

# **Endeavour Silver Corp.**

## **Terronera PFS Conference Call and Webcast Transcript**

**Date:** August 30<sup>th</sup>, 2018

**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 Terronera PFS Webinar. 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, Investor Relations. Please go ahead.

**GALINA MELEGER:**

Thank you, Operator. Good morning, everyone, and thank you for joining our special event conference call, which marks a significant milestone for the Terronera project. Today we will be conducting a deep dive of the asset and helping our investors understand the significantly improved operating parameters for this exciting project.

We are particularly proud to report the results released today as there's really a scarcity of quality mining projects available and this was one that we discovered and advanced ourselves based on Management expertise.

I would like to remind you that you may follow along on the webcast presentation that is posted on our website and review the accompanying technical report that will be filed on SEDAR and EDGAR within 45 days of this news release.

This webinar is specifically related to the 2018 Terronera PFS and the updated mineral reserve and resource estimates that we released this morning. You will hear directly from our Management Team today and have this venue as an opportunity to ask questions, additionally, in regards to yesterday's news release, on our Companywide Austerity program and an update on the El Compas project.

To get right into it, with me on the line today we have the Company's Chief Executive Officer, Brad Cooke; our Chief Financial Officer, Dan Dickson; and our Chief Operating Officer, Godfrey Walton.



Before we get started, I'd like to turn over the call to our CEO, Bradford Cooke, for preliminary remarks.

**BRADFORD COOKE:**

Thanks, Galina, and, again, welcome, everyone, to today's call. Today's news actually represents a big step forward for Endeavour Silver. The Terronera mine project is not only our first greenfields discovery, it will be the first mine we build from scratch. Since releasing the additional prefeasibility study more than a year ago, our exploration group has been actively infilling the resources to update and expand (phon), and our development group and consultants have been very busy analyzing engineering alternatives and trade-off studies to optimize the mine and plant.

The fruits of our labours can be seen in the very positive updated PFS release today with larger and higher grade reserves, lower operating costs, and better financial returns. Galina has actually prepared a 20-minute webinar presentation for Godfrey and Dan to walk you through the details of the Terronera mine project today. For those of you who've already downloaded the presentation, you can see the front cover photo shows a diamond drill testing an extension of the high-grade La Luz vein. Interestingly enough, this photo also shows the east end of our proposed plant site.

With that, I'd like to pass the call back to Galina for the webinar presentation.

**GALINA MELEGER:**

Thank you, Brad. I certainly agree that investors are equally upbeat and positive on this news.

Moving to Page 2, I'm required to remind you that certain statements on this call will contain forward-looking information within the meaning of applicable securities laws. Such forward-looking statements and information includes, but is not limited to, statements regarding Endeavour's anticipated performance in 2018; the timing and results of various future activities; the reliability of mineral resource estimates; and the economic analysis and proposed development of the Terronera mine. These may include 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.

Moving on to Slide 3, for a high-level overview of the Company, we are a mid-tier precious metals producer with four operating mines in Mexico at a \$300 million market cap on the U.S. side. We've operated in Mexico for 14 years and currently employ approximately 1,600 employees. We are targeting to produce 10.2 million to 11.2 million ounces of silver equivalent metal in 2018, have a strong balance sheet with \$59 million in working cap and no debt at this present time.

A few months ago we arranged for an ATM facility in the amount of \$35.7 million to advance the Terronera project and it will fund the equity portion of the CapEx. Additionally, we are thrilled with the portfolio of projects that we've assembled to fuel future growth.

On Slide 4, and jumping right into the assets, Terronera represents a district scale exploration and mining opportunity and has the potential to become our next core asset and Mine Number 5. Terronera is located in Jalisco state, Mexico, near a town called San Sebastian, which is about a 1.5-hour drive from the resort town of Puerto Vallarta.

We acquired the property in 2010 from Grupo Mexico, which is one of the largest mining companies in Mexico. We commenced exploration in 2011, discovered the Terronera ore body in 2012, and then exercised our option to acquire 100% interest in the property shortly thereafter in 2013, realizing the potential of the deposit.

From 2014 onward, it was off to the races. We consolidated the line package, conducted extensive drilling to expand our resources, and completed two studies, including a PEA and an initial PFS. The total purchase price for this asset was \$2.75 million in cash, subject to a 2% MSR. This type of transaction is typical of Endeavour's business model, and taking advantage of downturns and commodity cycles to make strategic acquisitions to create shareholder value. We currently have a sizable land package of over 1,600 hectares with a tremendous amount of exploration potential in and around the property.

With that brief introduction, I'll now pass it over to our COO, Godfrey Walton, to discuss the property geology on Slide 5.



**GODFREY WALTON:**

Thank you very much, Galina, and welcome, everybody. I'm actually calling in from Compas in Zacatecas, Mexico, so hopefully everybody can hear clearly. I'll going to touch on a few more details of geology and resources and reserves.

