Endeavour Silver Corporation

Third Quarter 2013 Results

Conference Call and Webcast Transcript

Date: November 6, 2013

Time: 10:00am PST/1:00pm EST

Speakers:

Meghan Brown
Director, Investor Relations

Bradford Cooke
Chairman and Chief Executive Officer

Godfrey Walton
President and Chief Operating Officer

Dan Dickson
Chief Financial Officer

Terry Chandler
VP Corporate Development

OPERATOR:

At this time, I would 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. third quarter 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 2013 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 these forward-looking statements other than as required by applicable law.

Thank you, and with that, I will turn the call over to Endeavour's CEO, Brad Cooke.

BRAD COOKE:

Thanks Meg, and welcome everybody to this Q3 financials conference call. As usual, we'll follow the same format where I do a brief review of our financial and operating performance in the quarter, and then we'll open it up for Q&A.

So off the top, Endeavour generated $68 million in revenue in Q3, up 31% year-on-year. The bottom line improved from zero earnings a year ago to $12.3 million or $0.12 a share in Q3, and EBITDA jumped 140% to $29 million; while cash flow actually dipped 34% **[CORRECTION: increased 34%]** to $26 million. Our direct costs per tonne for production did creep higher - industry-wide costs creeped - to $104 per tonne, but our cash costs of production net of the by-product gold credit actually fell 10% to $5.14 per ounce of silver produced. All-in sustaining costs fell precipitously, 43%, to $12.14 per ounce. This is our first quarter of reporting all-in sustaining as a separate highlight item. It's been in the MD&A previously, the information behind it, and our cash costs of production on a co-product basis were around $12 per ounce of silver and $768 per ounce of gold. Cash and equivalents at the end of the quarter were up over the end of Q2, sitting at $25.2 million; working cap $26.8 million, and all of that was on the back of a stellar quarter of operating performance.

We had a couple of opportunities and challenges in the second and third quarters. In the second quarter, obviously, with the fall in the metal prices, we had to address that in two ways. Like most companies, we went after our costs aggressively and not just operating costs but capital costs, exploration costs, G&A costs, but unlike most other companies, we had an opportunity to significantly boost our cash flow and try and cover our capital spending at El Cubo that way as well.

So, silver production was up 63% on the quarter, 1.85 million ounces, a record quarter; gold production up 95% to 23,000 ounces, a record quarter; equivalent production up 75% to 3.23 million ounces, a record quarter; and I mentioned already that by enhancing the cash flow and increasing the production tonnes and grades at all three mines we were able to generate any additional cash needed to cover our spending. In fact, Q3 saw us with sufficient free cash flow to start—restart some of the capital and exploration programs and also to add a bit of cash to the balance sheet.

In September, we boosted our production guidance for the year as a result of the outperformance of the Bolañitos mine and better production from El Cubo, and El Cubo and Bolañitos production and recoveries also benefitted from the processing of metal concentrates that were accumulated in Q2 and the clean out of the Las Torres plant and ultimately the El Cubo plant during the quarter.

So to wrap up my comments, we enjoyed another great quarter and operations, a strong quarter financially and while we're not forecasting identical or better results for the Q4, we do expect a good—a very good Q4 as well. Having turned back the Las Torres plant, we lost that processing capacity so the production from Bolañitos in Q4 will dip below Q3 and we're going to try and make up for it as we start now a 12-month exercise to slowly but steadily boost the throughputs at the El Cubo plant using El Cubo ore.

So Operator, with that comment, I think what I'll do is just turn the call over to questions and answers.

OPERATOR:

Thank you, sir. If you would like to ask a question, please press star and one on your touch-tone 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, then two. There will be a brief moment while we poll for questions.

Our first question today comes from Benjamin Asuncion of Haywood Securities. Please go ahead.

BENJAMIN ASUNCION:

Good morning guys. Thanks for taking my questions. I guess I just have two questions here on the quarter. First, perhaps maybe if we can get some way of quantifying how much the additional production bump was due to the clean out of Las Torres, and maybe a sense of what the cost that those contributed at were?

DAN DICKSON:

Okay, and your second question, Ben?

