Endeavour Silver Corp.

Conference Call Transcript

Date: **January 28, 2016**

Time: **10:00AM PT/1:00PM ET**

Speakers:

Meghan Brown
Director, Investor Relations

Bradford Cooke
Chief Executive Officer

Dan Dickson
Chief Financial Officer

Godfrey Walton
President and Chief Operating Officer

OPERATOR:

Thank you for standing by. This is the conference operator. Welcome to the Endeavour Silver 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:

Thanks Operator. Good morning everyone and welcome to the Endeavour Silver Corp. conference call. On the call today we have the Company's CEO Brad Cooke, as well as our President and COO Godfrey Walton, our CFO Dan Dickson, and our VP of Corporate Development Terry Chandler.

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.

Thank you, and with that I'll turn the call over to Brad Cooke.

BRADFORD COOKE:

Thanks Meg, and welcome everybody to this conference call following up on our press release this morning. Endeavour released its production and cost guidance for 2016 and covered some other topics as well.

Obviously the main theme this year after having grown our silver production every year for 10 consecutive years is our focus on making money, which wasn't absent in previous years but the two mines Guanaceví and Bolañitos have been very profitable for many years and continue to be profitable at current prices, although obviously not as much as historically. But El Cubo, our third mine, obviously was quite a challenge for us when we took it on in 2012 and we're very proud of our accomplishments of our operating group to not only refurbish but completely rebuild the mine plans and infrastructure at El Cubo. We did chase the all-in costs from north of $40 per ounce when we acquired the mine in 2012 down below $20 late last year. That is however, obviously not good enough in a $14 silver environment. So the main theme to come out of today's press release is that our plan for 2016 is to ensure that all three mines generate free cash flow this year.

To accomplish that at El Cubo basically means stopping the long-term investments on mine development and exploration and just simply accessing and mining the current reserve base until we see a decline of production and going to care and maintenance sometime in the fourth quarter. So we're guiding a reduction in silver production in order to achieve substantially lower all-in sustaining costs and generate free cash flow at all three mines.

Our guidance this year is for a range of 4.9 million to 5.3 million ounces of silver production, 40,000 ounces to 43,000 ounces of gold production, and at a 75:1 ratio that amounts to about 7.9 million to 8.5 million ounces of silver equivalent production. It was a tough decision but obviously we're in the business of making money and we're doing what we have to do and we think it's the right thing to do at El Cubo.

The second main focus for Endeavour this year is actually a more aggressive program of exploration and engineering at our emerging new high-grade Terronera silver and gold find in Jalisco state. We were working on it last year under, initially a PEA, Preliminary Economic Assessment, and then on a prefeasibility study, PFS. We were funding all of that through cash flow last year and with the crash in metal prices once again last year, obviously we had to slow down our activities and the funding at Terronera.

We have, however, found a source of funding for this year and so Terronera will see a significant increase in its exploration and engineering budget. We've deferred the PFS until later in the year for really two reasons. We think there's a tremendous opportunity to significantly expand the resource with continued drilling, both in the Terronera vein along strike from the existing resource, and on parallel veins primarily to the north of Terronera where we have outcropping high-grade on surface with small historic workings, mine workings, but never any drilling. So I think given the opportunity that we have at Terronera, our first agenda will be to increase our exploration budget and drilling of the project to see if we can bump the resource up.

Of course related to that is now we've bought ourselves time to complete our permitting. It will allow us more time to do more trade-off studies in the engineering of the prefeasibility study and what we're trying to do simply is by year-end to have delivered a bigger and better project because we do view Terronera not only as a future core asset but potentially our largest and lowest cost asset. So that's the goal for the year at Terronera.

Our third theme is to continue our focus on M&A and on maintaining a strong balance sheet. In fact, we commented today on our bank line of credit. We've successfully this week reached an agreement with Scotiabank to convert the short-term line of credit, which was due this year, into a two-year term loan with our regular quarterly payments. So that should help to relieve any short-term pressure on the balance sheet and any concerns that our shareholders have. For the source of funding to retire that debt, we have obviously existing cash and cash flow, we have over $16 million of IVA receivable, that's the refundable sales tax in Mexico, and we have other sources of existing financing.

