Endeavour Silver Corp.
First Quarter 2024 Financial Results
Conference Call Transcript

Date: May 9, 2024

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

Speakers:

Galina Meleger
Vice-President, Investor Relations

Dan Dickson
Chief Executive Officer

Operator:
Welcome to the Endeavour Silver Corp. First Quarter 2024 Financial Results 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 *, then 1 on your telephone keypad. Should you need assistance during the conference call, you may signal an operator by pressing *, then 0.

I would now like to turn the conference over to Galina Meleger, Vice-President of Investor Relations. Please go ahead.

Galina Meleger:
Thank you Operator. Good morning everyone.

Before we get started, I ask that you view our MD&A for cautionary language regarding forward-looking statements and the risk factors pertaining to these statements. Our MD&A and the financial statements are available on our website at www.edrsilver.com.

With us on today's call is Dan Dickson, Endeavour Silver's CEO, Libby Senez, our Chief Financial Officer, and Don Gray, our Chief Operating Officer. Following Dan's formal remarks, we will then open up the call for questions.

Now, over to Dan.

Dan Dickson:
Thank you Galina, and welcome everyone.

In 2024 we've hit the ground running with a solid start. Market sentiment has heated up as gold has reached new all-time highs and silver is starting to follow. Our cash flow will benefit from these higher prices and our share price has outperformed our peer set thus far in 2024.

From an operating standpoint, our operations are hitting their targets. Moreover, we made remarkable progress in the construction of our next cornerstone mine Terronera, solidifying a bright future for the Company. It's exciting to think that this time next year Terronera will be contributing production to our profile.

Consolidated Q1 silver equivalent production totalled 2.3 million silver equivalent ounces or 1.5 million ounces of silver and 10,000 ounces of gold. This puts us in great shape to achieve 2024's production guidance of between 8.1 million to 8.8 million silver equivalent ounces.

The performance of both operating mines—Guanaceví and Bolañitos—remained steady and for lack of a better word, nondescript. Gold grades at both operations were slightly ahead of plan, offset by silver grades that were slightly below plan. Silver equivalents are flat and we expect similar grade profile throughout 2024.

Moving to our financials, we reported top line revenue of $64 million, up 15% year-over-year due to higher volumes sold and their higher realized gold price compared to Q1 2023. Cost of sales totalled $52 million, also up 32% from Q1 of 2023, due to a combination of increased ounces sold, higher direct costs and depreciation. Direct costs have stabilized and aligned well with our 2024 planned costs.

Mine operating earnings totalled $12 million. After exploration, G&A, and income tax expense, we reported a net loss of $1.2 million or $0.01 per share.

At the site level, Guanaceví delivered mine free cash flow pre-tax of $6.5 million, and Bolañitos contributed $4.5 million. The higher gold price has significantly benefitted our Bolañitos operation.

The full effect of the 2023 cost escalations and appreciation in the Mexican peso impacted direct operating costs compared to Q1 2023. As a result, our direct operating costs per tonne were significantly higher compared to last year; however, compared to 2024 budget, our direct operating costs aligned well with budget.

To be clear for our listeners, our direct operating costs are defined as mining, processing and indirect costs. Royalties, special mining duty and purchased ore are included in our direct cost metrics and are all impacted by the higher metal prices. These costs, again, included in our direct costs per tonne, have all exceeded budget due to the higher metal prices. These account for roughly $50 per tonne on our direct costs per tonne.

On a net basis, we did benefit from the higher byproduct gold credit, resulting in our cash costs and our all-in sustaining costs reporting below guidance.

At March 31, we had cash on-hand of $35 million and working capital of roughly $56 million. During Q1 we raised gross proceeds of $39 million via our ATM facility. As a reminder, it's essential to highlight that in adherence to our agreement for drawdown on the senior secured debt, we were committed to self-fund development for up to $150 million before gaining access to the $120 million credit facility. After quarter end, we satisfied this condition, which in turn enabled us to draw on the first installment of the $60 million of the $120 million committed. In connection with the draw, we also executed the final hedge contract terms to reduce financial risk on the project.