BENJAMIN ASUNCION:

I guess just with respect to this new Mexican tax reform, what the implications are going forward for things like deferred taxes and what your liabilities will be.

DAN DICKSON:

Yes, thanks for the question, Ben. This is Dan, the CFO. I could probably tackle both of these, especially as far as costs coming through the plant with regards to these additional ounces. As we noted in the press release, we got additional ounces out of the Las Torres plant when we cleaned it out and handed it back to Fresnillo. We also changed our saleable product at Cubo; instead of producing doré, we started producing concentrate, significantly reducing the lead time for material to get through the plant. Because of all this, we got about 100 and something thousand ounces of silver out and additional gold on a same ratio level, but those—the costs associated with those ounces really didn't have much of a cost. We estimate how many ounces are in the plant based on tonnes. With these ounces being essentially free ounces, the costs associated with them would have flowed through with the additional—the remaining ounces that were estimated to be in there. So the easiest way to explain it is almost that it came through as free ounces because the costs associated with the tonnes where those ounces would have come from flowed through quarters prior to Q3 2013.

Is that clear at all?

BENJAMIN ASUNCION:
Yes, it does, thank you. And then I guess just looking forward at what the impact of these taxes will be, I'm assuming that there's going to be some volatility in earnings given some of the changes in forward tax rates. Can you help quantify what those changes would be?

DAN DICKSON:
Yes, that's a relatively straightforward question. When it comes to the actual cash flows of the company and how we're impacted, using similar characteristics of 2013, about $22 silver, $1,300 gold, the EBITDA royalty is going to cost us just a little over $5 million after tax - it is deductible for tax purposes - so $5.2 million, and then the NSR royalty, the environmental tax, is about $1.25 million. So you're looking at about $6.5 million on a cash flow basis.

The big thing that a lot of companies haven't been talking about and I think a lot of the accounting groups are still working through is the impact on deferred income tax liability. Because depreciation and amortization is not allowed for the EBITDA royalty, you create a temporary difference under IFRS and with that you have to recognize the liability because of that temporary difference. So for us, we carry about $150 million of net book value of PP&E. Essentially for the EBITDA royalty, that PP&E is worth zero so you've got a temporary difference of about $150 million times that EBITDA tax rate of 7.5%, so you're looking at almost an $11 million increase to the deferred income tax liability and thus, an $11 million expense going through in Q4 of 2013 when this rate gets enacted.

Similarly, you've also seen that the tax rate was going to move down to 28%. In fact, they're maintaining the 30%. Well, in our future income tax calculation, we estimate using the future rate, again, so we're going to have a 2% increase where we have prior temporary differences and that really is going to result into another $2 million to $3 million that will go through in Q4 2013.

So all in all for us as a company, we're going to almost have a $15 million earnings hit, not cash flow hit, earnings hit in Q4 related to accounting for these new taxes that are going through in Mexico.

BENJAMIN ASUNCION:
Perfect, thank you.

OPERATOR:
The next question comes from Chris Lichtenheldt of Dundee Capital Markets. Please go ahead.

CHRIS LICHTENHELDT:
Good morning guys. I just wanted to ask about spending in the quarter. I know when we looked three months ago at some of the guidance with respect to second half capex, I think this was considerably more and partly attributed to the higher profitability and a bit of the recovery in prices. Can you comment on your plans going forward? In Q4 we should see a significant slowdown and potentially some debt repayment? Can you just comment on those plans?

DAN DICKSON:
Yes, Chris. It's Dan again. We did come out in early Q3, right after Q2 and talked about really reducing our mine development and I think we put that we're going to spend about $7 million in capital for the second half of the year. As you saw, Q3 was $18 million and part of it was the communication from our standpoint. We had already outlaid about $8 million of what we spend in capital; it was sitting in our deposits and properly so for Q2. We had $6 million related to the plant that was prepayments and deposits to the construction company who completed it in July. With that completion, it got moved into capital, and same with we had some equipment actually arrive July 2 at our Guanaceví operation. So as far as outlays, and that's really the number that we talked about with that $7 million, we actually even spent more than that in Q3 and that was a driver of better prices, better recoveries and then also discovery of the Asunción vein or

Asunción zone at El Cubo, so we really pushed mine development at Cubo which we knew we were going to do anyway, but we probably fast-tracked that even more than expected.