So I think that coming back to the mines, Guanaceví will be steady state this year at the 1,200 tonne per day capacity. We are investing in mine development and exploration covered by cash flow at Guanaceví, and there is a contingent mine development of a discovery we made these last two years and we've set aside a contingent $4.5 million, subject to financing, to develop a new mine at Guanaceví.

At Bolañitos, it's pretty much the same as last year, albeit at a slightly lower run rate through the plant. The first half will be closer to the plant capacity because we have a 75,000 tonne stockpile of ore awaiting processing at the plant, but the mine itself will do about 850 tonnes per day for the year.

In terms of our forecasted operating costs, we're now forecasting $8 to $9 per ounce cash costs net of gold by-product credits. We're forecasting $12 to $13 all-in sustaining costs net of gold and on a per tonne basis we're forecasting $77 to $81 per tonne all-in as an operating cost to production.

We'll invest $11.3 million in capital, primarily mine development at Guanaceví, and we have that contingent budget of $4.5 million for developing an additional mine there. The exploration budget is $2.5 million this year which is a lot lower than previous years, but we have a contingent budget of $7 million primarily for Terronera.

I think operator, that's the highlights of my news today and let's open it up for questions.

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 speaker phone, please pick up your handset before pressing any key. To withdraw your question, please press star then two. We will pause for a moment as callers join the queue.

The first question today comes from Chris Thompson from Raymond James. Please go ahead.

CHRIS THOMPSON:

Hi. Good morning everybody. A couple of questions here, more relating I guess to the mechanics of what you were guiding for this year, starting with Guanaceví. What are the tonnes and the grades that stand behind your guidance?

BRADFORD COOKE:

I'll turn that one over to…

DAN DICKSON:

I'll take it. Tonnes will be very similar to what we did in 2015. This is off the top of my head: 462,000 tonnes of production at Guanaceví. So it's going to be running basically just over 1,200 tonnes per day. Grades are a little bit lower. In 2015 we were just around the 300 range; I think 295 from a silver standpoint. Right now we have budgeted 257 which kind of ties into the reserves and resources that came out last week, and the gold grade is 0.57 gold grams per tonne over the year.

CHRIS THOMPSON:

Great, thanks. Just an idea, if you would, on sort of the costs per tonne milled at Guanaceví.

DAN DICKSON:

Yes, we build the model based off what we've seen in the past. I will say that the cost per tonne inside the numbers was done at a 16.5 foreign exchange rate, so we see a little bit lower there, but we've budgeted about $83 to $86 at Guanaceví for 2016.

BRADFORD COOKE:

What Dan was saying is that with a 16.5-to-1 Mexican/US exchange rate but the current spot rate at 18.5 there's a little bit of comfort room in our model.

CHRIS THOMPSON:

Excellent. Just moving on then—thanks for that, Brad—to Bolañitos. I guess you mentioned that you're going to be processing from a stockpile earlier this year, the first half of this year. Can you give us a sense of tonnes and grade of the stockpile?

DAN DICKSON:

Yes. This is Dan again, Chris. We have about 75,000 tonnes of stockpile at Bolañitos and the grades are actually a little bit higher than what we saw we did this year: just under 2 grams per tonne of gold and about 130 grams per tonne silver.

CHRIS THOMPSON:

Great. You say that the remainder of the production is going to come from Asunción. Any idea of grade on that?

BRADFORD COOKE:

Godfrey, any idea off the top of your head?

GODFREY WALTON:

Yes, the grade that we're going to average for Bolañitos is going to be 93 grams per tonne silver so it'll be a little lower, and about 2.3 grams per tonne gold.

CHRIS THOMPSON:
That's from the mine, right?

GODFREY WALTON:
That's overall actually. That's including the stockpile.

CHRIS THOMPSON:
That includes the stockpile, okay.

GODFREY WALTON:
Yes, so the gold from the mine will be a little higher; the silver will be a little lower.

CHRIS THOMPSON:
Okay, then obviously you're just digging in a little bit at El Cubo. You mentioned that you're going to be putting the mine, if metals prices continue, on care and maintenance in the fourth quarter. What sort of tonnage, sort of drop off on a quarter-by-quarter basis? What should we expect here?

BRADFORD COOKE:
Chris, it's Brad here. We've scheduled a fairly regular reduction month on month, quarter on quarter to the fourth quarter, and it's simply a function of access to reserves.

