

Endeavour Silver Corp. 2021 Year-End Financial Results Conference Call Transcript

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Speakers: **Trish Moran**
Interim Head of Investor Relations

Dan Dickson
Chief Financial Officer

OPERATOR:

Welcome to the Endeavour Silver Corp. Year-End 2021 Financial Results Conference Call.

As a reminder, all participants are in a listen-only mode and the conference is being recorded.

I would now like to turn the conference over to Trish Moran, Interim Head of Investor Relations. Please go ahead.

TRISH MORAN:

Thank you, and good day, everyone.

Before we get started, I ask that you please view our MD&A precautionary language regarding forward-looking statements and the risk factors pertaining to these statements. Our MD&A and financial statements are available on our website, edsilver.com.

With us on today's call is Dan Dickson, Endeavour Silver's CEO; as well as Christine West, our Chief Financial Officer; Don Gray, Endeavour's COO; Dale Mah, VP, Corporate Development; and Luis Castro, our VP, Exploration. Following Dan's preliminary remarks, we will open up the call for questions.

Now over to you, Dan.

DAN DICKSON:

Thank you, Trish, and welcome, everyone.

Twenty Twenty-one was a good year for Endeavour Silver, both financially and operationally. Guanaceví and Bolañitos each performed well, and their performance offset the impact of suspending the operations at El Compas midyear.

In 2021, on a consolidated basis, we produced 8.3 million ounces of silver equivalent, a 27% increase over the prior year. This put us above the top end of our guidance, which we revised upwards in October. Last year's strong performance was driven primarily by two factors. First, increases in the volume of ore processed, more throughput and recoveries; and secondly, more importantly, a higher average realized silver grade.



Revenue rose by 20%, marking a five-year best, bolstered by volume and price growth. More importantly, this higher revenue translated into increased profit and cash flow, with earnings per share of \$0.08 and more than \$32 million in operating cash flow due to our changes in working capital.

Our cost per ounce metrics were higher than our previous year, and above guidance. All-in sustaining costs and cash costs were higher than guidance by 1% and 3% respectively. Industry-wide inflation has been and continues to be challenging. In 2021, it impacted everything from labour, to power, to consumables across our operations. Additionally, Guanaceví saw higher expenses associated with third-party ore purchases and operating development. Additionally, royalties were higher and we triggered a special (inaudible 2:45) tax to Guanaceví's significant production, buyer silver prices, and profitability.

Our financial performance led to a strong balance sheet at year-end. We had cash of \$103 million and no long-term debt aside from normal course leases. With total working capital of \$121 million, including unsold bullion inventory held at the cost of over \$15 million, this bullion had market value of about \$31 million at December 31. With the current prices, we have started to draw down this balance in 2022.

Our strong balance sheet sets us up well to build out Terronera. Going into 2021, Terronera was an advanced exploration project. Last fall, it was reclassified as a development project following the completion of a feasibility study and confirmation of its economic viability. The study highlighted many improvements in the project, including increased production and throughput. Upon completion, we expect Terronera will nearly double our production and cut our cost profile in half. The updated study also increased our reserves by 33%, and we believe there is high potential for further growth.

Ongoing drill campaigns are showing very encouraging results, and our goal is to publish the latest exploration results in the coming weeks. Clearly, Terronera is transformational. While we await the formal construction go-ahead, the project is moving forward. In 2021, \$12 million was spend on land acquisitions, initial development, and mobile and processing equipment. There is an additional \$9.5 million budget for the first quarter of 2022 for site clearing, final detailed engineering, early earthworks, temporary camps, and procurement of other long-lead items. We'll be seeking Board approval for construction upon completion of a



debt financing package and receipt of some amended permits. I'd also like to highlight that while we've been delayed slightly by financing, we are still targeting the first half of 2024 to complete commissioning.

With our eye on the future, last year we started rationalizing our portfolio and dealt with a couple assets that were no longer the right fit or were too small for us. Early in the year, Guadalupe Calvo Project was optioned to Ridgestone Mining, and El Cubo was sold to Guanajuato Silver. In August, we suspended operations at our small El Compas operation.