First, capitalizing on the strong gold price environment, we executed forward sale contracts for 68,000 ounces of gold at $2325 per ounce. This represents 55% of the planned gold byproduct production during Terronera's initial three years of operations.

Second, we secured the cost of the peso by entering forward purchases of $45 million of U.S. equivalent Mexican pesos, which covers the remaining construction period at a fixed rate of 16.56 per U.S. dollar.

Overall, we're pleased with the terms of the debt package as our finance team dedicated significant effort to secure favourable terms while safeguarding the upside for our shareholders.

We anticipate completing the remaining draw of $60 million in Q3, aligning with the completion of the Terronera build completed in Q4.

Let me give you a quick update on construction progress at Terronera. By the end of Q1 we achieved a significant milestone by surpassing the halfway point of construction, achieving 53% completion encompassing progress at both the surface construction and underground mine development. As I mentioned earlier, we spent $38 million towards development, bringing our total expenditure to $158 million. Our project commitment now stands at $225 million, representing 83% of the $271 million capital budget.

With site activities advancing rapidly, we have concentrated our effort on structural steel installation, which is 80% complete, and major equipment installation for our upper mill platform. As our quarterly reporting is very comprehensive, I'll provide a few recent highlights of progress.

Over the past year we've emphasized the importance of accelerating our mine development rate to 4 metres per day per critical heading, a goal we are steadily achieving to meet our production timeline. In this quarter alone, we completed over 1000 metres of underground mine development, bringing our total to over 3200 metres, keeping us on track for initial ore access in Q2.

The majority of construction activities have progressed well at the upper plant site. Currently surface construction stands at 56% complete.

On the procurement front, our bulk materials purchasing is on track with the construction schedule, allowing us to install many components upon immediate arrival to site while making use of the project's lean footprint. Our COO has optimized a just-in-time delivery framework which has proven highly effective, all while maintaining a steadfast focus on continuous safety measures.

Thanks to a growing workforce at the site, which now totals 550 employees and contractors, this quarter saw the achievement of other significant milestones. This includes successful setting of both the SAG and ball mills, placement of the regrind mill and flotation cells, and the commencement of installation for the crusher, belt conveyors and apron feeders.

Additionally during Q1, we initiated excavation of the TSF embankment key trench and the lower platform area, which are 60% and 45% complete, respectively. Concrete work is anticipated to start in Q2 on the lower platform.

Lastly, on the community relations side, a new miner trainer program for local community members was established to provide training and employment.

If you're interested in viewing photos and video footage of the construction during progress, I encourage you to visit our website. You'll find our quarterly photo gallery showcasing the latest developments as well as a video filmed in mid-March.

Before we move to Q&A, I'd like to highlight that we recognize that our long-term success goes beyond achieving financial metrics. Next week we will publish our 2023 Sustainability Report. It speaks to our ongoing actions to mine responsibly and help shape a more inclusive sustainable future for our business and our stakeholders. 2023 marked the second year implementing our three-year sustainability strategy, and we will be reporting our progress to date. I would recommend you take time to view our new report after it's published online.

Additionally, we are pleased to announce the nomination of a new Board member, Angela Johnson, at our 2024 Annual Meeting of Shareholders to be held on May 28. Her technical background and ESG experience is an exceptional fit for our existing board members, and helps us achieve succession planning objectives to ensure core Board competencies and expertise are in place.

That wraps my formal comments for today. Together with the other members of our management team we would be happy to take questions. Operator, please open the lines.

Operator:
We will now begin the question-and-answer session. To join the question queue you may press *, then 1 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 keys. To withdraw your question, please press *, then 2. We'll pause for a moment as callers join the queue.

The first question comes from Lucas Pipes at B. Riley. Please go ahead.

Lucas Pipes:
Thank you very much, Operator. Good afternoon everyone.

