



Endeavour Silver Corp.

Third Quarter 2023 Financial Results

Conference Call Transcript

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

Dan Dickson
Chief Executive Officer

Donald Gray
Chief Operating Officer

Christine West
Chief Financial Officer

Operator:

Thank you for standing by. This is the conference operator. Welcome to the Endeavour Silver Corp. Third 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. 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 Galina Meleger, Vice President of Investor Relations. Please go ahead.

Galina Meleger:

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

With us, on today's call 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. And now over to Dan.

Dan Dickson:

Thank you, Galina, and welcome, everyone. I'd like to begin by saying that we navigated through a difficult third quarter. Not only were we hit with challenging market conditions that caused a sharp decline in the Silver Miners Index by nearly 20%, our cornerstone mine, Guanacevi, had a difficult operating quarter.

The impact of lower throughput, significantly lower grades, non-routine expenses related to repairs and maintenance, and an increased operating development, resulted in escalated costs on a per unit basis in Q3. Costs were further amplified by macro factors such as the ongoing industrywide inflation pressures and strong Mexican peso.

While the headline for this quarter is our elevated costs, we've taken corrective measures to get Guanacevi back on track and not have issues affecting productivity persist. Of course, nobody likes to experience a lackluster quarter but it's an opportunity to learn and improve. Such was the case for us as our new VP of Operations has taken steps to sustainably improve Guanacevi's operating performance. I'm pleased to tell you that we're seeing a significant improvement in mine productivity this quarter.

Of course, during the past quarter we continued to advance in the Terronera project. Terronera provides a clear path to margin expansion, repositioning the company to obtain significant free cash flow once the mine is in production.

Let's assess this quarter's production in more detail. Consolidated Q3 silver equivalent production was down 14% year-over-year to 1.9 million silver equivalent ounces, bringing us to 6.5 million silver equivalent ounces year-to-date. While this quarter's results still puts us on track to be within this year's production guidance range, there's little room for a setback in Q4.

Guanacevi's production shortfall is due to a number of factors. If you recall, we discussed initiating changes to our mine plan and infrastructure to improve working conditions for our employees by providing better ventilation and improving our water management. To address these conditions we temporarily changed mine sequencing. This meant lower silver and gold grade stocks until we sufficiently addressed the temperatures and the water inflows lower in our mine. Ultimately, these issues could have been better managed to prevent impacts on production.

Simultaneously, increased silt development during Q3, till from more silts, further impacted mine output. Sequencing of silt development will continue to be a focus for Guanacevi to ensure a stable production schedule going forward near-term and long-term.

While the temporary changes have lasted longer than we anticipated, conditions have improved and mine output has increased. With the conditions within the mine, management felt it was an appropriate opportunity for an extended plant shutdown to address areas within the plant requiring more time than our standard maintenance shutdowns. Considerable maintenance work was performed in all areas of the plant including crushing, grinding, thickeners and the

filter press to ensure we maintain consistent throughput going forward and alleviate risk that could result in unplanned downturn.

With the plant maintenance completed in early October, both the mine and the plant are operating at or above capacity. The combination of these events during the third quarter resulted in quarterly silver and gold production decreasing by 22% and 13% respectively. It equates to a production shortfall of nearly 400,000 ounces of silver compared to previous quarters and our annual mine plan but, as I've said, we're back on track, with Q4 expected to meet plan.

The performance of our other mine, Bolanitos, remains steady. Increased gold production was offset by lower silver production in Q3. The Bolanitos operation teams continued a strong effort to meet or beat their targets, including mined and processed tonnes. Our safety programs and results have been outstanding at both operations.

Moving to our financials, we recorded revenue of \$49.5 million, with cost of sales of \$46.7 million for operating earnings of \$2.7 million and mine operating cash flow of \$10.6 million. After exploration, G&A and other investment expenses we reported a net loss of \$2.3 million dollars or a cent loss per share. This quarter, our cost of sales increased 35% compared to the same period last year. While there are number of drivers, including a strengthened Mexican peso, higher labor, power and consumable costs, and increased royalty costs, a significant part of the Q3 story was low production at Guanacevi impacting costs on a per unit basis.

