



Endeavour Silver Corp.

Second Quarter 2024 Financial Results

Conference Call Transcript

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Speakers: **Allison Pettit**
Director of Investor Relations

Dan Dickson
Chief Executive Officer

Elizabeth Senez
Chief Financial Officer

Donald Gray
Chief Operating Officer

Operator:

Thank you for standing by. This is the Conference Operator. Welcome to the Endeavour Silver Corp. Second 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 Allison Pettit, Director of Investor Relations. Please, go ahead.

Allison Pettit:

Thank you, Operator and 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 financial statements are available on our website at edrsilver.com. On today's call we have Dan Dickson, Endeavour Silver's CEO, Elizabeth Senez, our Chief Financial Officer, and Don Gray, Endeavour's COO. Following Dan's formal remarks, we will open the call for questions. And now, over to Dan.

Dan Dickson:

Thank you, Allison, and welcome, everyone. It's been a productive second quarter at Endeavour Silver. As gold reached new all-time highs and with silver starting to follow, the Company's cash flow and financial position should continue to benefit from these higher prices. At Terronera there was a significant advance of the upper platform surface infrastructure and the overall project progress reached 65% at June 30th. Terronera is on track for commissioning in Q4 2024 and we are excited for it to contribute to our production profile next year and become a cornerstone asset.

Q2 silver equivalent production totalled 2.2 million ounces or 1.3 million ounces of silver and 10,500 ounces of gold. We are in great position to meet the upper range of our 2024 production guidance. Silver equivalent grades have been in line with expectations, with gold grades slightly higher and silver grades slightly lower. This is expected to be similar going forward and therefore we expect a similar production profile for the second half of the year. We reported top line revenue of \$58 million, up 17% year-over-year due to higher metal prices compared to Q2 2023.

Cost of sales totalled \$48 million, up 28% from Q2 2023 due to strengthened Mexican peso contributing to higher labour, power and consumables costs and continued inflationary effects from 2023 that flowed into 2024. At Guanacevi, purchased material from local miners increased to 18% of throughput and accounted for \$5 million of our cost of sales. In Q2 2023 purchased material was \$1.5 million. With higher precious metal prices the availability and costs of the purchased material have both increased. There are a number of benefits of purchasing the local material and management expects the purchase of material to remain elevated for the foreseeable future.

The higher prices also means higher royalty expense and we are generating mining profits, increasing our special mining duties, which are impacting our cost metrics. Direct operating costs, our mining, processing and site administrative costs are within management's expectations. Cash costs and all-in-sustaining costs benefit from the higher gold credit than estimated at the beginning of the year, offsetting the higher royalties, special mining duties and increased purchased material.

The Company reported a net loss of \$14.0 million for the three-month period ended June 30th, 2024, compared to a \$1.0 million loss in Q2 2023. Excluding certain non-cash and unusual items, and items that are subject to volatility which are unrelated to the Company's operations, the adjusted loss was \$1.0 million compared to the adjusted earnings of \$1.6 million in Q2 2023. With production results and construction results previously released, today's substantial share price action was unexpected and still the magnitude is somewhat puzzling. With higher precious metals prices, clearly there's an expectation for better earnings and I believe this is one data point and, over time, we will deliver on those expectations.

As at June 30th, 2024, the Company's cash position was \$68 million and working capital of \$65 million. The Company raised \$14.7 million through share issuances, primarily to fund Terronera. And during the quarter the Company completed its first drawdown of the Terronera Senior Secured Debt Facility, drawing \$60 million. Subsequent to the reporting end, the Company completed a second draw of \$15 million and has an additional \$45 million committed and available for future drawdowns expected in the third or fourth quarter.

As I mentioned earlier, the Terronera project reached 65% completion, with more than \$204 million in the project budget spent to date. Project commitments total \$260 million, which is 96%

of our \$271 million capital budget, and remains on track for commissioning in Q4 2024 as we continue to advance on schedule. Over 1,250 metres of underground mine development were completed in Q2 for a cumulative total of 4.5 kilometres, and our mine crews continue working in portals 1, 2 and 4 declines. Development has cut through the Terronera vein and we've started to develop test stopes. On the upper platform, surface mill and infrastructure construction is 88% complete, with concrete and structural steel erection being fully complete, and mechanical piping and electrical installation is well underway for underway.

