

**Silvercorp Metals Inc.**

**Fiscal 2021 Fourth Quarter and Full Year Financial Results Conference Call**

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## **CORPORATE PARTICIPANTS**

**Lon Shaver**

*Silvercorp Metals Inc. — Vice President*

## **CONFERENCE CALL PARTICIPANTS**

**Dalton Baretto**

*Canaccord Genuity — Analyst*

**Ryan Thompson**

*BMO Capital Markets — Analyst*

**Justin Stevens**

*PI Financial — Analyst*

## PRESENTATION

### Operator

Thank you for standing by and good morning. My name is Sylvie, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Silvercorp Metals Inc. Fiscal 2021 Fourth Quarter and Full Year Financial Results Conference Call. Note that all participants' lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press \*, then number 1 on your telephone keypad. And if you would like to withdraw your question, please press \*, followed by 2. Thank you.

I now would like to turn the conference to Lon Shaver, Vice President, for opening remarks. Please go ahead, sir.

**Lon Shaver** — Vice President, Silvercorp Metals Inc.

Thank you, Sylvie. Good morning and welcome, everyone. On behalf of Silvercorp Metals, I'd like to thank you for joining our call today.

Before we get started, I'm required to remind you that certain statements on today's call will contain forward-looking information within the meaning of securities laws. Please review the cautionary statements included in our news release and presentation, as well as the risk factors described in our most recent MD&A and financial statements.

Also important to note, unless stated otherwise, all references to dollars in this call are US dollars.

So we're pleased to finish fiscal 2021 with a solid financial quarter. As we previously announced in Q4, we mined 163,000 tonnes of ore and milled just over 180,000 tonnes. Those numbers are up 53 percent and 76 percent respectively compared to the prior-year quarter.

Our Q4 sales were up versus last year. Sales of silver were just over 1 million ounces, up 32 percent. Gold, 700 ounces, up 40 percent. Lead, just under 11 million pounds, was up about 13 percent. And zinc, just under 4.6 million pounds. That was up 50 percent.

It's important to recall that Q4 is always impacted by the two-week Chinese New Year holiday mine suspension. This makes comparability to the results of the other quarters in the year and the year itself somewhat difficult.

Also, this Q4 was better than last year when we had an extended shutdown. But this year we did still experience a slightly slower production resumption this year due to some of the COVID-19 prevention restrictions that did affect some of the travel affecting workers getting back to site.

But for the quarter, our revenue was \$35.7 million. That was up just under 90 percent compared to the prior-year quarter. And our net earnings to shareholders were \$7 million or \$0.04 per share.

Our Q4 earnings were impacted by some accounting charges, mainly an \$800,000 foreign exchange loss and a \$1.1 million loss on equity investments.

Our cash flow from operations before changes in non-cash working capital for the quarter was \$11.9 million.

For the year, we've announced that we mined 964,925 tonnes of ore, milled 967,581 tonnes. Those numbers up 9 percent and 8 percent respectively.

And in terms of sales, we sold 6.3 million ounces of silver, 4,700 ounces of gold, 67 million pounds of lead, and just under 28 million pounds of zinc.

Now those production numbers, silver up 1 percent, gold up 42 percent, but that's a bit of an anomaly because we had a clear-out of some concentrates at a mine that's on care and maintenance. Lead was up 3 percent and zinc was up 10 percent compared to the prior year. Silver and lead production met guidance and zinc production beat guidance.

Our revenue for the year was \$192.1 million. That was up 21 percent compared to \$158.8 million in the prior year. I'd like to note that silver was 58 percent of revenues for the year on a net basis compared to 53 percent in fiscal 2020.

And looking a bit quickly at pricing. Realized pricing for us for silver was up 30 percent for the year, but 64 percent for Q4. Lead was in fact down 6 percent for the year but up 21 percent in Q4. And zinc was up 26 percent for the year and up 92 percent for the quarter.

It's also, though, important to recall that COVID in early 2020 did skew the quarterly numbers for most metals.

For this current year, net income to equity shareholders was \$46.4 million, and that's up 35 percent compared to the prior year. And this worked out to \$0.27 per share.