Guanacevi delivered \$6.7 million of operating cash flow, however, after capital and exploration expenditures, Guanacevi reported negative mine free cash flow of \$1.3 million. It's been quite some time since Guanacevi has not delivered a positive free cash flow quarter. Year-to-date, Guanacevi has delivered \$12.2 of mine free cash flow and Bolanitos remains slightly above breakeven.

Regarding operating costs, we've seen pressures on several fronts. Our direct costs per tonne were up 23%. The increase in operating developed paired with higher energy costs, increased labor due to reshifting the workforce and an increase in cost from accepting more tolled ore had the largest affect this quarter.

While the Mexican peso weakened in the latter part of Q3, it remained high, averaging 17:1 in the third quarter. The peso has recently reversed course but it's still 10% above our budgeted assumptions. Again, all these factors translated into higher costs overall. Quarterly cash costs and the all-in sustaining costs are at \$17.95 per ounce and \$29.64 per ounce, respectively. On a year-to-date basis we've reported \$13.08 cash costs and \$23.41 all-in sustaining costs, which are both above our original guidance provided in January.

Looking to the rest of the year, containing costs will continue to be a focus as we work to improve the efficiencies of our operations. We are closely reviewing our purchasing practices to see where and how we can make improvements. At this time, while we expect cost metrics to improve, additional maintenance work related to the plant shutdown continued for the first week of Q4 and increased operating developing is expected to continue into Q4. Additionally, cost pressures related to macro factors will continue.

However, management anticipates that Q4 cost metrics will improve as productivity and production are expected to return to historic levels. As at September 30th, we had cash on hand of \$41 million and working capital of \$76 million. During the quarter we raised gross proceeds of \$23 million to the ATM and another allotment of \$17 million was raised subsequent to quarter end to ensure there is sufficient funding for the development of the Terronera project.

On October 10th we executed the \$120 million project financing agreement with SocGen and ING Capital to fund the Terronera project. As per requirements under the project loan, the company will primary self-fund development through cash on hand before drawing down on the facility. As such, the company expects to draw down on these funds in 2024. Based on the project's spend schedule, it's anticipated we'll be fully committed on the project capital cost in early Q2 2024.

Moving to more detailed information on the construction of Terronera, at the end of Q3 we reached 38% completion and we expect to be close to crossing the halfway mark by year end. We've spent \$95 million to end of the Q3 on direct development. Project commitments totaled \$160 million, which is 69% of the \$230 million initial CAPEX budget. With the execution of the \$120 million senior secured debt facility, we are well positioned to satisfy the financing requirements of the project.

During the quarter we made notable progress in a number of key areas. Not only have we completed construction of our permanent camp and now can fully accommodate our workforce, but we've also made significant progress on construction of our process plant, with surface construction now above 42% complete. If you're interested in seeing photos of the construction progress, I encourage you to visit our website under the Terronera page.

Let me recap some recent developments of note. With rainy season upon us during Q3, construction safety measures were modified. The focus was on visibility and project road maintenance. We are pleased the extensive improvements over the last year helped maintain the site roads, keeping them in good condition and accessible. As a result, equipment access and material deliveries to the site were unaffected during the rainy season. Additionally, visibility control measures were reinforced.

On the recruitment side, the workforce continues to grow with onsite personnel having increased to over 520 employees and contractors. The total engineering progress is nearly complete, most equipment has now been purchased and deliveries for all major plant equipment will be completed by year end.

During Q3, the request for bid proposals for the mill construction contract was nearly complete, which includes structural steel, mechanical, piping, electrical and instrumentation. Mine development remains our critical path. To quarter end over 1,300 metres have been completed and advance rates are gaining momentum as Portal 2 and 4 pass through the fault zone and ground conditions have improved. During the quarter Portal 1 reached its design elevation, allowing for mine development to advance now on four fronts, Portal 1, 2, 4, which is in incline and decline directions.

Plant site earthworks, concrete work and rebar installation are underway. Concrete work and rebar installation continued in the SAG and ball mill grinding areas, coarse ore stockpile and floatation areas. Concrete work also began for the primary crusher and excavation work started in the tailings thickener area.

And lastly, on the community side, we continue to focus on supporting the municipality with projects like upgrades to our roads, our local landfill and communication infrastructure. Looking ahead, our main focuses remain progressing our mine development, advancing concrete work

for the mill platform on schedule, with electromechanical contractor mobilization early 2024, which marks the next major phase of construction for Terronera. And starting excavation on the filtration and LNG power plant areas and the TSF.