The excavation of the tailings storage facility, embankment and key trench is about 95% complete, and the lower platform is nearly 50% complete. Concrete work on the lower platform is scheduled to start early Q3 and remains a critical path for commissioning in Q4. Through June 30th, 87 of 95 procurement packages are now complete and it's now really an exercise in execution and productivity over the next six months

The Company anticipates commissioning using temporary power, with the LNG and power generation to be operational subsequent to commissioning. The temporary power has been planned and is expected to be available for Q4. Similarly, there'll be other minor structures under construction during commissioning. And lastly, from a community relations standpoint, with the local community support continuing to be a major commitment, a plant operator training programme was established. A comprehensive training and support service plan is being prepared for groups and individuals seeking to form businesses that can provide local goods and services within the community. Again, for a fulsome construction update at Terronera I would encourage you to visit our website where you'll find our quarterly photo gallery showcasing the latest development, progress and information on Terronera.

Before we move to the Q&A part of the call, I would also like to highlight that we published our 2023 Sustainability Report, titled Transformation in Motion, in May, that provides a deep dive into Endeavour's sustainability commitments, performance and ongoing approach to responsible mining. You can view the full report and the Company's strategy on our website under the Sustainability tab. With that, Operator, I'm happy to open this up to questions. Let's please proceed to that session, Operator.

Operator:

Thank you. To join the question queue, you may press *, then 1 on your telephone keypad. You

will hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press *, then 2. The first question comes from Jake Sekelsky with Alliance Global Partners. Please go ahead.

Jake Sekelsky:

Hey, Dan and team. Thanks for taking my questions.

Dan Dickson:

No problem, Jake. Happy to take them.

Jake Sekelsky:

Just starting with the finished goods build during the quarter, I'm just curious, we're ounces withheld for higher prices this quarter or was this just a function of timing?

Dan Dickson:

Just a timing function. I believe our last shipments went out about the 28th. We didn't sell anything in advance and obviously, because of where we are in the position of building Terronera, we're not holding back sales and don't expect to hold back sales at this time.

Jake Sekelsky:

Okay, that's helpful. And then just on foreign exchange, I'm just curious. Do you think the peso has weakened to a level where you might start putting broader company hedges in place or do you want to see a bit more weakness there?

Dan Dickson:

I do think there's a little bit more weakness coming in the Mexican peso, just based on policy of government but it's always difficult to determine when that weakness will show up and how long it will persist for. At this time, we have no plans to enter into any more FX hedges. We were required to enter into FX hedges under our build, under the debt facility, and we are required to enter into, when we go into operations, some operational FX hedges but we haven't made a determination of when we'll put that in place. Again, I think we'll see some more weakness in the Mexican peso, but we'll see.

Jake Sekelsky:

Got it. That's all from me. Thanks again.

Dan Dickson:

Thanks for the questions, Jake.

Operator:

The next question comes from Lucas Pipes with B. Riley. Please go ahead.

Lucas Pipes:

Thank you very much, Operator. Good afternoon, everyone. Dan, my first question is kind of higher level, on the operating environment in Mexico. Obviously, there was an election, the new administration has yet to take office but I wondered if maybe, with the election in the rear-view mirror, there's a bit more clarity as to the priorities from a regulatory standpoint on the incoming administration. Thank you very much.

Dan Dickson:

You're correct. On June 2nd there was an election. The Moreno party won in probably what were better results for them than was originally expected. The new president, Claudia Sheinbaum, she is a successor to, effectively, AMLO, and it will be interesting over her first couple of years in office how closely she follows the platform, which is expected to be relatively closely. She has privately and now kind of percolating out into the press, that she'll be more pro-mining, necessarily, than AMLO. She's definitely more pro-business but the reforms that were put in place, that have been lost through a bunch of Amparos, we're still waiting on the Supreme Court decision. There's been some chatter that those will be repealed but re-put in front of the legislature in the fall.

So, there is still some uncertainty coming through the current government. How this changes, we'll probably be able to see that better in the next six months. I think, when it comes to Mexico, there's been a lot of rhetoric coming out of AMLO. I think that's going to dissipate. But ultimately it's still one of the best jurisdictions in the world to operate from a mining standpoint. Again, I don't think some of the compliance requirements that are being put in or ultimately in those mining reforms, will impact Endeavour significantly, just because we have departments that can

handle that. But again, until that comes through and actually gets properly approved or properly put through legislation, it's difficult to comment on.

Lucas Pipes:

Really appreciate your perspective. That's helpful. You note the additional \$45 million available at Terronera in the second half of 2024 and I wondered if there are any specific project milestones attached to that release and, if so, if you could maybe comment and elaborate on those. Thank you.

Dan Dickson:

No, there is no specific milestones required to it. The independent engineers that represent the banks, they do reports and they look at our monthly reports and they'll go through that and we have attestations to do but everything remains on track and we think that will be available over the next, like I say, six months.

