

**Silvercorp Metals Inc.**

**First 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*

**Felix Shafigullin**

*Eight Capital — Analyst*

**Dalton Baretto**

*Canaccord Genuity — Analyst*

## PRESENTATION

### Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. My name is Michelle and I will be your conference operator today. At this time I would like to welcome everyone to the Silvercorp's First Quarter Fiscal 2023 Financial Results Conference Call. All 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 at that time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, please press star then the number two.

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

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

Thank you, Michelle. On behalf of Silvercorp Metals, I'd like to welcome everyone for joining the call to discuss our first quarter fiscal 2023 financial results, which were released yesterday after the market. A copy of the news release, the MD&A, and the financial statements for today's call are available on our website.

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 applicable 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 second quarter 10-Q and Form 40-F and our annual information form.

To jump into the results, we started off fiscal 2023 with a respectable quarter with all our mines delivering solid performance. Revenue in the quarter was \$63.6 million, up 8% compared to last year's quarter. Based on the production levels and realized prices this quarter, silver was 54% of revenues on a net basis, down slightly from 58% in Q1 of fiscal 2022.

Our Q1 net earnings attributable to equity shareholders were \$10.2 million or \$0.06 per share. That compared to \$12.2 million or \$0.07 for the same period last year. The main contributor to the slight decrease were a 13% decrease in the realized selling price of silver, a 7% increase in unit production costs, a 5% decrease in zinc sold, and the booking of a \$2.7 million mark-to-market loss on equity investments. These were offset by higher silver, gold, and lead sales, which increased 17%, 10%, and 14%, respectively, as well as higher realized selling prices for gold, lead, and zinc and a foreign exchange gain of \$1.7 million.

Our adjusted earnings for the quarter were \$13.5 million or \$0.08 per share compared to \$15.8 million or \$0.09 per share for the same period last year. And just a reminder, our adjusted earnings is a supplemental non-GAAP measure which we're releasing to provide investors with another metric to better measure the performance of our underlying business, its continuing profitability, and growth potential. Adjustments were made to remove the impacts from non-cash and unusual items, including the elimination of share-based compensation, foreign exchange loss, impairments, adjustments, and reversals, the share of loss in our associates' operating results, and gain or loss on investments and one-time items.

Our cash flow from operations in the quarter was \$40.2 million, up 10% or \$3.7 million compared to \$36.5 million in the prior year quarter.

Capital expenditures in the quarter totalled approximately \$18.1 million. That was up from \$11.3 million in the prior year quarter, primarily due to increased underground exploration, development, equipment, and facilities investments at Ying.

During this period we paid \$2.2 million of dividends to shareholders and repurchased, under our existing normal course issuer bid, 334,990 shares of the Company for a total of approximately \$900,000 and earlier in this current quarter we also repurchased an additional 404,970 for a total of \$1 million.

We ended the quarter in a strong financial position with \$215.8 million in cash and cash equivalents and short-term investments, and this does not include the investments in associates and other companies, which had a total market value of \$147.4 million as at June. Of that number, New Pacific was \$125 million of that total.

Just for a quarterly production recap. As we previously reported, we mined 300,104 tonnes of ore and milled 298,176 tonnes. Those numbers were up 30% and 23%, respectively, compared to last year's Q1. We produced approximately 1.9 million ounces of silver, 1,100 ounces of gold, 19.1 million pounds of lead, and 6.9 million pounds of zinc in the quarter, and those were increases of 26% in silver, 10% in gold, 20% in lead production, and a decrease of 4% in zinc production over Q1 fiscal 2022. We're on track to produce between 7 million and 7.3 million ounces of silver, between 6,300 and 7,900 ounces of gold, 68.4 million to 71.3 million pounds of lead, and between 32 million to 34.5 million pounds of zinc in fiscal 2023. Recall that this guidance represents increases of between 14% to 19% in silver, between 85% and 132% in gold, between 6% and 11% in lead, and between 19% and 29% in zinc production compared to our actual fiscal 2022 numbers.

The cash cost per ounce of silver net of by-product credits was negative \$1.57 in this Q1, and that compared to negative \$1.43 in the prior year quarter, and our all-in sustaining cost per ounce of silver net of our by-product credits was \$9.25 compared to \$7.46 in Q1 of fiscal 2022. Cash costs and all-in sustaining cost per ounce of silver during the quarter were impacted by some inflationary cost pressures that resulted in higher material costs and utility costs; an average 9% increase in employee pay rates; increased drilling and tunnelling, resulting in higher costs included in mining costs and sustaining capital expenditures; but was offset by higher by-product credits and an average 2% depreciation in the Chinese RMB against the US dollar.

