

# Endeavour Silver Corp.

## 2018 Year End and Q4 Conference Call

### Transcript

**Date:** February 25, 2019

**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:**

Thank you for standing by. This is the conference operator. Welcome to the Endeavour Silver 2018 Year-End 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 Corp. 2018 Year-End Financial Results Conference Call. With me on the line today we have the Company's CEO Bradford Cooke, as well as our President and Chief Operating Officer Godfrey Walton, and our Chief Financial Officer Dan Dickson.

Before we get started, I'm required to remind you that certain statements on this call will contain forward-looking information within the meaning of applicable securities laws. These may include statements regarding Endeavour's anticipated performance in 2018 and future years, including revenue and cost forecasts, 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.

With that, and on behalf of Endeavour Silver, I would like to thank you again for joining our call today and I will now turn it over to our CEO Bradford Cooke.

**BRADFORD COOKE:**

Thanks, Galina. Welcome everybody to this year-end conference call and our 2018 financial results. I'd like to start with some of our financial and operating highlights, and then a brief discussion, and then we'll open it up for Q&A.



In 2018, the Company recorded a headline loss of \$12.5 million compared about \$10 million of earnings last year. I should point out right off the bat though that virtually all of that net loss was a noncash item related to depreciation and depletion of the reserves at our Guanaceví operating unit, and we did actually have a very successful year in resource conversion last year, so that the reserve tonnes at Guanaceví were actually up 150% and equivalent ounces were up 200%, meaning that we shouldn't have to face this depletion issue next year in 2019.

EBITDA was down 14% year-on-year to \$22 million. Cash flow from operations before working capital changes were down 6% to \$22 million. Mine operating cash flow was down a little bit, 3% to \$44 million, and revenue was relatively flat at \$150 million based on 5.5 million ounces of silver sold and 51,000 ounces of gold sold.

Our cash costs were flat on the year at about \$8 per ounce of silver payable net of the gold credit, and our all-in sustaining costs actually decreased 9% to about \$15.50 per payable silver ounce last year.

We finished off the year with working capital of about \$54.5 million, \$33 million of which was cash, and no debt.

Those financial metrics were really driven by slightly higher production and slightly lower metal prices. Our consolidated production costs drifted a bit higher last year, primarily due to operational challenges at one mine, Guanaceví, and it was offset partially by improved operating costs at El Cubo.

Guanaceví's issues last year were primarily trying to segue out of the deep, narrower and lower grade portions of our two original discoveries that we have been operating since 2005, and into the development of two new, shallower and higher grade orebodies at Milache and Santa Cruz Sur. I can give you an update on that. We penetrated the ore zone at the Milache development in the fourth quarter of last year and we have for some weeks now been shipping development ore to the mill. I think we're running about 200 tonnes per day of Milache ore to the mill at this time, and we expect that to reach the capacity of about 300 tonnes to 400 tonnes per day over the next quarter or so.

Our other development asset at Guanaceví is the Santa Cruz Sur orebody, and we did commence development in the fourth quarter. We do expect to contact ore in the second quarter and see that one in production in the second half of the year.

Guanaceví, we believe, is in the middle of a turnaround. We took some operating losses there last year that dragged down the consolidated performance of the Company, and to the development of these two new orebodies at Guanaceví, we do believe we can return Guanaceví to good financial health.

The El Cubo and Bolañitos mines continue to generate positive free cash flows in 2018, and we took most of those free cash flows and reinvested them partly at Guanaceví for the development of the two new orebodies, partly at El Compas to develop our fourth mine. We also had a \$12 million exploration spend last year, primarily at Terronera, and secondarily at Parral. Both of these projects are in the development pipeline. Terronera will be up next, and Parral, we hope will follow Terronera in 2021.

Some operating metrics: we had, folks, an increase in silver production last year to 5.5 million ounces. Gold production was relatively flat year-on-year at 53,000 ounces. Our equivalent production was about 9.5 million ounces. Some of the milestones for the year: Guanaceví achieved a million hours worked without a lost time accident, the first time it's done that. Bolañitos drilling returned multiple high-grade intersections from a new area we call the San Miguel Vein. We did update the prefeasibility study for the Terronera project late August last year and subsequently increased the Terronera mineral reserves substantially, so we are looking at yet another update of the prefeasibility study going forward. Parral was I think our biggest exploration project last year with very successful drilling and a significant bump in resources at Parral, primarily from the San Patricio high-grade vein area in that district.

El Compas, which we had originally scheduled for commissioning last year, ran into a number of start-up issues, and we are through them now, thankfully. The mill is back up and running a couple of weeks ago, and we have built a very healthy stockpile from the mine which continued to work while the plant had to sort out its operating issues. We now are forecasting that we should achieve commercial production at El Compas by the end of this quarter.