Lucas Pipes:

Terrific. Dan, really appreciate your comments. To you and the team, all the best of luck.

Dan Dickson:

Thanks for the questions, Lucas. Good to hear from you.

Operator:

The next question comes from Craig Hutchison with TD Cowen. Please go ahead.

Craig Hutchison:

Hi, guys. I just wanted to know on the underground development rates, it looks like they did pick up nicely in the second quarter. In the past, I think initially you had some underground geotechnical issues but can you just comment in terms of how that's going? Are you tracking to plan, ahead of plan, behind plan, just any sort of sense in terms of how the underground development work is going?

Dan Dickson:

That's a really good observation, Craig. Ultimately, we are tracking to plan now. Initially, with any outset and when you're start an adit there's a little bit of a learning curve just understanding

ground conditions and water conditions. I think the ground conditions are within line, if not a bit better than the expectations of our technical reports. Water and water management is right in line with expectations, if not a little bit less. So, things have been going relatively well. We have good days and we have bad days but we're hitting our marks and expect to have the mine development complete so we can kind of hit our tonnage expectations for 2025.

Craig Hutchison:

And just in terms of the overall progress, 65% complete year-to-date but can you give us some sense of how you guys arrive at that number? I imagine it's a combination of dollars spent versus your budget and the milestones but with three or four months ahead of commissioning here, I just want to get a sense that achieving the remaining 35-odd percent is achievable, really, in the last three or four-month stretch here.

Dan Dickson:

It's a very fair question. Just for from a layman's standpoint, if you look at it, we were at 53% at the end of the first quarter and now we're effectively 65%. It's obviously a delta of 12%. If you apply that over the next two quarters, that takes you from 65% to 77% and short of 90%. One of the items that's going to be not complete for while we're in commissioning but probably complete slightly after ultimately will be our LNG and power generation plant. We had some delays getting permits there. We are going to be on diesel generators for the start of commissioning and possibly into commercial production.

So, ultimately, we're not tracking to 100% for commissioning. And, as I say, there are some minor structures. One that comes to mind is the maintenance shop that will be still being built while we're in commissioning. Our expectation is that will still be being built while we're in there. So, thinking of it as we're going to get to 100% complete prior to commissioning isn't the way to think about it. It's probably more between 85% and 90% when we're there. And even as we go into commercial production, it's not necessarily that we'll be 100% complete either.

Craig Hutchison:

That's great. Thanks for the context. Maybe a last question for me. Just with regards to the commissioning by year end, do you anticipate producing sort of first concentrate at that point or is that more pushed out to early Q1 next year? Thanks.

Dan Dickson:

That's getting into quite specifics. I think probably everybody would hope to hear that we expect to have some concentrate by the end of the year and that's kind of our expectation. Obviously, from commissioning to commercial production it comes down to capacity and making sure we're hitting our capacity numbers to declare commercial production but there'd be some con that's produced during commissioning of course. It's a matter of how much and exactly when that timing hits.

Craig Hutchison:

Great. Thanks, guys, and good luck.

Dan Dickson:

Thanks for the questions, Craig.

Operator:

The next question comes from Heiko Ihle, with H.C. Wainwright. Please go ahead.

Case Bongirne:

Hi, Dan, this is Case from H.C. Wainwright. Heiko is travelling right now and can't make it into the question line but thank you for taking our questions.

Dan Dickson:

Happy to.

Case Bongirne:

For the Terronera drawdown of the remaining \$45 million, would you be able to give us some insight to when you expect to take the remainder? I assume at least some of it will be needed this quarter.

Elizabeth Senez:

Hi. This is Elizabeth Senez. Yes, we do plan to draw down this quarter.

Case Bongirne:

Any idea how much or is it just play it by ear?

Elizabeth Senez:

We'll see how the spend goes but the majority of the construction spend will be incurred this quarter that's remaining. So, yes, that would be the expectation.

Case Bongirne:

Thank you very much. Just a second question, last one, Dan. It may be a little bit of a philosophic question but you guys have completed a good part of Terronera as of today, obviously. Would you be able to maybe give us some colour on things that went better, maybe some things that went worse during the construction process, maybe any line items that made the team change anything related to construction in middle of the process?

Dan Dickson:

That's a big question. Every day there's things that feel like they go better and there's days that things feel like they go worse and I think our operational team or our construction team has done a phenomenal job of always finding plan Bs if needed to, or even plan Cs and looking at alternatives because obviously nothing is linear and nothing goes exactly as planned. Nothing specifically comes to mind with regards to big changes. It's just timing of different things or we make adjustments, either from a concrete standpoint.

