Endeavour Silver Corp.

Full Year 2022 Financial Results

Conference Call Transcript

Date: **March 2, 2023**

Time: **9:00 AM PT / 12:00 PM ET**

Speakers:

Galina Meleger
Vice President, Investor Relations

Dan Dickson
Chief Executive Officer

Donald Gray
Chief Operating Officer

Christine West
Chief Financial Officer

Operator:
Welcome to the Endeavour Silver Corp. Full Year 2022 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.

I would now like to turn the conference over to Galina Meleger, Vice President of Investor Relations. Please go ahead.

Galina Meleger:
Thank you, Operator, and good day, everyone.

Before we get started, I would ask that you review our MD&A for cautionary language regarding forward-looking statements and the risk factors pertaining to these statements. Our MD&A and financial statements are available on our website at edrsilver.com.

With us on the call today is Dan Dickson, Endeavour Silver's CEO, Christine West, our Chief Financial Officer, and Don Gray, Endeavour's COO.

Following Dan's formal remarks, we will open up the call for questions.

Now, over to Dan.

Dan Dickson:
Thank you, Galina, and welcome, everyone.

I will keep today's call as brief as possible, as all the details were published in today's news release, but make sure I hit some of the key points for our investors.

Endeavour Silver had a solid 2022, in what can be categorized as a challenging cost environment. Our production exceeded guidance, which helped to alleviate the upward pressure on costs. Inflationary pressures across the entire spectrum of inputs were felt across the entire mining sector, and it was no different for us. We continued to de-risk and advance Terronera. Ideally, a financial package would be complete; however, things outside our control has pushed that into this year. I'm confident we'll have clarity on this matter in short order. We continue to be excited about the acquisition of the Pitarilla project, both solidifying our presence in Mexico and furthering our strategy of delivering industry-leading growth.

On a consolidated basis, we produced 9 million ounces of silver equivalent metal, with both silver and gold production exceeding the upper range of guidance by 17% and 4%, respectively, the second consecutive year we've significantly exceeded production guidance.

Guanacevi was the star performer yet again, accounting for over 70% of consolidated production, with silver and gold grades well above plan. In fact, Guanacevi had record throughput grades averaging 512 grams per tonne silver and 1.44 grams per tonne gold, while the plant approached 1,300 tonnes per day average throughput in Q4. Overall, the mill performed well, with recoveries averaging just under 86% for silver and just below 90% for gold, demonstrating consistency and stability at the slightly higher throughput.

The performance of our operating mine Bolañitos remains steady. There was increased silver production offset by lower gold production. We continue to evaluate opportunities to increase mine life at Bolañitos and are cognizant of Bolañitos in the current landscape. The Operating Team has done a good job meeting their targets.

Our strong operating performance enabled robust financial results. Particularly in Q4, as gold and silver prices strengthened, we were able to take advantage of the higher prices by selling most of the silver inventory. As a result, revenue rose by 27%, marking a 10-year best, bolstered mostly by volume. The higher revenue translated into increased cash flow, with mine operating earnings of $51.5 million, up 42% from 2021, operating cash flow before working capital changes of $54 million, again up 68%, compared to 2021; and, specifically, at the site level, Guanacevi delivered mine free cash flow before taxes of $30 million, and Bolañitos contributed just over $1 million. Our earnings for the year were $6.2 million, or $0.03 per share.

I'm particularly pleased that we were able to deliver operating costs on a per ounce basis that are relatively in line with guidance, despite the industry-wide inflationary pressures. We ended the year with cash costs of $10.65 per ounce, which is about 7% over our guidance, and all-in sustaining costs of $19.97 per ounce, which is below the lower end guidance of $20 per ounce. However, industry-wide inflation has been, and continues to be, challenging. Our direst costs per tonne were up 16%, compared to the previous year, as we saw cost increases in a lot of our key inputs. Fortunately, the increased Guanacevi grades offset the increases in direct costs, but cost control will continue to be a key focus for the Company going forward.

