

# Endeavour Silver Corp.

## 2020 Q2 Conference Call

### Conference Call Transcript

**Date:** August 4<sup>th</sup>, 2020

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

**Speakers:** **Bradford Cooke**  
Chief Executive Officer

**Godfrey Walton**  
President and Chief Operating Officer

**Dan Dickson**  
Chief Financial Officer

**Galina Meleger**  
Director Investor Relations

**Operator:**

Welcome to the Endeavour Silver Second Quarter 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, Director of Investor Relations. Please go ahead.

**Galina Meleger:**

Thank you, Operator. Good morning, everyone, and welcome to the Endeavour Silver 2020 Second Quarter Financial Results Conference Call.

With me on the line today, we have the Company's Chief Executive Officer, Bradford Cooke, our Chief Financial Officer, Dan Dickson, and our Chief Operating Officer, Godfrey Walton.

Before we get started, I'm required to remind you that certain statements on today's call will contain forward-looking information within the meaning of applicable securities laws. These may include statements regarding Endeavour's anticipated performance in 2020, and future years, including revenue and cost figures, silver and gold production, grades and recoveries, and the timing and expenditures required to develop new silver mines in mineralized zones. We do not intend to, and do not assume any obligation to, update such forward-looking information, other than as required by applicable law.

On behalf of Endeavour Silver, I'd like to thank you again for joining our call, and I'll now turn it over to our CEO, Brad Cooke.

**Bradford Cooke:**

Great. Thank you, Galina, and welcome, everybody, to this financial results for the second quarter conference call.



We had a lot of challenges thrown at us during the second quarter, not the least of which was the COVID-19 pandemic, the government mandated shutdown of mines in Mexico since we opened, and all the issues related to that. I am pleased to report that notwithstanding all of that, Endeavour was actually able to deliver a decent quarter. We reduced our net loss quarter-on-quarter, each mine generated positive mine free cash flow and that was generally due to not only the higher precious metal prices, but our improved operating performance across the three mines.

So I'm just going to go through the highlights of today's news release, and then we'll open it up for question.

Top line revenue was \$20.2 million in the second quarter, and of course, with reduced production, that was quite an accomplishment. Our cash flow came in at \$1.9 million before—sorry, that's from operations before working capital changes. Net income was a loss of \$3.3 million or \$0.02 per share. But virtually all of that could be found in the care and maintenance cost during the mine suspension period when we actually had to send our employees home on their full wages and wait out the suspension period, and also in general and administrative cost related to the mark-to-market of our deferred share units due to the higher share price.

So, balance sheet improved during the quarter. We finished the quarter with more than \$30 million in cash and more than \$44 million in working capital. That was partly due to making use of our ATM equity financing but also due to the performance of the operations.

Total production, as a reminder, was just shy of 600,000 ounces of silver and 6,000 ounces of gold, that works out to about 1.1 million ounces of silver equivalents at the now 80 to 1 silver/gold ratio.

Operating cost improved significantly during the quarter. Cash costs were down to \$2.78 per ounce net of the gold credit. And the all-in sustaining cost consolidated were \$1491 per ounce of payable silver net of the gold credit. Both were substantially lower quarter-on-quarter and year-on-year, again, due to the improved operating performance at Guanaceví and the higher realized gold price for the byproduct credits.



Guanaceví continues to outperform. If you'll recall, we launched over a year ago a complete clean sweep of the operations, operating turnaround, and a transitioning from mining deep, low grade ore bodies to opening new higher grade ore bodies. That transition was completed in January. As a result, in Q2, Guanaceví continued to generate mine free cash flow of around \$2.7 million, and we saw higher processed tonnes, higher silver and gold grades, higher silver and gold recoveries; all well above plan. We also had an advantage at Guanaceví when we did the restart in May in that we'd had not only a significant high grade stockpile built up prior to shutdown, but we'd prepared some long haul stopes for blasting prior to shutdown and that really expedited both an early plant restart and a on-time mine restart.

Bolañitos, (inaudible 05:34) the quarter, as forecasted. The operating turnaround there was launched not even a year ago, but it also was able to squeak out a small profit on a mine free cash flow basis, and its restart (audio interference 05:50) smaller stockpile and more of a focus on accelerating the mine development and grade control during the ramp-up period, the restart period.

