Endeavour Silver Corp.

2015 Guidance, Reserves and Resources

Conference Call Transcript

Date: **January 29, 2015**

Time: **10:00am PT/1:00pm ET**

Speakers:

Meghan Brown
Director, Investor Relations

Bradford Cooke
Chief Executive Officer

Godfrey Walton
President and Chief Operating Officer

Dan Dickson
Chief Financial Officer

Terry Chandler
Vice President, Corporate Development

OPERATOR:

Thank you for standing by. This is the Chorus Call conference operator. Welcome to the Endeavour Silver 2015 Guidance, Reserves and Resources 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, simply press star, and one on your touchtone phone. Should anyone need assistance during the conference call, they may signal an operator by pressing star, and zero on their telephone.

At this time, I would like to turn the conference over to Meg Brown, Director of Investor Relations. Please go ahead, Ms. Brown.

MEGHAN BROWN:

Thank you operator, and good morning everyone. Thank you for joining our 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, 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 2015 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 and 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'll turn the call over to CEO, Brad Cooke.

BRADFORD COOKE:

Thank you very much, Meg, and welcome, everyone, to this conference call on Endeavour's news release today. As usual, I would like to just touch on the highlights of the news and then we'll open it up for Q&A.

So two main features in today's news: firstly, our updated reserve and resource estimates to the end of October last year, and I'd like to actually commend our exploration and operating groups for once again replacing our silver reserves and growing our total resource base last year, in spite of the considerable headwinds of lower metal prices – we're using $18 silver and $1,260 gold for our estimation this year – and the shorter estimation period. Typically, we go December 31 to December 31, but we chose to go with an October 31 estimation this year, specifically so we could get our reserves and resources out in time for guidance in January.

So in terms of the reserve and resource news, again, we replaced our silver reserves. Although we did not replace our gold reserves, we did grow significantly in both silver and gold measured and indicated resources, and silver inferred resources were flat; gold inferred resources, a bit down. Total resource base right now sits at about 128 million ounces of silver, 1.1 million ounces of gold. That works out to 206 million ounces of silver equivalent total resource at a 70 to 1 ratio.

Moving then to the second news item in today's release, the 2015 initial production guidance, we are guiding to produce less metal this year compared to last year, at approximately the same cash and all-in costs as we had forecast a year ago. Part and parcel of that is the previously guided anticipated drop in production from our Bolañitos mine this year, partly offset by another good year at Guanaceví, and we called this our initial 2015 guidance because we still are in detailed mine planning on a number of alternative mine scenarios for our El Cubo mine, which had a great run up to fill the plant capacity at year end last year. We finished the year with a bang at El Cubo, and the mine group is very confident that they can continue to grow the mine output. Even though the El Cubo plant is now full to capacity, we are anticipating some available capacity at the Bolañitos plant this year in the same district of Guanajuato as El Cubo. So those detailed alternative mine plans, which should be ready early March, will help to shed some light on what our future plans are with regard to the El Cubo asset, not just from the point of view of ramping up production but primarily from the point of view of driving cost down so it becomes a free cash flow generating asset for the company, just like the other two assets.

Regarding this year, production in the 5.8 to 6.4 million ounce silver range, 47,000 to 52,000 ounces of gold, 9 to 10 million ounces of silver equivalent production at a cash operating cost in the $10 to $11 range per ounce of silver net of the gold by-product. That works out to $18 to $19 on an all-in sustaining cost basis, a little bit less, $0.50 less if you take out the non-cash items such as stock-based compensation.

So we are basically forecasting a breakeven year on all-in costs, with somewhat reduced production this year. We are in the middle of developing a new deposit at Bolañitos. We hope to arrive in that deposit in the second quarter and start the lateral development for production later in the year, and at Guanaceví, we're forecasting another very strong year, similar to last year. We have not one, but two discoveries at Guanaceví that are now awaiting permitting, and we hope to permit one, if not both of those new discoveries at Guanaceví, the Malache find and the Santa Cruz Sur find for development later this year. Neither will add to any production this year, but they certainly help to extend the mine life at Guanaceví, and again, at El Cubo, we don't know yet which of the alternative mine plans we will engage come March but all of the mine plans are an attempt to drive costs down at El Cubo.