Dan, I wanted to ask a little bit about the exchange rate throughout kind of Latin America and how you would expect that both impact your kind of operating cost expectations as well as any impact on the capital costs side. Thank you very much.

Dan Dickson:

Lucas, that's a good question. We did use a 17:1 ratio in our assumptions and our guidance for 2024. Through Q1 we were effectively rate close to 17:1. Our expectation is the Mexican peso will hover right here around 17:1. So from an operating standpoint we stick where our guidance is, which is ultimately $14 to $15 cash costs. All-in sustaining costs are expected to be $22 to $23. Obviously in Q1 we're below that guidance and I think that's a function of the gold price. If you look at our costs, our direct operating costs per tonne, they're in line with where our plan was.

From a construction standpoint, we entered into $45 million worth of FX contracts, so we've effectively locked that in at 16.1, so the impact for Terronera going forward would be muted because of that. But of course, like I say, I think the peso is going to—it seems to have stabilized here at 17:1 and I expect that to stay there for the year.

Lucas Pipes:

Thank you. Thank you, Dan. Then good job at Guanaceví. You noted that silver grades were slightly below plan. My question is when you would expect those to be maybe more kind of on plan or above plan. And with the plant there you exceeded the 1200 tonnes per day level; curious if there's more to do on that. Thank you very much.

Dan Dickson:

Yes. From a grade standpoint, we actually exceeded plan this quarter from a gold standpoint and slightly under plan from a silver standpoint on grades at Guanaceví. That's normal variations in the ore body and we expect to be something similar for the next three quarters as well. So we are just over 400 grams of silver and about 1.2 or just under 1.2 grams of gold. I think those are very favourable grades and that's our expectation for the year.

As far as running 1200 tonnes per day through the Guanaceví plant or exceeding our capacity of 1200 tonnes per day, our hope is that will continue. Obviously we put guidance out with the estimation of 1200 tonnes per day, but we did a lot of work in the plant in 2023 or refurbishing things and obviously we have the ability to push it beyond that 1200 tonnes per day. Now it's all predicated on the mine keeping up to speed. We don't want to get too far ahead of ourselves. At the same time, like I said in my comments, Guanaceví has been very steady and the expectation is we'll easily beat that 1200 tonnes going forward.

Lucas Pipes:

Thank you very much. Maybe a quick one. Just with the backdrop of much stronger precious metal prices, what's your take on M&A in the space, either kind of as a buyer yourself or more broadly in the ecosystem? Thank you very much.

Dan Dickson:

From ourselves, our standpoint is we need to execute on Terronera and get Terronera into production. I think at the end of this year if we can execute on Terronera, get commissioned in Q4 and commercial production for 2025, we're going to see that reflected in our share price. Now, you never say never. There's always opportunities out in the marketplace. From our standpoint we want to see something that's accretive, but I don't think the full value of Terronera is built into our share price yet, and again, I think that needs to be executed this year for that to be reflected there.

From a broader standpoint, yes, we're seeing higher prices. Obviously last year we saw margins get constrained just because of higher costs, and I think that's percolated its way through the industry. I think cash is important. Obviously there hasn't been a lot of capital available in our industry and there needs to be investment from an exploration standpoint and a development standpoint, which will create more opportunity for prices to increase, especially from a silver standpoint. I can't speak for the entire industry. I know as Endeavour we want to be here 10 years from now. We continue to look for development projects. We look for exploration projects, but right now our resources are dedicated towards Terronera, mainly from a cash standpoint and also from a labour standpoint. There's only so much time and energy that we have that we can put into certain projects and we really like our Pitarrilla project that's coming in behind Terronera.

So, again, for us I think we want to get through 2024 and look at that landscape, and then from a broader standpoint I think people are always going to be inquisitive and you always try to build a bigger, better company.

Lucas Pipes:

Dan, I appreciate your thoughts. Keep up the good work. Thank you.

Dan Dickson:
Thanks Lucas, and thanks for the questions.

Operator:
The next question comes from Heiko Ihle of H.C. Wainwright. Please go ahead.