But on Slide 5, on the right-hand side you can see the property map and see all the concessions that we own. The red lines are the veins within the property that we've discovered so far, with Terronera vein on the western side of the property map. The Terronera property is part of the Sierra Madre volcanic belt where most of the gold and silver properties, deposits, mines in Mexico's are located, so it's a very prolific belt. This part of it has not been active, really, since 1910 when the Mexican Revolution happened.

We've really started working here, is Galina mentioned, in 2010, and we've had some very good success and we're very excited about not only the Terronera vein but the potential within the district. We're looking at low sulphidation epithermal vein systems, and typically they are horizontal bodies which have quite extensive horizontal distances and more limited vertical distances. In that case, Terronera currently is about 400 metres vertically; width-wise you're looking at 2 metres to 8 metres thickness, but thicknesses up to 30 metres in places.

As we move on to Slide 6 you can see a picture of some of the mineralization there. Those black lines on that piece of rock there, the argentite and pyrite that are hosted within the quartz-calcite-barite-adularia vein. This is really amendable to flotation and that's our plan for this deposit is to use flotation—and I'll talk a little bit more about that later on—and grades typically in the 100 grams to 500 grams silver and 1 gram to 5 grams gold.

Moving on to Slide 6, the exploration, as Galina mentioned, started in 2010. We've done a lot of drilling. You can see 90,000 metres during this time, a lot of different holes. We've got it well-evaluated and the PFS that we are releasing today in the news release cumulates (phon 9:17) the drilling that we've done up to the end of 2017. Subsequent to that, we've done actually a lot more drilling. I'll talk about that a little bit later. But we have a mineralized zone now that is 1.4 kilometres long, is 400 metres vertically, and average thickness is about 4 metres, but the metres range from 3 metres to 16 metres thick, so it's a good, solid ore body.

Moving on to Slide 8, the updated mineral resource—and we are comparing 2017 PFS to the 2018 PFS—we've had a 23% increase in the indicated mineral resource. It's taking it up to about 60 million silver equivalent ounces. The key drivers in this is increased tonnes, increased gold grade, and other costs increased silver equivalent grades. The tonnes increased are from increasing the ore, moving into through resource up into the indicated category at Terronera, and also adding in the La Luz vein which was not considered in the previous PFS estimate.

Then on the inferred category, we've decreased those results by 55% to 14.8 million ounces silver equivalent. Again, the two drivers there are tonnage. We've improved the tonnage significantly and also got far better gold grades. You can see those in the table down below.

As we move on to look at how those resources fit into the long sections on Page 9, you can see the upper part is the Terronera ore body and the lower part is the La Luz ore body. The scales or the colors are identical in each section. You can see Terronera has a couple of very high-grade areas, which are above 600 silver equivalent gram areas, and then a lot of areas where we are all the way from 150 grams up to 500 grams. The blue areas are the only areas that are below cut-off, 150 grams per tonne silver equivalent is our cut-off for the mineralization. A very solid, very uniformed body.

That, in comparison to La Luz, which as you can see, is all purple, it's all greater than 600 grams per tonne. It's a very high-grade vein system and has added a lot of ounces to our resource.

Now, when we change over to Page 10, we're looking at widths and we can see again the difference between Terronera at the top and La Luz. Terronera has some good, solid chunky veins with the red area being greater than 4 metres thickness, up to 100 metres thickness, so some very good, solid areas that will be excellent for mining it.

Then in comparison, La Luz is generally very narrow. It's high-grade, but narrow, and typically somewhere in the order of 1 metre. The two different areas will be reflected in our mining plan which we'll be discussing shortly.

However, moving on to the reserves on Page 11, you can see all the drill holes that we've completed for this reserve. You can see that it's still open to depth.

I'll refer to this as we look at the work that's being done subsequent to the PFS and the ongoing work in the future. Again, the reserves have increased 32% to almost 60 million silver equivalent ounces. The three drivers here are: the tonnes—so we've increased the tonnes, not only in Terronera but also adding in La Luz—we've increased the silver grades, and we've increased the gold grades through the intersections that we've obtained as we've continued outlining the mineralization.

As we move on to Page 12, this is the exploration and we've done in 2018 that is not included in this current PFS but will be as subsequent studies get released. We've done a lot of infill drilling to move the inferred resources up into the indicated so that we can use those indicated resources for reserve estimation.

The map on the right-hand side is a more simplified property map and it's a little easier to see where the Terronera vein is, which is just to the north of San Sebastian, which is one of the communities.

The hole of note, and this is referred to in our press release from June 27, we talk about some of the intersections in the Terronera vein, is a hole that is 430 metres vertically below the surface. It's got a width of 21 metres and grades of 618 grams silver and 3.2 grams gold. It's the deepest hole we've got so far, clearly showing that it's wide open to depth. I think once we add in these holes that were released on the 27th, plus others that we've been drilling since the 27th, we're going to see an increase in our resources and, subsequently, our reserves, which is very, very promising.

Just to refer to the map on the right-hand side, you can see two stars. One is San Sebastian and the other is Santiago de los Pinos. I want you to see where those are because that's going to help you orientate the next slide, Slide13, which is the layout of our facilities.