Obviously, the footprint that Terronera is on is very small and it takes a lot of planning with regards to when we bring equipment up because ultimately we have a laydown yard down in Puerto Vallarta and things are typically don't lay down up at Terronera for longer than 48 hours. We call it just-in-time building and some of that stuff, some of the great engineering that we've done. Obviously, timing, we got some releases down on the tailings facility later than expected just through some archaeological work that had to be done, geotechnical work. I think every day there's things that guys make decisions on that are slightly different than what plan is and I've got to commend Don Gray and his team on how well that's gone.

I even think about the mine plan and different iterations of the mine plan, how we can be more efficient on that and we've come up with seven different distinct mine plans. And that will continue to change because, even as we get into Terronera, we're getting into what's the reserve for the 96 million ounces and the plum of that reserves is at the base, which is where we're trying to target, and that's about 20 metres thick. It's not that the ore body ends there, it's just that's where our estimates end based on our confidence with drilling. As we get into that,

we're going to hopefully drill out and we find more depth, and that will change our mine plans again. So, I think our team's done a phenomenal job being flexible and making adjustments on the run but it all lines up and, again, we're tracking for commissioning in the fourth quarter.

Case Bongirne:

Awesome. Thank you very much. That was a great answer. Appreciate it.

Dan Dickson:

No problem. Thanks, Case.

Operator:

The next question comes from Trevor Ward, private investor. Please go ahead.

Trevor Ward:

Hey, Dan. Good morning, everybody. Obviously, a pretty shocking day as an individual investor. I'm a bit of a gambler, so I've got a lot of eggs in one basket with Endeavour. When you see your stock price tumble like it has today, I'm down personally almost 33,000 on paper in one day. Fortunately, since we last spoke I'm actually up overall, since I got my position. But I'm just curious, as a layman, as somebody that's not well educated, especially in the buying and selling of stocks, I decided to get into silver.

But I have bought and sold things over time and so if I manufacture something, like I make surfboards and things like that. If I make a surfboard and let's say, for instance, with all my costs, it costs me \$23. Obviously, that's not relative but say it costs me \$23 after all my costs and then I sell it for \$29. I would say that I made \$6.

So, maybe you can explain to me in layman's terms why you don't make the adjustments whereby it's easier for us to understand how you lose money if your overall costs are way less than what you sold the silver for? Can you explain that to me in layman's terms and where these other extra costs come and why the losses have been so huge in this quarter?

The overall consensus for the market was that you would show a profit of \$0.04, whereas you're showing a loss of \$0.06. I mean, it's pretty devastating to investors. And then you said you're curious why the market has reacted the way it has. I understand the whole market is

down today but maybe you can enlighten me a little bit more in layman's terms how it computes into such a big loss.

Dan Dickson:

That's a very fair question, Trevor. I think part of it and one of the things in the mining space, we talk about cash costs, we talk about all-in-sustaining costs. Obviously, cash costs is kind of on an operating basis. All-in-sustaining costs takes into account the G&A, which is our Vancouver costs, exploration dollars that we spend to increase and extend mine life, hopefully grow the mines, and then sustaining capital. And sustaining capital obviously, from an income statement standpoint, doesn't hit earnings. And we always try to have this one metric that solves or distinguishes the Company and allows peer groups to compare themselves relatively quickly.

And I think, as an accountant by trade, you need a balance sheet, income statement and a cash flow statement to fully understand what's actually happening with the Company. And unfortunately, in the IFRS world or the accounting principles world, there's been a lot more noise that goes through an income statement now than there was before and makes it a lot more difficult, in the layman's terms, to understand what's going through an income statement and, ultimately, our financial statements.

In our case, for this quarter we have a \$9 million loss related to derivatives and under our credit facility for Terronera we're required to hedge 68,000 ounces of gold that we locked in at \$2,325, I believe on March 28th. Obviously, gold appreciated during the quarter, which is a great thing, great for the long-term benefit of Endeavour, but we do recognise a loss on those forward contracts, gold contracts amounting to about \$75 per ounce this quarter. That translates into a \$7.5 million loss in derivatives that's non-impacting to our current operations and obviously out of our hands.

And, as I say, long-term it's probably a benefit. Short-term it's a movement and it's a mark to market. Obviously, gold today is sitting around \$2,450. Other times during the quarter it got down to \$2,325, \$2,350. And possibly at the end of Q3, when we go through this, if gold is any below \$2,400, we'd recognise a gain on those derivative contracts. We also have FX derivative contracts that go through our income statement.