CHRIS THOMPSON:
Then final question, care and maintenance costs for the asset, what should we be modelling?

DAN DICKSON:
Care and maintenance estimate on the high side is $2 million. It's going to be between $1 million and $2 million for 2017. It's dependent on how much security we require at the site and a couple of other things that we can get done this year. But I think it's fairly safe to say on the high side it's $2 million; low side we think we can get it down to just over a million dollars.

CHRIS THOMPSON:
What sort of severance costs are we expecting here?

DAN DICKSON:

Total severance for everybody at El Cubo would range about $3 million.

CHRIS THOMPSON:

Great, guys. Thank you very much.

DAN DICKSON:

No problem, Chris. Thanks for the questions.

OPERATOR:

As a reminder, to join the question queue, you may press star then one on your telephone keypad.

The next question comes from Ralph Wegener who is a private investor. Please go ahead.

RALPH WAGNER:

Yes, hi. Thanks for taking the call. I am one of your shareholders. Basically the question I want you to address is at this time with the silver where it is, you're basically spinning dollars. You're working hard but don't make a lot of money and unless the price of silver goes up not much going to happen. I mean you're in business, you're working hard but as a shareholder there is no net benefit to be a shareholder. The question is what else can you do on cost reduction? Second of all, what other opportunities exist in terms of merging and mergers and acquisition to kind of combine with someone else to come up with a better cost structure? Thank you.

BRADFORD COOKE:

Thanks for your question, Ralph, and really this bears on corporate strategy. Clearly our plan is to make money instead of increasing our production, which expresses our clear decision not to trade dollars. We're not interested in trading dollars and so having a proposal to drive our all-in sustaining costs down to $12 or $13 per ounce this year in what we presume will be a $14 to $16 per ounce silver market actually should generate some decent free cash flow for us this year, so there's a good reason to stay in business as long as we can make money. That's theme number one.

Theme number two, we're very fortunate, I think, in the sector. We have the first bonafide grass roots high-grade silver discovery in Mexico probably in the last 10 years at Terronera and so that's why you see such a focus on moving Terronera ahead, trying to expand it and improve the economics on it this year. We do expect that will become a core operating mine for us over the next two to three years. So that is obviously another real value creation opportunity for our stockholders, proving and expanding Terronera.

Last but not least, you mentioned mergers and acquisitions and we've been very active in looking at things. We haven't announced anything big but I think there's good opportunities, especially at the bottom of the market here and I wouldn't be surprised if we do finally close on something in 2016. No guarantees but we're certainly active.

RALPH WAGNER:

Thanks. I know you're trying hard but these are challenging times. But I think the focus is really trying to—you can't lower much cost over there, I don't think so, right? I mean because the labour base and everything else. High-grading would maybe help or the new mines maybe help but it's a challenge.

Anyway, thanks for the answer. I think we just have to wait …

BRADFORD COOKE:

Thanks, Ralph.

RALPH WAGNER:

Better silver prices. Thank you.

OPERATOR:

The next question comes from Andy Schopick who is a private investor. Please go ahead.

ANDY SCHOPICK:

Hi gentlemen. How are you?

BRADFORD COOKE:

We're good, Andy. Thanks for your call.

ANDY SCHOPICK:

I would like to follow up with a few questions on El Cubo. Let's go back a little while. It's been a little over three years, as you mentioned, when that purchase was made and as I recall it was about a $200 million deal. I know Brad at the time you expressed confidence that that particular mine suffered from a lot of inefficiencies and neglect and that you were optimistic that you would be able to turn that operation around. Given the actions you're taking now, how much of this decision is related to the current silver price or a reassessment of the economic prospects of the mine?

BRADFORD COOKE:

That's an easy one, Andy. It's all about the silver price. If you recall, silver was $38 an ounce when we acquired El Cubo and we had obviously modelled it down to lower prices. We've now after three years successfully reduced the all-in costs of production from more than $40 per ounce to less than $20 per ounce. I think that is a measure of how good a job we did on the actual asset.

However, we have not been able to catch up to silver price. Thirty-eight to 14 was not in our model obviously and our plan this year is to change our approach from pushing more metal out the door to, fine, we'll just reap what's there and make some money on it and then we have the remaining reserves and resources in the ground for a restart if and when the silver prices go back up.