Now turning to our growth projects, we completed just under 2,000 metres of drilling during the quarter at the Kuanping Project, which is a satellite property located north of Ying that we acquired last November. We have submitted the application for a mining permit at Kuanping, which is now being reviewed by the provincial government. At Ying, we continue to make progress on our new 3,000 tonne per day flotation mill and the new tailings storage facility. The preliminary design and engineering survey, the water and soil conservation studies for the new mill and the tailings storage facility, and the feasibility study for the tailing storage facility has been completed. The Company also received the construction permit for the new mill and is in the process to negotiate purchases of major equipment. We expect that the final approval of the environmental and safety assessment studies, as well as the detailed engineering design of the new mill and the tailings storage facility, will be granted later this quarter. In addition, the Company continues to work with its consultant to complete an updated NI 43-101 resource and reserve estimate for the Ying Mining District, which is expected to be completed this fall, probably early fall.

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

## Q & A

### Operator

Thank you. Ladies and gentlemen, we will now conduct the question-and-answer session. If you would like to ask a question, please press star then the number one on your telephone keypad. If you would like to withdraw your question, please press star followed by the number two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment please for your first question.

Your first question comes from Joseph Reagor at ROTH Capital Partners. Please go ahead.

**Joseph Reagor** — Analyst, ROTH Capital Partners

Hey, Lon and team. Thanks for taking the questions.

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

Hi, Joe. Good to have you on.

**Joseph Reagor** — Analyst, ROTH Capital Partners

Thanks. So first, the key topic, I think, that has been on every call this year is cost inflation. What are you guys seeing as far as inflationary pressures maybe year over year for consumables, labour, et cetera?

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

Yeah, I mean some of those things are just a bit of an uptick that we're seeing some costs. I mean I think I'd like to point out that the labour cost, that uptick that we commented on, last year, you recall, we had that renewal and I think part of those numbers in terms of the new wage rates were in that quarter. This year, obviously, we have the full quarter at those higher rates, so that's had an impact. There's nothing really sort of particularly outstanding in terms of key items. I think it's just a general increase in some costs, but nothing that is really alarming for us at this point. And obviously we've been benefitting from a depreciation in the RMB, which is helping to offset that a little bit.

**Joseph Reagor** — Analyst, ROTH Capital Partners

Okay. And is there like a percentage you could put on what the total all-ins looked like?

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

I think it's better to just go back to our overall guidance range and I mean, I think for the most part, I think GC was slightly above the upper end of our guidance. Ying was just about bang-on. I think I would use that guidance range that we gave for the cost for the year and use that going forward from a modelling and a forecasting standpoint at this point.

**Joseph Reagor** — Analyst, ROTH Capital Partners

Okay. And then a while back you guys announced that there was going to be this investment in, ah, I believe the name was New Infini. Is there any update you can give us there?

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

Yeah. We've made a small comment in the disclosure just that we've completed work at New Infini that really was drilling done through the course of 2021. Results really weren't kind of what we expected. There were some surprises and we're still trying to assess exactly what the data means. So, at this point, just given some of the other priorities, it hasn't been a rush to get back to it and drive it ahead. But at some point later this year I think we'll have some more news on that.

**Joseph Reagor** — Analyst, ROTH Capital Partners

Okay. Fair enough. I'll turn it over.

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

And Joe, I think what I would add to that comment would just be, from a budgeting standpoint, I wouldn't put any budget dollars or expenditures on our end at that project for the time being.

**Joseph Reagor** — Analyst, ROTH Capital Partners

Okay. Thanks.

**Operator**

Your next question comes from Felix Shafigullin of Eight Capital. Please go ahead.

**Felix Shafigullin** — Analyst, Eight Capital

Good morning, Lon and team. Thank you for taking my question. I have a two-part question really on all-in sustaining costs. So, on a dollar-per-tonne basis your all-in sustaining costs at GC, they came up at about \$82 per tonne, which is noticeably below the bottom range of your fiscal 2023 guidance. So I was wondering if you could give some colour on where the discrepancy comes from and should we be assuming sort of higher costs at GC on a per-unit basis going forward?

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

Yeah, I think if you look... You know, if you look at GC, in that case the actual cash costs on a per-tonne basis were slightly above the guidance range and the all-in sustaining is, yeah, as you pointed out, is below. Again, I would comment that there's fluctuation quarter to quarter and it's not always the easiest to attribute some of the tunnelling and development costs between operating and capital. So, for the purposes, again, of modelling, I would go back and look within the ranges that we provided in terms of guidance.