So going forward, at Guanaceví we did slow down mine development. The slowdown really didn't take place until mid-August. We expect that slowdown to continue because we do have reserve life there and to accentuate our cash flows or optimize our cash flows, we can slow down development at Guanaceví. So we can expect less in the next couple of quarters than we did here in Q3, and at Bolañitos, we have significant opportunity to increase mine development. We kind of are looking at that. We're just going through our 2014 budgeting and final mine plan process at this point, but I think it's fairly fair to say the way that we've been mining Bolañitos that we'll continue with mine development as we did in Q3. And then Q4, as we did—for El Cubo as we've always described for the market is what we acquired with something that needed a lot of work and a lot of attention, that included mine development for El Cubo. We acquired essentially only about, or we currently have only about five months worth of production in mine development. We always like to have about two years, so we're really going to keep continuing to push at El Cubo for mine development. So we spent about $3 million in Q3 here. I would expect something similar in Q4. It might be a little bit lower with Christmas break. Everything slows down a little bit in Mexico but we're pushing the same way we have with today's prices.

CHRIS LICHTENHELDT:
Okay, so in Q4 we should see a number lower than $18 milion though, is that fair?

DAN DICKSON:
Oh absolutely. So in that $18 million there is about $9 million that was growth capital and $9 million that was sustaining capital. I'd expect more of a sustaining capital number of just about $9 million, even less than that for Q4.

CHRIS LICHTENHELDT:
Okay, perfect, and then my last question is just on El Cubo, we saw cost per tonnes in Q3 go up relative to Q2 and I think total tonnage went up as well, so I'm just wondering if you can explain why unit costs went higher. Shouldn't they go lower now?

DAN DICKSON:

Yes, they should be going lower. We did have an additional almost 200 people laid off in Q3. So we had 176 in Q2 and we had just under 200 in Q3, that amounts to $870,000 for severance packages at El Cubo, plus when we handed back the Las Torres plant, we agreed with Fresnillo that we would clean up certain shafts, areas and stuff. That goes through our cost of sales and we've spent about $500,000 to $600,000 on that clean up stuff, which is a big part of the cost per tonne. It's all flowing through cost of sales. Obviously we can't capitalize that and we don't like to pull that out and put it in G&A. It's a cost of sale for El Cubo at this point, but we do expect that cost per tonne at El Cubo to come down into below the $110 range in Q4 and drive that below $100 into 2014.

CHRIS LICHTENHELDT:

If you—do you happen have a number adjusted for the one-time items that you discussed? Las Torres and the layoffs, what that cost per tonne might have been? Sub $110 or…?

DAN DICKSON:

No, it's still above $110. It amounts to about $13 a tonne.

CHRIS LICHTENHELDT:

Okay.

DAN DICKSON:

Just those specific items I've talked to.

CHRIS LICHTENHELDT:

Okay, that's helpful. Thanks a lot.

OPERATOR:

The next question comes from Joan Lappin of Gramercy Capital. Please go ahead.

JOAN LAPPIN:

Hi. Can you—I know you put out a press release the other day about this Mexican—proposed Mexican tax. Could you comment on that?

DAN DICKSON:

Be happy to, Joan. Well, to be honest, I would happily not like to talk about it if it wasn't there, but we didn't actually put out a press release ourselves related to it; however we do know a lot about it. We've been very engaged with our advisors, with the government, with the industry on what's taken place in Mexico, and to step back, there's been significant tax reform in Mexico that was put in—put to the Congress back in September by the President. Congress approved it with some minor changes and then the Senate actually approved it October 30, or maybe even October 31, and now it's just waiting the President's signature for the bill to get enacted as of January 1, 2014.