At the north end of the picture you can see Santiago de los Pinos, which is the small community where we'll be having our camp and our administration facilities. Just to the west of that, so to the left, you can see words tailings dam, and that's where our tailings facility will be in a valley. Up above that is our plant site, and that's sort of directly south of the words tailings dam. To the east of the plant you can see the La Luz mine. You get a sense of where that high-grade vein is and it's not too far away from the plant.

Directly south of the plant you can see the Terronera mine. You can see the ore body, and we will look at that in a little bit more detail here shortly, and the waste dump that will be where the mine waste is held more on a temporary basis until it's moved back underground to be used as fill-in the east stopes. Then on the very south end you can see the town of San Sebastian. This image is a Google Earth image, so you can actually see some of the community, the houses and the communities both at San Sebastian and at Santiago de los Pinos.

Moving on and looking at these in a bit more detail on Page 14, we're going to be underground mining operation. We're going to be accessing it via ramps. The first two years we'll be mining at 750 tonnes per day, looking at driving the ramp in and down to the 1,380 main haulage drifts. We've divided the zone into five areas, of which the first area right now is in M1, and that's just because we'll be accessing it earlier. As we add in these new resources, which are primarily in the M2, M3, and M4 areas, so down below those three blocks, we expect to add in a number of new ounces.

Mining method is going to be cut and fill, and we will be finding that the stopes are approximately 300 metres long. Ramp access will also be to the La Luz, but it'll be a separate portal. In Year 3, we expect to expand production up to 1,500 tonnes a day. Really, the gap in the time is to get access to enough stopes to be able to continuously deliver 1,500 tonnes per day.

At La Luz, because it's narrow, we will be using reusing, which is very effective because it will get the mineral out but mean that we don't have to take waste into the mine. It's going to cut costs actually quite significantly there. We're going to be using waste truck with some tailings mixed and a little bit of cement for our backfill.

Moving on to the next slide, 15, here's the cross-section. You can see the green ramp as it goes up, spirals up beside the ore body in red, and then the attack ramps accessing the ore, which are actually quite close. We've bought the ramp in close to the ore body, which has, again, cut our costs significantly for mining.

Moving on to the next one, you could see a few more details. It's a standard underground mining equipment fleet. I'm not going to go through the list, but you can look at that.

You can also see on the left-hand side a cross-section of the ramp with trucks and electrical cables and vent bags, etc. Power right now in this PFS is from CFE, so the Comisión Federal de Electricidad, and that is expected to take about 18 months—no, it'll take three years to build altogether. However, we're still looking at trade-off studies to evaluate the opportunities of using liquid natural gas and solar. Solar won't be really be effective for the mine itself, but it will be for the camp, and that's where we expect to be able to use a lot of green power.

Moving on to the camp, Page 17, you can see our layout of the camp. It's right beside our exploration offices which are the multicolored sections on the right-hand side of the left picture, and then just the area that the camp will fit into and some of the houses that are in Santiago de los Pinos.

Moving on to 18, process flow sheet, it's a very typical standard flotation plant. Two-stage crush with aids in passing 150 mesh. We expect recoveries of somewhere near 85% for silver and about 80% for gold. You can see a little flow diagram below, but we are doing a bit more testing to see if we can simplify the crush and grind section so that we don't have to re-grind. Right now we have a vertical mill in there to help with the re-grinding and we are hoping that we can move off from that and just reduce our electrical draw a little bit. We're going to produce a high-grade concentrate similar to what we produced from Bolañitos and Cubo, and so we've been able to use those at similar terms to what we have for that.

The project timeline on Page 19 shows once we get project go-ahead, i.e. financed and Board approval, it's going to take about 15 months to 18 months to get the mine plant and tailings facility up and running at 750 tonnes per day. Then there's a two-year gap before we get up to the 1,500 tonnes per day, and a big reason for that gap is just getting enough development in place so that we have enough stopes developed so that we can continuously be at 1,500 tonnes a day. There're opportunities to make that a bit better, a bit faster, but it'll depend on how the development goes, so that's, we feel, is a conservative estimate. We think there's a chance to be able to get up and running a bit faster.

Moving on to Slide 20, this is really a direct comparison of the operating parameters 2017, the updating 2018 PFS. We've used a lower silver price, so \$17.00 silver price for this current PFS; the gold price is much the same. We've got far more tonnes because of increasing the resources at Terronera and also adding in the La Luz system.

We've got a far better my mine life now. We're talking about 9.5 years which is excellent; better silver grades, better gold grades, and, of course, better silver equipment grades. Our average recoveries for silver coming in at about 85%, which is a little bit less than the previous study but still acceptable. Our gold recoveries are far better, and with better gold grades, wanting to see that gold recovery up is very important.

Life of mine silver production is going to be about 28 million ounces of silver and about 268,000 ounces of gold for approximately 48 million ounces of silver equivalent production. Annual production, once we are up to the 1,500 tonnes a day, will be over 5 million silver equivalent ounces. Very robust, very good operating parameters that will lead into a very good economic want (phon).

I'd now like to pass the presentation over to Dan Dickson, our CFO.