But yeah, if you wanted to look on the all-in sustaining side for GC, and again, this isn't going to be a huge impact given the overall numbers at GC, but I think if you looked at GC somewhere in the middle of that guidance, it's probably a better number than what we experienced in the first quarter. And obviously you know that, with small tonnages that are being processed, the timing of costs can really swing those numbers on a per-tonne basis pretty high so, again, I would guide maybe on all-in sustaining for GC more to the middle of the range.

**Felix Shafigullin** — Analyst, Eight Capital

Gotcha. Okay. I understand. And at Ying you essentially had an opposite situation. Your all-in sustaining there was above the 2023 guidance, which I understand was driven by sustaining CapEx. So I'm guessing that ties into the 300,000-metre drilling program you were doing in Ying. So I was wondering if you could provide some information on the progress of that program, how it's going along, when you're planning to complete it, and just give more detail on that.

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

Well, I don't know if necessarily, I think that drill program, in terms of (inaudible), I mean it's been budgeted for the full year and, as you know from looking what we've been doing at Ying going back to 2020 and through 2021, it's been a fairly aggressive drilling program. And this year, in terms of our production guidance, we are calling for some tonnages coming from the gold ore zones that we've drilled off, that we've been drilling since 2020. So I think that drilling campaign continues and some of that development cost and some of the movement in numbers that you're seeing is related to bringing on some of these new areas as well as continue to drill off and add to the resource base. So, just because we have a December cut off for that 43-101 that we're looking to put out, it doesn't mean that the program that we started with multiple objectives of drilling at Ying is stopping. It's an ongoing activity.

**Felix Shafigullin** — Analyst, Eight Capital

Okay. Thank you, Lon.

**Operator**

Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star one at this time.

Your next question comes from Dalton Baretto of Canaccord. Please go ahead.

**Dalton Baretto** — Analyst, Canaccord Genuity

Thanks. Good morning, Lon and team. Lon, I think you actually just answered this question, but can you remind me again when you're putting out the new mine plan on Ying?

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

Yeah, so it's certainly been delayed from our expectations. We're hoping to have it out earlier in the summer. You remember we guided you to that. Just summer slowdowns, people being away, dealing with the consultants, people (inaudible) tapped out, it's been pushed. It's possible that we'll have a news release out on the conclusions of the report by the end of August, but more likely it will be out sometime in September. So I'll try to keep you updated as to when, but right now it's more likely to be a September event.

**Dalton Baretto** — Analyst, Canaccord Genuity

Okay, perfect. And then there's been some news coming out of China around more and more power rationing, just given the heat waves and so on, and I'm just wondering, is there a risk to your downstream customers and do you have contingencies in place?

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

That's not something that we've heard about or has been a factor discussed, so I can't really comment on that. I can certainly look into it for more detail and come back to you, but it's not something that we've been overly worried. And yes, while we're certainly not shipping our concentrates far or outside of province, I mean we do have a number of different off-takers at each of the mines for each of the products, so at this point we're not too concerned about that.

**Dalton Baretto** — Analyst, Canaccord Genuity

Okay, great. And then just maybe one last one on your balance sheet. It remains fairly healthy. You generally have a cash balance of \$120 million to \$150 million and no real major capital programs. You've been a little bit active on the buyback, but can you just talk about how you're thinking about your balance sheet, how you're thinking about maybe potential acquisitions, maybe accelerating the buyback? Just anything around capital allocation would be great. Thank you.

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

Yeah, I mean I think we've established a track record on the dividend and at this point I wouldn't anticipate any material changes. The buyback's are something, clearly, that's a tool we have at our disposal and we're going to be opportunistic on that. But we're also really trying to drive to a balance and retain the capital that we think would be necessary to deploy on a growth and development project and we remain active on that, so don't want to sort of do anything hasty on that front and then find a great growth opportunity and then not have it be funded or at least the beginning of it funded. So I wouldn't really anticipate any big changes in strategy until we have something that we're prepared to announce in terms of a new project or an acquisition.

**Dalton Baretto** — Analyst, Canaccord Genuity

Perfect. That's all for me. Thanks, Lon. Enjoy the rest of the summer.

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

Thanks, Dalton. Same to you.

**Operator**

There are no other questions on the phone lines. I would like to turn the conference back over to Lon Shaver for any closing remarks.

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

Thank you, Michelle, and thanks, everyone, for tuning in today on a Friday in August. We'll wrap up here but, please, if anyone has any additional questions or any new questions, feel free, as always, to call or email us and we'll be happy to tackle those in due course. We look forward to updating everyone again in November on our second quarter results. Have a good day.

**Operator**

Ladies and gentlemen, this concludes your conference call for this afternoon. We would like to thank everyone for participating and ask you to please disconnect your lines.

