



# Endeavour Silver Corp.

## 2019 Year End Conference Call

### Transcript

**Date:** February 24th, 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 2019 Year End 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, the Director of Investor Relations. Please go ahead.

**GALINA MELEGER:**

Thank you, Operator. Good morning, everyone, and welcome to the Endeavour Silver 2019 Fourth Quarter and Year End 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:**

Thank you, Galina, and welcome, everyone to our year end financials call.

A pretty mixed bag in 2019, which really was our most challenging in our 15-year history, both operationally and financially. Our financial performance last year was negatively impacted by significant operating issues and higher costs at each of the mines. As a result, our gross revenue declined to \$121.7 million on the year, based on the sale of 4.1 million ounces of silver and 39,000 ounces of gold, our cash flows declined to negative \$8.9 million, and we recorded a net year loss of \$48.1 million. The losses were mainly due to the accumulation of higher than historic operating costs, higher general and administrative costs, higher exploration costs, and very significant depreciation and depletion charges due to our short mine lives.

We were able to come out of the year with a relatively clean balance sheet, \$23.4 million of cash and \$38.4 million of working capital, and the only term liabilities are related to loans for equipment.

Our metal production was 4 million ounces of silver and 39,000 ounces of gold, and our operating costs for the year were, on a cash basis, \$12.84 per ounce of silver net of the gold credits and the all-in sustaining costs were \$21.19 per ounce of silver net of the gold credits.

So, that was a pretty touch year.

Our response to a terrible start to the year last year was, basically, sweeping changes throughout all of our operations. We literally cleaned house. We have new site management at each of the operations. We purchased or leased and also rented new equipment, so that we could have full equipment availability. We changed the mine plans, which, unfortunately, put us behind the eight ball in terms of our mine development, compared to the original plans, and so we had a significantly higher capital investment last year due to the change of mine plans, the accelerated mine development to play catch-up, and the new equipment.

But, as a result of all that—and we had layoffs. We also closed the mine El Cubo on November 30. So, quite an accumulation of bad news last year. But, we did all the changes to set up a much, much better year this year, and so now, if we turn our attention to looking forward, I think it's safe to say that Guanacevi, which was really our dog last year, should be our shining star this year, that the changes have already taken root. We've seen the throughputs in the plant climb quarter-on-quarter for three consecutive quarters, and still climbing, we expect to hit the plant capacity by the end of this quarter, and, of course, running more tonnes through the plant reduces our unit cost, and we expect to get to profitability this quarter on Guanacevi. So, Guanacevi has successfully survived the downturn, the changes are working, and the turnaround is nearing completion.

Bolanitos, we didn't do the clean sweep until the third quarter last year, so it's trailing Guanacevi in terms of its turnaround by about two quarters. It's still in an accelerated mine development mode here in the first quarter. We're mining lower than planned grade right now, because we don't have access to higher grades until the end of the quarter, early second quarter, but we do expect by the end of the second quarter that Bolanitos, too, will have finished this turnaround phase and get back to something resembling normal operations, because it was for 10 years our most profitable mine and we expect it to return to a profitable state.

El Compas, our third mine, was only commissioned at the end of March last year and has achieved steady state, so it's not that material, it's our smallest mine, but at least it's chugging along and it doesn't need a whole lot of attention.

Turning to our development portfolio, Terronera, we spent most of last year going through continued engineering studies, optimization work, de-risking work. We got fully permitted in June of last year. We've just hired recently a Project Manager to build Terronera. The only barrier, really, remaining now is the appropriate debt financing needed to push that project forward. We still have to receive the final update on our prefeasibility study, and that's coming later this quarter. We will then ask our Project Manager to do a full internal review, and only at that time will we announce our next steps on Terronera.

Last, but not least, we did enjoy significant exploration results from Guanacevi, Bolanitos and Parral last year, and we actually commenced drilling on our portfolio of world-class prospects in Chile.



So, all in all, we did enjoy some success in 2019, notwithstanding the other challenges. We achieved commercial production at our new El Compas mine, we did succeed in turning around Guanacevi, Bolanitos is showing clearly that it's in the middle of its turnaround, permitting was achieved on Terronera, and we're continuing to focus on not only replacing reserves, but expanding our resources through our exploration programs.

I think our outlook for this year is a lot more positive. We're still only guiding pretty much breakeven operations on an all-in basis, but given that we still have almost two-quarters of turnaround yet to come on Bolanitos, I think we're happy with that achievement, and we do see Guanacevi and Bolanitos will be our core assets for several years to come as we go forward, generating free cash flow.

