

# Endeavour Silver Corp.

## First Quarter 2023 Financial Results

### Conference Call Transcript

**Date:** May 10, 2023

**Time:** 10:00 AM PT / 1:00 PM ET

**Speakers:** **Galina Meleger**  
Vice President, Investor Relations

**Dan Dickson**  
Chief Executive Officer

**Don Gray**  
Chief Operating Officer

**Christine West**  
Chief Financial Officer

**Operator:**

Welcome to the Endeavour Silver Corp. First Quarter 2023 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.

(Operator instructions).

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 morning everyone.

Before we get started, I would ask that you view our MD&A for cautionary language regarding forward-looking statements and risk factors pertaining to these statements. Our MD&A and financial statements are available on our website at [edrsilver.com](http://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 the call for questions.

Now, over to Dan.

**Dan Dickson:**

Thank you Galina, and welcome everyone.

Twenty twenty-three is off to a strong start. Not only was it a good quarter for our operating mines, but we also attained a significant milestone towards building the long-term future of the Company.

Consolidated Q1 silver equivalent production was up 18% year-over-year to 2.4 million silver equivalent ounces. Ultimately, this performance puts us in great shape to achieve this year's production guidance of between 8.6 million to 9.5 million silver equivalent ounces.

Once again, from a production standpoint, Guanaceví had a positive quarter, driven by robust silver and gold grades. However, mill performance was impacted due to the extended maintenance on our mill liners and concentrate filter cloth changes in February. While throughput returned to plan levels in March, it was down 13% quarter-over-quarter, averaging 1,138 tonnes per day for the quarter.

The performance of our other 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.

Moving to financials, we reported top line revenue of \$56 million with cost of sales of \$40 million for mine operating earnings of \$16 million. After exploration and G&A, we reported net earnings of \$6.5 million or \$0.03 per share.

At the site level, Guanaceví delivered mine free cash flow of \$9 million, and Bolañitos contributed just under a million dollars for the quarter.

Regarding operating costs, we've seen pressures across several inputs, driven by foreign exchange and inflation, so our direct costs per tonne were up 14%. Specifically, the Mexican peso strengthened substantially, up 7% from year end and 9% from Q1 2022, which increased our local costs in US dollar terms.

Additionally, Guanaceví and Bolañitos continue to see increased labour costs, power and consumable costs in steel and processing for items such as cyanide and zinc.

Lastly, we sourced more production from royalty concession areas which resulted in increased royalty fees.

The combination of these cost pressures has placed both the quarterly cash costs and the all-in sustaining costs slightly above the upper bounds of our guidance at \$11.12 per ounce for cash costs, and \$20.16 per ounce for all-in sustaining costs.

While inflation is an industry-wide issue that's expected to exist throughout the year, we are closely reviewing our purchasing practices to see where and how we can mitigate this impact. Containing costs will continue to be a key focus as we work to improve the efficiencies of our operations.

The higher than planned ore grades continues to offset the higher direct costs per tonne, and with the recent strengthening of the gold price, we benefit from a higher byproduct credit on our per ounce reporting metrics. But to be clear, cost improvement continues to be a focus.

As at March 31, we had cash on hand of \$62 million and working capital of \$93 million. Cash decreased as \$12 million was spent on development activities at Terronera and prepaids went up to account for deposits and payments on various items.

As mentioned earlier, we announced an exciting milestone in March—sorry, in April—Board approval to formally proceed with the construction of an underground mine and mill at Terronera. The green light comes on the back of a financing commitment for \$120 million in senior secured debt from SocGen and ING Capital. Overall, I am very pleased with the terms and details of the project loan. We worked very hard to secure favourable terms to protect the upside of the project for our shareholders. The facility has a term of 8.5 years at a secured overnight financing rate of +3.75% once the project is in full production. The loan has a two-year grace period during the construction phase, and there are no hedging requirements on silver production. That said, there is hedging program for foreign exchange and for up to 68,000 ounces of gold over the first two years of production at Terronera.

Given the additional cost pressures that the industry has faced, we updated our development plans and initial capital costs for Terronera as the last feasibility study was completed almost two years ago. The updated mine plan increases the initial CapEx to \$230 million from \$175 million, while the processing plant capacity increased to 2,000 tonnes per day from the 1,700 in the feasibility study.

The updated plan provides increased operating flexibility, includes inflationary cost estimates and brings forward capital investment.

