

Silvercorp Metals Inc.

Second Quarter Fiscal 2023 Financial Results Conference Call

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CORPORATE PARTICIPANTS

Lon Shaver

Silvercorp Metals Inc. — Vice President

CONFERENCE CALL PARTICIPANTS

Joseph Reagor

ROTH Capital Partners — Analyst

Gabriel Gonzalez

Echelon Wealth Partners — Analyst

Justin Stevens

PI Financial — Analyst

Felix Shafigullin

Eight Capital — Analyst

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome everyone to the Silvercorp Metals Inc. Second Quarter Fiscal Results 2023 Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we'll conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press star zero for the operator. This call is being recorded on Friday, November 4, 2022.

I would now like to turn the conference over to Lon Shaver. Please go ahead.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Thank you, Colin. On behalf of Silvercorp Metals, I'd like to welcome everyone for joining this call to discuss our second quarter fiscal 2023 financial results, which we released yesterday after the market. A copy of the news release, the MD&A, and the financial statements that we're talking about on today's call are available on our website and SEDAR.

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 10-Q and Form 40-F and annual information form.

Beginning with the quarterly results, with respect to the quarter, revenue in Q2 was \$51.7 million. That was down 11% compared to the prior year quarter, mainly due to lower metals prices with the

realized selling price of silver, gold, and lead down 18%, 11%, and 5%, respectively. I'd just note the silver price hit a two-year low in September. Based on production levels and the realized prices this quarter, silver was 54% of revenues on a net realized basis compared to 56% in Q2 of last year, but that 54% was the same as in Q1 of this year.

Our Q2 net loss attributable to equity shareholders was \$1.7 million, or \$0.01 per share, and that was compared to net income of \$9.4 million, or \$0.05 per share in the same period last year. And the main contributor to the loss was a \$20 million impairment charge for the La Yesca project where we don't currently have any future work planned.

In addition to the decrease in metals prices, zinc sales also decreased 22%, and the Company booked a \$1.6 million mark-to-market loss on equity investments. These were partially offset by a 3% and a 50% increase in silver and gold sales, respectively; a 5% increase in the realized zinc price; and a foreign exchange gain of \$4.3 million. On an adjusted basis, however, with adjustments made to remove the impacts of non-cash and unusual items such as share-based compensation, foreign exchange loss, impairment adjustments, and reversals, the share of loss in our associates' operating results, gain or loss on investments, and one-time items, earnings for the quarter were \$6.8 million, or \$0.04 per share, and that compared to \$13.6 million, or \$0.08, for the same period last year. Just a reminder, the adjusted earnings is a supplemental non-GAAP measure and that's to give investors and market followers another metric to better measure the performance of the underlying business, its continuing profitability, and growth potential.

Our cash flow from operations in the quarter was \$14.1 million. That compared to \$30.9 million in the prior year quarter. The decrease was mainly due to the fact that we're reporting this cash flow after non-cash working capital and in this quarter we had a \$6.8 million change to the negative in non-cash working capital. And that's in addition to the previously mentioned income factors. Excluding the non-cash working capital, our cash flow was \$20.9 million and that compared to \$31.2 million in Q1 and \$31.7 million in Q2 of last year.

In Q2, the capital expenditures totalled around \$17.4 million. That was up from \$14.2 million in the prior year quarter and that was mainly due to increased equipment and facilities investment at Ying. During this period we also repurchased, under our existing normal course issuer bid, just over 500,000 shares of the Company for a total of \$1.2 million.

We ended the quarter with \$201 million in cash and cash equivalents and short-term investments. That's down \$11.9 million from the March number and that's mainly due to a \$15.6 million negative impact in terms of translation of currencies arising from the appreciation of the US dollar against the Canadian dollar and the Chinese RMB. The cash position doesn't include our investments in associates and other equities, which had a total market value of \$111 million as of September 30th. And just note, of that \$111 million, New Pacific was \$93 million of that.

For a quarterly production review, as we previously reported, we mined 291,000 tonnes of ore and milled 292,000 tonnes of ore, down 1% and up 7%, respectively, compared to Q2 of fiscal 2022. Our Ying Mining District delivered another strong quarter in terms of operations with mine and mill productivity up 4% and 19%, respectively, compared to the same period in last year; however, at GC, Q2 mine and mill

productivity was down 12% and 16%, respectively, year over year. Operations at GC were partially affected in August and September as we worked on improving ventilation and electric power facilities to comply with new safety production regulations that were issued by China's National Mine Safety Administration and these became effective on September 1st. The improvements that were required were completed in October and we expect mining at GC to return to its normal operating levels for the rest of the year.