I should note that in Q4 of this year, Henan Found, our subsidiary, was recognized as a high and new technology enterprise. So this is a classification at the national level, and we're proud of it because it's based on the efforts that we have made in mining research and innovation. And what it resulted in is an effective income tax rate reduction to 15 percent from the statutory 25 percent.

This applied to taxes paid for calendar 2020 and led to a \$4.3 million tax recovery reflected in the Q4 financials. And this tax rate incentive will last until December of 2022, at which point we can see if the program's still active and reapply. As a result of this, we have a \$4 million tax refund due at year-end.

The foreign exchange loss in fiscal 2021 was \$7.7 million and that was compared to a gain of \$4.1 in fiscal 2020. And the foreign exchange gain loss was really mainly driven by the exchange rate differences between the US dollar and the Canadian dollar.

Our cash flow from operations, this is after non-cash working capital in fiscal 2021, was \$85.9 million, up 11 percent compared to \$77.2 million in the prior year.

And for the fiscal year, our cash cost per ounce for silver net of by-product credits was negative \$1.80 in fiscal 2021. And our all-in sustaining cost per ounce of silver net of by-product credits was \$7.49 per ounce.

Ying, which is our biggest contributor to our results, showed an 8 percent increase in the cash production cost per tonne for the year, but the all-in sustaining cost per tonne was flat.

Part of the reason for that is, capital expenditures, which totalled \$45.6 million, which was \$3.2 million above our guidance as a result of a \$4 million expenditure to build an aggregate plant to treat 1 million tonnes a year of our waste rock was not in the previous guidance. But otherwise, capital expenditures at the Ying Mining District and the GC mine were below the annual guidance.

And in fiscal 2021, Silvercorp was undertaking extensive drilling programs at the Ying Mining District with two main objectives. One was to look at areas with existing development and access and re-examine them to potentially to find additional resource for the reserves, and this led to a reduction of about 17,000 metres or \$5 million worth of exploration and development tunnelling in fiscal 2021.

And this drilling program is also looking at areas which may have been overlooked for potential gold mineralization, and these are being tested for different alteration styles from the typical silver-lead zones that we're mining. We currently have 70 drill rigs at Ying drilling across the different mines for both surface and underground.

For the year, we paid \$4.4 million of dividends to our shareholders. And in terms of corporate development during the year, we acquired a 27 percent interest in Whitehorse Gold. This is valued at \$19 million as at March 31st. And this is a result of receiving shares in a spinout by New Pacific and subscribing for additional shares for a total of \$1.3 million under a private placement.

During the year, we also won an online auction to acquire the exploration rights to the Zhonghe Silver Project from the Henan provincial government in China, and with the mineral rights transfer contract pending a national security clearance by the related authorities.

We acquired a 43.8 percent interest in the La Yesca Silver Project in Mexico for approximately \$9.1 million, and we participated pro rata in an offering by New Pacific to the tune of \$5.8 million.

We ended the year with a strong balance sheet with \$199.1 million in cash and cash equivalents, and this is up \$56.6 million from the end of last year. And our working capital was up \$53.7 million.

Now it's important to note that this cash and investment number does not include the equity investments in our other companies, which have a total market value of \$212 million as at March 31st.

In terms of outlook, a little quick review on that. Looking forward for fiscal 2022, we're expecting production of between 960,000 tonnes to just over 1 million tonnes of ore, between 6.4 million ounces and 6.7 million ounces of silver. That's up approximately 3 percent compared to the guidance for fiscal 2021. Between 65.7 million pounds and 68.9 million pounds of lead, which is essentially flat to the fiscal 2021 guidance. And between 26.9 million pounds to 28.5 million pounds of zinc, and that'll be up between 7 percent to 10 percent compared to the guidance.

For fiscal 2022, the total capital expenditures budget at Ying Mining District and the GC mine are estimated at around \$38.2 million. And we also plan to complete an expanse of about 33,600 metres of mining preparation tunnelling and 206,900 metres of underground diamond drilling.

Further details on these numbers are available in our MD&A.

In terms of other development plans for fiscal 2022, we plan to commence a Phase 1 10,000-metre drilling program at the La Yesca Silver Project. Estimated cost around \$3 million. We have applied for the necessary drilling permits from the respective Mexican government agencies, are optimistic to receive them soon and commence drilling here within the next month.