With all that, it makes noise and that's driving our \$14 million loss for the quarter. Again, we look at it as a management team from adjusted things, things that we can operate on, and our costs to produce at Guanacevi on an operating basis or at both our operations was \$13.43. That excludes depreciation and I think depreciation needs to be considered in there, and that's a total production cost per ounce, and that's about \$22 for us.

But we do have other things that flow through our income statement and that's investing into the future of the Company. We have our exploration properties, so we have exploration. Pitarrilla is one of the things that come mainly to mind. It's one of the world's largest undeveloped silver deposits. We don't capitalise that work. We expense it through our income statement. Again, that creates noise but we think that brings long-term value to our shareholders in the fact that we want to bring Pitarrilla production when Terronera is done. And there's a lot of work left to be done there but we think that will be beneficial, long-term, to shareholders.

So, of course, today's drop of about 20% is a lot higher than our peers. And that's what we find puzzling because we did put out our production numbers and the production numbers are in line with expectations. Our Terronera construction, which is a lot of what people are looking at for the future value of this company, is in line with expectations. The additional noise going through our income statement can be frustrating, that goes through it, but I never like to look at our share price on a one-day basis.

So, even if we're up 20%, that's a great day but it is not as meaningful if you can put that, stack that together with one week, one month, one quarter, one year. Again, we wish it wasn't down 20% today, which is about 15% higher than our peers. I think that will grind back. So, stick with us and I believe we'll be able to deliver on this going forward.

Trevor Ward:

Okay, yes. What about in the future, though? How many other derivatives? Not that I really understand what derivatives are but, going forward, how much more of this are you still liable for? How do we know that in the third quarter or the fourth quarter you haven't got all these other derivatives that are stacking up, that are going to cause losses in future quarters?

Dan Dickson:

They'll be there. These 68,000 ounce gold contracts that we're going to sell are going to

effectively roll out in 2025 and 2026, so those are going to be there. If gold price continues to appreciate, and we're looking at gold at \$2,800, I think you would agree that's positive for the Company long-term. Ultimately, if it goes down that's positive for the Company long-term but ultimately it's going to create losses going through our income statements until those roll out. If it goes the other way it's going to create gains to it. So, they're going to be there.

Again, from a layman's standpoint, they're non-cash items. It doesn't mean we're losing cash off our balance sheet. It means we're recognising the decision that we've had to do through our credit facility, that loss now or the future. Under IFRS, we're required to from a mark to market standpoint and that's fine. Again, it rolls out over the next two years and so I can't promise it won't be there.

Trevor Ward:

All right. Well, let's hold thumbs. Thanks. All the best.

Dan Dickson:

Thanks for the questions, Trevor.

Trevor Ward:

Thanks. Okay, bye.

Operator:

Once again, if you have a question, please press *, then 1. The next question comes from Henry Westenberg, private investor. Please go ahead.

Henry Westenberg:

Good morning. Very interesting call. We're all very excited about Terronera but could you give us a few words on this year's progress on Pitarrilla? Is there anything moving there or have you kind of got that on the bench until you get Terronera up and running?

Dan Dickson:

It is moving. We've got a \$5 million budget at Pitarrilla for 2024. We are starting to drill at Pitarrilla now. We had a one kilometre adit at the beginning of the year. We've extended that adit. We expect it to go through some veins and a zone, a mantle zone, in the back half of this

year. So, we'll have results and a plan put together for the marketplace, hopefully by the end of this year. We are excited about it. Obviously, it's one of the world's largest undeveloped silver deposits. It's got a resource defined close to 600 million ounces of silver, plus lead and zinc.

We are looking at it from an underground standpoint. We are underground miners. I know Pitarrilla and a lot of people out in the marketplace understand Pitarrilla is an open pit mine from a historical feasibility study that was done by Silver Standard or SSR Mining. Again, we're looking at it from an underground standpoint. We've just started drilling to confirm some of the hypotheses that we have with regards to feeder structures and mantles and, again, expect to have information out by the end of the year on that.

Henry Westenberg:

That's terrific. Thank you.

Dan Dickson:

Thanks for the question, Henry.

Operator:

This concludes the question and answer session. I would like to turn the conference back over to Dan Dickson for any closing remarks. Please go ahead.

Dan Dickson:

Thank you, Operator, and thank you for everybody listening today. I think Q3 and the back half of the year is going to be exciting time for Endeavour as we try to bring Terronera into commissioning and ultimately commercial production to significantly increase our production profile and ultimately cut our cost profile. So, thank you again for listening and I hope to talk to you guys soon.

Operator:

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