Our financial performance led to a strong balance sheet at year end. We had cash on hand of $84 million, with no long-term debt, aside from normal course leases for equipment. Working capital totaled about $94 million, which includes unsold bullion held at cost of $6 million, but has a market value of $50 million.

This past year, we were very busy and productive at Terronera, preparing the site for full-scale construction. We spent $41 million on initial development using our own existing cash, while we continued to confirm a viable debt package. During the year, the Project Team delivered several achievements:

- the full mobile mining fleet is now onsite, comprised of 30 units;
- all the major plant equipment has been pre-ordered, with the majority of the equipment scheduled to arrive in the first half of 2023;
- upgrades to the road access, totaling 7 kilometres, are well advanced. This work will improve slope stabilization and drainage, as well as enhanced transportation access.
- we commenced construction of the permanent camp;
- we commenced the back excavation of the plant site; and
- we commenced first portal access.

We are optimistic and excited to provide the market with full details of the financing packaging in the near future and to announce a formal construction decision. The Board has approved an additional $26 million in development expenditures for Q1 2023, while we continue to advance the project.

At the outset of 2022, we began executing on our three-year sustainability strategy, which is anchored on three pillars: people, planet and business. We launched or expanded many initiatives to further embed sustainable practices across our organization and create real value for our stakeholders. We took several steps to increase employee development, engagement and inclusion, with positive results across the Company. In addition, we amplified our community investments in Mexico, aligned with our priority areas of education and employability.

Over the past year, we devoted a significant amount of time and effort across our organization to better understand the potential risks and opportunities related to climate change. These are discussed in our first climate disclosure report, that will be published next week, aligning with the TCFD framework. While it's still early days on integrating climate initiatives, we are trying to be thoughtful and diligent in determining the most effective steps for us as we deepen our understanding of the impact of climate change initiatives on our Company. Most importantly, our view of climate change is not solely fixed on risks, there are also great opportunities in front of us. The world is beginning to realize the importance of metals to support the transition to a low-carbon economy. The products we provide sit at the very beginning of the supply chain for essentially everything needed and used in modern society. I'd encourage you to read our climate report when it's published next week.

For 2023, our production outlook continues to be strong, with another year of robust grades from Guanacevi. We are targeting to produce between 8.6 million and 9.5 million ounces of silver equivalent, a midpoint which marks a fourth consecutive year of production growth. The combination of higher consolidated throughput and produced ounces allows for a projected unit cost of $10 to $11 per ounce for cash cost and $19 to $20 per ounce for all-in sustaining cost, similar to 2022. Ag Guanacevi and Bolañitos, we have plans to invest more than $35 million in sustaining capital to optimize performance and maximize output.

Of course, as everyone knows, this Company has been built through the drill bit and we are aiming to invest $10 million into exploration for 2023, with the largest portion, $3 million, being allocated to Pitarilla, while Parral has a $1.5 million budget.

I want to emphasize how excited we are about the notion of unlocking value through exploration and advance both Pitarilla and Parral. Both are expected to advance through economic studies early next year. The scale and impact of Pitarilla will be very significant for us. In December, we confirmed an indicated resource of nearly 600 million ounces of silver, plus material amounts of lead and zinc. This year, we plan to extend the historical ramp to better understand the feeder structures we identified in the deposit. With continued exploration success, we ultimately hope to identify a business case to mount an underground operation at Pitarilla.

In closing, it's going to be another busy year. I'm very excited about our outlook, as we continue to execute on our growth pipeline, particularly at a time when silver demand is beginning to strengthen.

I think that wraps up my formal comments for today. Let's open up the lines for questions. Operator?

Operator:
Thank you. We will now begin the question-and-answer session. We will pause for a moment as callers join the queue.

The first question comes from Heiko Ihle from H.C. Wainwright. Please go ahead.

Marcus Giannini:
Hi, everyone. This is Marcus Giannini calling in for Heiko. Thanks for taking our questions.

Dan Dickson:
Marcus, nice to hear from you.