**DAN DICKSON:**

Thanks, Godfrey. I know we're all excited about the new parameters from the operating team that we've been able to kind of project on this project, and it's been a very successful past year in adding ounces to the project and extending that mine life with improved grades and improved recoveries from a gold standpoint to help improve our financial position with the Terronera project.

With those parameters, of course, we've got higher revenues, higher free cash flow, longer mine life and improved net present value, improved internal rate of returns, which is always positive. Again, comparing the 2017 PFS to the updated 2018 PFS, we've increased revenues 28% on this project under the base case to \$815 million of revenue. EBITDA has also increased 29% to \$448 million. Free cash flow over the life of mine of the project is just under \$200 million, \$193 million which is up 54%. The overall MPV is in a 5% discount rate also increased 51% to \$118 million over the life of the project.

Again, this is as of drilling as of the end of December 2017. We've continued to add to our resources and, hopefully one day, reserves. They'll extend the mine life and improve on these life of mine projections. The payback period did increase from 2017's PFS to the 2018 PFS from four years up into the five-year range, and that's a function of small outlays of capital that have to go out on earthworks early on.

We have about \$8 million of earthworks that needs to be done over seven-, eight-month period to be able to start building the plant, extending that payback period. But, again, positive IRR impacts and positive MPV impacts, we think, offsets the risk of the payback period.

On a direct cost per tonne standpoint for the Terronera project, we have a \$78 cost per tonne which is very comparable to our Cubo mine and historically our Guanaceví mine. We believe these are conservative numbers. Godfrey touched on that we will be using cut and fill in the Terronera vein, driving our mining costs up to \$46. We've seen it at our other operations, we've been able to move from cut and fill to long hauling once we got to understanding the geotechnics there. We hope that we can do that once we get into Terronera, but that's not built into this model at this point.

Because of the gold/silver ratio, 60% of this project's revenue will come from silver, 40% from gold. We have very favourable operating metrics with cash costs being slightly over breakeven. Effectively, we're getting that silver for free, all paid for by the gold production, and our all-in sustaining costs over the life of the project will be slightly over \$1, one of the lowest cost profiles in our space.

On Slide 22, we just have a breakdown of our capital cost between Phase 1 and our 750-tonne per day plan; Phase 2, our 1,500-tonne a day plan. The plant and site infrastructure is going to cost us \$44 million leading to Year 1, with mine development infrastructure and equipment for the mine being just under \$14 million, and broken out through that, our EPCM is going to be about \$10 million and we have an \$8 million contingency. It's for initial capital outlay of \$76 million, leading into production.

Then under Phase 2 of our expansion, we'd be completing a power grid. We'd try to be on LNG for the first two years of the project as we're waiting to be connected to the CFE power grid. Expectations to complete that is about \$15 million that we'd pay out in Year 1 and Year 2 of production, adding an underground mine development of another \$12 million and a small plant expansion for \$6 million.

On the initial plant build, we'd build a footprint to be able to handle 1,500 tonnes per day, and then on the Phase 2 expansion we'd add in a secondary ball mill and float cells (phon).

Again, we have EPCM and contingency costs for an outlay of about \$40 million on the Phase 2 expansion.

Slide 23 of our presentation we have the base case, of course, with sensitivities for an operating cost increasing and decreasing. Initial capital increasing and decreasing impacts on IRR net present value, and payback, and, of course, metal price is a variance on metal prices, all the way down to \$15 and up to \$20. I think it's important to point out under the base case with the \$118 million net present value, if we can get into that \$20 range in two or three years, this project is just under \$200 million net present value.

Slide 24, just a quick graph of the timeline, Year Negative 1 would be that earthworks with Year 1, the outlay for the capital or the expansion or buildout of the plant. From year 1 to Year 3, you can see that our negative cash outlay, that the plan would be for the operations of Terronera to be able to pay for the \$40 million expansion under the base case. You can see that our outlay of capital at any given time until year 4 would just have been the initial outlay of \$75 million. Again, over to Year 11, the accumulative of net present value of that after tax cash flow is just under \$200 million.

On Slide 25, our upcoming catalyst is to include the new drilling to add to our resources and ultimately our reserves and continue to extend our mine life. We want to optimize our crushing circuit to ensure that we have the lowest energy requirements needed, and we want to optimize our grinding circuit to increase particle size and obviously improve recoveries, also reduce our operating costs through power; expand our tailings facility to accommodate a longer mine life, studies that we are doing right now; continue to review power alternatives, the grid power from CFE is what's designed currently in our 2018 PFS. We continue to look at having an LNG facility on the premise. Then, of course, Godfrey's already touched on this, but the camp is using some green energy solar power and then also looking at diesel generation at the mine site.

Then, again, continue our exploration program. The 2018 program is coming to an end fairly shortly here, but there is significant opportunity still at depth on the Terronera vein and significant opportunity with the parallel structures we've identified over the last couple of years, I think highlighted by La Luz, which we announced last year and added into that mine plan in 2018.

