

Silvercorp Metals Inc.

Second Quarter Fiscal 2022 Financial Results Conference Call

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CORPORATE PARTICIPANTS

Lon Shaver

Silvercorp Metals Inc. — Vice President

CONFERENCE CALL PARTICIPANTS

Dalton Baratto

Canaccord — Analyst

Joseph Reagor

Roth Capital Partners — Analyst

Ryan Thompson

BMO — Analyst

Justin Stevens

PI Financial — Analyst

PRESENTATION

Operator

Good afternoon. My name is Chris and I'll be your Conference Operator today. At this time, I would like to welcome everyone to the Silvercorp Second Quarter Fiscal 2022 Financial Results conference call.

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

Lon Shaver — Vice President, Silvercorp Metals Inc.

Thanks, Chris. Good morning, everyone. On behalf of Silvercorp, I'd like to thank you all for joining our call to discuss our second quarter Fiscal 2022 financial results. We released our results after yesterday's close. 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 going, I'd like 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 Annual Information Form.

With respect to the quarter, we finished a solid quarter here. Revenue in Q2 was \$58.4 million, that was up 4 percent compared to last year's quarter. I'd like to note that silver was 56 percent of our

revenues on a net realized basis, that compares to 59 percent in the same quarter last year. Second quarter net earnings attributable to equity shareholders were \$9.4 million or \$0.05 per share, that compares to \$15.5 million or \$0.09 for the same period last year. Our adjusted earnings for the quarter were \$13.6 million or \$0.08 per share, and that compares to \$15.4 million or \$0.09 per share in the same period last year.

Just a reminder that the adjusted earnings is a supplemental non-GAAP measure to provide the market with another metric to better measure the performance of the underlying business, its continuing profitability and growth potential. The adjustments made were to remove the impacts from non-cash unusual items including the elimination of share-based compensation, foreign exchange loss, share of loss in our associates and unrealized gains and losses on investments and other one-time items.

As we previously reported, we produced just over 290,000 tonnes of ore and milled just over 270,000 tonnes of ore in the quarter, and that's up by 9 percent and 3 percent, respectively, compared to last year's quarter. The milling shortfall in the current quarter compared to what was mined was mainly as a result of transportation interruptions that were caused by heavy rains in the Ying Mining District. We're expecting to maintain a similar mining rate in the current quarter but increasing our milling tonnage at the Ying Mining District, that's for Q3 Fiscal 2022.

In the second quarter, we sold approximately 1.7 million ounces of silver, 800 ounces of gold, 17.3 million pounds of lead, and 7.6 million pounds of zinc, that represents decreases of 1 percent, 64 percent, and 7 percent in silver, gold and lead, respectively, but I'll note that a reduction in gold was due

to a special item last year and we did show an increase of 3 percent in zinc sold compared to the prior-year quarter.

Our cash cost per ounce of silver, net of by-product credits, was negative \$1.65 in this second quarter of Fiscal 2022, that's compared to negative \$2.09 last year. Our all-in sustaining cost per ounce of silver, net of by-product credits, was \$7.35 compared to \$6.99 in Q2 of Fiscal 2021.

Our cash flow from operations in the quarter was \$30.9 million, that was \$1.3 million higher than what was reported last year in the same quarter.

Capital expenditures were approximately \$14.2 million in this Q2 compared to \$11.1 million in the prior-year quarter, and this was driven primarily by a total of 124,544 metres or \$6.2 million worth of diamond drilling that was capitalized and completed in the Ying Mining District in this current quarter, compared to just over 70,000 metres or only \$2.5 million in Q2 of Fiscal 2021.

Everyone will recall, we are in the midst of a very significant drill program at Ying with lots of our—results haven't been reported and to be reported. That increase was somewhat offset by reduced tunnelling as the drilling activities in some of the previously mined areas of defined resources that require less development going forward, and as I said, we're continuing our expanding drilling programs to define additional resources and to test zones of gold mineralization at the Ying Mining District.

In the second quarter of Fiscal 2022, Silvercorp through its subsidiary, New Infini Silver Inc., initiated a Phase 1 10,000 metre drill program at the La Yesca project in Mexico with now running at

four active drill rigs. As of September, New Infini had completed a total of just over 2,500 metres of drilling from nine holes a total of \$1.1 million of expenditures have been capitalized.