El Compas was also able to generate free cash flow, with mine free cash flow at \$1.1 million. Its restart was also slower than Guanaceví, again due to a smaller stockpile and the focus on mine development and grade control.

But last but not least, we did rev up the exploration drills again in late May after a shutdown in early April and we did enjoy continued exploration, positive exploration drill results from the El Curso area at Guanaceví and the Melladito area at Bolañitos. We're actually mining the El Curso area now and continue to grow the resources there and currently developing towards the Melladito area and we'll hope to be in it here in Q3/Q4 for production.

So that's basically a summary of our Q2 operational and financial performance. I think now we might as well open this up 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're using a speakerphone, please pick up your handset before pressing any



keys. To withdraw your question, please press star, then two. Once again, to join the question queue, please press star, then one now.

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

**Marcus Giannini:**

Hey guys. This is Marcus Giannini calling in for Heiko. Thanks for taking the questions and congrats on the quarter. And there's some pretty strong news in the silver prices recently.

**Bradford Cooke:**

Yes, thank you.

**Marcus Giannini:**

So you meaningfully improved operations at Guanaceví as the mine seems to be running quite well and it's nice to see all the progress that's been made. We're currently in August and about five months left in 2020. Could you just provide some 2021 and possibly even longer-term plans and goals for the mine?

**Bradford Cooke:**

For Guanaceví in particular?

**Marcus Giannini:**

Yes, Guanaceví in particular.

**Bradford Cooke:**

Okay. Well, thanks for your question, Marcus. On the financial side, maybe I'll let Dan answer.

**Dan Dickson:**

Well we haven't come out with 2020 guidance just because of the COVID situation in Mexico, where COVID cases are continuing to rise. But otherwise if we can continue to operate we are an essential business in Mexico. We'd continue to operate close to the 1,200 tonne per day capacity. So, we'll be slightly below the 1,200 days, 1150 with similar grades to we originally guided for the year, but ultimately we expect that same capacity and similar grades into 2021, if you're trying to predict that, Marcus.

**Marcus Giannini:**

All right, excellent.

**Bradford Cooke:**

So, if I could add to that. What Dan's saying is that everything's based onsite is going according to plan or better, but offsite concerns, such as stopping COVID at the gates, keeping high risk people at home. So we actually have a depleted workforce because, particularly the contractors, can't maintain the level of employment that we require. We're still a little bit concerned that we'll be able to outperform on a continued basis. So this is just being careful. But everything that we control onsite is doing better than plan.

**Marcus Giannini:**

Okay. Yes, fair enough. And then sort of on that note, if we asked you to guess, do you have a dollar figure regarding the impact of COVID-19 through today? And do you have an estimate of sort of projected expenditures related to COVID that have not yet been incurred thus far?

**Dan Dickson:**

Yes, as far as cost but not yet been incurred. I think we've incurred everything from a COVID standpoint. We were shut down for most—or all of April and a little bit of May, which ended up being about \$800,000, but most of that was standby cost. The costs incurred to bring in wash stations, increased security, get metal equipment was really incurred in March and April and then ultimately the testing kits that we have on site that is the continued cost. So it's actually quite little. You're talking about \$125,000 on a quarterly basis.

So small impact at each operation going forward. It's just the larger impact of COVID that is a bigger concern for us. There's other things that because of COVID we've seen a decrease in cost, such as travel to and from the sites. So even that increased medical cost, so to speak, has probably been offset a little bit by efficiencies just using Zoom and Teams and reduced workforce. Eventually, maybe that will catch up to all mines that are operating that way, but we seem to be managing pretty well.

**Bradford Cooke:**

And I think you're able to utilize our existing workforce, the security. We haven't really had to beef up much. They're doing more, obviously, with temperature and questionnaires and all of that with every person coming and going at the gates of each mine. But it didn't require a significant increase in security. Same thing with sanitation. We probably hired a few more bodies to do a lot more sanitation, but it wasn't a big number.

**Marcus Giannini:**

Perfect. All right, thanks for taking my questions, guys.

**Operator:**

Our next question comes from Joseph Reagor of Roth Capital Partners. Please go ahead.

**Joseph Reagor:**

Good morning guys. Thanks for taking the questions.

**Bradford Cooke:**

Hi Joe.

**Joseph Reagor:**

Hey. So, on the G&A level, when I looked at the breakdown, it looks like salaries, wages and benefits was up quite a bit in the quarter. Is that just like a one-time thing, because of the shutdown you had to move some G&A costs from the mine level up to the corporate level?