We're pushing to receive our final tailings and dump permits. I know we've been out in the market saying that should be any time. We do expect these in 2018. We're having daily conversations with CONAGUA, which is kind of the last step for us to get some waterway access near the tailings. With that CONAGUA permit, we can get the final permits from SEMARNAT. As I say, we've submitted everything we've had. We've had dialogue back and forth and expect something hopefully over the next couple of months and even sooner if possible.

We're also working with banks with regards to financing this. We've had a lot of preliminary discussions and deep discussions. A lot of people waiting on final permits and this PFS report to come out to finalize some financing to bring Terronera into production. After we have those two items, we can approach our Board into the construction decision and start with that land clearing for the plant site.

Slide 26 is a slide that we just like to show of where the Terronera project sits amongst our peer group's minds. As you can see, some of the lowest operating cash costs in this sector and one of the lowest all-in sustaining costs in our peer group. It's a very robust operation through any metal price.

With that, on Slide 27, one of the key things in delivering on this project and the robustness of this project, and a mine life of 10 years is the community. Over the life of the project we plan to employ over 400 individuals in operations, and during the buildout of the project we will have about 350 people in construction phase, hopefully over 95% of that will come from local areas. Since we've already been in Terronera, we've planted over 58,000 trees, established a deer farm in the area for local carnivores, so to speak, to make sure that we meet all our SEMARNAT requirements. We've trained locals at our other mine sites, as there's not a long history of mining in the Jalisco area. We expect to hire local contractors for the operation, and we signed a collaborative agreement with CONANP, which minimizes the impact to the mine in the area from an environmental basis. We already have hired community relations, but we're currently in the process of hiring a general manager and safety manager, and supplementing that with our purchasing manager, human resources, and electrical engineers.

As I've touched on, on Slide 28, we've been through the environmental permitting over the last couple of years. We've received our mine and plant permits in Q3 of 2017 and (inaudible) this year in 2018 with CONAGUA to try to get the final waterway access to get the tailings and dump permits through SEMARNAT. SEMARNAT has been through all our plans and they're just waiting on that CONAGUA permit which we expect here in 2018.

Very positive; we're excited to come to market today with the results of our 2018 PFS. In summary, we think Terronera is going to be a core asset for us. It's attractive in size and grades. The deposit is shallow, thick, and obviously the grades are very rich. We've got robust economics at \$17 and \$1,275 gold, \$118 million in net present value at 23.5% IRR. Annual production after Phase 2 will be about 3 million ounces of silver, 28,000 ounces of gold for 5.1 million silver equivalent ounces.

Again, this is going to be a low-cost operation, one of those costs amongst the peer group with an all-in sustaining cash cost of \$1.36 over the life of the mine. We still have exploration upside. As Godfrey touched on, the 2018 exploration program has been successful with our highest grade holes to date coming in 2018 at depth, so we're still open at depth; and then again, La Luz showing the potential of the parallel veins system in the district. We continue to map and sample in the district and we have extensive amount of exploration upside, not just at Terronera but beside Terronera. If we can drive this mine life past 9.5 years, which we expect to do rather easily here, it'll only improve on the economics going forward.

With that, Operator, I think we've done quite a detailed overview of the project. I know we had a press release out this morning for a lot of the listeners, but we'll open it up for questions and if people want to ask today about the Terronera project or even about yesterday's news release regarding the Austerity Measures or an update on Compas, we're open for all questions.

**OPERATOR:**

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

Our first question comes from Ryan Thompson with BMO Capital Markets. Please go ahead.

**RYAN THOMPSON:**

Hey, guys. Thanks for providing a very detailed update this afternoon. I just wanted to clarify something regarding the powers just so that I understand correctly. You said that it will be on LNG for the first two years; is that right?

**BRADFORD COOKE:**

Yes. This on the (cross talking). Go ahead, Godfrey.

**GODFREY WALTON:**

Yes. Sorry. This is Godfrey. Thanks for the question. It'll take about three years to get CFE hooked in. We're actually starting that process now and we're talking about using LNG for the first two years as a stopgap measure before we are connected to CFE. That's what's included in the prefeasibility study.

**RYAN THOMPSON:**

It's just the powerline that's included in the PFS, not the LNG?

**GODFREY WALTON:**

The LNG for the first two years is included.

**RYAN THOMPSON:**

Okay.

**GODFREY WALTON:**

Then the power line should be connected to the project.

**RYAN THOMPSON:**

Got it. Got it. Okay. I've noticed that the initial CapEx is up a little bit from the previous study despite a smaller plant size. Just wondering if you could sort of comment on that. Is that more related to the added mine development at La Luz or is it more on the plant site? Just if you could shed some more light on that.

**GODFREY WALTON:**

Do you want me to take that?

**BRADFORD COOKE:**

Sure. Go ahead, Godfrey.

**GODFREY WALTON:**

This is Godfrey. Yes, it's increasing the mine development because we've now got two ore bodies to get access to. The plant site proposes using brand-new equipment, which is what we didn't look that previously. The big item or the big driver is the mine development.

**RYAN THOMPSON:**

Okay. Then just similarly on the operating side, I guess the higher sort of cost per tonne is more just related to the more selective reusing mining at La Luz then?