For the period we produced, on a consolidated basis, of around 1.8 million ounces of silver, 1,200 ounces of gold, 18 million pounds of lead, and 6 million pounds of zinc in the quarter. That was increases of 6% for silver, 50% for gold, and 2% for lead, and a decrease of 20% in zinc over Q2 of last year. Year to date we're at 3.7 million ounces of silver, 2,300 ounces of gold, 37 million pounds of (inaudible), and 13 million pounds of zinc. We're still aiming to hit the lower end of our fiscal 2023 production guidance, but we recognizing that we may come up a bit short in silver and particularly zinc.

Now the cash cost per ounce of silver net of by-product credits was \$0.77 in the second quarter and that compared to a negative \$1.65 in the prior year quarter. The increase is mainly due to safety production requirements to switch to digital detonators. That's for blasting in the mine. And also inflationary cost pressures resulting in higher explosives and utility costs. We also had an average 9% increase in employees pay rates and as well lower by-product credits due to the metal prices I discussed earlier, and these were offset by a 4% depreciation in the Chinese RMB against the US dollar. The all-in sustaining cost per ounce of silver net of by-product credits was \$825 compared to \$7.35 in Q2 of last year and the increase reflects those cash cost impacts I mentioned above, offset by a modest decrease in admin expense, taxes, and sustaining capital.

Now turning to our growth projects, we completed an additional 5,525 metres of drilling during the quarter at the Kuanping project, which is a satellite property located north of our Ying Mining District that we acquired last November. Last quarter we reported that we had submitted the application for a mining permit at Kuanping, which is pending review and approval by the provincial government. Satellite opportunities like Kuanping and other recent near-mine discoveries such as the new high-grade silver-lead-zinc structures at LMW that we announced in October were not included in the updated Yang mineral resource and reserve estimate that we announced in September. That last update, which is expected to be published on SEDAR today, incorporated results from the 2020 and the 2021 drill program, which showed that most of the major mineralized structures in the district are open for expansion. During the quarter we spent a total of \$2.5 million on the construction of a new 3,000-tonne-per-day flotation mill and a new tailings storage facility at Ying. A total of 645 metres of drainage tunnels were completed and the site prep for the new mill was also substantially completed. Additionally, the first batch of milling equipment has been ordered.

With regards to permitting, the Environmental and Safety Assessment study reports have been revised and are submitted and pending government approval.

And with that, I'd like to open the call for questions, operator.

Q & A

Operator

Thank you, Lon. Ladies and gentlemen, we will now conduct the question-and-answer session. If at any time you'd like to ask a question, please press star followed by one on your telephone keypad. If

you'd like to withdraw your question, please press star followed by two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment for your first question.

Okay, your first question comes from Joseph Reagor from ROTH Capital. Please go ahead.

Joseph Reagor — Analyst, ROTH Capital Partners

Hey, Lon. Thanks for taking the questions. So, I guess first thing on this write-down of La Yesca, that was the project that was in the New Infini subsidiary, right?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yeah, that's right, Joe.

Joseph Reagor — Analyst, ROTH Capital Partners

Are there any other projects still in that subsidiary or does that effectively write-off that full subsidiary?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yeah, that write-off was that full venture on that project, La Yesca in Mexico. And I think it's important to note that, really from the work that was done, we did get results, you know, we did hit mineral mineralization, but really what we found didn't really fit with the models that we had and so kind of results inconclusive, so there wasn't... At this point we don't have any plans and the accountants thought it was prudent, given that we're not planning on spending any money in the near future, that it

was just best to write it off completely, but we still own the project and at some point, if we have a different view on what's going on there, we could go back.

Joseph Reagor — Analyst, ROTH Capital Partners

Okay. And then kind of given some of the other operators have been taking, let's say, advantage of the current market and buying up some more assets, do you see you guys doing some M&A in the near future to kind of put that cash balance that you have to work?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yeah, I mean that has been and remains our strategy and those activities are ongoing in terms of looking at projects. Some of the turmoil we've seen in the equity markets right now has impacted share prices, but some of the companies and some of the targets still have resources, still have runway, so are not necessarily looking to transact at this point but, yeah, we're an open door and continue to look at a wide range of projects in a range of geographies.