We had two major appointments in our senior management group last year with Nick Shakesby joining us as VP of Operations, and Manuel Echevarria appointed as our VP of New Projects. So, all in all, a busy year. It was really very much a transitional year for Endeavour as we move away from the older mines and into new mines.

Where I'd like to finish this presentation is just a high level overview of where we're going with the Company. We've enjoyed 15 years, believe it or not, of operations, starting with Guanaceví in early 2005. We had a very similar business model for our first four mines. Guanaceví, Bolañitos, El Cubo and El Compas were all basically small, high-grade mines in historic districts that were closed or about to close for lack of ore or financial issues, and in each case we recognized opportunities to restart those operations, restart the exploration, make new discoveries, fast-track the development of new mines, but ultimately grow those mines organically. That we could consider to be our first phase of organic growth.

The next phase of organic growth basically came about because the opportunity to pick narrow high-grade mining in Mexico became more and more challenging as time went on, so we just decided that if we couldn't buy we would have to find, and the fifth mine, Terronera, is the result of this change of strategy to go into, again, historic districts but without the built-out infrastructure, and look for virgin orebodies, build mines from scratch and effectively evolve our growth strategy.

We are in the final stages of commissioning mine number four at El Compas. We hope within weeks we'll be seeking a development decision on mine number five at Terronera. And Parral, which is still in the advanced exploration stage, will go to its first economic assessment this year with a view to following Terronera in our development pipeline.

I do believe, because of those three projects Endeavour actually has the most compelling organic growth profile in the silver mining sector.

We also announced in February of this year a large portfolio of drill-ready projects in Chile and that represents, again, the next phase of our organic growth profile as we move away from narrow high-grade mining and into what we hope will be new, larger open pit discoveries in Chile.

That's my summary of the year-end performance for Endeavour. I think what we'd like to do now is open up the call for questions.

**OPERATOR:**

Certainly. We will now begin the question and answer session. To join the question queue, you may press star, 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, two. We will pause for a moment as callers join the queue.

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

**HEIKO IHLE:**

Hey you guys, thanks for taking my question.

**BRADFORD COOKE:**

Hi Heiko.

**HEIKO IHLE:**

How are you doing? On El Compas, you mentioned in the release and also in the presentation that Galina has sent around earlier today that the El Compas commissioning has been delayed for a number of reasons. Just going through them one by one, can you give some detail on the excess clay in the ore that caused the recovery issue in the claim and the cash impact from this. I mean it sounds like the metallurgical study is ongoing. How much of a solution do we have and what are the longer-term impacts, please?

**BRADFORD COOKE:**

Heiko, I'll just give you a brief overview and then Godfrey can fill in the details.

In a nutshell, we discovered more clay in the ore when we started feeding the ore to the plant, so it actually bunged up each successive circuit. Initially it was crushing issues and then it was causing recovery problems in the flotation cells.

We managed to get through both of those and pushed the clay out into the tailings, only to have the clay block the drains in the tailings facility and that caused us to shut down, actually, in August and actually actively completely clean out the tailings facility and expand it so we can handle not only the clay but more material.

The other issue that we had recently was some breakages in the mill, and I guess for those two things I'd like to turn it over to Godfrey. Maybe he can fill you in on some details.

**GODFREY WALTON:**

Hi, Heiko. This is Godfrey.

**HEIKO IHLE:**

Hi, Godfrey.

**GODFREY WALTON:**

Yes, we did have those clay issues that went right through the plant and ended up in the tailings pond, and that was combined with very high rainfall and so we actually filled the tailings pond pretty quickly, and as Brad mentioned, we did shut it down and we've got it organized now so that we can handle, A, the water, if we get that much rain again, and B, the clay, we've got two settling areas to help settle the clay out of the tailings.

Then we had the trunnion on the mill break and we had to—that's the last thing that happened, so we had to recast that and that is now up and running. It's been running for about 10 days now. We expect to be able to continue with the mill, and as Brad mentioned, look at going and getting commercial production by the end of this quarter.

Recovery-wise, the clay did affect the recoveries. We are working on a number of ways to increase that recovery, and I think we will have a solution in the near future.

**HEIKO IHLE:**

Very helpful, thank you. On the same (inaudible 13:52) this might be a Godfrey question as well – can you provide some colour on the cost to the water issue in the tailings facilities? I mean it sounds like they've been resolved but, and also the cost impact from the (inaudible 14:03) shutdown of the ball mill. I assume you guys have stockpiled before rather than anything actually getting held up, correct?