Heiko Ihle:
Hey there, Dan and team. Thanks for taking my questions. I assume you can hear me okay?

Dan Dickson:
We can hear you well, Heiko.

Heiko Ihle:
Thank God. Just glancing at the gold/silver ratio during the quarter, obviously gold production increased quite markedly. In fact, gold was so strong that it made quite a measurable impact on cash costs given gold byproduct credits.

At this point, we're halfway through Q2 and gold is still at $2330. Just conceptually, can you provide a bit of guidance, if you expect to see this through the remainder of the year and the impact on cash costs, and if you anticipate this fully offsetting the impact of the higher Mexican peso?

Dan Dickson:
The higher Mexican peso is all built in to our guidance to start with at 17:1, so of course if we see the appreciation in the Mexico peso, a higher gold price offsets that. Again, I think the Mexican peso has stabilized here, so hopefully it stays where it's at because it is a significant portion of our costs. From a labour standpoint, it's about 30% of our operating costs, which is obviously tied to the Mexican peso.

For gold, like I said in my comments, initially our gold grades were slightly ahead of plan. That's just normal variations in the ore body. Where I think there is opportunity is Bolañitos. Obviously Bolañitos has more gold production on a proportional basis compared to Guanaceví and it allows us to potentially get into some other areas of Bolañitos that we haven't been in because of the lower gold price.

If we have higher gold production, of course that means a bigger gold credit. I think, Heiko, what we look at as the management team is our direct operating costs per tonne. So the things that we can manage: mining costs, processing costs, any indirect costs, so all our G&A on site. Our goal is to meet plan on that and if we end up in a higher gold price environment, of course that byproduct credit lowers our all-in sustaining costs and our cash costs. But like I say, we try to control what we can control and that's the inputs that are going into our operating costs.

Heiko Ihle:
Fair enough. Then just a longer-term question. Your direct operating costs in the quarter increased by about 10%. In your release you state this was based on ongoing ventilation and water management challenges that affect the productivity. Obviously none of this translates to Terronera at all, and I just looked at some of the pictures here on your website and it looks like this thing is really coming together.

But then you also state in the release that you're encountering ongoing inflationary pressures in costs that I assume may ultimately be seen at Terronera a bit. I mean commissioning at this point, Q4 is not that far out. Should the analyst community start thinking a bit of inflationary costs for the site, or should the current numbers that we have stay as a good baseline for where we should be at?

Dan Dickson:
That's a very good question, Heiko. We haven't provided guidance from an operational standpoint for Terronera since April of 2023 when we announced construction decision. At that time we put out an optimized plan that highlighted an $81 cost per tonne. That cost per tonne had come down from the feasibility study of $87 to $81 because of the economies of scale going from 1700 tonnes per day to 2000 tonnes per day.

That estimate was done effectively December of 2022, January of 2023. Since the start of 2023, across the industry and specifically in Mexico, you've had the appreciation in the Mexican peso by 15%. You've had inflationary pressures specifically on steel, reagents, power costs, all in Mexico. So it would be very fair to assume that you've had escalations from an operating standpoint at Terronera going from $81, maybe get into the $95 or $100 range. We haven't gone through and rebuilt those estimates from an operational standpoint. As we go into production, hopefully later this year—like I say, commissioning for Q4—management will update those costs and we'll provide guidance to the marketplace going into 2025. But again, if you just look at what's happened across the industry and what's happened in Mexico, it's fair to say that those operational costs are higher than what we put out when we initially did that optimized plan.

Heiko Ihle:
Fair enough. Great answer. Great quarter. Obviously your stock is reacting quite favourably, and I'll get back in queue. Thank you.

Dan Dickson:
Thanks, Heiko. Thanks for the questions.

Operator:
The next question comes from Craig Hutchison with TD Securities. Please go ahead.

Craig Hutchison:
Hi guys.

Dan Dickson:
Hey Craig.