Marcus Giannini:
Yes, likewise. You talk about cost control being a key focus for this year and, in particular, business improvements. Given that we're now in March, can you provide a bit of colour as to where exactly you expect efficiencies and how much of that has already been incorporated year to date; and maybe if you could just touch on any cost improvements that you've already seen, that would be great? Thanks.

Dan Dickson:
Yes, it's a difficult question, because we saw costs increase across the board last year. I mean, cyanide and power costs were significant contributors, and steel, at Guanacevi. At Bolañitos, it was TC and RC power costs. For us, it really comes down to making sure that on a daily basis, a weekly basis, on a monthly basis, we're reviewing our cost reports, reviewing the inputs that are going in, particularly at Guanacevi. We have significant pumping that happens at Guanacevi that uses, and costs, effectively, a lot of power and money. We have seen a little bit of a decrease from a kilowatt hour cost up at Guanacevi and Bolañitos.

When it comes to actual improvements, we think we do a really good at Bolañitos. It's Guanacevi, where we can be better at waste management, managing our waste, managing the tonnes, being more efficient on a productivity basis and moving tonnes. I don't know if we've seen that come through yet here, March 1st of 2023, it's something that will take time through the year, and there's not big cuts that can be had. The inputs that we need are the inputs that we need, the inflationary pressures on that have been there. We have seen that slow down in Q4, and hopefully that continues through 2023. But, it's our job, as Management, to continue to look at it and continue to cut costs where we can.

Marcus Giannini:
Okay, awesome. Yes, thanks for the colour. Obviously, a lot of moving parts there.

Then, switching over to Terronera, you're sitting on over $80 million in cash, with just under $94 million of working capital. How far down would you be willing to take your balance sheet if it means minimizing capital raise and building out Terronera?

Dan Dickson:
Yes, I mean, I think the key part to that is the fact that we are looking for a debt financing package, and that debt package would be anywhere between $100 million to $120 million. The initial feasibility study for Terronera is $175 million, we recognize, and when we do have that debt package, we'll likely update the market of where that capital costs are. But, to answer your question, ultimately, what we want to see, and we kind of have on hand, just for the two operating assets, somewhere between $30 million and $40 million as a cushion. I think we can get there if we get that debt put in place.

Marcus Giannini:
Okay, excellent, and just one last quick one. Seeing as you incurred $3 million in smelting and

refining costs, any thoughts on where you see these costs trending in 2023? I'm assuming the prices are set in advance under contract.

Dan Dickson:
Yes, we renew our concentrate contracts or offtake agreements on an annualized basis. I think the key component there is they're relatively similar, a little bit lower for Bolañitos. The key component of all of that, what it comes down to is the energy costs at refineries, and as those kind of oscillate, it does impact us. I think, for the year, like I say, it's about similar to a little bit lower at Bolañitos. Of course, at Guanacevi, we produce a doré bar to ship.

Marcus Giannini:
Got you. Okay, awesome. Thanks for taking my questions. I'll hop back in queue.

Dan Dickson:
Thanks, Marcus.

Operator:
The next question comes from Jake Sekelsky from Alliance Global Partners. Please go ahead.

Jake Sekelsky:
Hey, Dan and team, thanks for taking my questions.

Dan Dickson:
No, problem, Jake. Nice to hear from you.

Jake Sekelsky:
You, as well. Dan, you touched on moving Pitarilla and Parral toward the economic study stage. Do you guys have any visibility on the timeline there for those?

Dan Dickson:
Yes, I mean, part of that visibility also depends on our exploration ground. So, Pitarilla, we have a plan to do 5,000 metres, and, really, those drill metres will happen when the ramp extension is complete, which we expect it to be done mid-year, so the start of Q3, and then we'll drill. Ultimately, for Pitarilla, the studies would happen in 2024, just because of the scale and scope of Pitarilla. For Parral, we actually had a plan put in place to start economic studies in 2022, but with the acquisition of Pitarilla, that pushed it back a bit. This year, we're drilling close to 3,000 metres at Parral, and when that drilling is done, our expectation is we'd move towards economic studies at Parral. So, start those studies at the end of the year, possibly with publishing early 2024.