We also plan to initiate an extensive drilling campaign at the Zhonghe project. We'll formalize the plan and update the cost estimates with respect to Zhonghe once the mineral rights transfer contract has been executed.

Looking longer term, we're also in the process of applying for permits to build a third tailings facility near the existing facilities at the Ying Mining District.

The Company's also considering plans to expand the current milling capacity or to build a new mill for future production expansion at the Ying Mining District, and to potentially accommodate some of the additional material we anticipate both from within the Ying mines currently, as well as to process ore from the Zhonghe project during its development stage.

We previously announced that our two-year mining contracts with the eight mining contractors at the Ying Mining District expired at the end of March. We successfully negotiated renewed contracts with all of the mining contractors at Ying except for the one at the LME mine, which is actually our smallest mine at Ying. The renewed contracts have terms of two years to three years and represent an overall 14.5 percent increase compared to previous agreements. And there haven't really been contract renewals for at least two years.

Based on the new contracts and assuming the amount of work that was done in fiscal 2021, the total annual increase would have been estimated around \$5 million, but we expect to offset this with



reduced tunnelling meterage as drilling activities in the previous mining areas are increasing instead of that tunnelling. And that's, as I mentioned previously, in terms of our program.

And with that, I think it would be appropriate to open the call for questions.

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## Q&A

### Operator

Thank you, sir. Ladies and gentlemen. As stated, if you would like to ask a question please press \*, followed by 1 on your touch-tone phone. Once you do, you will hear a three-tone prompt acknowledging your request. And if you would like to withdraw your question, you will need to press \*, followed by 2. And if you're using a speakerphone, you will need to please lift the handset before pressing any keys. Please go ahead and press \*, 1 now if you have any questions.

And your first question will be from Dalton Baretto at Canaccord. Please go ahead. Please unmute, Mr. Baretto.

### Dalton Baretto — Canaccord Genuity

Hi. Sorry. Can you hear me now?

### Lon Shaver

Yeah. Okay. Hi, Dalton.

### Dalton Baretto

Hey, Lon, how you doing? Thanks for hosting this call. Really appreciate it. A couple of questions from me. One just kind of housekeeping and then two bigger ones. First. Just on the quarter, when I look at the cost per tonne, at Ying mostly but to a lesser extent GC, they looked pretty high. I mean, based on

the data I have, they're the highest cost at least going back to 2010. Is this kind of a function of this global inflation that we're hearing about? Or is this kind of a one-off thing?

**Lon Shaver**

Well, I think there is some inflation coming in, including in the labour, as you can see with these renewals. Some of it's also, though, related to that shift in strategy with moving some of the development work that used to be categorized in capital into operating cost.

**Dalton Baretto**

Got it. Okay. And then I just want to touch on what you were just talking about in terms of the mill expansion and maybe a new mill at Ying. How far along is the thinking on that? And do you plan to put out a new technical report on it? And if so, when?

**Lon Shaver**

Yeah. I mean, it's still early days. I'd say what is being looked at currently right now and more near term is looking at more nominal adjustments to our Mill #1 to be able to accommodate both potential copper separation as we're seeing some copper in some of the results we're hitting, but also adding a gravity concentrator to deal with some of the gold material.

So I think that's probably more of the nearer term is to see some tweaks there. But over the longer haul, yes, it is thinking about adding potentially another million-tonne-per-year type mill to the Ying District for both Ying proper mines that we have right now, the ones we're looking to develop on the footprint, both with the existing silver, lead, zinc that we're mining and to accommodate potentially some gold zones. But also looking broadly at the district, and that's clearly to deal with Zhonghe, but then there are other targets within the Ying Mining District that we think could be available.

But really, it's very early days to be putting numbers out. We've got to do a lot of our internal studies and, yes, we'd be wrapping those around a proper technical report that we would bring forward.

**Dalton Baretto**

Got it. Thanks. And then just one final one on the kind of big picture, and this is a two-part question on the incubator model. First of all, are you guys happy with the portfolio right now? Are you still looking to add projects to it? And then secondly, just on New Pacific, just looking at the progress those guys have made and they're about to publish a PEA, is there a natural point where they don't fit your incubator model anymore?