In terms of corporate development in the quarter, we invested \$3.1 million to participate as a refundable deposit in the Kuanping project auction. The Kuanping project is located in the Shanzhou district in Henan Province, approximately 33 kilometres north of our Ying Mining District and covers an area of just over 12 square kilometres, being approximately 3 kilometres wide and 5 kilometres long.

Adding up these cash flow items, we ended the quarter in a strong financial position with \$221 million in cash and cash equivalents and short-term investments. That's up \$6.7 million compared to the \$214.4 million we had as of June 30, of this year. This does not include the investments in associates and equity investments in other companies, which had a total market value of \$172.8 million as of the end of September. Within that number, in New Pacific, our position in New Pacific represented \$145 million of this amount, and as of yesterday's close, New Pacific's value had increased to \$151 million.

In terms of outlook, as we announced on October 13, the Company won an online auction to acquire 100 percent interest in that Kuanping project for a total consideration of approximately \$13.5 million. We paid the acquisition consideration in October and expect to complete the transfer of the rights in this month, November 2021.

In October of 2021, the SGX mine at the Ying Mining District suspended production temporarily as a precautionary measure due to the heavy rainfall experienced in the Yellow River region. The water level at the nearby reservoir that discharges into the Yellow River reached an all-time high causing the operations at the SGX mine to be suspended for 10 days, which has impacted production and head

grade somewhat. Despite this interruption, we expect to maintain a similar mining rate as we saw in Q2 and increasing the milling tonnage at the Ying Mining District in this third quarter of fiscal 2022.

Looking forward, we continue to be on track to meet our annual guidance of between 6.3 million and 6.6 million ounces of silver, between 65 million and 69 million pounds of lead and approximately 27—and between 27 and 29 million pounds of zinc for this current fiscal year.

With that, Operator, I would like to open the call for questions.

Operator

Your first question comes from Dalton Baratto of Canaccord. Dalton, please go ahead.

Dalton Baratto — Analyst, Canaccord

Thanks. Good morning, Lon and team.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Hi, Dalton.

Dalton Baratto — Analyst, Canaccord

Hey. I heard you say that you're reiterating your guidance here, but I'm just having a hard time figuring out how you're going to get there. At Ying, for example, the low end of your guidance is 5.7 million ounces and you've done 2.8 million ounces so far. I understand you're going to try and ramp-up the milling rates this quarter, then you've got that one quarter with the Chinese New Year where things

tend to drop. Is there something you're planning on doing around that? I have a hard time getting to that (inaudible) guidance.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yes, no, totally understand, Dalton. We hate missing guidance and while we are looking ahead to that quarter, and typically it's a slower quarter, I'll just say that the Company and Management is doing everything we can looking at all kinds of options of shifting things around, maybe adding extra shifts, doing what we can to pull those numbers out. At this point, we're not in a position where we're prepared to concede on that guidance yet.

Dalton Baratto — Analyst, Canaccord

Okay. Then just on the cost side of things too, on a per tonne basis, it looks like you're running in the mid 90s now and that that's above your guidance range, but even historically you guys used to be high 70s, low 80s. I suspect some of that has to do with the new mining contracts, some of that has to do with the renminbi. But is this a level we should think about going forward will stay at these levels?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yes. I think as you pointed out, we did have a renewal of those labour costs earlier this year, which has impacted that. As we commented in the disclosure, the RMB has certainly been a factor, and that's something that we can't predict going forward. We're not anticipating any dramatic changes going forward from here. That is probably a reasonable number.

I think, overall, from an all-in sustaining basis, we're still within that guidance, so I think it may be better to look at things on that kind of basis because some of the activities we're doing it really is a bit of a judgment call as to whether those are operating costs to be expensed or are these longer-term investments that the Company's going to benefit from.

Dalton Baratto — Analyst, Canaccord

Understood. Okay. Then, just one last one for me. Is it still your intention to buy a new mine plant for the Ying District this year?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Not necessarily a new mine plant. What we're aiming to do is update the reserves and resources early next year or sometime next year based on the drilling with a proposed cutoff date at the end of this year. Obviously, that's the first step to be able to speak to a mine plan, but we're clearly driving towards being able to give guidance on that. As we've discussed in the past with some of these results, in particular looking at these gold zones, the work that's being done there is to try to identify a resource. Mine planning is being undertaken right now. It's just not to a level where we can give solid guidance, but that's obviously what we're aiming to do. We're not doing these activities just for the fun of it and to find mineralization, it's to find resources, put them in the reserves and mine them.