Life of mine and sustaining capital estimates decreases to \$88 million compared to \$106 million in the feasibility study, as those cost have been included in the initial CapEx.

The current plant design optimizes the recoveries while the construction schedule is 21 months with initial production expected in the fourth quarter of 2024.

With a seasoned development team in place, we are committed to delivering on time and budget.

With significant early works already underway, we have spent \$58 million to date on direct development. If you are interested in seeing photos of the construction in progress, I encourage you to visit our website under the Terronera page. Let me recap some of our recent developments.

The full mobile mining fleet is now on site. We have ordered all the major equipment—plant equipment, and expect most of that to arrive this summer. Upgrades to the access roads totalling almost 7 kilometres is nearly complete. We're nearing completion of the permanent camp. We are nearly finished excavating the plant site, and we are advancing underground mine access.

Supported by these results, our mining focus now is progressing mine development, finalizing earthworks and pouring concrete for the mill platform before the rainy season.

Through all these operational milestones and advances, we continue to demonstrate our commitment to responsible and sustainable mining. To learn more about these and other efforts, I encourage you to read our latest Sustainability Report, which we released yesterday. The report captures our efforts in 2022 to maximize our positive impacts on society and the environment.

This past year we started executing on our 2022-2024 Sustainability Strategy. I'm pleased with how our team delivered on our priorities, especially in areas like health and safety, and embedded ESG practices deeper into our operations. Let me highlight just a few examples.

We continued to achieve commendable safety performance in 2022 as part of our four-year downward trend with our reportable injury rate dropping to 0.87.

We recycled over 90% of water used in our operations, minimizing our fresh use of water.

And we performed climate scenario analysis to assess potential climate related risks and impacts, and prepared our inaugural climate report aligned to TCFD framework.

Lastly, I wanted to touch on the recent development of the new Mexican mining laws.

Of course this has been a topic with a lot of uncertainty, and unfortunately moved swiftly through the Mexican government. From an operating standpoint, our expectation is the new law will increase compliance requirements, specifically around water use and reclamation activities, but don't expect a disruption of our operations or construction activities. There is still uncertainty of the details, but unfortunately these new laws could discourage future investment into Mexico's exploration sector. We will see these new laws challenged through the courts and ultimately have more clarity in the coming weeks and months regarding its impacts.

I think that wraps up my formal comment for today. Myself, Don Grey, our COO, and Christine are happy to answer any questions that you may have. Over to you, Operator, for Q&A.

**Operator:**

Thank you. We will now begin the question-and-answer session.

(Operator instructions).

Our first question comes from Craig Hutchison of TD Securities. Please go ahead.

**Craig Hutchison:**

Hi. Good afternoon guys.

**Dan Dickson:**

Hi Craig.

**Craig Hutchison:**

Hey, just a question on the inflationary pressures. On the labour front, are there any more pressures you see there over the next sort of 12 months? Have you had any labour negotiations to come here, or is that largely wrapped up and just more of a broader inflation type theme?

**Dan Dickson:**

Right now that's wrapped up. We finish that typically in February, sometimes spills into March. We gave a 5% increase to the unions at Guanaceví and Bolañitos.

Really where the impact is hurting us from a labour standpoint really comes down to foreign exchange. About 33% of our costs are incurred in Mexican pesos for labour, and with the appreciation of the peso this past quarter, obviously impact goes right to the bottom line. I think short term we see some strength in the peso, but hopefully long term it reverts back to what we've seen for the last 20 years and that's kind of depreciation against the US dollar.

**Craig Hutchison:**

Okay. How about on the energy front? Are you seeing any pressures kind of coming off on that front? Or is that still similar to levels you guys experienced in Q1?

**Dan Dickson:**

I think we're going to see similar costs, and most of our power obviously comes through the CFE, the electrical commission in Mexico. Our expectation is it's going to stay where it's at from Q1. But, as we've seen for the last kind of five, six quarters, inflation has been a factor and if the Mexican government—or the commission decides to increase rates, that will obviously impact us.

For us, most of the power costs impact us through a plant standpoint, and then pumping, water pumping at Guanaceví as well. So again, hopefully we see that kind of flatten out here and maintain where the levels are.