Joseph Reagor — Analyst, ROTH Capital Partners

Okay. And then one final thing, just you kind of indicated that you think you guys might be able to still make the low end of guidance. I guess the bigger issue seems to be the GC is behind. Can you guys make up some of the tonnage before the end of the year that you lost in Q2?

Lon Shaver — Vice President, Silvercorp Metals Inc.

I mean that's certainly, that's certainly the objective and the team is focused on doing that. And I think you've followed the Company before to notice that where we've had disruptions there really is a hard effort to try to make a back. As we've said, we're back running at more normal levels, but we're going to put a push on to see if we can get back what we've lost.

Joseph Reagor — Analyst, ROTH Capital Partners

Okay. I'll turn it over. Thanks.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Thanks, Joe.

Operator

Your next question comes from Gabriel Gonzalez from Echelon Wealth Partners. Gabriel, please go ahead.

Gabriel Gonzalez — Analyst, Echelon Wealth Partners

Thank you very much. Thank you, Lon. I was just wondering, on the subject of the new mill and that expenditure with the first batch of milling equipment being ordered, I'm just wondering what is the timeline for having the bulk or, I guess, what would functionally be the completed mill ready on site for installation and how long after that would it be effectively ready to flip the switch to turn on?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Sorry, Gabriel, I'm having difficulty with my line connection. Operator, I'm going to actually try reconnecting. Can you still hear me?

Gabriel Gonzalez — Analyst, Echelon Wealth Partners

Yeah, I can hear you.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Okay. No, no, it seems to have gotten better. Sorry, Gabriel. I know that was a long question. Do you mind repeating it? My line was cutting out there.

Gabriel Gonzalez — Analyst, Echelon Wealth Partners

Sure. No problem. I was just wondering about the milling equipment that has been ordered, about how long will it be until all of that mining equipment is on site? And from there, how long will it take to have it all installed and ready to turn on, effectively flip the switch on that mill?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Okay. I mean where we've gotten to is, as I mentioned, all the permitting applications and everything have been submitted in terms of we have largely the permits to go ahead. What we're waiting on is some of the environmental assessment reviews that are outstanding. And so, with that, we're going to probably take a bit of a pause until we can get that all confirmed and tucked away before continuing

with those purchases and moving ahead. What it probably means at this point is potentially a six-month delay in terms of the mill, likely no delay on the tailings storage facility, but at this point we're getting sort of prepared for the fact that we might be delayed a bit.

Gabriel Gonzalez — Analyst, Echelon Wealth Partners

Okay. All right. Thank you very much.

Operator

Ladies and gentlemen, as a reminder, should you wish to ask a question, please press star followed by one.

And we have another question from Justin Stevens from PI Financial. Please go ahead.

Justin Stevens — Analyst, PI Financial

Hey, Lon. Just one question I think really for me. Obviously you guys are still waiting for the Kuanping approval, right? My question there is sort of are you guys planning to do any more exploration before you receive that permit or is it really going to be wait until you get the mining permit to drill from underground before you sort of flesh that out further?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Justin, I hope you can hear me properly. Again, it was clicking during your question. Yeah, we're continuing the drilling and I would say the permits outstanding, not anticipating any issues. But I think

maybe the comment to share here, and some of this applies to some of the other, you know, (inaudible) administration that (inaudible)... And, sorry, are you hearing me okay? Because there's this weird...

Justin Stevens — Analyst, PI Financial

Yeah, the clicking has kicked back in. It's been coming and going.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yeah. I don't know what's going on. I'll try disconnecting and reconnecting on another line.

Operator

Okay. I'll reconnect you as soon as you call back in.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Hi, Justin. Are you still there?

Justin Stevens — Analyst, PI Financial

Yes, still here.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Okay, great. Sorry about that. I don't know what the issue was with my line, but seem to be finally reconnected with a good line.

