

# Endeavour Silver Corp.

## 2017 Q4 and Year End Conference Call

### Transcript

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**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 Corp. 2017 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. 2017 Year End Financial Results Conference Call. With me on the line today we have the Company's CEO, Brad Cooke, as well as our President and COO, Godfrey Walton, and our CFO, 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.

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

**BRADFORD COOKE:**

Great. Thank you very much, Galina. Welcome all to this year end financial results conference call. I think today what I'd like to start with is just a brief overview of our finish to last year, then I'll move on to the quarterly and full-year operating and financial highlights, and then we'll wrap up with our outlook for this year including our guidance and some catalysts to drive the value for the Company going forward.

Without further ado, I guess the place to start is that most of you know we had a tough year of operations last year, but we did finish the year with three consecutive quarters of improving production and falling costs, and the fourth quarter was our best quarter of the year. Ore grades and throughput both improved throughout the second half of last year, and our silver equivalent production did meet both the high end of our revised guidance and the low end of our original guidance for 2017.

Overall, we worked really hard last year to turn a year of challenges—as I mentioned, some operating issues at the Guanaceví mine—into a year of opportunity, and I am pleased to report today strong growth in our net earnings, up 148% to almost \$10 million or \$0.08 per share on 2017 full year earnings. That's notwithstanding slightly lower revenues compared to 2016. In addition, our financial performance in Q4 was up across virtually all of the financial metrics compared to one year earlier, and we did reduce our operating costs throughout the year and we are expecting that trend will continue in 2018.

On to our fourth quarter performance. Our silver production was up nicely to 1.4 million ounces of silver; gold came in around 15,000 ounces, just shy of 15,000 ounces in the fourth quarter, for silver equivalent production of about 2.5 million ounces in Q4 based on a 75:1 silver/gold ratio. That drove earnings in the fourth quarter of \$2.7 million or \$0.02 a share compared to a loss in the comparable quarter 2016. Our EBITDA was up during the quarter, cash flow was up, operating cash flow was up and revenue also up compared to the fourth quarter 2016.

Cash costs declined in the quarter to just below \$8 per ounce, and our all-in sustaining cost decreased 37% to \$12.70 per ounce silver payable in the fourth quarter.

Moving on to our full year performance, we had, as I mentioned, lower production than we had originally forecasted, but not a whole lot lower. Thankfully we were able to recover and see rising production in the last three quarters of the year at the three mines.

Silver production came in at just shy of 5 million ounces, 4.9 million ounces. Gold production last year was 53,000 ounces for silver equivalent production of 8.9 million ounces, again at a 75:1 silver/gold ratio, within the high end of our revised guidance.

We did complete a prefeasibility study at our Terronera project and advanced it towards a production decision including almost a full year of engineering trade-off studies. We did receive the permits from the Government of Mexico to build the mine and plant at Terronera. We are, however, waiting for two more permits, the final permits for the waste dumps and tailings. We expect those in the second quarter this year.

We also completed a Preliminary Economic Assessment on the El Compas project which will become mine number four. It's in a very advanced stage. We made a production decision and began construction in September. We'll see initial production in April and commercial production by the end of July.

We aggressively explored our Parral project in the state of Chihuahua, and published a maiden resource estimate for two new areas on our Parral property.

Once again, we received our socially responsible company awards for Bolañitos and El Cubo.

That drove a pretty sharp increase in net earnings last year, \$9.7 million, up 148%. EBITDA, cash flow and revenue were all slightly lower last year due to the lower throughput and realized prices were almost comparable to the year before.

Cash costs were up sharply and the all-in sustaining costs were up sharply on the year, largely because of the operating problems at Guanaceví. Most of those are now behind us, but we do have a two-quarter ramp-up to normalize the operations, and we did actually launch a productivity optimization program in early January at Guanaceví to make the most of our recovery there.

Working cap, finished the year at \$66 million and cash was around \$45 million. No debt. We paid off all of our debt last year.

That's really the highlights of today's news release, the Year End Financial Report. What I'd like to do is just briefly comment on our outlook for this year.

As you know, in February we announced a sharp increase in our proven and probable reserves. That was largely due to the conversion of M&I resources at Terronera.



So M&I resources shrank last year but inferred were up sharply and that's largely due to the new discoveries at Parral. That kind of reserve and resource growth I think will allow us to deliver more consistent and positive results going forward, including 2018 where we've guided now an increase of about 20% production, silver equivalent production on the year, and we're guiding 5.8 million ounces to 6.4 million ounces of silver production this year and 58,000 ounces to 64,000 ounces of gold for 10.2 million ounces to 11.2 million ounces of silver equivalent. So, a nice growth forecast in production this year and an attendant drop in both cash and all-in sustaining costs as a result of the higher production.

Each mine actually is expected to contribute to this year's growth of production, and we're forecasting not only higher production at the three mines but slightly lower costs. El Compas, our fourth mine, will start contributing in the third and fourth quarters, and so that's another tranche of production to help this year's forecast and going forward.

We are looking forward to a much better year this year. As I mentioned, higher production, lower costs, and Guanaceví in particular should continue to improve as it completes its recovery from the operating issues last year. Bolañitos and El Cubo both actually had better than planned increases in production last year to help stabilize our production given the shortfalls of production from Guanaceví last year. So when we look at a quarterly breakdown of the 2018 production this year, we will have a similar pattern to last year, with a slower start to the first quarter production but ramping up through the year, not only with stabilization of production at El Cubo and Bolañitos, but with the addition of El Compas in Q3.