Capital budget this year, $33 million on capital projects, sharply lower than the last year, including $18 million on mine development, $11 million on plant and equipment, $3 million on tailings upgrades. The exploration budget this year is just shy of $7 million—call it $6 million for exploration and a million bucks for property payments. That'll allow us to drill 150 holes, principally brownfields exploration in and around the three mine sites, plus certain permitting work such as infill and condemnation drilling at our emerging new discovery at San Sebastián.

So the theme for this year really is still very much a tale of two assets; just how big and high quality can we make El Cubo, and pushing San Sebastián and, hopefully, to prefeasibility and full permitting and the possibility to go to the Board in Q3 for a production decision.

So on that note, operator, I've finished my initial comments and why don't we open up the call for questions?

OPERATOR:

If you would like to ask a question, please press star, one on your touchtone phone. You will hear a tone to indicate you're in queue. For participants using a speakerphone, it may be necessary to pick up your handset before pressing any keys. If you wish to remove yourself from the question queue, you may press star, and two. There will be a brief moment while we poll for questions.

Our first question is from Chris Thompson with Raymond James. Please go ahead.

CHRIS THOMPSON:

Good morning, guys. Thanks for organizing this conference call. Got a couple of questions here. I guess, the first question relates to Bolañitos and production for this year. What sort of grade—what head grade are you modeling to arrive with your guidance there?

BRADFORD COOKE:

We're modelling 121 grams per tonne silver and 2.1 grams per tonne gold for 2015 at Bolañitos. It's a little bit lower than what we've seen in the reserve grades, but we've consistently had higher mine grades than reserve grades and consistently, same with that, we've always beat our grades compared to what we've put into our model but, of course, we just model. What we see from our reserves, we tend to be more conservative on our mine plans rather than be aggressive. It's always hard for accountants to say we have data that supports higher grades so we always go with the lower number. For example at Guanaceví we have reserve grades of 300 grams per tonne, but we actually modeled 275 grams per tonne as grades going through the mine plan for 2015.

GODFREY WALTON:

Chris, this is Godfrey as well. I'll just add on, you know, much of our mine plan will be coming from La Luz and the silver grade there is actually quite a bit lower than over in Lucero, so that's part of the reason for bringing the grades down. You do get a little bit better gold grade in places but, you know, the grade is lower and also, the recovery in the plant is a little lower too, on silver.

CHRIS THOMPSON:

Okay. The Karina vein, has that still got a fair amount of longevity here, or what's your view of that in the mine plan, Godfrey?

GODFREY WALTON:

We're coming towards the end of Karina and Daniela and those will all be finished pretty much during this year.

CHRIS THOMPSON:

All right. Just moving on, quickly I guess, to El Cubo, you know, you mentioned obviously you're looking at expanding the throughput there. Just remind us again, what is the mill capacity on a tonne per day basis at El Cubo?

BRADFORD COOKE:

The nominal mill capacity is 1,500 tonnes per day. The track record is that it has been able to do 1,600 tonnes per day. With some tweaks, it might go higher, though we're certainly not modeling that. What we are modeling is a very significant potential to ramp up mine production to fill the available capacity over at Bolañitos.

CHRIS THOMPSON:

All right, thanks. It would be the available capacity at Bolañitos is what you'd be looking at rather than pushing El Cubo?

BRADFORD COOKE:

No, we actually have four different scenarios, so I won't go through them all, but certainly the most obvious scenario is that one.

CHRIS THOMPSON:

Okay. All right. Can you just, quickly just talk a little bit about, I guess at El Cubo, union relationships at the moment?

GODFREY WALTON:

Hi Chris, this is Godfrey. Yes, the union has actually been very, very helpful over the last little while. The head guys in Mexico City and even the union bosses in Guanajuato have been really helping us and really supporting the company in the direction it wants to go. There's still a little bit of hesitation from the actual workers. The union contract allows them to work six days a week in the mine and we've been spending quite a bit of time talking to the workers about working seven days, and there's a bit of resistance and that's what's holding us back on a production basis. But the union bosses are very much for it and we're just starting our annual negotiation for the contract, and so we are looking at changing some of those clauses which will allow us to actually be able to increase production more than we currently can.