**GODFREY WALTON:**

Yes, we stockpiled the ore. I think we have somewhere around 15,000 tonnes or maybe as high as 20,000 tonnes sitting in front of the plant. The cost was about \$400,000 to work on the tailings pond where we did a lot of work on that and prepared a lot for the future there, so it wasn't just looking at the clay. It was just looking at potential issues down the road. I think that's answered your question.

**DAN DICKINSON:**

Yeah, the last part—Heiko, it's Dan here. The last part is just the trunnion and to recast that trunnion with (inaudible 14:55) so additional costs of having staff because you cannot do layoffs, it doesn't make financial sense unless we're going to be down for more than three months, so we'd be (inaudible 15:10) at the operation. Other than that, there is no significant capital requirements. Like Godfrey said, it was about \$400,000 to \$500,000 on the tailings, and then the ball mill effectively was just small, but we didn't have that part and now we have that repaired part as well.

**HEIKO IHLE:**

Got it. Just a slight clarification, at Guanaceví—and I'm not sure if you're willing to answer this scientifically, but maybe just guide us in the right direction. You had a silver equivalent grade of 269 grams per tonne in 2018. In the presentation you mentioned that grades will rise this year—and you're probably not going to tell me the exact amount, but can you just sort of tell us where January and February, which is essentially over (inaudible 15:56) just doing the math at the 1100 tonnes per day and doing the same recoveries and everything else, I mean it looks like 280 grams, 285 grams per tonne. Is that about in line with what you're thinking?

**DAN DICKINSON:**

Yeah, Heiko. It's Dan again. It's looking—you're number there is a little bit higher than what's in our plan. Brad touched on it. Milache is going to bring up our grades this year. Milache is a higher grade zone, but we're not fully pulling from there. We're not getting—when we're at 300 to 400 we should see that grades come up into that area, but in Q1 we're going to be more in the 250, 240 range.

**HEIKO IHLE:**

Oh, no. I meant the 280 was for the full year. Is that in line with what you're expecting?

**DAN DICKINSON:**

Nope, it's still a little bit high for a full year.

**HEIKO IHLE:**

Okay, perfect. Thank you so much.

**BRADFORD COOKE:**

Thanks, Heiko.

**OPERATOR:**

Our next question comes from Joseph Reagor with ROTH Capital Partners. Please go ahead.

**JOSEPH REAGOR:**

Hi guys. Thanks for taking my questions. Heiko hit on some smaller items already, so I'll try to take the other approach of big picture. What are you guys thinking on the M&A front right now? I know there's a few companies that have announced that they're putting some Mexican assets up for sale, both on the silver and gold side, and then, you know, there's obviously some larger mergers going on in the gold space. Could that create some opportunities for you guys as well? What do you think there?

**BRADFORD COOKE:**

Thanks for your question, Joe. We are active on M&A, have been for many years, and if you look back we've actually pulled the trigger on six asset acquisitions in the last 15 years so we are active in this space.

We haven't yet done a corporate transaction but that's really for valuation reasons. We're pretty tough on—pretty disciplined, shall I say, on our valuations to acquisitions and our ability to add value post acquisition.

What are we looking for and would any of the current assets out there be of interest? Yes, we're looking at a couple of things. We typically would like to go up the ladder in terms of size and quality, and anything that we look at has to compete with what's already in our pipeline, so 50 million to 100 million ounces per year of silver equivalent reserve resource with ability to grow; 5 million to 10 million ounce per year production profile with ability to grow. Perhaps one of the most important things is that the first four mines that we bought in Mexico all basically had zero reserve life when we started and we've now been operating Guanaceví for 15 years and we're still running a one-year reserve life there as well as two or three years in resources. So, building Terronera with initially a 10-year plus mine life is very important for us, and anything we acquire we'd like to see a material mine life as well.

That's kind of our shopping list, and it is hard to find quality projects in the silver space, as you know. You just have to cast a very broad net and look at everything. We've kissed a lot of frogs in the last few years.

**JOSEPH REAGOR:**

Fair enough. Then other kind of big picture item, can you walk us through what the corporate plan is for financing Terronera, given that you're hoping to be in a position to make that construction decision soon?

**BRADFORD COOKE:**

Yes, Joe. I think there's actually two answers there because of the—we published a pre-feas in August of last year with a \$76 million Phase 1 CapEx, and our public guidance in our presentations was that we'd like to do \$50 million of debt and about \$30 million of equity, and there's \$30 million cash in the kitty right now and we have about \$30 million left on our ATM facility, so one could argue that once the debt's in place then we're good to go.

We are, because of the success in drilling last year, updating and optimizing the pre-feasibility study. We do think there's a bigger and better project there, so the CapEx number will probably move, and conceptually, if you included the Phase 2 from last year's PFS, we're looking at \$100 million in total CapEx, so conceptually we would like to see half of that as debt and the balance as cash and equity.