We also completed a couple smaller acquisitions to enhance our flagship assets. First, we added two more properties adjacent to the existing historic mine works in the Guanaceví. Secondly, at Parral, we bought out a 1% NSR royalty, which we now own 100% of with no royalties encumbered. As well, we purchased the Bruner project, which is located in the well-known Walker Lane district of Nevada.

Our focus is really still on the larger growth projects that will accelerate our vision of being a premier senior silver producer, namely, which would be Terronera, Parral, and now, Pitarrilla. In January, we announced the signing of the definitive agreement to acquire the Pitarrilla project from SSR Mining. Pitarrilla is situated in Durango State, which has a long history of mining and is known as a mining-friendly jurisdiction in Mexico, with several mines in operation, including our Guanaceví mine. It's one of the largest undeveloped silver deposits in the world with a historic M&I resource of 525 million ounces of silver and grade close to 100 grams per tonne, plus amongst lead and zinc.

There's been significant comprehensive work done by SSR to advance the project, and many key permits are in place. As a potential Tier 1 asset, Pitarrilla is an exciting project for us. As soon as the transaction closes in Q2, work will immediately commence to redefine historical resource to current resource, assess the number of targets and advance the project to an updated economic study.

We've talked about previous year as well as our exciting future; let's wrap things up with what's in store for 2022, starting with the guidance for 2022. Our production outlook is on par with the average over the last three years, and managing costs will be a key focus as we try to offset the impact of rising costs. Guanaceví and Bolañitos are mature assets.



We have plans to invest more than \$34 million to safety capital to optimize performance and maximize output over the coming years.

Equally important on the list of things to do is to further expand our mineral reserves and resources. Improvement in probable reserves in silver and gold and reserves increased by nearly 30% last year, and we have \$13 million earmarked across our exploration portfolio to continue our long, successful track record through the drill bit.

Twenty Twenty-two is going to be an exciting year for the three cornerstones of our growth pipeline: Terronera, Parral, and Pitarrilla, each of which provide significant characteristics and opportunities to contribute to our future growth profile. As noted, Terronera is expected to move from funding and approval phase through to construction in the coming months. At Parral, we expect to initiate a PEA in the second half of 2022. And then as mentioned earlier, the acquisition of Pitarrilla is expected to close in the second quarter, and once closed, the work will begin. Our goal is to define a current resource by the end of this year.

Overall, it's going to be another busy year.

And with that, I'd like to open up for questions, Operator.

OPERATOR:

Thank you.

The first question is from Joseph Reagor from ROTH Capital Partners. Please go ahead.

JOSEPH REAGOR:

Hi, Dan and team, thanks for taking the questions.

DAN DICKSON:

Hi, Joseph.

JOSEPH REAGOR:

Big picture question that's been getting asked on a lot of these calls is just, how are you guys handicapping the impact of supply chain inflation? Are you guys doing



anything proactively just to prevent any impact from that?

Then kind of a second question to that, what inflation rate do you guys assume on costs across the board for this year compared to last?

DAN DICKSON:

Yes, thanks for the question, Joseph.

I mean, the two-pronged for 2022, in our budgets, we had 6% to 9% inflation, just depending on whether it was labour, or whether it was a direct cost input. We had seen power costs increase significantly last year towards the end of the year, and that was all included in our budgeted information. It ranges depending on what widget's going into the product; like I say, labour was 6% to 8%, power costs were up almost 28%, and ultimately we saw that in our 2021 costs as well. Some of that's been dealt with, and dealt with in our budgets, but of course, the actual could be probably quite different than what we've actually estimated into our budgets, and we'll see how that plays out.

On a bigger picture of what we're expecting from inflation, I think it's going to continue, and we get a lot of questions on inflation with regards to our capital expenditures, and ultimately Terronera. I think we've done a good job with Terronera, with the fact that we've procured some long-lead items, most notably our (audio interference 10:39) fleet. Some of it's already on-site and we have more coming in March. We ordered that stuff midyear and kind of started moving to make sure that we could get some of these priced locked in.