**Lon Shaver**

I'll answer the second one first, in part because I didn't catch part of the first question so I'll ask you to repeat it afterwards. But yeah, I think with New Pacific, we're happy to monitor the progress. And the work that they're doing and the developments that are coming for New Pacific are what we and everybody else are going to need to evaluate our strategy with respect to that investment.

And so, depending on how things progress both in terms of the technical results, the ability of the company to finance itself, its suitability as a target for us or for somebody else. I mean, that could lead to us monetizing that investment, distributing that value to shareholders in some way, or potentially, if the value is right and it could be justified to Silvercorp shareholders acquiring it.

I mean, but right now, it's still open and we're not at a point where we're needing to make those decisions yet.

**Dalton Baretto**

Okay. And sorry, the first part of my question where I cut out was, are you happy with the number of portfolio projects you have in your companies? Or are you looking to add more?

**Lon Shaver**

Well, I wouldn't say it's a matter of being happy with them. I think we're out there looking to grow, looking to find attractive projects. And when projects come in the funnel and we look at them, they could end up as full-on acquisition targets. But if the model that's more suitable based on the project and the strategy and potentially a platform or infrastructure that might be there with existing management, that might lead to a strategic investment.

And if we see a project that is attractive, but really it should be sort of a special purpose company, then we would incubate an opportunity and create a company around that to incentivize management to share some of the risks in maybe an earlier-stage project and go about it that way.

So I think it's really just a matter of being disciplined, looking at a lot of things, and seeing which opportunities truly meet our criteria.

**Dalton Baretto**

Makes sense. Thanks, Lon. That's all from me.

**Lon Shaver**

Thanks, Dalton.

**Operator**

Thank you. Next question will be from Ryan Thompson at BMO. Please go ahead.

**Ryan Thompson — BMO Capital Markets**

Yeah. Hey, Lon. Thanks for the updates. I was actually going to ask questions along the similar lines as Dalton, but maybe I'll just ask a couple of follow-ups. Maybe just on La Yesca and Zhonghe. Can you give us any sort of timelines as to when you think you will be able to get the drilling permits for Yescas (sic) and the transfer of the title for Zhonghe?

And then maybe just a second question on the contract renewal that you announced. Can you just give us a little bit more colour as to where things are at for LME, I think, was the only one that you mentioned hasn't had the contract renewed. So if you can just give us some additional colour on that, that would be helpful too. Thanks.

**Lon Shaver**

Yeah. Sure. So in terms of Zhonghe, yeah, that's obviously taken a bit longer than anticipated, sort of caught up in a bit of a bureaucratic process, but we think we see that progressing. It's actually been fine in terms of the time it's taken because it's allowed us to really go forward and build up some of the staffing and the management at Ying for both our existing and for this project.

I mentioned we have 70 drill rigs at Ying. When that Zhonghe gets executed, we'll come back with more details in terms of budgets and costs. But the anticipation is that we would move maybe 10 of those rigs from Ying over to start tackling that Zhonghe project. So we expect we should have some news here in the next month or so.

Similarly, on La Yesca. All the paperwork was put in place. We're anticipating getting those permits here by the end of May and we're targeting to begin new drilling mid-June, with the drilling program to take us through to about September to get just over 10,000 metres.

With respect to the contract, yeah. I mean, in terms of LME, it's important to note that so that's the smallest mine. It roughly, it's 8 percent of production. So what has happened there is, we couldn't come to agreement with that contractor. A decision was made, well, then, if we can't agree then I guess you need to go. They've been ramping down as of the end of April. So there's been lower activity in the process of moving out, but what's great is that the contractors and the subcontractor team leaders want

to stay. And so, we've basically hired back most previous workers to work as internal contractors and hoping to get restarted here in the next week or so.

**Ryan Thompson**

Okay. Thanks for that. So I guess the bottom line here is that there's no changes to production or cost guidance and you're feeling pretty comfortable with where those are sitting for the year.

**Lon Shaver**

Yeah. Yeah. At this point, like I said, there might be a small disruption with LME, but it's the smallest mine and we're confident we can make that up over the course of the year. And the shift in activities and the way we're doing things is something that has us comfortable with our guidance at this point.