With that, I think we can comment that there are some very significant potential material developments coming to catalyze shareholder value in the near term, not the least of which is the completion of construction and commissioning of production at El Compas; the release of an optimized prefeasibility study for Terronera and a possible production decision; receipt of final government permits for Terronera and a possible debt financing to facilitate construction; additional exploration results as we move Parral from exploration into hopefully early stage permitting and economic assessment by the end of the year; and last but not least, we're still very active on the M&A front, trying to build out our development project pipeline.

All in all, 2018 should be a rewarding year for Endeavour; outlining our commitment to ensure both the sustainability of our current operations while investing in our development pipeline to fuel our future growth.

Those are my comments. Operator, let's open it 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 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.

The first question comes from Heiko Ihle of H.C. Wainwright & Co. Please go ahead.

**HEIKO IHLE:**

Hey guys, thanks for taking my question.

**BRADFORD COOKE:**

Good to hear from you, Heiko.

**HEIKO IHLE:**

Thanks for doing this on a day when there isn't too many earnings calls. As an analyst, these things get very crowded sometimes and I appreciate you guys doing this on a Monday.

**BRADFORD COOKE:**

Dan had it planned months in advance.

**HEIKO IHLE:**

Okay, so cash and equivalents as of December 31 were \$38 million. That's down from \$72 million at the end of '16. Obviously you paid back your credit facility, but regardless of that, the figure is quite a bit lower than where it was. It's now the end of February, in other words Q1 is almost over. Can you just sort of guide us towards your anticipated and your ideal cash flow for the end of Q1 and also for the end of the year? I don't know how much you're willing and able to disclose on that.

**BRADFORD COOKE:**

Maybe I'll invite Dan to comment.

**DAN DICKINSON:**

Yeah, Heiko. For the end of Q1 we expect to be kind of in a similar pattern and in cash flow it's coming from our operations we're putting back in through either exploration or into Compas to finalize that build.

As far as come to the end of 2018, we expect to be higher from where we are now. We put out guidance around to our operating costs but we don't give out guidance on earnings and total cash flow or absolute cash flow, but I think it's very safe to say you can kind of get there with all the calculations of what we put out. We will be higher, provided prices stay where they're at and we can execute on our plan.

**HEIKO IHLE:**

So saying you expect to be at \$35 million to \$40 million at the end of Q1, would that be fair?

**DAN DICKINSON:**

Yes, absolutely.

**HEIKO IHLE:**

Okay, very good. What's the minimum level here where you would say you would feel comfortable, especially given that the internal growth that we're seeing in your projects that you already own, even moreso since Brad was earlier saying that they remain active in M&A earlier in this call?

**DAN DICKINSON:**

From a cash standpoint, we're comfortable where we're at. Obviously everybody likes to have cash balances that are higher. It's going to come down to when we make a production decision on Terronera and how we're going to be able to fund Terronera and what debt terms look like because we were trying to make sure that we have a project loan for that project and it's tying that in. So, when we come to a decision point on Terronera, we'll have to kind of look at all the balancing act of how much cash we want to carry in the bank. Obviously we're comfortable with what we have now and if we have positive cashflow we'll only get more comfortable. But when we're finished our optimized PFS on Terronera, we'll reassess that, and obviously reassess as the year goes on of where we see prices going or where they've gone.

**HEIKO IHLE:**

Got it. Also, speaking of M&A, are you guys seeing many opportunities at all? I mean I speak with a lot of folks and they all keep complaining about the high prices and the lack of real opportunities even with the peso at 18.6 and silver at 16.5. What are you seeing? Should we be surprised to see you guys consummate something before the end of the quarter, or the end of April?

**BRADFORD COOKE:**

Heiko, it's Brad. Thanks again for your question, and obviously we can't comment on any specific M&A activity, but in general, you've seen a fall-off of activity in the gold sector and almost no activity in the silver sector, specifically because of the lack of quality projects or companies available for acquisition. Therefore, we've taken two strategic approaches to our M&A program. One is to dig deeper and see if we can find hidden nuggets where other people aren't looking. The other is through the drill bit. So, not really M&A but exploration, and Terronera I think is the best example of that. We're hoping that we can come up with another Terronera through exploration and another acquisition by digging deeper in places where people aren't looking.

**HEIKO IHLE:**

Perfect. You know, you guys have done a great job. Keep it up. Thanks for taking my questions.

**BRADFORD COOKE:**

Thank you.





**OPERATOR:**

Once again, if you have a question, please press star, then one to join the question queue.

There are no further questions at this time. I would like to turn the conference back over to Mr. Brad Cooke, CEO, for any closing remarks.

**BRADFORD COOKE:**

Well, thank you very much, Operator. Thank you all for attending today. I think we have a very exciting year ahead of us with not only immediate growth but long-term growth through the development of Compas and Terronera. Stay tuned. I think each quarter will bring more advances to our program here, and especially the first and second quarters with Compas coming on by April with initial production and Terronera hopefully being in a position to break ground by the end of the second quarter; that would be wonderful news for the stockholders.

With that, thank you all.

**OPERATOR:**

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