But nonetheless, we're not going to be able to lock in everything. Steel, with regards to the plant, is going to be there. We do have contingencies built into our feasibility study. As we work through that, we'll update the market to where we think prices will end up. I think we've done a really good job of just trying to keep this moving forward to try to keep the costs aligned to where our expectations will be, which is along the lines of the feasibility study. We'll do our best. I mean, of course inflation is prevalent through all the industry, not just to us, and I think that is going to continue through 2022.

JOSEPH REAGOR:

Okay. Kind of a follow-up to that, and specifically with Terronera,



would you guys consider delaying the start of construction if—I think a lot of people believe some of the supply chain inflation is temporary. Do you guys think about that as maybe it's in the best interest of the long-term value of the project to kick the can until the inflation pulls back a touch?

DAN DICKSON:

Yes, I mean, of course you'd consider that, but in our instance, how imperative and transformational Terronera is going to be to us, we aren't going to delay it. We're trying to push it through. Ultimately, when it's the fact that it's going to double our production and cut our cost profile in half, it will completely change our profile as a company.

Terronera right now in our feasibility study has got a 12-year mine life. Ultimately, we expect it to be there 20, 25 years. I know trying to time markets or trying to time inflation, at the end of the day, if inflation's up 10% in 2022, it's likely still up—we're not going to see deflation in 2023 or 2024. We're going to keep pushing it forward, and it's going to bolster our Company.

JOSEPH REAGOR:

Okay. One final thing if I could. What percentage of the overall cost structure at your mines is fuel, diesel?

DAN DICKSON:

Yes, it's underground vein mines, so it's less than 7%. I mean, it fluctuates somewhere between 6% and 9% on any given year, just depending on where fuel prices are. Joseph, with an open pit, diesel's a huge cost to us, our second highest cost after (inaudible 13:13) actually power costs, through the electricity through the CFE in Mexico. As far as diesel, I could say it's 6% to 9%, so not a big proportion compared to open pits.

JOSEPH REAGOR:

Okay, good, thanks. I'll turn it over.

DAN DICKSON:

Thanks, Joseph, thanks for your questions.

OPERATOR:

The next question comes from Lucas Pipes with B. Riley Securities. Please go ahead.

MATTHEW KEY:

Hi, good afternoon, everyone. This is actually Matt Key here asking a question for Lucas.

My question's around the long-term grade expectations at Guanaceví. Obviously, really strong implied grade guidance for Fiscal Year 2022, but I was kind of wondering how we should be thinking about grades longer term. Is it possible that we get back to kind of 2018, 2019 levels in the near term, or is that kind of past us at this point?

DAN DICKSON:

At this point, it's past us. We put out guidance just for the following year, which right now is 2022, and the grades will be similar in 2022 as to what we had in 2021. If you look past that, and it's really looking at our reserves and resources, which are in our AIF, the grades should continue that in 2023, 2024. But at this point in time, we're not there yet.

We have had significant discovery with El Curso; it continues to grow, and that's where some of those significant grades are coming from. As prices can ultimately get higher, which is our expectation this year and next year, you could see that grade come down because your cut-offs change in the mine as well. But right now, what we've seen in 2022 is similar grades to what we did this past year.

MATTHEW KEY:

Got it, that's really helpful. Just a last one for me, I was wondering if you could kind of help frame up what you're seeing as the most promising long-term exploration project once we get past Terronera here in a couple years? If you could also maybe provide the hypothetical timeline on how you see that next big growth project on the horizon kind of developing?

DAN DICKSON:

Yes, I mean, you're asking me to kind of pick against the kids that I have, but right now we have two great growth pipeline assets being in Terronera. You've got Parral, which is smaller and that we continue to have exploration success there. At the end of 2019, we had 40 million ounces defined, plus lead and zinc, and ultimately, we said to the market that



we have to grow that to 60 million, 65 million ounces where we think it'd be enough of a scale to have an operation that's of significance to Endeavour and has significant scale to be cost-effective and economically viable. In 2020, we didn't drill it because of COVID; in 2021, we started to drill it and we had very good results, put out earlier this year. We're going to continue to drill Parral in 2022, and then halfway through the year, hopefully we have a sufficient resource base that will put a preliminary economic assessment on that.