Some of the significant things that would hit all industries was a proposal to make sure that the tax rate stays at 30% rather than the proposed drop to 28% that was put in three years ago, and also a 10% withholding tax on dividends. Now for us being Canadian and governed under NAFTA, it flips to a 5% withholding tax on dividends. So that was more or less for the entire industry, plus personal income tax changes on individuals, et cetera, but more specifically for us in that tax reform is impacts on specific mining companies, that being an EBITDA royalty amounting to 7.5% and a 0.5% royalty for environmental issues on precious metals companies, so gold, silver, platinum, which, again, I alluded to with Ben's question earlier that the NSR royalty amounts to about $1.3 million and the EBITDA royalty amounts to about $5.3 million for us for a $6.5 million hit.

Other things that have flowed through, more minor issues, the exploration expenditures for pre-operating companies are amortized over 10 years rather than immediately and various little things in there that to us aren't overly significant but do impact us and impact our investment decisions going into Mexico going forward.

JOAN LAPPIN:

Well, so in summary, I mean is there anything you can do about this? Or it's just a reality? And I honestly don't know enough about what goes on in other countries to know—it seems as if, you know, there is sort of around the world, countries want to increase their royalties or whatever you want to call them, on minerals that are being extracted from their land. So to what extent or how does this fit into what's going on elsewhere?

BRAD COOKE:

This is Brad Cooke. Thanks for your question. We are seeing worldwide increase in the government take from the mining sector, so it's not unique to Mexico. Mexico is actually a bit late to the game, introducing taxes when the metal prices have already dipped significantly. And from our point of view—well, from the broad point of view, the general point of view, nobody likes to pay more tax but to be honest Mexico was the most attractive jurisdiction for new mine investment for the last decade worldwide and the unique combination there of political stability, open for business, great infrastructure, emerging middle class, low tax rates, prolific mineral potential and other factors obviously drove our decision to make significant investments in Mexico over the last 10 years.

Changing the rules of the game, while many companies are in the middle of significant capital investments, for instance we just made a big investment at El Cubo, has ramifications obviously. In general, it makes investors question whether or not this is still an attractive jurisdiction to bring new investments. All of us in the silver sector, excepting maybe one company, have operations in Mexico. So it is particularly impacting the silver mining sector worldwide. And all of us obviously are going to be looking at more taxes and lower profits, so the main pushback, again industry-wide, will be to tighten up our costs yet again and try and squeeze more cash out of our operations to be able to pay these taxes without dramatically impacting our profit margins. And I think that can and will be done. It does mean there's some potential for more layoffs industry-wide in Mexico as companies tighten up their operations and that's not exactly the result that the government was looking for. The broader impact though is on new investment. Mexico having had that significant competitive advantage for many years has basically given it away and now they're either at par or not as good as a couple of countries like Chile or Peru or Brazil, perhaps even certain provinces in Canada and the US. So instead of Mexico being the go-to country for silver mining, new silver mining, now it's just a wide open playing field.

So, specific to Endeavour, obviously we have three operating mines there and we're going to do our best to maximize value for stockholders out of those mines. The taxes don't tremendously put us under but we're in a middle of a major capital investment and to have the rules change is not a very attractive thing for us.

We can find a way to pay for these additional taxes, and the silver price alone, for instance, and again specific to Endeavour, if you just took this year's anticipated income taxes and compare it to the same numbers under the new rules coming in next year, the difference is north of $6 million and while we would love to have that $6 million for reinvestment to continue mine expansions, exploration, opening up new mines, et cetera, the fact is the government wants that money and they're going to have a right to it and we're going to pay it and the way to adjust for that is to, again, tighten up our costs and even if we are unable to do that, if we saw simply a $1 move in the price of silver, that would be enough to offset the additional taxes, based on this year's performance. So the ramifications are primarily on new mine investments and Mexico has lost its competitive edge.

JOAN LAPPIN:

Silver has certainly lost two-thirds of its value over the last couple of years and it's not the first time it's been through a cycle and it's certainly not the last. So what, for your own corporate planning for the current months and, you know, looking forward a year or two, what's in your own thinking as to what you think might happen with silver prices? Understanding that you don't know more than the rest of us.