That wraps-up my formal comments for today. Myself, Don Gray 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. 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. The first question comes from Heiko Ihle, with H.C. Wainwright. Please, go ahead.

Heiko Ihle:

Hello, everyone. Thanks for taking my questions. It's nice to see an eight-figure mine operating cash flow before taxes, even though this was obviously a challenging quarter. Building on all of that, you had production shortfall at Guanacevi due to mine sequencing changes required to focus on improved access and ventilation. Some of the maintenance there was completed in September. It's now November, as per your release. So, building on all of that, which, if any, of the effects from the mine sequencing changes should we anticipate to last through the remainder of the year or maybe even into 2024? Phrasing it differently and, I guess, more simple, has your expectation for Q4 changed from what it was two months ago and are there meaningful impacts that we should model out?

Dan Dickson:

Sorry, Heiko. It's good to hear from you. Your question got muffled there a little bit at the end. I'm not sure I heard it properly.

Heiko Ihle:

The question ultimately is, building on the changes that you saw at Guanacevi, should we anticipate them to last through the remainder of the year or are most of the impacts from them gone? Then, I phrase it a little differently, has your expectation for Q4 for the site changed from where it was about two months ago?

Dan Dickson:

It's a very fair question and it's nice to hear from you, Heiko. Ultimately, the design of changes that we've put through is to improve ventilation and improve the management of our water. We're getting more water down in the El Curso concession than necessarily was expected about a year ago. Now, we're making those changes and ultimately our throughputs and our mine output have increased here, in Q4, and we expect that most of the work that we did in Q2 and Q3 would be lasting.

So, not only do we expect Q4's production output from the mine and ultimately throughput through the plant to meet plan, which is effectively around 1,200 tonnes per day, those changes should help benefit us for 2024 and beyond. I say some of these things are preventable.

The fact is that we could have managed it better last year and made sure that we were advanced on our ventilation program and our water inflow program. It's something we didn't do and we could be better on. It's just that all of this came all at once and ultimately impacted our production here, in Q3, and with that impact on production in Q3, it really showed in our financial results and ultimately our cost metrics at Guanacevi.

I wouldn't say it's completely behind us. We're still working on ventilation and water management. We expect that to be done here in Q4 but ultimately our output is up, so with our output up, we'll at least meet our production plan.

Heiko Ihle:

I think that's a very fair answer and reassuring as well. A completely different thing. You're hosting a visit to Terronera in two weeks and we're obviously excited to attend. Construction progress at the site is 38% complete as per your release today.

Off the top on that site, just going through the last release you had on the site, it stated that procurement, and it's a quote, procurement efforts are on schedule, with most long lead major equipment anticipated to be received by year's end. That was a week and a half ago. What exactly is still missing and where exactly is it? Is it as customs? On a ship? Is it with the suppliers? Anything that's concerning your or maybe should concern us? I assume the answer is no but I just wanted to make sure.

Dan Dickson:

There's always things that concern. The big thing that comes right now is some delays in E-houses. Those weren't expected. I wouldn't necessarily call them critical items but they're important items because every piece of equipment and parts matter to get the plant up and going. As I say, all our key components for the mine and key components for the plant were ultimately ordered quite early on and most of that is being delivered this year.

There is smaller equipment now that we're going through. Right now, we're going through ATCs on steel. That's going to be delivered out to suppliers and that expectation is going to come, but over the next year, until we get into production or start up the plant, there'll be always little things and our job is to manage that. There's always unforeseen items that we have to manage and right now it's been fine, so there's been nothing critical but something will come up and it'll be our job to manage that.

Heiko Ihle:

And you've done a successful and good job at that kind of stuff in the past. So, here's to well wishes and thanks for taking my questions.

Dan Dickson:

Thanks, Heiko, for the questions.

Operator:

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

Lucas Pipes:

Thank you very much, Operator. Good afternoon, everyone. My first question is a follow-up on Guanacevi. As you look at to 2024, what do you think could these measures you've taken mean when it comes to production and the cost profile? Thank you very much.