Again, we need a certain scale for it to work, but we think we can get to there. The other asset, with Pitarrilla, is obviously potentially a Tier 1 asset. I mean, it's one of the world's largest undeveloped silver bodies, and we're excited, extremely excited about it. Obviously, we had our conference call on that a couple months ago when we acquired it from SSR Mining. We will close that transaction here in Q2, and then build out that current resource. As far as timeline between Pitarrilla and Parral, it depends on the prices in the future, and ultimately we expect a two-year build process for Terronera. Hopefully one of those comes in right behind that two-year build process.

At Pitarrilla, we're going to redefine that resource. Right now it's considered a historic resource done by silver standard. We're going to make that a current resource by doing the work ourselves and issuing a technical report, hopefully by the end of this year, and then we'll do an economic study on Pitarrilla for 2023. Pitarrilla or Parral, ultimately, you're looking at something in 2024 or 2025 when you get into construction. But I think it's one of the leading sector growth profiles that you can see in our space.

MATTHEW KEY:

Thanks for that detailed response. That's everything for me. Best of luck moving forward.

DAN DICKSON:

Thanks, Lucas, great questions.

OPERATOR:

The next question comes from Mark Reichman with Noble Capital Markets. Please go ahead.

MARK REICHMAN:

Thank you for taking my question.



First question is just really on the Terronera financing. I know you were looking to put an \$80 million or \$100 million debt facility in place, and I was just wondering whether that is still kind of the plan and how those negotiations are going, and if you think you'll have those wrapped up by the end of the second quarter given that 24-month construction period.

DAN DICKSON:

Yes, you're exactly right, we are looking for debt to \$80 million to \$100 million. We have \$100 million of cash, \$120 million of working capital on our books. It went a little slower here in Q4 and in Q1 because the Omicron virus impacted technical due diligence by the banks, but we're through all that stuff, always going a little bit slower than expected, but our hope is to have a commitment from the banks by the end of this quarter.

MARK REICHMAN:

Then the second question is, your plate's pretty full at this point with a good pipeline of projects, but would you still entertain any smaller producing acquisitions? What does the landscape look like out there right now for M&A, I guess in light of the higher prices?

DAN DICKSON:

Yes, I mean, we have a corporate development group. Dale's on the call here with our Management team today, and we're always looking, whether it's a growth asset, whether it's a greenfield exploration asset, twofold: one, we think can always improve our asset base, and if there is an asset we can get at the right price, we'd absolutely entertain putting it into our portfolio, especially if it provides cash flow.

The landscape, it's ever changing. I think in the world that we live in now it changes faster than it ever has before. There's a couple deals that we've seen over the past year. There's a scarcity in the silver market. Ultimately, we're trying to maintain to be a primary silver producer, so maintain our revenue mix above that 51% threshold, which not a lot of our peers have done. We're interested in primary silver assets, and trying to find them is difficult, and trying to find ones that are profitable are difficult, trying to find ones that are cost-effective with what we pay for it is also difficult. But nonetheless, we always look, and if there's something that makes sense, we'll pull the trigger on it.

MARK REICHMAN:

Okay. Then I think you've already kind of touched on this earlier, on the Parral project, that you already have the indicated and inferred resources there of 40 million and 35 million and you're looking to get to 60 million to 65 million; as it stands today, without any more additional drilling, what do you think you could end up with? I mean, do you feel like at this point you're pretty close to target, and so the updated report which you'll be putting out, that there's a pretty high confidence that you'll be meeting that threshold?

DAN DICKSON:

Yes, the 60 million to 65 million and then doing a PEA, that's our plan, and we've budgeted a PEA for the end of the year. Now, of course, drilling has to continue and it has to continue to put out positive results, but we expect that. I think if you look at our 2021 drill results, they were more favourable than what we released in 2016 to 2018 on Parral, and like I said, I expect that to continue, and if it does continue, we should hit that mark.

MARK REICHMAN:

Okay, great. Well, that's very helpful. Thank you very much.

DAN DICKSON:

Thanks, Mark, very good questions. Much appreciated.