Jake Sekelsky:
Okay, that's helpful. Then, just on inventory management for this year, I mean, obviously, you guys did a good job of taking advantage of higher silver prices in the fourth quarter of last year. Silver prices have come down this quarter. Do you guys expect to take a similar approach with respect to inventory management?

Dan Dickson:
Yes, a similar approach is probably the right way to say it. I think, as we get into the build of Terronera, we get less flexibility, just depending on where our balance sheet is. We made some sales at the beginning of the year here, when we hit into the 24 on silver, but as you say, we've come down into the 20s, the 20 handle, and we'll see how it goes here in March. Obviously, our

balance sheet is in great shape, so we do have that flexibility kind of for the first six months, and, like I say, as we move through the year, we'll see how we do it.

Jake Sekelsky:
Got it. Okay, that's all for me. Thanks again.

Dan Dickson:
Thanks, Jake. Good questions.

Operator:
The next question comes from Craig Hutchison from TD/Cowen. Please go ahead.

Craig Hutchison:
Hi, good morning, guys.

Dan Dickson:
Good morning, Craig.

Craig Hutchison:
Just a question on Terronera. Once the financing package is in place, just based on the work you guys have done to date and the commitment to spend here in Q1, what's the timing to first production, and how long would the construction period take?

Dan Dickson:
Yes, ultimately, in the feasibility study, the construction period is a two-year process. Our goal, with being able to advance it, is still to be commissioning it at the end of 2024, so a full year of production, effectively, in 2025. But, hopefully, if things go well, knock on wood, we could have first pour, obviously, the back half of '24, and maybe commercial production at the end of 2024.

Craig Hutchison:
Okay, great, and is there any colour in terms of the timing of the amended permits, anything happening there?

Dan Dickson:
Our Permit Team—as well as our listeners and investors know, Terronera is fully permitted, and with the feasibility study, we have the permits to start construction, which obviously we've advanced a lot of the things. There are amended permits for operational flexibility. We don't particularly need the permits to construct, but over the 12-year mine life, we want various flexibility, one being a staging area that we want to push out 300 metres. We've submitted a lot of the stuff. We actually still have some things that we need to submit. We've actually had very good communication with the Permitting Departments, the different authorities, because there's a number that we have to go through, SEMARNAT, CONAGUA, and all of them advancing. Over the last, say, three months, we've gotten approval for smaller permits. So, all that keeps going, and I'd reiterate that we have all the permits to start construction and ultimately go into operations. It's just amending permits for operation flexibility.

Craig Hutchison:
Are those amended permits, is that a consideration in terms of the due diligence has been done by the financing groups?

Dan Dickson:

Yes. Yes, they are.

Craig Hutchison:
Okay, and just at Guanacevi, with respect to the royalties, obviously quite high in Q4, can we expect kind of similar levels of dollar amount royalties for the balance of this year, just given you're kind of back into those same areas at Porvenir, etc.?

Dan Dickson:
Yes, I'll be careful with that a little bit. The Q4 has elevated royalties just on what we sold in the quarter. So, on an absolute basis, we had sold over a million ounces of silver and there's royalties that would be recognized on sale, as per the contract. Today, where we sit at $20 silver, between $20 to $25 silver, we pay a 13% royalty, and that's aligning with when it's produced, it doesn't necessarily align up when it's sold. So, Q4 has an elevated royalty, but on an annualized basis, we're producing a similar amount from that area, which we call El Curso, which is subject to that sliding scale royalty with Frisco.

Craig Hutchison:
Okay, and maybe just one last question. With respect to Bolañitos, how confident are you with respect to kind of reserve extensions to be able to mine at a similar rate next year at Bolañitos?

Dan Dickson:
For 2024?

Craig Hutchison:
Yes, just to kind of make sense of how long you think the reserve life is going to be extended here.