**JOSEPH REAGOR:**

Okay. Do you think it would be done all up front or kind of as you go so you can see how much cash flow you can generate along the way?

**BRADFORD COOKE:**

Well, it's been as we go so far because we don't yet have our final permit, but as soon as we have the final permit then we can go to the Board and get our development decision and then I think we would like to see either all or the larger part of the financing package in place. We hope to have a debt announcement shortly, and we'd also hope to have a permitting and decision announcement shortly; certainly looking for that this quarter, and then the financing will flow from that.

**JOSEPH REAGOR:**

All right. Thanks. I'll turn it over.

**OPERATOR:**

Once again, if you have a question, please press star, one. Our next question comes from Chris Thompson with PI Financial. Please go ahead.

**CHRIS THOMPSON:**

Hi. Good morning, guys. A couple of quick questions; a number of my questions have been asked. Just looking at the assets here, starting off with Bolañitos, you guys did about—looking at grade here—82 gram per tonne silver and 1.77 gram per tonne gold in the fourth quarter. What should we be looking at for this year by way of grade?

**BRADFORD COOKE:**

Godfrey?

**GODFREY WALTON:**

Hi Chris, thanks for the question. We're looking at very similar grades as we did in the fourth quarter. These should be the same.

**CHRIS THOMPSON:**

Great. At about 1200 tonne a day?

**GODFREY WALTON:**

At around 1200 tonnes a day, yes, that's correct.

**CHRIS THOMPSON:**

Perfect, all right. Just moving on to El Cubo. Obviously you guys are guiding that you're going to be reducing I guess the throughput output to 750 tonne a day. What should we be sort of modelling by way of stepping down to that as far as timelines?

**BRADFORD COOKE:**

Chris, thanks again for your question, and our announcement that we're going to half the plant capacity is intended primarily to buy more time for the exploration group to replace this year's reserves, but for modelling purposes one year at 750 tonnes per day will have to do for now.

**CHRIS THOMPSON:**

All right, thanks Brad. Then just Guanaceví, I get this right, you're basically—you're pulling in ore from Milache. You've got Santa Cruz as well. Is Porvenir also supplementing the production from the asset? Porvenir Norte?

**BRADFORD COOKE:**

Yes. Dan probably has the better breakdown on that.

**DAN DICKINSON:**

Yes, no problem. I'm happy to answer that question (inaudible 23:42) in front of me, but I do have it. Santa Cruz and Porvenir Norte are a big chunk of it right now, probably about 800 tonnes, 200 tonnes coming from Milache. Porvenir Norte in itself is about 250 tonnes per day and the remainder coming from Santa Cruz. Then when Santa Cruz Sur comes online, that will be about another 200 tonnes to 300.

**CHRIS THOMPSON:**

Perfect, great. Final question. Actually, final one of two. You've got stockpiles obviously at El Compas. Can you give us a sense of grade on those?

**BRADFORD COOKE:**

Godfrey?

**GODFREY WALTON:**

Yes. Thanks, Chris. The grade is sitting somewhere in the order of 3 to 4.5 grams per tonne gold.

**CHRIS THOMPSON:**

Great, all right. Final question. Obviously just looking, I guess, you guys are sort of neutral on the cash flow from operations before working capital adjustments in the fourth quarter. At current metal prices, do you see that being the case for much of this year?

**DAN DICKINSON:**

At today's prices? No. We should see an improvement for most of the year, and really, it's going to stem from Guanaceví and making sure we can hit our production tonnes at Guanaceví and with Milache and Santa Cruz Sur coming online that should help. Then obviously prices of gold and silver have increased since the Q4 averages, so we should get a little bit of a pick-up there as well.

**CHRIS THOMPSON:**

Great, all right. Okay, guys. Thanks for answering the questions.

**BRADFORD COOKE:**

Thank you for the questions, Chris.

**OPERATOR:**

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

**BRADFORD COOKE:**

Thanks, Operator. I think I just want to say that it was a challenging year last year in the silver mining business for all operators. I think we came through it reasonably well, and we are looking at a much better year in 2019. Operationally, it's critical that we do three or four things well this year: finish off the development to turn Milache and Santa Cruz Sur to turnaround the Guanaceví operation; finish off commissioning so that we have a commercial operation at El Compas; getting our final permits and financing in place so we can start building Terronera; and, obviously finding more reserves at Bolañitos and El Cubo. I think that we've got a good start to the year and don't be surprised if we do find something on the M&A side.

With that, I'd like to close the call. Thank you.

**OPERATOR:**

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