Dan Dickson:

For us, for 2024 we'll put our guidance in January but Guanacevi we've been there 18 years. The plant capacity is 1,200 tonnes per day. Now, it's pretty easy to make the assumptions that we'll be able to 1,200 tonnes per day for 2024. Ultimately, the measures we've taken in Q3 ensure that we can have 1,200 tonnes per day operation. If we can maintain our production

profile, it will allow us to meet guidance from a cost standpoint and our all-in sustaining cost is expected to be between \$19-20 this year. It's probably going to be a little bit higher next year because of inflation factors but we'll come out with that guidance in January.

Lucas Pipes:

I appreciate those comments. Thank you very much. Then, a question on Terronera. In terms of your minimum cash and liquidity targets while you do the development there, anything specific we should keep in mind as we model cash flow over the coming quarters? I would appreciate your perspective. Thanks.

Dan Dickson:

I think it's important that we maintain a certain level of liquidity. Right now, we're sitting on \$76 million of working capital and that's what we look to when we're looking at our liquidity, especially during this development cycle that we're in with Terronera. I think it's important to know that we do have to spend our cash first before we can draw down on our debt facility and we expect to draw down our cash, not to zero but to a certain level, probably \$20-25 million dollars, before we draw down on that facility. Then, once we start drawing down on that facility, hopefully our cash builds will performance at Guanacevi and Bolanitos, and we'll see that in 2024.

Lucas Pipes:

Got it. Well, really appreciate it then. Thanks again for all the color and best of luck.

Dan Dickson:

Thanks for the questions, Lucas.

Operator:

The next question comes from Trevor Ward, private investor. Please, go ahead.

Trevor Ward:

Good morning. I'm calling from Hawaii. I'm relatively new in terms of purchasing common stocks and I bought a substantial, in my opinion anyway, a substantial position in Endeavour. I'm currently holding 40,000 shares at an average price of \$3.10. What I'm curious about is all this jargon and the numbers, for me the bottom line is in terms of, let's say, over the next year and

then looking forward, when do I expect to actually see Endeavour actually turn a profit and show a dividend?

Dan Dickson:

Well, Trevor, you're lucky that you're sitting in Hawaii right now. We're here, in Vancouver. It's a beautiful day but ultimately cold, so I do wish I was where you are. For Endeavour Silver and where we are right now from a growth profile standpoint is we're investing in our Terronera project and Terronera is going to take from nine million ounces of silver equivalent to 16 million ounces of silver equivalent production per year. Having that scale is going to improve our earnings.

We've had positive earnings over the years. This quarter, in itself, of course we lost a penny. Obviously, we don't want to be in that position. We want to be making money no matter what the price of silver is or what the price of gold is, and I think Terronera is going to do that for us. As far as dividend, because of Terronera that's going to be in the future. I wouldn't say in the near future because we also have the Pitarrilla project coming in behind that. Our goal is to advance Pitarrilla. Pitarrilla would be a significant scale project that we still have a lot of work to do on but we are feeling confident with it. But, again, any capital and cash flow that comes from Terronera, we're probably going to reinvest in the company.

So, unfortunately, if you're looking for a dividend from Endeavour Silver, it's probably not going to come in the near future but with what can happen in the silver price and ultimately if you're investing in Endeavour Silver, you're investing in the price of silver, that could change and I hope it does. But, like I say, currently, right now, with where we're at with \$23 silver, I don't see a dividend in the near future until we've fully invested and exploit what we have with Pitarrilla, Parral and our other exploration programs.

Trevor Ward:

All right. So, just a couple more quick questions without having to do all the research.

Dan Dickson:

Sure.

Trevor Ward:

A little while ago I watched an interview with yourself and your projection and your assumption at that time was that by the end of 2023 silver would hit \$30 an ounce. Just quickly, what brought you to that? And also in terms of maybe a quick, brief explanation of how the international silver market works. And then the last question before I say goodbye is what is your current position? And can you tell me, since you've been in this position, what is your current holding of stock and when was the last time you bought or sold this stock?

Dan Dickson:

Sure. There was a lot of questions there, the overall market and my personal position. My personal position, I believe I hold about 450,000 shares of Endeavour. My holding price would probably be between \$4-5 or my carrying price would be. The last time I bought stock would have been last year, about May or March of 2022. But that is probably enough about me.

