

Endeavour Silver Corp. Second Quarter 2016 Earnings Conference Call Transcript

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Speakers: **Meghan Brown**
Director, Investor Relations

Dan Dickson
Chief Financial Officer

Godfrey Walton
President and Chief Operating Officer

Bradford Cooke
Chief Executive Officer

OPERATOR:

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

MEGHAN BROWN:

Thank you operator. Good morning everyone and welcome to Endeavour Silver Corp. Q2 Earnings Conference Call. On the call today we have the Company's CFO, Dan Dickson; as well, our President and COO, Godfrey Walton.

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 2016 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. The Company does not intend to and does not assume any obligation to update such forward-looking statements or information other than as required by applicable law.

With that, I will turn the call over to Dan Dickson.

DAN DICKSON:

Thanks Meg, and thanks for everyone attending our Q2 conference call. I think the first six months we've seen a significant change in the precious metals sector. A lot more flow of funds coming into the space is absolutely reflected in the prices. We've reached \$1,386 per ounce gold and just under \$21 per ounce of silver.

Q2 for us was what we see as a very successful quarter. Subsequent to the quarter end, we raised our 2016 production guidance to 9-9.8 million silver equivalent ounces. We increased our capital budget to \$17.4 million, and our exploration budget to \$10.1 million to accelerate our

growth projects and hopefully drill about 23,000 metres in the second half of 2016.

In Q2 our net earnings rose to \$1.7 million compared to last year's loss of \$1 million. EBITDA decreased 7% to \$10.1 million. Our cash flows from operations before working capital changes decreased 15% to \$9.4 million, and that's just a function of lower production with lower prices compared to the prior year. Cash costs though decreased 38% to \$5.37 per payable silver ounce and our all-in sustaining cost decreased 38% as well to \$10.53 per payable silver ounce.

Additionally in the quarter, we completely restructured our balance sheet; we restructured our debt and currently owe \$14 million, and we raised net proceeds of \$31 million in Q2 2016 through our second ATM offering. Subsequent to quarter end, we completed the second ATM offering, raising an additional \$14 million in July.

Cash increased 178% to \$57 million at the end of Q2 and our working capital increased over 300% from year-end to \$72.1 million at the end of the second quarter.

Additionally in the quarter, we announced the acquisition of the El Compas property, May 31 of this year. It's a small project in Zacatecas that we see as a near-term production target. We've got some drilling and we're going to put a PEA on it that we announced July 11. Additionally, we continue to focus on advancing the Terronera project, focusing to deliver a PFS by the end of this year.

With that, operator, it's probably most useful at this time to open up to questions to our shareholders. We have Godfrey Walton here with me to help answer any questions from our operations or financial questions by myself.

OPERATOR:

Thank you. The first question is from Jessica Fung of BMO Capital Markets. Please go ahead.

JESSICA FUNG:

Hi. Good morning, guys.

DAN DICKSON:

Good morning, Jessica.

JESSICA FUNG:

Just wanted to get a couple of I guess just sort of small details from you guys. Bolañitos, what do you expect your mining rate to be there in the second half of the year.

GODFREY WALTON:

Hi Jessica. This is Godfrey. Thanks for your question. We're looking at the next month or so at about 1,500-1,600 tonnes a day, and that will gradually drop down to 1,000 tonnes per day, and that's what we expect to finish the year on.

DAN DICKSON:

We did announce that it was going to be—in the updated guidance we had the basis that we'd be running between 800-850 tonnes per day but we've had some historical stockpile underneath the stockpile that we had before we acquired it. We've been able to run additional material through the plant at relatively low cost.

JESSICA FUNG:

So is this stockpile being processed included in your guidance of 1,500 down to 1,000?

GODFREY WALTON:

Yes.

JESSICA FUNG:

Okay. Got it.

GODFREY WALTON:

So that's why it's a bit higher than the numbers we put out in July 11.

JESSICA FUNG:

Okay. Got it. Can you give us some indication as to the work you're going to undertake at El Cubo, in the second half of the year, maybe heading into next year?

GODFREY WALTON:

We have a zone down below where we've been mining and we will be ramping down in-vein to get to the bottom of that and then we'll actually mine back up and so that's what going to keep El Cubo open through the balance of this year and into next year.

JESSICA FUNG:

Okay.

GODFREY WALTON:

We're also doing a lot of looking around in Santa Cecilia where we've actually found some other areas that have been not mined, and we are looking at being able to start mining in there, which is why, A) the tonnage will come up from what we had originally forecast; and B) extend it into next year.

DAN DICKSON:

From a more long-term standpoint, we announced with that revised guidance that we're evaluating different plans to be able to ramp back up to 1,500 tonnes per day. Those evaluations are still ongoing so there's not a lot that we can say around that at this point.