BRADFORD COOKE:

Suffice to say, Chris, that we are seeking the cooperation of the membership for whatever alternative mine plan we propose to adopt, and certainly, a couple of those plans, we will be asking the membership to recognize that working Sundays is critical under a couple of the plans. So we are seeking their cooperation on that.

CHRIS THOMPSON:

Okay, great, and just one final question. I guess, based on the current metal price, obviously it's swinging around a bit today, do you see any capability of paying down the line of credit further, or is it pretty much, you know, status quo at the moment?

DAN DICKSON:

Hey, Chris, this is Dan. Yes, we actually can pay. We've got to get our line of credit down from year end. At the end of Q3, we had $27 million. Currently, it's at $29 million at Q4. Q4 financials will come out at the end of March. We have to get that below, as of today, by July, below $25 million. We have a plan to get it below there. We have significant bullion inventory and with the EVA receivable that's coming in through Mexico, we'll easily be able to get it below $25 million. At today's prices we're focused on how to get it as low as possible in 2016, and in discussions with the lender about extending it. Basically, it's based off our reserves and mine lives and we can continue to push that out, hopefully, but those discussions start here in the first quarter of this year now that we have our new reserves and resources.

CHRIS THOMPSON:

Right. Okay, guys, thanks a lot. Thank you.

BRADFORD COOKE:

Thanks for your questions, Chris.

OPERATOR:

As a reminder, to ask a question, please press star, and one on your touchtone phone. Our next question is from Benjamin Asuncion with Haywood Securities. Please go ahead.

BENJAMIN ASUNCION:

Good morning, guys. Thanks for taking my call. Sorry, I got on the call here a little late, so I'm assuming that sort of some of the questions have already been answered. Just—I guess a couple of things just to cover off here. In terms of costs, when you're looking at the operating cost breakdown based on the guidance that you were giving of $90 to $94, could you give a bit better clarity on how that splits apart across the operations?

DAN DICKSON:

Yes, Ben, this is Dan here again. We model based off historical parameters and then internal budgeting for 2015. You won't see a significant change between Guanaceví and Bolañitos to what we've done in the past. Guanaceví's budgeted at $104—median costs, $104. Median costs for Bolañitos is $85, and at Cubo, where you'll see a change into this plan, based off the ramp up of production that we did at the tail end and increased production from 2014 to 2015, you'll see a drop in our cost per tonne to our historical published costs. We're using the high 80s at that point, or $86 to $88 in this model that we've provided to the public. We think that's achievable based off what we've seen November and December and then what we see through our budgeting process for 2015.

BENJAMIN ASUNCION:

Okay, and then just touching on El Cubo then, so you know, looking at the Q4 exit rate in December, you were just a hair over 1,500 tonnes a day and your guidance is sort of 1,350 to 1,450 for a throughput rate. I mean, how sustainable was your December production? Was it sort of a push to get everything at year end, or do you have enough development to be able to maintain that sort of run rate?

GODFREY WALTON:

Hi Ben, this is Godfrey. Thanks for the question. We do believe it's sustainable and, you know, the production that we've had through January has continued to show that, so our throughput is going to be fine. What is variable is the grade because we need more development, and that's one of the things that we are pushing. But we've seen days where the mine's gone – and this is in December – anywhere from 1,700 to 2,500 tonnes a day. So, you know, we know that we can keep that going. What we don't have is the guys working Sundays, and that's where we tend to drop off and that's where it evens out to be in the order of, you know, 1,400 to 1,500 tonnes a day on a seven-day week.

BENJAMIN ASUNCION:

Okay. Sorry, I guess, just on that note then, with regards to grades and development, you know, I think the read through from the guidance is for lower grades than the reserve grades. Was that correct?

GODFREY WALTON:

It's a little bit lower, yes.

BENJAMIN ASUNCION:

Okay.

GODFREY WALTON:

But it's still, actually, a lot better than the grades that we were looking at a year ago.

