

ENDEAVOUR SILVER

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SILVERADO

While governments struggle to prop up their currencies in a recession, producers of precious metals see nothing but upside. Endeavour Silver Corp. has a business model tailored to the times, as Godfrey Walton explains





Three miners outside Mine Lucero at Bolañitos

Silver hit a high of \$30.70 an ounce in 2010. It had never been so high since an isolated spike took it close to \$50 in 1980. There were special reasons for that which we needn't go into here but before and after 1980 silver spent a lot of time in single figures. The current high price is seen as a plateau rather than another spike says Godfrey Walton, president, chief operating officer and one of the co-founders of Endeavour Silver. Not even he would claim to be able to read the future, but a number of well understood factors have come together to support demand in a way that looks sustainable.

There's the uncertainty around the value of money, the Eurozone crisis and the general falling off in global trade. Historically currencies were underpinned by and even minted in precious metals. However, the abandonment of the gold standard did not turn rare metals into mere commodities, although there are plenty of investors who would still rather hold their capital in physical assets than in corporations with intangible value, Facebook notwithstanding. However, the real value of silver lies in the escalating demand for its properties. Apart from jewellery and plate, as a super conductor of electricity it is widely used in electronics; it is a catalyst; it has countless applications in healthcare and the control of microorganisms.

And demand exceeds supply. "If you go down to your local bullion store they will

tell you it is getting very difficult to buy silver and get delivery of the metal!" says Walton. However common that problem may be, it is one China has on a large scale. The deficit between fabrication demand and Chinese mine supply has increased from 16 million ounces in 2005 to 155 million ounces in 2010 – that is the amount they need to buy from other countries. That is a trend that can only continue, and with by far the largest proportion of global silver demand – 45 percent of something over a billion ounces in 2010 – created by industry, and new applications being developed, there is no way that demand can slump any time soon.

\$1 BILLION

 Market capitalisation of
 Endeavour Silver

Endeavour Silver, quoted on the Toronto, New York and Frankfurt exchanges, is an unusual company, he admits. Both he and his co-principal Bradford Cooke are exploration geologists but they have chosen to take the route of moving their key assets to production as quickly as possible. These assets are currently in Mexico, by far the largest producer of silver in the world. The two operating mines they have developed there have demonstrated the success of this business model. They acquired Guanacevi, in Durango State, in 2004. "Our simple aim has been to grow the company and increase value for our shareholders, firstly by acquiring these properties and secondly by getting them into production quickly. So far that model has worked for us."

The company has grown every year over



the last eight years, and Guanacevi has expanded its production over that time from 350,000 ounces in 2004 to more than 2.5 million ounces in 2011. Guanajuato produced 256,000 ounces in 2007 and that rose to over a million last year. “We aim to continue growing both Guanajuato and Guanacevi,” says Godfrey Walton. “The other facet to our success is that we have managed to have progressively lower production costs.

As a whole, the industry is facing increasing pressure on cost with diesel fuel, explosives, salaries and mine equipment getting more costly. So how has Endeavour kept its cost per ounce down? It is simple. Both mines have a healthy by-product in gold – more than 20,000 ounces in 2011 – but the main factor is the aggressive rise in production levels that has spread the cost over more ounces of silver. Walton says his target cost of producing an ounce of silver was \$5.70 for the last financial year (2011). The actual figures aren’t out yet but he expects them to be lower, not higher, which at a market price of about \$34 at the time of writing must be music to shareholders with an eye on the company’s widening margin.

Endeavour Silver uses its strong cash position to make the best out of good times. In September last year the price stood at around \$40 an ounce, so naturally enough the company was selling the silver and gold

on the market. But in the fourth quarter of 2011 it dropped considerably, so it decided to hold onto the metal and take a 39 percent hit on its revenues for that quarter even though silver production rose by 25 percent to 1.1 million ounces and gold production by 45 percent to 7,045 ounces in that quarter. “We have a very healthy bank balance and did not need any extra money at that point,”

explains Walton, “so we thought, why sell it at \$26 an ounce, when we expected it to lift significantly?”

That happened, and as we mentioned, the price is hovering around \$34 in early February, but the company is still keeping the brake on sales, confident

that it will make \$40 again, returning an extra \$8 million on sales of a million ounces. This strategy has been met with favourable comment in the trade, and in the present climate nobody can regard it as reckless.

Inside the Porvenir Mine at Guanacevi

155 MILLION OUNCES:

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Deficit between demand and supply of silver in China in 2010

Walton is prepared to predict silver will reach \$50 this year, but other commentators are predicting \$100 or more as the law of supply and demand takes its inexorable effect. Endeavour shareholders will reap the benefits.

They will be happy with more of the same. “For 2012

we are looking at further expansion,” says Walton. “In 2011 we expanded the plant at Guanajuato from 600 to 1,000 tonnes per day (tpd) and we were fortunate enough to find equipment that allowed us to have

“WHY SELL IT AT \$26 AN OUNCE, WHEN WE EXPECTED IT TO LIFT SIGNIFICANTLY?”

the possibility with the same equipment to expand the plant, with very little capital expended, a further 60 percent, so we are expecting to have that plant running at 1,600 tpd by December 2012.”

A significant factor in this expansion was the discovery of a rich new vein of silver-bearing rock at the mine, known as the Daniela vein. Getting Guanajuato mine working efficiently enough to feed this 60

percent increase in output will take up the rest of the current year. In addition though, the mine at Guanacevi is expected to increase its production by 20 percent. “Again that is not going to involve much in the way of capital investment. It will just be a matter of tweaking production. I think overall we will achieve an increase of more than 40 percent in production.”

The value from growth model will be

“2011 HAS BEEN A GOOD YEAR AND THE SHAREHOLDERS HAVE SEEN TREMENDOUS INCREASE IN VALUE”



Our own tree nursery at Bolañitos



Jackleg drilling of the stope face in Guanajuato

sustained as Endeavour continues to drill, verify and develop its other properties, three in Mexico and now two at an early stage in Chile. The company has just recently announced that it is dropping the Chilean properties but is hunting for other acquisitions. It will be acquiring others, he says, always with the aim of repeating the success at Guanacevi and Guanajuato.

Silver and its marketing may be exciting but the product derives from sound geology, and both Godfrey Walton and Bradford Cooke are serious about feeding

new talent into the company and the industry. Between them, they and CFO Dan Dickson studied at the University of British Columbia in Vancouver and Queens University in Kingston Ontario, and last year set up scholarship programmes for the Earth Sciences at each university, giving preference to students with an interest in economic geology.

In Mexico Endeavour Silver has funded scholarship programs for several years. Because of the need for skilled trades personnel as well as mining professionals,

these include school funding for both employees and their children in order to complete elementary school, high school and university studies. In 2011, Endeavour funded 34 children in elementary school, 45 children and 2 employees in high school, plus 12 undergraduates and two graduates in university courses.

All this is in addition to the key on-the-job training that takes place in the mine itself. “We run many training schemes for truck drivers, jumbo operators, scoop drivers or jackleg operators where we take men – and women too – and train them to certified standards.” So far everyone who has been trained has been employed, thanks to the rate of expansion at the mines, but when Endeavour’s needs level off the training will continue, Walton promises, “so competent people will become available to the industry as a whole.”

Keep an eye on the news flow coming out of Endeavour Silver over the next couple of months. Godfrey Walton promises some interesting announcements. “The strategy is to keep growing. 2011 has been a good year and the shareholders have seen tremendous increase in value.” With market capitalisation of around \$1 billion, Endeavour needs to increase its pool of properties and at the same time grow production. That is precisely what he promises we will see as 2012 progresses. **BE**

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