Dan Dickson:
Yes, we have resources that we can convert into reserves. I mean, clearly, right now, Bolañitos, it's effectively operating at breakeven, and there's a number of reasons to operate a mine at breakeven: firstly, and obviously, is the optionality to Bolañitos and to that production; the second is the proportional allocation of our costs; thirdly, we have talent there that ultimately, if one day Bolañitos doesn't operate, we want to make sure we can keep that talent, to move them to Terronera, that would come in. But, we do expect, and have confidence, that we can extend Bolañitos' life. We are getting to the point where we're getting to concession boundaries, so we're not discovering three years or two years, we're finding three months or six months at a time. Our Exploration Team continues to have some success, we've just got more work to do on that exploration.

So, level of confidence, I'm confident. I wouldn't say I'm jumping up with joy and I'm not depressed, so somewhere in the middle of all that. We've never had more than a two-year reserve life at Bolañitos for the last 16 years. Like I say, our Exploration Team has done a very good job there. There's a lot of concessions that surround us, that have a lot of opportunity still, and we just have to work through that.

Craig Hutchison:
Okay, great. Thanks, guys.

Dan Dickson:
Thanks, Craig. Good questions.

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

Mark Reichman:
Just a couple questions. You've already laid out your guidance for 2023, and from a production standpoint, it looks relatively flattish compared to 2022, so it seems to me that grade and prices will make the big difference. When you think about next year, in terms of whether it's going to end up lower or higher than 2022, what do you see as kind of the key variables in terms of getting that cost down? You've already laid out your guidance on the cash cost and the all-in sustaining cost, but if you do this financing package, I mean, interest rates have come up, so you would have the additional interest expense, but what would be the variables that you think could drive a better year in 2023?

Dan Dickson:
Yes, of course, we put out the range of 8.6 million to 9.5 million, and I think, for us, the ability to exceed that plan or hit the high end of that range really comes down to our Operating Team at Guanacevi, and ultimately our Operating Team at Bolañitos, for that matter. The El Curso, so the (inaudible 24:30) area of Guanacevi, I don't know if we're going to beat grades, like we did in 2022, but I think there's an opportunity to stay a little bit above those grades or at those grades. I think we're set up really well, we did a lot of development in 2022, that will give us some efficiencies this year. But, at the end of the day, the reason we put out our 2023 guidance is because we expect that's where we're going to be at. I would point to 2021 and 2022, we revised guidance upwards two years in a row, and we actually exceeded those revised upwards guidance, but we'll se how this year unfolds.

Mark Reichman:
I think a lot of people are looking at Terronera. You talked about a construction decision in the coming months. When you're talking about the financing package, what's the biggest holdup there, or the biggest hurdle to clear? Is it getting an acceptable rate, is it those permitting issues? What do you think would be the breakthrough in securing that financing package and how early in the year do you think you would incur more debt?

Dan Dickson:
Yes, I mean, at the end of the day, it's project loan financing, and the key aspect to the project loan financing is ESG and ultimately getting commercial banks and big banks on side from an ESG standpoint, and what's required for that is an Equator Principle and ESOP report. That includes over 100-and-change of different specific reports, and we've spent over the last year documenting a lot of that, and building processes and procedures to meet those Equator Principles. So, it's not about terms, we know what those terms would be. It's about timeline and getting through that due diligence. A project loan financing bank will typically hire an external engineering firm to do that due diligence and write reports, and effectively pull apart our feasibility study or our plans. That's all happened and that's been completed.

Like I say, I won't get into what happened, necessarily, this past year at this point, but there's things that were out of our hands, but it's been moving forward. Our team's done, actually, a really good job on it, and I expect, like I said in my outset, clarity in relatively short order on that.

Mark Reichman:
Okay, thank you very much, that's really helpful.

Dan Dickson:

No, thanks, Mark. Good to hear from you.

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

Lucas Pipes:
Thank you very much, Operator. Good morning, Dan. Good morning, everyone.