BRAD COOKE:

Yes, that's like looking into a crystal ball and I'm willing to do that but don't hold me to it. We are obviously bullish on the precious metals. We run a precious metal company and we do not believe the current dip is the start of a bear market. It is a pretty significant correction in a bull market. Nobody knows when it's going to come to an end but we are bullish. Notwithstanding, we as operators have to be able to manage our assets for both the upside and the downside risk to our stockholders, and so we have plans in place for higher prices and we have different plans in place for lower prices. I think we'll probably see another move in the last two months of the year, a modest move. It's kind of like the two steps forward, one step back philosophy and I think we have probably another two steps forward between now and year-end. And then next year, I'm still bullish. I think next year is going to be similar, like two steps forward, one step backwards. So I am looking at the bottom in June as having been the low, the end of June, and we're in a saucer-shaped recovery right now and we just need to find some momentum, and that momentum will most likely come from the US dollar.

OPERATOR:

The next question is from Chris Thompson of Raymond James. Please go ahead.

CHRIS THOMPSON:

Hi guys. Just my question relates to Bolañitos. Obviously I guess it's pretty topical but what sort of run rate do you think would, how can I say? Are you trying—do you see as maintaining a level of sustainability as far as that operation is concerned? Looking at 2014 as a timeframe here.

GODFREY WALTON:

Hi Chris. This is Godfrey. Thanks for the question. For Bolañitos we're going to be looking at just keeping that plant full. We are expecting to have Cubo fill its own plant and so we'll be mining at about 1,600 tonnes a day from Bolañitos.

CHRIS THOMPSON:

So no additional mined tonnes there? Layering some of the additional tonnes into the El Cubo plant for the moment?

GODFREY WALTON:

Well, we're continuing to send some material over. It's down to about 200 tonnes a day now from Bolañitos to El Cubo, but in 2014 we expect, as I say, just to be staying at 1,600, and we'll be re-evaluating that based on the taxes and what our investments are going to be for next year.

CHRIS THOMPSON:

Okay, great. Thanks, Godfrey.

OPERATOR:

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

ANDY SCHOPICK:

Thank you, got a couple. Brad, I was listening very carefully to your response to I believe it was

Joan and I thought I heard you say you felt that the next catalyst for silver would be from the US dollar. Am I to assume that you believe the US dollar weakness is going to, in your opinion, be a factor going forward in what you expect to be a recovering silver price? Is that what you were trying to say?

BRAD COOKE:

Yes. Without going into any great detail, the precious metals are intimately related to currencies obviously. I'm not certain that I prefer to actually look at the price of precious metals as declines and rising prices mean declines in the purchasing power of currencies. So I am—yes, the presumption here is that the purchasing power of the US dollar will decline.

ANDY SCHOPICK:

Okay, and a couple of other questions here relating to the financial side of things. Dan, I noticed there appears to have been a net recovery of inventory in the quarter, about $2.7 million, and I just wondered if you could elaborate on that and whether or not there'll be any continuing expectation of any further recovery in the fourth quarter? Obviously this helped to lift your mine operating earnings and operating income above what it might otherwise have been in the quarter, so if you could comment on that?

DAN DICKSON:

Yes, absolutely, Andy. No problem. The recoveries stem from in Q2 we did a write-down on our stockpile at Guanaceví for net realizable value. Under accounting standards, you have to assess, you can carry your inventory, the lower of cost or net realizable value. When Q2 ended, the silver price closed at $18.86 which was the low. That triggered a loss or a write-down of that stockpile inventory and then obviously we closed up, $21.87 in Q3 which allowed us to take a recovery on that stockpile. So you can see where the sensitivity is. It's somewhere in the $19, $20 range on that stockpile at Guanaceví, but two things happened here in the quarter: our cost structure at Guanaceví got better on a per ounce basis, and then also the rise in prices. So as far as Q4, whether we're going to have any more write-downs in Q4 at Guanaceví, that's all dependent on where the price of silver goes. Obviously we think it's going to track somewhat upward, but if it closes below $19 or below $20, there's potential for a write-down on that stockpile again. So, I'll have to wait to be able to comment more on what's going to happen at the end of Q4 until after year-end.

ANDY SCHOPICK:

Alright. So it's silver price-dependent and there's a possibility then that there could be some further recovery if silver prices were to go up?