I should also note, I mean, the question in terms of looking going forward and part of the reason that the Company has gotten a high technology classification, which led to the reduction in our tax rate, we're constantly looking at ways to optimize our production, improve productivity.

And so we're looking at different tools, techniques, different technology we can apply even in narrow-vein underground mining to make things run more efficiently. And so that's going to be a big thing going forward to help, not just dealing with the fact of increased rates, but just also the challenges of getting human resources for doing mining, or as other people are seeing in the construction industry, it's harder and harder to find people for those sectors.

**Ryan Thompson**

Got it. Perfect. That's all I had. Thanks a lot for the update, Lon.

**Lon Shaver**

Thanks, Ryan.

**Operator**

Thank you. Once again as a reminder, ladies and gentlemen, if you do have a question, please press \*, followed by 1 on your touch-tone phone.

And your next question will be from Justin Stevens at PI Financial. Please go ahead.

**Justin Stevens — PI Financial**

Hey, guys. Yeah, most of what I was going to ask has been covered, but I've got a few left on my list here. I was just wondering, in terms of the Zhonghe, is there going to be drill permits required once the transfer is done? And so what's the expected timeline on that?

**Lon Shaver**

No. I think once the transfer's done, really it's more just in our court to how quickly we can ramp up, and the objective is to get going there as soon as we can.

**Justin Stevens**

Yeah. I guess the groundwork you're doing now should hopefully make that relatively short in terms of timeline.

**Lon Shaver**

Yeah. And we've been moving forward sort of hand in glove with local authorities to get sort of other things in terms of access rights and other things ironed out, and all of that is going very smoothly. This is really more just a hang-up at the higher levels in the central government as opposed to the regional. I think everybody's—

**Justin Stevens**

Got it.

**Lon Shaver**

—operating on the basis this is going ahead, including the regional authorities. And so it's just a matter of waiting for paperwork and a stamp.

**Justin Stevens**

Got it. Sounds good. And I guess one of my other questions. The Ying, I know you guys are looking for the third tailings facility. I just wanted to confirm that you'll be looking—I'm assuming that'll be conventional slurry disposal just in the nearby valley like the other ones?

**Lon Shaver**

Yeah. It's anticipated between sort of 500 metres to a kilometre north of the existing one. And this planning has been in progress here for a while and, again, with all the appropriate regulators, and so there shouldn't be really any surprises. It's just a matter of going through the process, just to get it set up so that we can accommodate what we see as being a longer-term operating horizon here in the Ying District.

**Justin Stevens**

Yeah. And I'm assuming you're at least keeping an eye on what you might be doing longer term, like you say, with the potential mill expansion or the inclusion of extra material. This should accommodate some of that, right?

**Lon Shaver**

Yes. Yes. That's right. I mean, some of these other opportunities, even if not initially, would likely have their own milling and disposal facilities down the road. But for Ying and to be able to accommodate some of these opportunities in the earlier ramp-up stages, that's been factored into this planning.

**Justin Stevens**



Perfect. And lastly, any updates on BYP? I know it was mostly sort of a local government issue there, but just wondering if there was any updates you could share.

**Lon Shaver**

Not at this point other than that we're feeling more confident that the process has gotten unstuck and that we should see some results here hopefully by the end of the year. So that is—

**Justin Stevens**

Got it.

**Lon Shaver**

—that is moving forward with the process, following the appropriate steps, which wasn't necessarily happening before. It was logjammed. Now we are seeing progress there and are optimistic that we'll see something that we can report on by the end of the year on that one.

**Justin Stevens**

Sounds good. All right. That's it for me. Thanks so much.

**Lon Shaver**

Thanks, Justin.

**Operator**

Thank you. This concludes the question-and-answer session. I now would like to turn the conference back over to Lon Shaver, Vice President, for any closing comments.

**Lon Shaver**

Well, that's great. Thank you, Sylvie. And thanks, everyone, for tuning in today.

But please, if any of you have additional questions or new questions, like always, please feel free to call us in the investor relations group or email us. We'll be happy to answer those questions, and we look forward to updating you again in August on our Q1 results. Have a great day.

**Operator**

Thank you, sir. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending, and at this time we do ask that you please disconnect your lines. Have a good weekend.