Our modeling this year was at \$17 silver, so the projections I made on breakeven for the year are based on \$17 silver, and anything above that is obviously gravy.

So, I think, Operator, that summarizes my comments, and why don't we open this up for Q&A?

**OPERATOR:**

Absolutely. 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. We will pause for a moment as callers join the queue.

Our first question comes from Joseph Reagor with Roth Capital Partners. Please go ahead.

**JOSEPH REAGOR:**

Hi, Brad and team. Thanks for taking the questions. First thing, just thinking about the overall process of the turnaround that you guys are in, maybe a feeling of what inning you're in and maybe what steps are left to get you to the finish line with these mines.

**BRADFORD COOKE:**

Given that we started the turnaround at Guanacevi in April, I think it's safe to say we're pretty close to the ninth inning on that one. But, Godfrey, where would you say we're at on Bolanitos?

**GODFREY WALTON:**

Hi, this is Godfrey. I would say we're probably around about the fourth to fifth inning in Bolanitos. We still have a lot of work to do ahead of us.

**JOSEPH REAGOR:**

Okay. Then, further on Bolanitos, obviously, your resource grade is quite a bit higher than the production grade expectations. Is this related more towards mine sequencing, is it related to the issues with the high arsenic, and what can be done to kind of bring the average grade up closer to resource grade?

**GODFREY WALTON:**

Last year, we had a lot of issues with the arsenic and worked at looking at the plant, and also at the mine, as to just how we could sequence that properly. I think we've got through that. We found some solutions in the plant, and we've also changed where we're actually mining in the mine, so that's changing mine plan, changing the plant processing. At this point, we're a little bit behind where we should be in development. Once we can get back on track on the development, I think you'll find that the grades will come back and be closer to our reserve/resource grades.

**JOSEPH REAGOR:**

Okay.

**BRADFORD COOKE:**

Joe, specifically, it was the arsenic issue that forced us to change the mine plan, because the concentrate off-takers, once we saw more than 1% arsenic in the cons, we basically said we're not going to take that. So, we actually had to stop mining our main stope for 2019, and try and quickly access other stopes which were lower grade, and, of course, falling throughput, falling grades, higher unit cost. We made all of the other changes in Q3, so new management, new equipment, new mine plan, and we're only halfway through this new mine plan.



We're still starving for high grade and only mine development, accelerated mine development will get us back on plan, and so that's why I said look to the end of Q2 for Bolanitos to emerge from this process.

**JOSEPH REAGOR:**

Okay, and then one final one, if I could, just on the debt financing for Terronera. Can you give us any additional details of what you think that might look like, given things keep changing in the overall markets?

**BRADFORD COOKE:**

We were invited to look at the euro bond market last year and we spent a lot of time and money looking at an offering, a \$100 million bond offering. As it turns out, the broker didn't clearly understand what the market was prepared to do for us, and so we didn't do that deal, and we're back looking at, really, two things, either some consortium of secured debt, subordinated debt and/or convertible debt, or a possibility to just go to full feasibility to reduce our cost of capital. We already have an estimate that it could be done this year, and for not a big cost, but that's jumping ahead, and we want our Project Manager to really do a full top-to-bottom review of Terronera and come back to us this quarter with his own personal recommendations. We know we have a GAAP analysis on things that still haven't been optimized. We know that the CapEx seems high, compared to what we did at Cubo seven years ago. So, there's still some work to do on final optimization, and the feasibility study might be the path to that, but let's wait until we get his recommendations.

**JOSEPH REAGOR:**

Okay, fair enough. I'll turn it over.

**BRADFORD COOKE:**

Thanks, Joe.

**OPERATOR:**

Once again, if you have a question, please press star, then one.

Our next question comes from Chris Thompson with PI Financial. Please go ahead.



**CHRIS THOMPSON:**

Hey, good morning, guys. I just want to dig into some details here, just looking at the operations, and just correct me if I'm wrong, but Guanacevi, I guess, you're currently producing at about 1,000 tonne a day in the Q4, the intention is to pick that up to about 1,200 tonne a day, and your costs right now are about \$132 per tonne milled. When can we see the turnaround? Can you be a little bit more specific on a quarter?

**BRADFORD COOKE:**

Dan?

**DAN DICKSON:**

Yes, Chris, Dan here. Nice to hear from you. Yes, we had direct production costs in 2019 of about \$135 per tonne. I think we've touched on this previously, even with yourself, and on previous calls. Historically, we've been down in the \$95 to \$100 range. Never thought we'd get there. Some of the things that went through on Q4, we're still at \$132, despite getting up to 1,000 tonnes per day, just some additional costs in our mobilization.