Yeah, so to answer your question, yeah, we continuing to do the work and really, from a permitting standpoint, some of the things that are happening right now, as many of you know, in terms of the COVID restrictions in China means that travel is a bit of a challenge. What we're happy to report is the fact that our operations have been running smoothly. So really, other than the GC disruption, which was a completely different issue, our operations are running smoothly through this whole situation. But because of the limitations on travel and the difficulties for people in our operations office in Beijing to get back into Beijing, some of the sort of face time needed to move some of these things ahead isn't happening. So that's why we're seeing some of these items, they may drag on a bit longer.

Justin Stevens — Analyst, PI Financial

Got it.

Lon Shaver — Vice President, Silvercorp Metals Inc.

It's just the situation we're dealing with right now. Hopefully things change. Hearing some chatter out there that things may improve here in terms of from a movement standpoint and then that would allow for both the Kuanping and the mill project to resume, just because of getting, like I said, that face time with the people in the appropriate departments to work on and advance those items.

Justin Stevens — Analyst, PI Financial

Got it. No, that makes sense. I guess the only thing I was kind of wondering about is, you know, obviously some of the drilling you guys have been doing and some of the, obviously, modelling around these low-angle gold-copper veins at Ying, I'm assuming that most of this is probably going to be left until

the new mill is in place, given the addition of the copper circuit makes it, I think, much more tenable to go after some of this stuff. Is that sort of the right way to think about this?

Lon Shaver — Vice President, Silvercorp Metals Inc.

For the copper, I'd say yes. For the actual, some of the gold-only rich zones, we're into those and you're starting to see some of that uptick in the gold production because of that. It's still early days and working the kinks out of, ah, and just getting a handle on mining a different structure with a different mining method and also from a processing standpoint. But we've been working through the flow sheet. And it's mainly a gravity recovery for some of those gold-rich areas and so some of that's being put into a gold concentrate to be sold separately. Some of that's being included in lead concentrates where we get pretty good payment terms for the gold in that. But we're also considering things down the road like, you know, do we go right to doré, which would be, obviously, a nice feature. So, starting to see that and that ramp-up has really been happening starting late summer and starting to see that now. So I think, going forward, you will see an ongoing impact from the gold zones in the results.

Justin Stevens — Analyst, PI Financial

Got it. Good to hear, because that's a nice little kicker then if you can actually tap some of that.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yep. For sure.

Justin Stevens — Analyst, PI Financial

Great. That's it for me. Thanks

Operator

Your next question comes from Felix Shafigullin from Eight Capital. Felix, please go ahead.

Felix Shafigullin — Analyst, Eight Capital

Hi, Lon. Just a couple of very quick questions. So the operational disruptions that you had at GC at the end of last quarter and in October of this quarter, is there any risk that you might run into something similar at Ying? Could you just give a little bit more colour on that?

Lon Shaver — Vice President, Silvercorp Metals Inc.

I would say the provinces do operate differently and where we are at Ying is a more industrialized area with more mines and I'd say more familiarity with mining activity. Some of the challenges maybe at GC is that there's not as many operations around. Whether that's from an understanding of what's relevant for the size of the lobby group, that's what's led to those things being implemented. Also being in a warmer climate certainly would have had an impact to some degree on some of the issues we had with ventilation and the maximum temperature allowable at the workplace that we reported, which would be less of a factor at Ying. So we're really not anticipating, at this point, any challenges at Ying.

Felix Shafigullin — Analyst, Eight Capital

Okay. Thanks. And I noticed that your money market instruments, they've been declining by about \$30 million per quarter for the past two quarters, so could you just provide just a little bit of colour on this, like what's going on there?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yeah, I mean some of that is... It's a bit complicated, but what it relates to is, obviously, we've got different currencies and different items in different currencies held both in Canada and through our offices in China, and so where we had RMB-denominated instruments, from a reporting standpoint, when we converted those to US dollars, that would explain why, with the strength of the US dollar, some of those numbers are down.

Felix Shafigullin — Analyst, Eight Capital

Okay. Thanks, Lon. That's it for me.

Operator

There are no further questions at this time. You may make your closing remarks.

Lon Shaver — Vice President, Silvercorp Metals Inc.

That's great. Thank you, Colin, and thanks to everyone for joining the call. I apologize for the sound issues with the call earlier. If there are any further questions related to the results or anything else about

Silvercorp, please do reach out to us, and we look forward to reconnecting with everyone on our next scheduled call for discussing our third quarter results. Thank you very much.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.