**GODFREY WALTON:**

That's correct. Yes.

**RYAN THOMPSON:**

Okay. That's all I had. I'll jump back into queue. Thanks, guys.

**GODFREY WALTON:**

Thanks.

**OPERATOR:**

Once again, if you have a question, please press star, one. Our next question comes from Mark Reichman with Noble Capital Markets. Please go ahead.

**MARK REICHMAN:**

Good morning. I just had a few questions. First, Dan, you talked a little bit about the CANAGUA permit and the waterway access and getting the dumps and tailings permits. Can you just kind of put a magnifying glass on that and just kind of walk us through the process and what needs to happen with regard to the waterway access? I mean, have there been any objectives or work you need to do beforehand? I was just trying to get an idea of whether within 2018, whether to expect later 2018 or whether this is just something else that we could get the permit in a much sooner fashion.

**DAN DICKSON:**

Godfrey, you're closest to that. Do you want to take that one?

**GODFREY WALTON:**

Okay. Sure. Thanks for the question, Mark. The CONAGUA application, we've been working through this for probably 18 months now. We've filed all of the information and answered all of the questions that they have asked for. The big delay in that was actually modeling the channels that go around the tailings to make sure that the rain water contact doesn't impact the tailings itself. We've now received a letter from Mexico City saying that everything has been approved and everything is satisfactory, and they have actually instructed Guadalajara, which is the office in Jalisco, to actually issue us titles. We are expecting it very soon, but we don't know quite when. We've moved a lot closer to getting that permit.

**MARK REICHMAN:**

Okay. While I have you, the question over the power earlier, I thought there was some talk that there might be an option to use existing right of way to run some medium voltage powerline rather than the 115 kilowatt line that might save a little bit on the timeline. Is that not a viable option?

**GODFREY WALTON:**

It doesn't provide us enough power to run the plant at full capacity. It would allow us to do a little bit on the mine, but there're already brown-outs in the area, and so it wouldn't be a very reliable power.

**MARK REICHMAN:**

Okay. Then just lastly, the increase in the gold, the gold grades went up, the recovery rates went up, you're assuming a modestly higher gold price. On that map on Page 9 where you kind of have the silver equivalent, what can you pinpoint for the increase in the gold?

**GODFREY WALTON:**

Well, the big increase in gold is on La Luz vein, which is a very high-grade gold vein in reality when you look at the actual resource and reserve numbers on Page 8. But then we've also been hitting more gold as we go deeper in the system and that's fairly typical in these systems; you get a high silver at the top and a high gold at the bottom. As you get into the feeder zones, you get better gold rates and that's what we're seeing.

**MARK REICHMAN:**

That's been a result of your drilling efforts.

**GODFREY WALTON:**

That's correct.

**MARK REICHMAN:**

Just my last question would be for Dan on the financing. You have the ATM in place and I think so far about 1 million shares have been issued under the ATM. I was just wondering how you're thinking about the ATM for the remainder. Will you choke that back a little bit, and what discussions have you had or have there been any changes and thoughts about the financing, especially in light of the headwinds in the precious metals markets?

**DAN DICKSON:**

Yes. I mean, you touched on our ATM and we want to finance Terronera with a combination of cash or equity that we have on hand, and debt. The right amount of debt to equity probably has yet to be determined in today's market. Obviously, we've had some of this information leading up for the last six months.

We've been talking with banks, trying to figure out what the right level was, if it's \$50 million debt, \$25 million equity for the \$75 million outlay; if it's \$40 million debt and \$35 million equity. I think we still needed to determine that.

I think partly with what's happened over the last three months and then specifically probably over the last one month is banks obviously get more concerning when they run their sensitivity analysis.

They always run to lower prices. Notwithstanding to how low those prices have gotten in today's world of \$14.75 silver, we've seen some banks that we've been talking with back off. But I would say there are still a number of banks that are still there and excited about the project and still excited about what our other assets provide, even at today's prices. We're still looking at that combination. We've been in discussions with a number of groups for the last six months.

As far as the ATM is concerned, it's there for two years. We did use some of that there in Q2 which everyone saw on our financial statements. That was just to kind of get started with our agents to see how the process works. We're okay with the prices at that time. Since quarter-end prices have dipped; we've hardly touched it. But as we get these permits it's something we will have discussion with, with the Board going forward and, again, see how the debt shakes out to see what that combination is.

**BRADFORD COOKE:**

Mark, this is Brad. An ATM is truly an ATM that you can tap at the time and price of your choosing, so we don't see any need to draw it down at this time. We've got lots of cash and we don't yet have any permits, so our big spend hasn't started and won't probably until late this year or even early next year. By then we certainly hope to have all the debt that we need in place.

**MARK REICHMAN:**

That's very helpful. Thank you for the comments.

**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 already been answered, but I guess the big question right now is obviously looking at metal prices this morning, looking at the silver price, is there any sort of hurdle rates that you need to see via—I'm looking at silver I guess or even gold—to give you the sort of comfort to make a positive development decision on the project?