We've had some success at the Porvenir Cuatro extension, the land that we acquired, or concession that we—rights we acquired from a neighbour of ours, Frisco. So, we ended up expensing a lot of development into P4E, because we didn't have reserves and resources there. As of December 31, we ended up having a total resource base of 495,000 tonnes per day, so we'll be able to capitalize those developments going forward. We've already guided out in our 2020 guidance cash costs, and ultimately consolidated direct costs per tonne, and inside that direct cost per tonne, it's kind of back down to the \$100, \$110 range, which is what we've seen historically. So, we expect that to come.

Now, we do have a royalty on the P4 extension with Frisco. It's going to drive up our operating costs a little bit, if we end up doing more production out of there, but, ultimately, the margins out of that area will be significantly higher than those additional costs.

**CHRIS THOMPSON:**

All right, no, that's good. I'm going to ask the same sort of question for Bolanitos, Dan. Sorry, apologies, we probably—yes, I think we have discussed this before, but just (inaudible 16:34).

**DAN DICKSON:**

We have (inaudible 16:35)

**CHRIS THOMPSON:**

I mean, where do we stand on the tonnes and where do we stand on the costs there? I know they're a little—I guess you're a little short there. I think 1,250 tonne per day expectation there for this year at some point, and then your costs are still a little high end.

**DAN DICKSON:**

Yes, no, absolutely, and you'll see at Bolanitos, and anyone that's followed us, will see from Q1 to Q4, our costs rose each quarter at Bolanitos, and ultimately we ended up at the \$80 mark, which is the highest in the history of Bolanitos. Historically, we've always run in the mid-\$60s, kind of reached into the \$70s here and there, but ultimately drove back down into the \$65, \$68. On an absolute, like, growth basis, we spent actually a little bit less than we budgeted in 2019, but ultimately, again, it comes down to how many tonnes are going through the plant and driving that. We dipped to below 1,000 tonnes per day in 2019, I think in Q3 we were just over 800, in Q4 we were closer to 900, but, ultimately, not at that 1,000 or 1,000 tonne average we expected last year. Q2 or Q3, we should be hitting the 1,200, 1,250, and ultimately we've budgeted out about 1,100 tonnes per day over the course of the year, and that's going to drive us back down into either the low \$70s and ultimately, hopefully, into the high \$60s for 2020.

**CHRIS THOMPSON:**

Okay, thanks for that, and just, I guess, finally, on Compas, you seem to be there on the tonnes, correct me if I'm wrong, but I guess, you know, the 250 tonne per day mark there, but costs are—I mean, what is the correct costs? What do you see as far as steady state sort of operating costs per tonne?

**DAN DICKSON:**

Originally, in our economic study, we were always around the \$110 range. This year, we will between \$110 and \$120, is what we expect. Our first nine months of production at Compas wasn't as smooth, maybe, as we hoped. We got to that throughput, but there's always these little issues that we're working through with any new mine. We did switch out the contractor halfway through the year and there are mobilization fees with that, and we are going from a cut-and-fill method to a semi-longhole method in 2020, ultimately reducing contractors and increasing employee-operated from the mine site. We did a lot of sill development in 2019, so we'll be moving more to regular, like I say, semi-longholing, which should benefit us, and just less troubleshooting. We've moved gentlemen out of the plants, as well, and I think we have a team in place now that we can operate where we expected to operate from our economic studies going into this operation.

**CHRIS THOMPSON:**

Great. All right, thanks for the detail. I appreciate that, Dan.

**DAN DICKSON:**

No problem, Chris, any time.

**OPERATOR:**

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

**BRADFORD COOKE:**

Thank you, Operator, and thanks all for tuning in today.

We, obviously, had a challenging year last year. We hope that this is the last of the bad news we have to report, and as we go forward, hitting our marks for this year, we feel is critically important to seeing the stock perform. We have many other drivers of value, but, clearly, bouncing back from last year's operating underperformance is top of our list.

Secondly, obviously, we have the best organic growth profile in the silver sector, and getting Terronera through the next steps, and through the debt financing, so we can break ground, would be priority number two, to create value for stockholders, both short-and long-term.

Then, ultimately, in the latter half of this year, we hope to get back to drilling in Chile, where we have world-class prospects. The idea in Chile is that, instead of finding more relatively small high-grade ore bodies, as we've done so in Mexico, our attempts in Chile are to try and crack open a game-changer discovery, if you will, something that would secure a long-term mine life for the Company.

So, we are looking optimistically at 2020, and we certainly have a tailwind in the metal prices.

Thank you all for tuning in, and that's all from me.

**OPERATOR:**

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