BENJAMIN ASUNCION:

Okay, and can you provide some colour—just looking at the reserve update, you know, I'm cognizant of the fact that you used a $4.00 lower silver price. You know, what happened, I guess, to the gold at El Cubo given the significant push on development—just not only the gold grades but also the tonnage? Can you give us some colour as to why we saw a decrease given the amount of development?

GODFREY WALTON:

We were carrying a lot of historical blocks in our reserves. They were mined as reserves before and we've had a chance to get in and have a look at them and realize that they were not the grades that were being reported, and that's one of the reasons why the grades have dropped down to a more realistic silver and gold number.

BENJAMIN ASUNCION:

Okay, and proportionately then, what proportion of it was historical versus now? Just trying to get a sense of if there's any more surprises when you're getting into some of these areas.

GODFREY WALTON:

Well, so far, the looking around that we've done there this year, we've actually had surprises in the other direction. We finished off looking at all these blocks, so we are finding blocks that have actually significantly higher grades than were reported, and those are actually coming out into the production. So right now, I think it's about 75% new blocks and 25% old blocks.

BRADFORD COOKE:

In the reserves.

BENJAMIN ASUNCION:

Okay. Okay, perfect. Then the last question here, just on Bolañitos, trying to stretch and look a little bit beyond this year, what's your thoughts on, how the progression would be to return back up to kind of filling internal capacity, you know, above the 1,100, 1,200 tonne a day guidance?

BRADFORD COOKE:

We certainly need more time and more exploration success in order to see a ramp up at Bolañitos, so that was not part of this year's guidance, but we're hopeful with the number of targets to be drilled this year. For instance, we found a blind vein in the new tunnel heading from the plant over to tap the La Luz-Asuncion ore body, and while it's still very early days yet, we have managed to jam into our budget for this year some development and drilling on that vein because it's quite robust, up to four metres thick and with spotty gold up to significant ore grades but not consistent in the small area exposed. So it's become a new target, and that's the type of thing that we've experienced historically at Bolañitos. In fact, all of Lucero, Karina, Daniela, Fernanda, Lana were blind. So we're not relying on that, but we're certainly trying to get lucky again.

BENJAMIN ASUNCION:

Okay, Bolañitos then throughout the year, safe to say we'll see production front-weighted and then it's sort of tapering down to that 1,100, 1,200 average closer towards year end?

BRADFORD COOKE:

Yes, we're running at capacity for the first two and a half months anyway, possibly three months of the year, and once we know which of the alternative mine plans at El Cubo we wish to adopt and we can actually bring some revised guidance, then I think it'll be clearer what the outlook for Bolañitos is. To be honest, the more aggressive we can be on El Cubo, the longer the mine life at Bolañitos.

BENJAMIN ASUNCION:

Okay, and then longer-term picture just looking at—I mean, just reading through on the all-in sustaining costs, you know, in that $17 to $18.50 range, kind of thoughts on where silver prices are and kind of longer-term plans, if we see, you know, the $17 silver hang around?

BRADFORD COOKE:

Well, you know what? If we're off to run a sustainable business at $17 silver, we absolutely have to crack the nut at Cubo. We not only saw a successful ramp up of production in Q4, I think it'll become clear what that impact is to our costs when we bring our year end financials in early March. Now, if that's what we're capable of doing, approaching plant capacity – and we're now thinking about a significant mine expansion over and above plant capacity – clearly, the agenda, the goal is to drive those costs down to—so that we have free cash flow from Cubo. That's the goal of the alternative plan, so yes, we think we can generate money at $17 silver, but we're jumping ahead. Give us a couple of months here to get our new plans out.

BENJAMIN ASUNCION:

Perfect. Thank you very much for answering my questions, guys.

BRADFORD COOKE:

Okay. Thanks, Ben.

OPERATOR:

We do not have any more questions at this time. I will hand the call over for any closing comments.

BRADFORD COOKE:

Well, very good. Thank you, operator, and thanks, all, for listening in today. We don't normally do conference calls based on our guidance, but given how in flux it is, we felt it would be important to give a bit of colour and background to not only today's news but where we're going here over the next two months. So thanks again and talk to you at our next call in early March.

OPERATOR:

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