As soon as we're able to give that plan and I'm hopeful we'll be in a position to do that in 2022.

Dalton Baratto — Analyst, Canaccord

Okay, great. Then just maybe I'll squeeze one more in, if that's okay. From a corporate development perspective, you're doing a lot of this early stage stuff in China and Mexico and so on. Is that going to be the focus growth, or are you still actively looking for something that's either operating or later stage, if you will?

Lon Shaver — Vice President, Silvercorp Metals Inc.

No, I'd say our focus runs the full range of more advanced exploration to production with the criteria. I'd comment that the acquisitions of the two projects in the Ying Mining District, while we've not been in a position to report numbers, those projects do have resource numbers calculated on a Chinese basis associated with them. We are looking at those as being analogued to Ying and things that we can fast track into production. Again, it's just not at a state where we can give definitive guidance on those.

With respect to some of the other projects, we've talked about Mexico before, that was arguably a bit of an earlier stage project but it did have drill holes by their prior vendor and that's of course why we've selected to put that project in more of an incubator model in terms of the approach. But, I wouldn't say that we're shifting our priorities. Our sweet spot would be that ideal development asset that we can jump into and hopefully bring to production and cash flow quickly, but we're looking outside of that as well.

Dalton Baratto — Analyst, Canaccord

That's great. That's all for me, guys. Thank you.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Thanks, Dalton.

Operator

Thank you. Your next question comes from Joseph Reagor with Roth Capital Partners. Joseph, please go ahead.

Joseph Reagor — Analyst, Roth Capital Partners

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

Lon Shaver — Vice President, Silvercorp Metals Inc.

Hi, Joe.

Joseph Reagor — Analyst, Roth Capital Partners

Hey. Following a little bit on the cost side of things. You guys mentioned RMB, but are you guys starting to see cost inflation from the general move in inflation around the world?

Lon Shaver — Vice President, Silvercorp Metals Inc.

I can't really say that that's the case. I think as we've talked about, and as we've talked about on this call already and before, the labour cost aspect which we addressed early in the year, that was playing catch-up for contracts that typically have a two-year run rate and that were being revised. When you look at them, at the mining cost at Ying and you back out the other items, things like raw materials,

utilities, it looked like they're about 20 percent of those costs, with the balance being either our labour or contract costs.

I think a lot of the increases that we've seen on an RMB basis have flowed through already, so now it really just comes down to a question of well what that exchange rate—what's the exchange rate impact on that.

Joseph Reagor — Analyst, Roth Capital Partners

Okay. Then, at Ying, you guys have pointed to the potential additional, maybe a seventh mine, let's call it, over time now. When do you think we'll start to really get a plan from the Company and a timeline to how you guys might grow Ying from here?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yes. DCG, that seventh mine, it is in that process of ramping up and delivering small amounts of, you might call it development ore, and you can see from our results we're also drilling in and around DCG and have identified some gold zones. But, I think, to my previous comment, we have over 70 rigs drilling, generating a lot of information. We're packaging that up and putting that out in news releases just to alert to what we're doing, what we're finding. Love to be in a position to say what that resource, reserve impact is, but clearly that calculation needs to be done here with that targeted cutoff of December. That's really going to be the foundation for a solid plan that we can articulate to the market.

Prior to that, I think it's just a matter of please be patient and understand that work is being done and we want to do it right.

Joseph Reagor — Analyst, Roth Capital Partners

Fair enough. Then last thing, looking at the cash balance and the short-term investments, the equity investments, the lack of debt, and then your share of performance has almost been perfectly in line with your peer group. What are you guys doing on the corporate marketing side to get out there and show the differentiation of the balance sheet to investors?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yes, no, that's clearly become a key message in our marketing, and we've been participating in conferences, looking at outreach to get in front of a broader investor base, ramping up our messaging on the social media side to make sure people understand more about the Company and what we're looking to do. Yes, obviously, we have a very strong balance sheet and we're looking to use that and leverage that for growth for the Company with new assets.

These acquisitions that we've made in the Ying District tie into a broader strategy of growth in Ying. We've begun the planning and permitting process to look at adding milling capacity for Ying that would be a dramatic increase. The Ying concessions we currently have would be a key component of that growth but also the satellite projects would be contributors in terms of mill feed to an expanded milling capacity. These are all the things that we're looking forward to doing to grow our presence and up our throughput and up our metal output both in terms of our traditional silver, lead and zinc, but also potentially that gold and even copper that we're seeing in some of these other zones.