**Dan Dickson:**

No, actually. Joe, it's Dan here. The G&A movement was actually mark-to-market on deferred share units. A lot of our directors are paid in deferred shares and under IFRS we have to mark that to market. So it's a function of our share price going from about CAD\$2.14 up into the—I don't want to say almost CAD\$5 range at the end of the quarter. So we have a \$1.1 million salary charge related to that mark-to-market.

**Joseph Reagor:**

Okay, but it's a non-cash, right?

**Dan Dickson:**

Non-cash.

**Joseph Reagor:**

Yes. Okay, all right. I guess the way to think about it is it's a stock. It's higher again, there might be another one this quarter, but just back it out of our cash flow statement.

**Dan Dickson:**

Exactly.

**Joseph Reagor:**

Okay. Then on—obviously, with the ATM you guys raised a good amount of money, balance sheet's a lot stronger than it was at the end of last quarter. Do you guys think you have enough capital to now go out and fund Terronera, the debt only in addition to here or do you still think there might be an equity component to that in addition to what you've already raised? And any (audio interference 13:39), what is it, \$2.25 million on the (audio interference 13:43)?

**Bradford Cooke:**

Thanks for your question, Joe. It's Brad. I don't think we've changed how we plan to finance Terronera. It's still going to be a debt/equity mix. The timing and amounts (phonetic 13:55) are still somewhat up to debate. But with the new CapEx on Terronera of around \$100 million, it does make it a lot more financeable project and ideally you would be like a 35/65 equity/debt split.

So, that's the plan. We have launched into commissioning of feasibility study. We hope to actually grant the study to an engineering firm by the end of August or early September, and it will be a less than a year from then to complete that study. (Inaudible 14:34) the hot markets. We may not need to wait to put the financing in place. That was the original plan. When gold and silver prices were beat up in March, we were thinking well we'll just go to feasibility and worry about financing later, but obviously the markets have responded very robustly to the global monetization of COVID, shall we say. And as a result, the markets are definitely open.

So timing still to be determined, but 35/65 equity/debt split is still the plan.

**Operator:**



Our next question comes from Justin Stevens of PI Financial. Please go ahead.

**Justin Stevens:**

Good morning guys. Most of my questions have been crossed off here. Just a couple on some ore sourcing. But Guanaceví, how's the development of Santa Cruz ore going? I know it was running a bit behind schedule. But are you guys getting close there?

**Godfrey Walton:**

Thanks, Justin. This is Godfrey. We were a bit behind in Q2 but we've actually managed to catch up. And the ore split right now is a third from Malache, a third from Caruso (phonetic 16:00) and a third from Santa Cruz Sur. So we've got some very nice grades coming out of Santa Cruz Sur at the present time.

**Justin Stevens:**

And so that's pretty steady now, that'll be the plan, I guess, going forward for at least the next few quarters there at about one third, one third, one third?

**Godfrey Walton:**

Yes, that's the plan (audio interference 16:20)

**Justin Stevens:**

Perfect. Great. No, that's what I like to hear. And then just over on the Bolañitos side, I think, Brad, you said that you're currently mining from San Miguel but you're get into Maladito (phonetic 16:37). Is that what I heard?

**Godfrey Walton:**

Yes, the plan is to be—we're developing towards Maladito right now and we expect to be in there in Q4. So we'll have some cell (phonetic 16:49) development mineral coming from there in Q4.

**Justin Stevens:**

Great. Yes, and then maybe, I guess, Brad, you sort of touched on it there, but just sort of do you guys have an idea internally of what your tipping point might be in terms of silver price or

sort of cost of capital that would make you move ahead with the Terronera development decision before the feasibility study?

**Bradford Cooke:**

Well I don't think it's going to be price sensitive. We're way in the money on price that was on the old prices, not today's price. I think the determining factor on timing is simply are the markets sufficient to finance the project and are there some long lead items that Our project director is happy that he'd be willing to start breaking ground, for instance, before the feasibility study is finished.

So those are questions we hope to answer here very quickly in the coming weeks and give some clarity on timing in the—hopefully, this quarter.

**Justin Stevens:**

Great. All right, that's it for me. Thanks guys.

**Bradford Cooke:**

Thanks for your questions.