DAN DICKSON:

You're only allowed to recover it until the lowest of cost or NRV. In this case, we're already holding it at cost.

ANDY SCHOPICK:

Okay, so there won't be any further recovery but there's always a possibility, depending on silver prices, that there could be some further future write-down on that stockpile.

DAN DICKSON:

Exactly, Andy.

ANDY SCHOPICK:

Okay. Mexico, you know, this is really I think a big concern for silver mining companies in particular, what they're doing there and frankly, I'm surprised. It just seems like conditions in this industry go from bad to worse. Dan, I heard you say that there would be a Q4 impact of $15 million on earnings, an earnings hit. But that law is not going into effect until January 1, 2014, so I'm trying to understand why there would be any hit on earnings.

DAN DICKSON:

Yes, that's a very fair question. We've already talked to advisors. It actually gets enacted on November 15, or by November 15, so then we know what our future income tax rate is. So at December 31 the deferred income tax liability is based off future rates, so we know what the future rates are and what the future temporary differences are, so we would recognize it at that point.

ANDY SCHOPICK:

Okay, so it is your expectation that it will be recognized here, that there will be an impact in Q4 when you report results.

DAN DICKSON:

Yes.

ANDY SCHOPICK:

Going forward, based on the current annual performance of 2013, would it be an equivalent type of a hedge, because I heard something about $6 million and I did get confused and I'm not sure that I understood what I think Brad might have been saying a little bit.

DAN DICKSON:

Yes, Brad was speaking specifically to cash flow. So the EBITDA royalty and the NSR royalty are deductible for tax purposes. After tax, the impact would be north of $6 million, $6.5 million if you look at 2013's production profile and cost profile.

ANDY SCHOPICK:

And if it were the same type of cost and production profile in 2014, it would be about the same?

DAN DICKSON:

Exactly.

ANDY SCHOPICK:

Okay, thank you very much.

OPERATOR:

The next question comes from Paul Renken of VSA Capital. Please go ahead.

PAUL RENKEN:

Thanks guys for the report that you've given us here. It's nice to see the improvements on the financial side and the production side. I see the recoveries have come well up as a result of turning off the CIL circuit, like you said, and not produce doré instead to produce concentrates. Not much change I don't see though in the ore grades overall except for an incremental improvement quarter-on-quarter in gold. I was wondering what kind of grade changes we might expect for Q4 and Q1 of next year.

GODFREY WALTON:

Hi Paul, this is Godfrey. Thanks for your question. We have been enjoying a little higher grade than our reserve estimates and just because of where we are mining within the Bolañitos and partly in the Cubo ore bodies. We do expect that to come back down as we move into Q1 next year, come back down closer to reserve type grades. So particularly gold, it's quite high at the present time so we're actually producing a fair amount of gold but that will trail off over the quarters in 2014.

PAUL RENKEN:

The other question I had, is it—I believe over the years you've been holding some silver in inventory from time to time and is there any change in that particular picture that you see at the moment?

DAN DICKSON:

Yes, we—this is Dan. We do hold inventory from time to time. This year, in 2013, we've really held very little and it stems from cash flow. We need that—we needed those sales to fund the El Cubo project and the investment that we were making in El Cubo. Going forward, we could see that into 2014 where we would hold back silver if needed, but at this point in time we have no plans to.

PAUL RENKEN:

Okay, thanks guys.

OPERATOR:

As a reminder, if you'd like to ask a question, please press star, then one, on your touch-tone telephone. Our next question comes from Raj Rhom, a private investor. Please go ahead.

RAJ RHOM:

Hi. Thanks for taking my call. I have a couple of comments and I appreciate your views, and one of them is I believe just concluded quarter three is a better than expected quarter. That is what I believe unless something I'm missing, but our stock price has not reacted positively. That means the market in general is still concerned with some other issues. I am thinking the usual suspect in this case is back to the same old, El Cubo. So management is being very shrewd, in my opinion. I mean I respect highly all the team there, should I think get more aggressive in addressing this El Cubo and maybe put forward a more accurate picture in with regards to what you see going forward in 2014 and so on and so forth, because it is about time, you know? We invested $300 million, I believe something close to that, cash and then substantial amount of precious valuable senior management time in this project and if is not going to happen the way envision sometime back, maybe it's time to close this project. I mean El Cubo, so, because it's draining the value, I believe. But I am just I—maybe like again I don't know the facts there.