GODFREY WALTON:

Yes. Right now we're looking at—if you look at the current plan it takes it down to about 1,000 tonnes per day by October or November this year, but there are a lot of options we have that we're looking at to continue at 1,500 tonnes per day, which is what we said we had aimed to do.

JESSICA FUNG:

Okay. I guess at El Cubo, given the change in not switching to care-and-maintenance, was there any development that had been slowed down in the first half of the year that you guys need to catch up on?

GODFREY WALTON:

We weren't doing any development in the first half of the year, except for a little bit in-vein. In fact, the development that we're going to be doing in the second half of this year will also be in-vein and that's how we will be able to extract that lower section of ore that we didn't expect to get this year.

DAN DICKSON:

With that additional development this year, it will allow us to get through year-end and into effectively 2017, but announcing the capital program for 2017 will come early 2017, if that's the case.

I'm guessing, Jessica, you're trying to drive to what do we think production will be or what our throughput rate will be for 2017, it kind of sounds like, if we're not going on care-and-maintenance.

JESSICA FUNG:

Yes, just to get a sense of how far ahead you guys were in terms of development in the first half of the year when you initially decided to go on care-and-maintenance. So, if you guys were still ahead a little bit or if there was a lot of catch-up to do, and I guess with the \$1.6 million and the capital spend and some on exploration as well, whether you'd be all caught up by sort of year-end.

GODFREY WALTON:

No. We'll need to spend some more and that's part of the planning that we're doing already for 2017, just what will we need to spend in development so that we can continue mining in 2017 and beyond.

JESSICA FUNG:

Okay. Got it. Finally, one last question on El Compas. Just wanted to know if you guys are planning to do a PFS level study and if you can give any guidance in terms of the development timeline there.

GODFREY WALTON:

Thanks again for all the questions. In August we're planning a drill program starting up and we need to do quite a bit of drilling before we can actually complete the PEA or PFS level report. We've got engineers going to site in August as well, so all of that met work and mine planning will be done during the fall here with the idea of getting a report out by the end of the year with a new resource and new plans. So, we don't expect to be developing anything until we have Board approval and we have all our permits in place.

DAN DICKSON:

The distance, according to the historical resource, is about 600 metres of ramp that would be required to get to the orebody once we go into a production decision, and then obviously development inside that orebody as well. So it's not a long drive that would be required so we could probably—if we can come to a decision by the end of the year or early 2017, we expect production mid-2017 from El Compas.

JESSICA FUNG:

Perfect. All right, thank you very much, gentlemen. I'll follow up with you guys afterwards if we have additional questions. Thank you.

DAN DICKSON:

Thank you, Jessica.

GODFREY WALTON:

Thanks, Jessica.

OPERATOR:

As a reminder, if you have a question, please press star, then one. The next question is from Chris Thompson of Raymond James. Please go ahead.

CHRIS THOMPSON:

Hey, good morning guys. Congratulations on a good quarter. A couple of quick questions here. We'll start off with Bolañitos. Just looking at the grades for Bolañitos in Q2 here, what's the potential for picking up on those grades, or is that what we should be modelling for the near and medium term?

DAN DICKSON:

Hey Chris, thanks for the question. Thanks for the compliment about the quarter.

At Bolañitos, these are the grades we expected. So we expect a big drop in our silver grades going into La Luz and Plateros, and for those listeners out there, our Q2 grades were 80 grams silver per tonne and 2.4 grams of gold per tonne. Q1 was actually similar; I think it was 93 grams per tonne silver and 2.33 grams per tonne gold. This is what we had modelled for the

year and this is kind of the expectation going forward. I don't know if, Godfrey, do you have any clarity of what we're seeing currently?

GODFREY WALTON:

No. Those are the numbers that we are seeing. We knew all along that La Luz was going to be a lot lower silver grades but higher gold, and that's what we're seeing. So, we don't expect any change for the balance of the year. We'll use up the stockpile there in August and then it'll settle into those grades and a few lower tonnes.

CHRIS THOMPSON:

Right. Beyond that, what does the mine plan call for beyond La Luz?

GODFREY WALTON:

Well, we're going to be starting development into Plateros, which we announced in July, and the grades there are actually a tad lower than we're seeing in La Luz. But we're also picking up a lot of material from some of the old workings and things like that which we're adding in. We're getting up to 5,000 tonnes a month to add into the production.

CHRIS THOMPSON:

Okay. All right. Just moving on then again to—actually, just staying with Bolañitos, you say you're going to be dialling back the throughput to 1,000 tonnes a day, and you see that as steady-state 2017 and onwards?

GODFREY WALTON:

Yes. It'll bounce around. It will go as low as about 900 but it will go up to 1,200. So, steady-state around 1,000, yes.

CHRIS THOMPSON:

Okay, then moving quickly onto El Cubo, again a grade question. Good grades obviously in Q2. Are they sustainable at these sorts of levels? Is that what you guys are modelling right now on a sustainable basis?

