do get a benefit from that. But a lot of the capital items that we source are coming from U.S. and U.S. denominated currency.

**HOWARD FLINKER:**

Okay. That part I knew. Okay. Thanks, guys.

**OPERATOR:**

This concludes the question-and-answer session. I would like to turn the conference back over to Brad Cooke for any closing remarks.

**BRADFORD COOKE:**

Thank you operator. We enjoyed a good third quarter, and even though metal prices have come back a little bit here in October, there's a wildcard in the near-term future down southwest and the U.S., and so I'm not going to be forecasting any metal prices for Q4.

The operations are in good shape and the only one that was giving us some trouble, Guanaceví, is coming back up to plan. The development pipeline, as you are all aware, is very busy at this time, and so in terms of catalysts going forward, it'll be mostly drill news followed by the two economic studies early in the new year from Terronera and El Compas.

So, stay tuned for our year-end call that'll be in March, and thanks all for listening in.

**OPERATOR:**

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