With regards to me saying the silver price would have been \$30, I couldn't tell you which YouTube or which interview you listened to but I have said that in the past and ultimately that would be based on where the gold price is, and if you look at the gold and silver ratio, the last 35 years it's averaged about 35:1. Right now, gold is sitting just below \$2,000 and maybe at that time gold was at \$2,100. Right now, I think we're sitting at 86:1. To get to a ratio similar to what we've seen historically that would push silver up into the high 20s and ultimately \$30.

We hit \$29 silver a couple of years ago now and we've really come off of that. It's been very uncertain times and with rising interest rates silver price has not performed but, funnily enough, gold has held on considerably well. I think that's a positive thing for the silver price. I think if gold pushes up through \$2,000 and \$2,100, silver always eventually follows. It's just that there's a lag time and a lag period, and sometimes that lag period is six months, sometimes that lag period is one year. So, with me procrastinating or projecting that silver was going to be \$30, I don't think I've never not said that. I likely did and it would be based on where gold price is.

And then ultimately how the silver market works in the world, that's a huge question. It's a large market. There's over 800 million ounces that are produced and sold. It's sold through different exchanges in the United States, China, across everywhere. So, I don't think I'll get into that right now, Trevor, but happy to answer those questions through our info line. Give our IR group a call and they'll take you through that another time. But I'll move on to the next question, Operator.

Operator:

The next question comes from Craig Hutchison, with TD Securities. Please, go ahead.

Craig Hutchison:

Hi, guys. I was wondering if you guys can give us an update with respect to Pitarrilla, what some of the milestones are. I know you had some issues around ground control but any kind of milestones in terms of the exploration work there and potential for an updated PEA.

Dan Dickson:

That's a great question, Craig. Thank you. Ultimately, we wished we were drilling at Pitarrilla this quarter. As you touched on, we had some ground issues. The fault that we were getting through we supported but ultimately there continue to be rockfalls in the old adit that was there. So, we are doing a parallel adit and we've taken that drill program and ultimately put it into an adit advance this year. So, we will not be drilling Pitarrilla until January, possibly February of next year.

It still allows us to do a PEA or start doing economic studies on Pitarrilla next year but we want to make sure we get that adit complete, get the drilling done on what we think are some feeder zones and then ultimately look at this project as potentially the next development project after Terronera and that would be, like I say, starting to make those economic studies, hopefully mid-year to end of next year.

Craig Hutchison:

Thanks. Just one other question from me. Just regards to the debt funding, there's a stipulation that you'll need a cost overrun funding in the form of cash or letter of credit up to \$48 million. How should we think about that? Would that effectively become a restricted cash requirement you have to hold for a certain period or how do we just understand that \$48 million requirement?

Dan Dickson:

That's a very good question, fair question. It's actually broken into two tranches. The first \$60 million of \$120 million is available to us with cost overrun funding of \$24 million. Ultimately, it wouldn't be restricted. However, it's almost treated like restricted cash. Then, of course, when the next \$60 million funding comes with \$120, there's another \$24 million required of that. Now, we'll look at where we are from a project construction standpoint and whether the full \$48 million

of overfunding is required and we'll do that with the independent engineers. So, we'll come to that sometimes, I'd guess, mid-year in 2024. But your question is, is that restricted? Possibly, yes.

Craig Hutchison:

Maybe just as a follow-up. I guess it would be fair to say you have more to do on the ATM facility this quarter, just to get your cash position up ahead of that draw down.

Dan Dickson:

Yes, it's very possible if the market allows it. Obviously, Guanacevi didn't perform as expected and that impacts our balance sheet. Now, I think our balance sheet is in great shape. We have over \$41 million of cash at the end of the quarter, with \$76 million of working capital. There are some levers on our long-term. We have about EVA, about \$18 million related to Terronera, that hopefully we can get to current in relatively short order, so that gives us more funding that's available, almost \$96 of working capital if we include that EVA. So, I think we're in really good shape but it's something that we have to be mindful of while we're in development and with these markets. So, we will be and I think we're doing a good job managing that.

Craig Hutchison:

Thanks, guys. Best of luck.

Dan Dickson:

Thanks, Craig. Good questions.

Operator:

The 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 thank you everyone joining our Q3 call. Again, I think it's important to know that management is working to resolve some of these cost issues that we have a Guanacevi and I think that's going to be done through getting out output up to where we expect it to be and on plan. Everyone, I look forward to having our Q4 call and financial release for 2023 and talk to everybody again in March of 2024. Thank you.

Operator:

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