Dan Dickson:
Good morning, Lucas.

Lucas Pipes:
Dan, I also want to follow up on Terronera. I believe the 2021 feasibility study pointed to $175 million of CapEx. Obviously, unfortunately, things changed quite a bit from 2021, and I think you mentioned there could be some offsets to inflation, but just order of magnitude, is it $200 million, is $200 million the right ballpark to think about, or do you think you can keep it below that? Thank you very much for any colour.

Dan Dickson:
Yes, Lucas, I mean, that's a very fair question. The quick answer is $200 million is the right ballpark, but I'll get maybe a little bit more detail into that. Ultimately, we completed that report in March of 2021, and I think it's dated July of 2021, we published it, and ultimately filed it in September of 2021. I think our Engineering Team and our Development Team, with the external engineers, did a good job capturing some of that inflationary stuff that we started to see in 2021, but of course nobody's perfect with that, and I say that because our mobile fleet is entirely on site, with 30 units. If you compare what we paid compared to what was in that feasibility study, we're right on point. The 12 key components that we've purchased for the plant are relatively in line to what we saw in our feasibility study.

There are changes, though, and there are things that we haven't locked in, and ultimately what we've been looking at over the last year, year-and-a-half, as we pushed through this financing package and advance Terronera, is optimizing from that feasibility study. So, going from 1,700 tonnes per day to 2,000 tonnes per day has been looked, and it's been looked at over time, and that can offset some of the inflationary costs that we've seen a come in from a capital standpoint, and come in from an operating on a per tonne basis standpoint, as well. So, we have been leaning towards a larger plant and, ultimately, more output from the mine to offset some of that inflationary cost.

When we have the detailed financing package in place, we will provide the market with where we expect the capital to be, what type of size Terronera will be, it's not significantly different, but, as you say, higher throughput will help offset some of that inflationary pressure that we've seen.

Lucas Pipes:
Very helpful, Dan, I appreciate that. Then, one of the earlier questions touched on 2024 all-in sustaining cost and I wanted to follow up on that, and maybe be slightly more pointed. I know it's early, but, directionally, should we expect all-in sustaining cost to come down in 2024, or is the current level maybe the best ballpark for the coming year? Thank you very much.

Dan Dickson:
Yes, I mean, at the end of the day, we put out '23 guidance because we have clarity on that. For

2024, all-in sustaining cost, it's highly dependent on where we sit with Terronera. Guanacevi and Bolañitos, they're mature assets, we kind of know where their costs have been. They were very similar for about 12 years, until the last couple of years, they've really picked up. Like I say, I don't think that's specific to Endeavour Silver, I think that's what we've seen across the whole mining space. We try not to put guidance out for 2024. I always just would say you'd point to Guanacevi and Bolañitos, it would be similar. We know what we have, we know what we're at. But, there are things that go into that on an all-in sustaining cost per ounce. Grades at Guanacevi will be important. Of course, our resource grades are very similar to what we have in reserves, so that might continue. But, if Terronera can come online at the end of 2024, and the timing of that comes online in 2024, it will be highly dependent on our consolidated all-in sustaining cost. I think, when we come to next year, we would probably give guidance on our existing operations and then guide Terronera separately, depending on when we see the end of construction, or expect the end of construction. That's probably the best way I can answer you at this point for next year. We'll see how we perform this year. Hopefully, we can be line or even beat it, and if we can, that will bode well for 2024.

Lucas Pipes:
That is very helpful and very clear. Dan, I really appreciate the colour, and to you and the team, best of luck.

Dan Dickson:
Thanks, Lucas.

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:
Thanks, Operator, and thanks to all our investors and listeners today. Again, as I said in my formal comments, I think 2023 is going to be a very busy year for Endeavour. Of course, pushing forward at Pitarilla and Parral is important for our pipeline, but if we can get to a formal construction decision on Terronera in relatively short order, I think that would be the next catalyst for everyone. Thanks a lot, and have a good day.

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