**BRADFORD COOKE:**

We have a headline rate of return requirement to 20%, and so clearly at \$17 silver we make it. If we're still looking at sub-\$15 silver by the time the permits arrive, we'll obviously defer to the Board, but we don't expect that price environment to last very long. Right now it might last a few months. By year-end, if it's still around, it might only last a few weeks. We're quite positive about the price outlook for both precious metals next year, and if you look at the consensus prices which we reviewed yesterday, they are up still north of \$17 silver and \$1300 gold. Obviously we'll defer to the Board, but we think this downturn is temporary.

**CHRIS THOMPSON:**

I concur, Brad. Another question, quick, quick, early works budget, so how much are you going to be spending on the project in the near-term, I guess, to ready it for that development decision?

**DAN DICKSON:**

Yes. We don't have a large budget. We finished off. We had 20,000 metre program, actually even larger than that, 25,000 metre program that we've effectively finished here at the end of August related to the 2018 exploration program. The drills are done and we will have some of the exploration team still sampling and mapping in the field. That's very low cost. As far as between now and the end of the year, we do have some engineering studies that are recommended by the authors of the PFS report and that's less than about \$250,000 between now and the end of the year, but we've, through our Austerity Measures, we really shut down kind of any of the earthworks that we've started at this point until we get permits.

Had the prices of silver and gold, or really silver, hadn't dropped, we would've probably pushed for some of that earthworks to happen sooner rather than later, but at this point with silver only being at \$14.75, and just to make sure that if we are wrong, that this isn't temporary, that we are protected, we've just decided to slow down on that earthwork standpoint. Under \$0.5 million would be between now and January.

**CHRIS THOMPSON:**

Great. Thanks for that, a lot of clarity there. Just going on, just moving on to I guess to mine sequencing right now, can you give a sense of mining costs for La Luz on a dollar per tonne?

**DAN DICKSON:**

Don't have it in front of me, but it was running about \$108 per tonne out of La Luz. La Luz is less than 10% of the tonnes and about \$72, \$73 out of Terronera, somewhere in that range. But La Luz runs about just under 1 metre in thickness whereas the average metre of thickness through Terronera is 5.2 metres. Where we designed La Luz, yes, \$108 is what's coming into my head right now.

**CHRIS THOMPSON:**

Okay. I mean, obviously the benefit there is higher grade. I mean, is there a benefit for resequencing and rather starting with La Luz and then sort of ramping into the rest?

**DAN DICKSON:**

Yes. We left that up to—P&E Engineering handled our mine plan for us and the sequencing, and obviously we ran a number of different scenarios. I think one of the best scenarios was bringing La Luz in relatively early because of that high-grade material. I know it does come in in Year 1.

**BRADFORD COOKE:**

To be clear (cross-talking).

**GODFREY WALTON:**

This is Godfrey.

**BRADFORD COOKE:**

Godfrey, just bear with me. I was going to clarify that. To be clear, the development of the Terronera mine ramp is actually a long-lead item that has to start right off the bat, but access to ore at La Luz is a lot faster, so it is in the early part of the development cycle. Godfrey, do you want to add to that?

**GODFREY WALTON:**

Yes. La Luz is because of its narrower widths is difficult to get anywhere near 700 tonnes a day. I mean, it's more of a 100-tonne a day mine, and so it supplements the mineral that's coming out of Terronera. You need both of them to come on fairly quickly.

**CHRIS THOMPSON:**

Okay. Well, that's good. Then just a final question here on the tailings; have you guys considered dry stack?

**GODFREY WALTON:**

The tailings is a dry stack facility.

**CHRIS THOMPSON:**

It is. Sorry. It is dry stack facility. Okay. Sorry. I missed that. Perfect. Thanks, guys.

**GODFREY WALTON:**

Okay. Thanks.

**BRADFORD:**

Thanks, Chris.

**OPERATOR:**

Once again, if you have question, please press star, one. Our next question comes from Cosmos Chiu with CIBC. Please go ahead.

**COSMOS CHIU:**

Hi. Thanks, Brad, Godfrey, and Dan, and team. Just maybe a few questions from me here. First off, again on the mine sequencing, as you mentioned, some areas 100 grams per tonne, others are 500 grams per tonne. I don't think I saw a production profile on the press release yesterday or in the presentation today. Could you maybe further comment on a grade and sort of how it is upfront, how much higher it might be upfront, and what would that be sort of for the rest of the life of mine?

**GODFREY WALTON:**

Hi, Cosmos. This is Godfrey.

**COSMOS CHIU:**

Hi Godfrey.

**GODFREY WALTON:**

I actually don't have that detail in front of me, but we are aiming to start mining in Terronera in that M1 area. You can see if you go back to Slide 10 and 9, you could see both areas have high grades, so up above 600 silver equivalent grams per tonne, and it's also a nice thick area. That is the first mineral that's coming out. Again, with the idea of getting material that's higher grade, good, thick zones that are going to be easier to mine. Combine that with the high-grade mineral from La Luz and that's really what the first year or two years are going to be for operations. Then during that time we'll be pushing the ramp that you can see on Page 14 to that 1,380 main haulage level so that we can access the other parts of the mine.