Craig Hutchison:
Can you talk about the—hey, Dan. Can you talk about the cadence of the remaining spend at Terronera? I think you said 53% end of March. Commissioning, maybe 6 to 9 months away. I would imagine that the spend that you guys reported last time, about 2% to 3% per month, will accelerate. But if you could just sort of talk to how that spend will accelerate between now and end of commissioning.

Dan Dickson:
Yes. That's a good question, Craig, and the fact that we are reaching our peak construction within, well really this month, next month, through August. The key components being the upper platform. As I said, 80% of steel is complete there so now we're going into piping and electrical. That's been going very well with our contractor. Mine development remains the critical path into

production. We are hitting ore in Q2. So this quarter, we expect to start having ore come out of the mine. We have crossed the vein. Everything looks really good from that standpoint, so there's additional spend from a mine development standpoint.

Then the key other critical path is our tailings facility. Our tailings facility, we call it the lower platform. That's where our dry stack tailings facility will be, our concentrator will be, and ultimately our LNG plant. Our LNG plant remains delayed. It's expected to start commencing putting in the concrete this quarter, and then obviously (inaudible 22:24) construction after that. Our expectation is that LNG plant won't be complete, which is about 10% of the production of 100%. That won't be completed until 2025, so we will be on diesel gen sets when we go into commissioning in Q4. But ultimately, from the 2% to 3%, that's going to pick up significantly and we're going to get—like I say, I think we said we have $225 million committed. A lot of that is going to be pushed through in this quarter and then early Q3.

Lots going on, but we have really no more procurement. It's now just about executing and as we execute the embankment for the tailings facility, which has been going relatively well, we'll be on track for commissioning in Q4.

Craig Hutchison:
Okay. Great. Just maybe to follow-up on that, on your statement the LNG getting commissioned in the beginning of 2025, how much throughput can you run a plant at on diesel alone?

Dan Dickson:
Our diesel gen sets will have the same output as our LNG plant, which is just shy of 13 megawatts. The plan is everything should be up and going on these diesel gen sets. What the diesel gen sets will do is increase our operating costs compared to the LNG plant.

Craig Hutchison:
Okay. Great. Then, once you guys sort of reach commissioning, what's sort of a timeframe to reach commercial production? What is the definition for you guys for commercial production and how long do you guys think it will take to get there?

Dan Dickson:
I don't have the specific definition. It's a multitude of factors of getting into commercial production or qualifying for commercial production. We initially estimated three to four months. I think we think we can do that a lot quicker than three to four months. But as we approach and understand where our bottlenecks are and if we can pre-commission some of the upper platform before Q4 that would be ideal. But we'll give guidance to the marketplace as we approach Q4 on that.

Craig Hutchison:
Okay. Great. Maybe one last question for me. Just on the second tranche drawdown, can you remind me what the milestone is to access that additional money?

Dan Dickson:
Yes. In that right now, like I said, in April we pulled off $60 million and in that we have a cash requirement sitting in the account which we ultimately call an overrun facility of $24 million. We're required to build that up to $28 million and then independent engineers are doing a visit for the lenders late May, just to get an update, to make sure what's happening in our reports is what's happening on site. That's one of the terms. Then other bunch of minor terms that need to be executed on going into that.

Craig Hutchison:
Okay. Great. Thanks guys.

Dan Dickson:
Thanks, Craig, for the questions.

Operator:
The next question comes from Robert Carlson of Janney Montgomery Scott. Please go ahead.

Robert Carlson:
Congratulations on the quarter and progress made so far. Do you guys utilize hedges?

Dan Dickson:
Yes, Robert. We entered into a gold hedge, which is a requirement under our lending facility, so we entered into 68,000 ounces of gold that will be delivered through 2025 and 2026, a little bit into 2027. That was priced out at $2325 per ounce of gold. Otherwise, we don't hedge silver. One of our mandates is to make sure that for our shareholders who are invested in Endeavour Silver is to ride that upside that we expect to come on a silver price standpoint.

From an interquarter standpoint, we'll enter into things very short term, so under 90 days, but that's just generally trying to take advantage of spikes in the silver price.