OPERATOR:

The next question comes from John Tumazos with John Tumazos Very Independent Research. Please go ahead.

JOHN TUMAZOS:

Thank you very much.

I was noticing that your tonnes processed for the year, mined and milled, rose 17%, and the cost per tonne also rose 17%. Usually the gain in volume helps to reduce the rate of increase in unit cost. Was there something special going on with the mine that was idled, or a downtime, or special maintenance?

DAN DICKSON:

No, John, in our case, you're correct. Our process times were slightly up, but ultimately, our cost per tonne and operating cost per tonne were up as well. It's like I say earlier in the call, a function of inflation. We saw it hit a little bit of everywhere, most notably in power costs. From August to December, our power costs, on a monthly basis, went up about 30%. We saw labour costs increase last year and pressure on our professional labour, geologists and engineers. Ultimately, it's something that's prevalent right now through the industry, that we are seeing cost pressures, and we're trying our best to maintain as low as cost per tonne as best we can.

I think we had a very positive result, and the fact that the grades out of Guanaceví are significantly higher. We also saw royalty costs increase last year because of the increased profitability, and ultimately we paid a 16% royalty at our El Curso mine, which we leased from Frisco a couple years ago. Like I say, of course we'd like to keep our costs down as best we can; we're trying to manage it where we can, but we are seeing inflation and global supply constraints impact us.

JOHN TUMAZOS:

If I can ask another, I was very...

DAN DICKSON:

Absolutely.

JOHN TUMAZOS:

...excited for you when you bought the Bruner project for \$10 million cash. The predecessor company had permitted the project and represented that it was partly built. I don't know if they spend \$25 million on it or \$50 million on it. Initially, your disclosures were very succinct. I just assumed that you weren't talking much about it because you got such a good deal. Could you elaborate now that you've had possession of it for six months, and is it...

DAN DICKSON:

Yes.

JOHN TUMAZOS:

...something that could be producing 40,000 ounces in a couple



years?

DAN DICKSON:

We like the Bruner project. We were opportunistic. We loved the price that we got it for. I mean, for those that aren't familiar, it's a got a historic resource of 300,000 ounces of gold, 13 million ounces of silver. It did have a historic PEA on it that had a NAV value of about \$80 million, kind of contemplating the 35,000 to 40,000 gold ounce operation. There is nothing that's partly built on it. It is a greenfield exploration project, so there is no infrastructure of substance, so I'm not sure exactly what the predecessors had said in the past. But I can assure you it is a greenfield exploration project.

We are advancing it this year; we'll turn that historical resource into a current resource. There are a lot of targets at Bruner that we're excited about, and we are excited about it. Like I say, very opportunistic deal for us. The predecessor got into some debt trouble, and we were lucky enough to be able to acquire it for only \$10 million. There's a lot of work left to be done there. We would like to acquire some more land and exploration potential around it, but nonetheless, we'll have more results from that at the end of this year.

JOHN TUMAZOS:

Would this rank fourth in your queue after Pitarrilla, Parral, Terronera, or would El Cubo be ahead of it, or sort of where does it rank in your pecking order of projects?

DAN DICKSON:

At this point, it probably ranks behind Parral and Pitarrilla, just because more of those have been advanced too. But ultimately, the work's got to be done, so we'll let the drill bit tell us where it ranks at the end of 2022.

JOHN TUMAZOS:

Thank you very much, and congratulations.

DAN DICKSON:

Thanks, John. Much appreciate the questions, and hope everything's going well.

OPERATOR:

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

DAN DICKSON:

Well, thanks, Operator, and thanks everyone listening to our 2021 earnings call.

I think 2022, it's going to be a good year; obviously, we've seen prices elevated. Hope things in Europe get a little bit more stable, because ultimately we want to—hopefully there'll be a resolution there in the coming months, but we'll continue to do what we're doing, again trying to advance our development project with Terronera and hopefully come to a construction decision on this shortly. Then ultimately continue to advance Parral and Pitarrilla, where we think we have one of the leading growth profiles in the sector.

Thanks for everyone attending, and I'm sure we'll talk again soon in the next coming months.

OPERATOR:

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