**COSMOS CHIU:**

Okay. We should expect higher grades in the first two sort of plus/minus years?

**GODFREY WALTON:**

Yes.

**DAN DICKSON:**

Yes. Cosmos, this is Dan here. The actual grades, which will come out when we file the PFS that we expect kind of in two weeks or so, gold grades are definitely higher upfront in Year 1, Year 2; it's about 2.6 grams gold, 2.85 grams gold, 3 grams for Year 3. Then silver it's running 230 Year 1, 171, 156. Then as we get to the back half of the mine plan silver, silver increases in grade and gold actually decreases in grade. But I can get you that detail offline or in two weeks, like I say, when our PFS comes out. All that's inside our appendix.

**COSMOS CHIU:**

Sure. Yes. I can wait two weeks. I just wanted a general idea in terms of for purposes of modeling it right now, how that's profiled.

**DAN DICKSON:**

Yes. I mean, of course.

**DAN DICKSON:**

Okay.

**GODFREY WALTON:**

Yes. One thing I would add to that is the fact that we've got these 2018 holes which you can see in that news release from June 27, and there are others that will bring good grades and good widths. As we redo the resource later this year and obviously the reserve, we may look at adjusting that mine sequencing a bit.

**COSMOS CHIU:**

Great. Then, Godfrey, in terms of the Phase 2 expansion from 750 tonnes per day to 1,500 tonnes per day, could you maybe give us a bit more detail in terms of how that's accomplished? I think you mentioned at the underground just about getting more stopes, but it sounds like the more stopes are coming from Terronera because it sounds like La Luz is sort of what you see is what you get in terms of throughput. How many stopes would you need to get to that sort of 1,500 tonnes per day? In terms of the mill, is there anything else that needs to be completed in two years' time to get it up to that higher throughput or is it pretty well sized for 1,500 tonnes per day from day one?

**GODFREY WALTON:**

We're going to have to add a few float cells and we're just currently looking at trade-off studies. This is for the plant, whether we use one mill or two mills. If we use two mills, then we would have to install a second mill, but, really, the rest of the plant will be set up for 1,500 tonnes a day.

**COSMOS CHIU:**

Okay. The crusher will be set up for 1,500 tonnes per day, say from the...?

**GODFREY WALTON:**

Yes. The crushing system is going to be set up. It'll just be—if we go with one mill, then the mill will be 1,500 tonnes a day and we'll just run it half time, and then we'll add a few more float cells. But the filter system for the tailings will be sized for 1,500 tonnes a day. Then any filters for the concentrate will also be sized for 1,500 tonnes a day.

The big slow part of the schedule is just the mine, and it's pushing that development for 750 tonnes a day. We will be having two stopes active in that front end of the mine plus La Luz for 1,500. We want to have access to six stopes so that we've got the proper sequence and cycling within the mine plan. That's just going to take a bit of time to get that development done.

**COSMOS CHIU:**

How much more equipment would you need in terms of I guess jumbos and scoop trams, and then whatnot?

**GODFREY WALTON:**

Well, that's all listed. I guess the numbers aren't on there, but the equipment is listed there. All those details are actually in the PFS. I think we're looking at two or three jumbos and a number of scoop trams and trucks, etc.

**COSMOS CHIU:**

Would have to double that once you get to the 1,500 tonnes per day?

**GODFREY WALTON:**

We will add a few more, but we won't need to double it. No. It'll just be a few extra pieces of equipment.

**COSMOS CHIU:**

Okay. Then maybe switching gears a little bit, I had a question on the press release that came out yesterday on the Austerity Measures. I'm wondering if you can give us a bit more granularity or help us quantify how much money is actually being saved from the different initiatives that you've put together for the different assets or even in total.

**BRADFORD COOKE:**

Godfrey, you want to take that?

**GODFREY WALTON:**

Okay. Sure. In exploration we're looking at approximately \$2.5 million in savings there, and in each of our assets we are basically stopping development in waste, so all of that capital items have been stopped, and we're going to developing in veins, so the vein material is actually paying for that. Savings-wise, I think we're somewhere in the order of \$2 million from each asset, approximately.

**COSMOS CHIU:**

Okay. Okay.

**BRADFORD COOKE:**

Is that for the rest of the year, Godfrey?

**GODFREY WALTON:**

That's for the balance of this year, yes. We haven't looked at next year yet.

**COSMOS CHIU:**

Okay. Great. Thanks a lot.

**BRADFORD COOKE:**

Thanks, Cosmos.

**OPERATOR:**

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

**BRADFORD COOKE:**

Well, thank you, Operator, and thanks, all, for listening into our conference call and webinar presentation today. We do expect to file the full Terronera PFS technical report on SEDAR and EDGAR in the next 45 days, and Dan actually thinks it'll be a lot sooner than that. I think we have a great, robust project that can still grow in terms of size and quality, and the studies that we're carrying on for the rest of this year are intended to go to feasibility level internal studies prior to production decision.

Thanks, again, and stay tuned for next news. Thanks, Operator.

**OPERATOR:**

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