Robert Carlson:
(Inaudible 26:19) coming onboard, like next year, there's no plans to establish a hedging program for silver?

Dan Dickson:
No. There is no plan to establish a hedging program for silver. I think what we're seeing right now in the silver market is an environment that's going to be very favourable to silver price. I mean, from an industrial standpoint we've seen significant demand increase because of solar panels, the electrification of the world, obviously trying to reduce carbon, but the monetary story for silver has been lagging for the last kind of two, three years and we've seen gold really take off and ultimately make new all-time highs. Silver is still well off its all-time highs of $50. Today, obviously, we're sitting just above $28 and so I think there's a lot of runway there for silver over the next kind of year, couple of years. We want to leave that upwards movement in silver price for our shareholders.

Robert Carlson:
Great. Thank you.

Dan Dickson:
Thanks, Robert.

Operator:
Once again, if you have a question please press *, then 1.

The next question comes from Jake Sekelsky of Alliance Global Partners. Please go ahead.

Jake Sekelsky:
Hey Dan and team, thanks for taking my questions.

So just…

Dan Dickson:
Hey Jake, thanks.

Jake Sekelsky:
… building on that last question a bit, and going back to the tailwind from stronger gold byproduct credits this quarter and moreso at current levels, I'm wondering if there's a level in gold where you'd look at hedging out some additional gold production outside of the requirements for the Terronera facility.

Dan Dickson:
Yes, I mean that's a fair question. I think there's a lot of runway left in the precious metals space but it's not something that we'd really entertain for this year. Obviously we want to make sure we protect the downside of the company with having so much investment going into Terronera, but we think the 68,000 ounces of gold that we've already hedged out for when we get into operations for Terronera provides that. For the remaining operation, Bolañitos and Guanaceví produce about 30,000 to 35,000 ounces of gold. I think we're comfortable that the gold is on its way upwards. Obviously there's always downside potential, but we used $1840 in our guidance forecast and from a cash flow standpoint. Again, maybe we get into Q3 and we sell some gold forward a little bit, but we wouldn't get beyond the 90 days.

Jake Sekelsky:
Okay. That's fair. Then just on Terronera, can you just touch on the labour outlook there as we head towards commissioning later this year?

Dan Dickson:
Yes. From a labour standpoint, we handle all the mine development internally. So, from our mining team, which will transition from development into operations will be consistent and be

fully up on labour. From an operational readiness standpoint for the plant, we've already started that process. We've made hires for plant operations, and obviously from an indirect standpoint we're relatively staffed up there as well. There shouldn't be a significant change or a huge hiring process between now and Q4. We have people that we need to add, but we've already been working on operational readiness plans so we can execute well in Q4.

Again, from a labour costs standpoint, everything we've done this year from an operational standpoint was done at 17:1 Mexican peso to U.S. dollar. When we go into operations for Terronera, that would be a similar FX rate that we would use. For Bolañitos and Guanaceví, 30% of our cost is related to labour and that's similar for Terronera.

When we go back and look at 2022's optimized plan, that would have been done at 21:1 ratio, so now that's at a 17:1 to ratio, so you'd have higher labour costs from an operational standpoint just because of the FX move, but again, when we go into 2025 we'll provide that additional detail for the market.

Jake Sekelsky:
Got it. Okay. That's all for me. Thanks again.

Dan Dickson:
Thanks for the questions, Jake. Much appreciated.

Operator:
This concludes the question-and-answer session. I would like to turn the conference back over to Dan Dickson for any closing remarks.

Dan Dickson:
Thanks, Operator, and thanks to everyone who's turned in today for our Q1 2024 Earnings Release. Again, I think we've done an extremely good job of just executing our plan from an operational standpoint. It's our job to execute on Terronera this year. If we can execute on Terronera over the next two quarters we should be into commissioning for Q4 2024. It will be nice to see that production profile come into the Endeavour production profile for 2025.

Thanks everyone and have a good day.

Operator:

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