**Operator:**

Our next question comes from Bhakti Pavani of Alliance Global Partners. Please go ahead.

**Bhakti Pavani:**

Good morning guys. Thank you for taking my questions, and congratulations on the quarter.

**Bradford Cooke:**

Thank you, Bhakti.

**Bhakti Pavani:**

(Multiple speakers 18:18). I just wanted to dig a little bit deeper into Guanaceví. I know Dan kind of previously alluded on the grade profile, but the grade for both silver and gold increased quite a bit in second quarter compared to first quarter of this year. So, from a modeling perspective, what would be the best way to model the grade for Guanaceví going forward?



**Godfrey Walton:**

Hi, Bhakti. This is Godfrey. Yes, grades did come up and that was a result of mining from Caruso and actually even getting some high grade material from Santa Cruz Sur. What we're still planning on the budgeted grades, which was lower than what we actually mined in Q2, but we do expect to continue those grades and maybe get a little bit higher grades.

**Bhakti Pavani:**

Got it. Okay. And secondly, you did previously mention about the increasing COVID cases in Mexico. I know everything is uncertain at this point. But how are you preparing yourself in case there is a second shutdown? Are you doing anything in particular?

**Godfrey Walton:**

Hi, Bhakti. It's Godfrey again. We are very diligent at checking everybody as they come on to site and checking everybody on a daily basis. So we've stopped a cases at the gate and in turn they go back and send them for further evaluation at some of the clinics. So we're just being extra cautious. So far, we've had a few cases occur at our operations, but we've been very, very successful in making sure it doesn't spread very quickly.

**Bhakti Pavani:**

Got it. And in terms of mine planning and mine development, has there been any changes?

**Godfrey Walton:**

No, the mine planning and development has continued. We were able to up—increase the speed of some of our development at Bolañitos which was holding us back in Q1 and Q2. So that's catching up. And our development at Guanaceví's been going very well.

**Bhakti Pavani:**

Okay. Thank you very much. That's it from my side.

**Bradford Cooke:**

Thanks for your questions.

**Operator:**

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

**Bradford Cooke:**

Well, thank you, Operator, and thanks all for listening today. As we look forward through the rest of the quarter, we've got some pretty significant catalysts. We're restarted exploration drilling at several sites, specifically Bolañitos, Guanaceví, near El Compas, and we're planning to get started on Terronera this quarter as well. It'll be almost a few years, Godfrey, since we drilled Terronera?

**Godfrey Walton:**

Yes, about two years.

**Bradford Cooke:**

So, there's significant upside to be had through drilling additional veins at Terronera, and we only stopped drilling two years ago because of the desire to go to economic analysis and see if we had enough reserves to build a mine, which we do, and now that we've got the final PFS results and they're extremely robust it's time to restart the drills.

So that's one catalyst for this quarter. Another catalyst obviously is granting the feasibility study to an EPC firm here in the next month and get that work underway. In fact, there's some bridge engineering studies already being conducted under the auspices of our Director of Project Development, Ernesto Lima. So work is already underway on the feasibility level.

And Dan, do you want to add anything to that?

**Dan Dickson:**

No, I think we're in a good position going forward, especially where the silver and gold prices are and the operations continue to operate at capacity and where we expect they'll operate, especially after putting in significant time and energy into getting them back to what we'd historically done, especially at Guanaceví and hopefully coming here soon at Bolañitos, we should be in a great position to be able to fund a lot of these programs going forward.

**Bradford Cooke:**



Yes. Godfrey, anything to add?

**Godfrey Walton:**

No. We'll continue with the steady ship.

**Bradford Cooke:**

All right. Well I'm busy with Dale on various merger and acquisition opportunities, small brownfield ones, kind of bolt-ons to our existing operations. We're always working on those. Always optimistic. And every once in a while we pull the trigger like our deal last year in Guanaceví which really helped to turnaround that operation. We're looking at bigger opportunities as well but they always take time and it takes two to dance.

So, lots going on, a very catalyst-rich quarter for the Company and, boy, what a tailwind for metal prices. I do think we're still early in the precious metals cycle. We've probably got a little bit too far too fast and so I wouldn't be surprised if there was a minor pullback in the near future. But other than that, I think the overall overarching direction here is more monetary intervention globally by central bankers and there's only one direction, I think, that the precious metal prices can go from here.

Anyway, that's it for me, Operator. Thank you.

**Operator:**

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