GODFREY WALTON:

Yes. Yes, we are, Chris. We've got a good program to even out the high grades/low grades.

DAN DICKSON:

For the rest of our listeners, our grades at El Cubo have significantly come up. We had 150 grams per tonne silver and that's a function of bringing the Villalpando discovery onboard and a lot of the production coming from there, and then that's part of the reason why we're developing lower into Villalpando because the grades are consistent to what we're seeing now. With these higher grades and slightly higher prices, this has made El Cubo operating at a profit, effectively for the first time for Endeavour in the last two years.

CHRIS THOMPSON:

All right, excellent. Then finally just El Compas, I mean so you mentioned the previous—I think Jessica was talking. You were talking about a PEA/PFS there as far as economic study. Idea of timeline for that?

GODFREY WALTON:

We expect to have it completed by year-end. The big question mark is how much drilling we have to do to upgrade the resource. We will be infilling that resource and getting it to a PFS level, and then we can decide whether we go with the engineering to PFS level or whether we just stay with a PEA.

CHRIS THOMPSON:

Okay. So is it just a matter of resource refinement more than resource addition or growth at the moment, Godfrey?

GODFREY WALTON:

We're doing both, actually. We're going to refine it, so we're going to do some infills, and we'd also like to expand it. There are a number of targets that we have on the property that we think have good potential but have never been drilled.

CHRIS THOMPSON:

Then just on the resource, I mean what sort of—how many tonnes, I guess, give you the comfort to make a positive development decision? What are you looking for to pull the trigger on this?

GODFREY WALTON:

I'd like to have a sort of five-, six-year mine life at this point, with the idea that we'd find more as we continue on.

CHRIS THOMPSON:

Okay. Then what sort of operating margin at current metal prices would you be looking at?

DAN DICKSON:

I think from an overall NAV standpoint, our hurdles to clear will be about 20% IRR rather than getting into what the margins will be without having gone through that study yet. That's typically what we've talked to at the Board level so far, Chris.

CHRIS THOMPSON:

Great. Okay guys. Congratulations. Thanks for the answers to my questions.

DAN DICKSON:

Thank you.

GODFREY WALTON:

Thanks, Chris.

OPERATOR:

The next question is from Howard Flinker of Flinker & Company. Please go ahead.

HOWARD FLINKER:

Hello everybody.

DAN DICKSON:

Hello Howie.

HOWARD FLINKER:

Hey guys, how much of your decline in costs is attributable to a reduction of the peso?

DAN DICKSON:

About 18% of our costs, so on a cash cost basis we dropped 38%. Half of that essentially is related to the peso basically going from—last year we averaged just under 17:1 US dollars and now we're, in the quarter averaged 18.5; right now, we're bumping up against 19.

HOWARD FLINKER:

Okay, thanks.

OPERATOR:

There are no more questions at this time. I would now like to turn the conference over to the CEO, Bradford Cooke, as he has recently joined us.

BRADFORD COOKE:

Hi all. It's Brad here. I just wanted to say that we've come off a pretty good half in terms of our financial and operating performance and we're looking forward to a number of catalysts for additional performance in the second half. We've already bumped our production guidance for the year. We're well ahead of our cost guidance for the year. In terms of what's going to keep us busy in the next six months, clearly the permitting of a new mine Guanacevi and the developing of a new ore body at Bolañitos are material for our short-term outlook. We're evaluating and in fact already working on a production ramp up back to the 1,500 tonne per day mark at El Cubo. Obviously, there's going to be exploration results from all projects across the board going forward, and we're looking forward to our year-end updates on reserve and resource estimates, the engineering studies at Terronera and El Compas, and adding to our land position at Zacatecas. So, a pretty full plate of activities to drive value in the second half.

Anyway, on that note I'd like to thank everybody for dialling in and stay tuned for the third quarter.

OPERATOR:

Pardon me. We do have one more question from Mr. Anil Nimmatadeka, a private investor. Please go ahead.

ANIL NIMMATADEKA:

Mr. Cooke, this is Anil from the United States. I wanted to ask you and your team if you're

hedging silver or if you are selling it at spot price.

BRADFORD COOKE:

We don't as a matter of policy hedge. Thanks, by the way, Anil, for your question. Did we meet in New York last week?

ANIL NIMMATADEKA:

I wish. No, we didn't.

BRADFORD COOKE:

We don't as a matter of policy hedge, but from time to time and intraquarter we have a sales strategy to either accelerate sales or hold back sales. We do that only from time to time. But generally, no hedging.

ANIL NIMMATADEKA:

Okay. Thanks a lot.

BRADFORD COOKE:

Thank you.

OPERATOR:

This concludes the question and answer session. I would like to hand it back once again to Mr. Brad Cooke for closing remarks.

BRADFORD COOKE:

Thank you all for attending and looking forward to a very good third quarter.

OPERATOR:

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