**Craig Hutchison:**

Okay. Maybe just one last question from me. Just at Guanaceví, you guys look like you're tracking already kind of above guidance. When do you kind of expect maybe an inflection downwards in terms of grades? Or do you expect maybe lower throughput. If I try and model

through kind of the midpoint of your guidance, I assume it comes down at some point, otherwise you guys look like you might exceed it. But just curious in terms of any kind of colour on grades and when you might sort of see them sort of soften a little bit.

**Dan Dickson:**

Yes. We've seen elevated grades because of El Curso for the last two years, and obviously we've been quite conservative in our resource reserve estimates on El Curso. Frankly, we should see our tonnes per day come up at Guanaceví. We had a tough February just with some maintenance requirements, mainly on the liner, I think some cloth work that we had to do on the tailing, dry stack tailings facility. Ultimately, our expectation is our tonnes come up, which hopefully drives down our cost per tonne.

As far as grades, like I say, we for the last two years kind of exceeded what we've had in the reserves. I do essentially, and then us being conservative see that kind of come back to what we have in our plan. We just had a nice area. In Curso we seem to continue to get these, so maybe it stays elevated, and if it does we'll come into the upper range of our guidance, if not maybe beat. But if we revert to what is in the mine plan, then we end up being where we are, so we're not at this point ready to change guidance at Guanaceví and ultimately consolidate it.

**Craig Hutchison:**

All right. Perfect. Thanks guys.

**Dan Dickson:**

No problem. Thanks for the questions Craig.

**Operator:**

(Operator instructions).

Our next question comes from Matt Taylor of PI Financial. Please go ahead.

**Matt Taylor:**

Hey guys, thanks for that.

**Dan Dickson:**

Hey Matt.

**Matt Taylor:**

Just a couple of questions on our end. The spending at Terronera this quarter is a little lower than expected. Are we going to expect—should we expect a ramp-up through Q2, or will it be likely later in the year?

**Dan Dickson:**

No. Now that we have formal construction decision I would expect that ramp-up. Everything is kind of running now and, like I say, with the Board's approval, the quicker we can move the better, obviously. I mean I think if we can stay on time we can stay on budget, and sometimes of things out of your control we built contingencies on that timeline, and I guess we'd like to have spent a little bit more in Q1, meaning we've moved along, but at the same time without having that formal construction decision we tried to be conservative with just looking at early works.

As far as expenditures between now and the end of 2024 when we get into kind of production, I would say it's going to be relatively homogenous payments over that kind of next seven

quarters. Again, hopefully things ramp up relatively quickly here in Q2.

**Matt Taylor:**

Perfect. Cheers. Then, I'm just switching over to Bolañitos. Should we expect an uptick in gold production later this year? I saw in Q1 it was slightly lagging. Just wondering what (inaudible 15:28).

**Dan Dickson:**

Yes, for sure. I mean absolutely Bolañitos has moved into kind of a gold operation. Our expectation was going to be more gold, less silver and in this quarter we flipped—saw it flip, kind of silver grades came up and gold grades come down.

Similar to Guanaceví, I mean we'd expect that to revert to our mine plan, so on a proportional basis I would expect gold come up and silver to slightly come down. Partly that's going to be getting to certain areas that's in our mine plan, and like anything with the underground vein mining sometimes there's areas that allow more ore tonnes to be able to come out, and things that are in resources are actually not even in our mine plan that are there. But ultimately, if we follow mine plan, expectations are gold comes up, silver comes slightly down.

**Matt Taylor:**

Perfect. Cheers. Thanks a lot.

**Dan Dickson:**

Thanks for the questions, Matt.

**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:**

Thank you, Operator.

It's been an interesting quarter with regards to the changes in the Mexican mining laws and where we're seeing silver and gold prices. I think today's reflection of the questions maybe just comes down to what's happening in the marketplace; we see silver kind of flipping all over the place. It was up to start the day and now it's down, and then I see some—the results in our share price suggests we're down. I think it's early in the year and our goal is to get our costs in line to where our expectations and where our guidance is, and ultimately we'll be working from that from an operations standpoint, but I think it's an exciting year for Endeavour.

I think moving forward with the Terronera projects are going to significantly change the profile of the Company over the next two years. It's something we're excited for and I look forward to next quarter's conference call to be able to give an update on where we're at with Terronera, and hopefully continued good performance at Guanaceví and Bolañitos.

Thank you everyone for attending today, and talk soon.

**Operator:**

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