So that's one and then the second thing, quick comment again is the dollar. Well, markets are not trading based on fundamentals. Everybody knows if anybody is paying attention to the markets, any market for that matter, so there is no reason to think the dollar really go down and silver go up, so we have to plan for the worst. That's what I think is the right thing to do. So I appreciate your views on these two things.

BRAD COOKE:
Raj, this is Brad Cooke. Thanks for your questions. We obviously agree with you. You have to plan for the worst in order to be successful and that's something that we do year in, year out, so we have a base case model for each year based on what we would consider reasonable expectations for not only production but metal prices, but we also plan for what if we don't achieve certain metal prices, and this year is no different.

With regard to the lack of performance in the stock, clearly the metal prices are a huge shadow hanging over the entire sector and on an absolute performance basis compared to other sectors there's no question that the silver miners are down and there's not much improvement since the bottom; a little bit but not a lot. I will say this, however, and we agree with you that El Cubo had a very bad street reputation and it was a very difficult operation, losing money when we bought it, but we knew all of that, and that's part of the deal when you go into acquisitions is that other people challenges are in some way our opportunities. We thought we could fix the problems and El Cubo and turn it into a long-term core asset with single-digit cash costs. We did lay out a two-year turnaround and we're only five quarters into that, so bear with us. We think we're over the hump at El Cubo; I think Q3 shows that. It's now generating a little bit of cash instead of consuming cash. We are using the cash generated to reinvest in El Cubo, which is part of the original plan, and ask me at this time next year how we're doing at El Cubo because I think you'll be surprised.

With regard to our stock price and relative to El Cubo, I absolutely agree that we've had a El Cubo discount, let's call it, since we bought the mine but that's diminishing and the way to measure that is actually relative performance. If you go back a year and compare our stock chart to the other mid-tier silver producers, we were at the bottom of the pack and now, interestingly enough, after a year's efforts at El Cubo, we're in the middle of the pack. So our performance on a relative basis is actually improving and we fully expect more of that as we continue to deliver at El Cubo.

Does that answer your question?

RAJ RHOM:

Yes. Thanks, Brad. I really appreciate it.

OPERATOR:

There are no further questions at this time. I'll hand the call back for any closing comments.

BRAD COOKE:

Well thank you very much, Operator, and I'd just like to close with this thought. I can't remember who made this famous quote but it goes something like this: If you want to be successful, do more of what works and less of what doesn't. And clearly, what's working for us is Bolañitos times 10. Bolañitos is clearly our cash cow and it's carrying the company, by and large, and yet when we bought it six years ago, it was a piece of crap and that, you know - I apologize for the language - but nobody wanted to own Bolañitos. Not a single soul wanted to own Bolañitos except Endeavour, and look what we've done with it. They had no reserves, no resources and it was—the plant was struggling to put 50 tonnes per day of low-grade into a 500 tonne plant. Today, the plant's maxed out at 1,600 tonnes per day and the mine has done as much as 2,400 tonnes per day. That very much played into our thinking behind El Cubo and while it does take time and it's a painful period to transition from losing money to making money, we think we're doing more of what works at El Cubo in order to turn it from a money loser into a new core low-cost asset. Bear with us. Give us another three or four quarters on that one and then we'll see what the true measure of our efforts will be.

By the way, on the subject of doing more of what works and less of what doesn't, we do have an emerging new discovery in the last year in Mexico called San Sebastián and while it's still early days yet, it does look like it may have something between Bolañitos economics and early days at Guanaceví. Very attractive, thick, rich vein, open at both ends and we're moving as quickly as we can on San Sebastián to advance and de-risk that project so it has a chance to become our fourth mine, and if it does, indeed that will be effectively doing more of what works and less of what doesn't.

So that's my two bits worth for today and thank you very much for attending.

OPERATOR:
Ladies and gentlemen, this concludes today's conference call. You may now disconnect your lines. Thank you for participating and have a pleasant day.