ANDY SCHOPICK:

Okay. A couple of follow-ups on that. Under what conditions would you be likely to resume production? Would it be dependent on a specific average price of silver at a particular time?

BRADFORD COOKE:

Well, we're not going to state a silver price but obviously we've run models on where we would think seriously about going back into El Cubo, and maybe Dan would like to add to that.

DAN DICKSON:

Yes. I mean you can see right now that our all-in cash costs at El Cubo through the third quarter was in the high $17s per ounce, so presumably if you're going to put it back into production you're going to have some start up costs that's going to be on top our all-in sustaining costs now if we can achieve that similar tonnage throughput. What it comes down to with those prices in the $18 to $20 per ounce range is what other variables change, Andy, and that's why it makes it a very difficult answer to say what price, because if silver and gold start moving back maybe it's because the U.S. dollar has depreciated and now the peso is up and our cost per tonne has increased. So to be able to go out and say this is the cost—we'll know when it is and then obviously we'll signal to the market at that time and I would imagine it'll have to be 25% higher price than it is today. It's such a difficult question to answer because there are so many variables.

ANDY SCHOPICK:

One last thing for you, Dan. Potential financial—balance sheet financial exposures. Any risks or implications for write-downs or impairments from the actions you are taking now relative to El Cubo?

DAN DICKSON:

Yes, absolutely. I mean the fact that we're only operating for 2016 and we've had a significant drop in prices is going to affect the model of what the value and use is for Endeavour. The carrying value on the balance sheet at the end of the third quarter was about $90 million. I think if someone was to model what's in this press release that would deem to be the value and use for us that we'll report in March.

So in short, it's clear that we will have an impairment from an accounting standpoint.

ANDY SCHOPICK:

Okay. Would that be just a one—would that all be taken as a one-time event in view of and in consideration of what's been decided at this time?

DAN DICKSON:

Yes.

ANDY SCHOPICK:

Good. All right, thanks.

OPERATOR:

There are no more questions at this time. This concludes the question and answer session. I would like to turn the conference back over to Brad Cooke for any closing remarks.

BRADFORD COOKE:

Thank you, operator. Listen, we put a tremendous amount of time, money and effort into turning around El Cubo. I think we were spectacularly successful in taking an operation that was struggling to do 100 grams per tonne in grades and 1,000 tonnes per day with two wildcat union strikes in three years. We've had a great run at El Cubo from a technical point of view and it just isn't there at these metal prices. The value, the future value of El Cubo is the ounces in the ground and the fully-built and permitted infrastructure that can be turned back on at higher prices, and in the meantime we'll just focus on doing the best jobs that we can at our other assets. As I mentioned earlier, Guanaceví and Bolañitos are steady state and Terronera is our next up and comer.

So, that concludes my remarks, operator. I see there might be another question in the queue and we'd be happy to take that question.

OPERATOR:

Yes. We had one late question there. So the question comes from Bryan Martin from Raymond James. Please go ahead.

BRIAN MARTIN:

Thanks guys. Thanks for taking my question. I just wanted to get an idea of the cost per tonne at Bolañitos and how that sort of breaks down quarter by quarter with the stockpile processing in the first half.

DAN DICKSON:

Yes, Brian. It's Dan. Our costs per tonne in the third quarter of 2015 were about $70. Obviously our Q4s aren't going to be out but I would expect the same. In this model we've costed at Bolañitos on an annual average of $75 per tonne. Obviously that's going to be a little bit lower than $70 starting in the front half of the year when we have more tonnes going through the plant and rise throughout but it'll average $75 per tonne for the year.

BRIAN MARTIN:

Okay. Maybe can you just walk through the same exercise with El Cubo as well.

DAN DICKSON:

Yes. We're projecting about $76 or $77 per tonne at El Cubo for 2016. Again, if you look at 2015 costs in the third quarter, we were $75 per tonne. Q4 is going to be similar.

BRIAN MARTIN:

Great. Thanks a lot.

BRADFORD COOKE:

Okay. Thank you very much for your questions, Brian, and thank you operator. Thank you all for calling in and stay tuned for our year-end results in March.

OPERATOR:

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