Joseph Reagor — Analyst, Roth Capital Partners

Okay. Thanks. I'll turn it over.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Thanks, Joe.

Operator

Thank you. Your next question comes from Ryan Thompson, BMO. Ryan, please go ahead.

Ryan Thompson — Analyst, BMO

Hey, Lon. Thanks for the update. I think most of my questions actually got asked, but could you maybe just talk a little bit more about La Yesca, just elaborate on some of the work that's been done there. Have you gotten any assays back yet? Do you like what you're seeing? Just whatever you can tell us about that project.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yes, it's still early days. We've been getting assays back. We've been getting numbers that have been confirmatory of some of the exciting silver grades that we saw in the previous work, but we're looking to get really a more wholesome package of information together. From a significant standpoint, we've capitalized \$1.1 million. That's not really a lot of spending in the grand scheme of things.

We want to get a more complete package of results together, again, so that we can wrap more context and understanding of what is it that we've been drilling into, what does it look like, what

potential does it have and what the game plan for it going forward is. Obviously, we're not there yet, having just started this summer.

Ryan Thompson — Analyst, BMO

Okay. Then maybe just one more follow-up on the previous caller's question there, just on capital allocation. Didn't you guys put a share buyback program in place a little while back there? Can you just talk a little bit about how you're thinking about that? Is it something you plan to execute on or is it more just you have it in place in case there's a big drop in the share price? How do you guys think about that?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yes. I think you've answered it in saying that it's always good to have options, have flexibility. That was clearly why we wanted to have it in place, and at this time we don't have any immediate plans to use it, but that'll be decided upon as circumstances arise.

Right now, it's good to have in place, just like we have a shelf in place, just to be able to respond quickly to opportunities.

Ryan Thompson — Analyst, BMO

Got it. Okay, that's all I had. Thanks a lot for the update.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Thanks, Ryan.

Operator

Thank you. Your next question comes from Justin Stevens, PI Financial. Justin, please go ahead.

Justin Stevens — Analyst, PI Financial

Hey, Lon. Yes, thanks for the update, and congrats on a pretty good quarter despite the challenges. I know you guys said you're looking to ramp-up the processing rate at Ying in Fiscal Q3. Should we assume that you're probably targetting somewhere to get the milling rate around what the mining rate was achieved in Fiscal Q1 or Fiscal Q2 and will that be using probably more mill one as well as mill two?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yes, that's correct. We do have that flexibility from a milling standpoint. Also, when you look at some of the issues around Chinese New Year shutdown, that has a greater impact on mining rates than milling. As it relates to being able to run the mill through that period at a higher rate, that's definitely easier than operating a mine. From an obvious standpoint, we're rolling over with approximately 20,000 tonnes that got mined but not processed, so that's obviously coming into this quarter. Yes, I think you're bang on in your assessment in terms of what we're trying to do.

Justin Stevens — Analyst, PI Financial

Got it. Yes, so you said about 20,000 tonnes was what the stockpile's increase was given that delta in mining and milling rates.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yes, that's the difference in the current quarter. We have the flexibility now of bleeding that into our milling rate for the current quarter and then looking at what we're mining now and scheduling things appropriately to address this quarter but then also the Fiscal fourth quarter when we would have typically the Chinese New Year shutdown.

Justin Stevens — Analyst, PI Financial

Got it. Yes, that makes sense. The other thing on the—obviously, thermal coal prices have been in a bit of a swing lately and there's some reports that China's looking to stave off power shortages. Do you guys expect any impacts to your operations either from potentially higher power costs or potential power rationing?

Lon Shaver — Vice President, Silvercorp Metals Inc.

No to the former. Not really any indication in terms of power costs. We were alerted to a potential power rationing that could have taken place, but that notification for us, at least, was in the month of October. It did not really kick in and have any impact, and as of the end of October it was—we passed that period. There's no guarantees or assurances that as we head into the winter heating period that for other reasons, as we've seen in the past, such as pollution mitigation, that there might not be power cutbacks, but we don't have anything specific or any solid guidance at this point.

Justin Stevens — Analyst, PI Financial

Got it. Makes sense. Then last for me, with Kuanping, just curious what your rough exploration timeline would be and if you think that you might need to do much new exploration before you could get a 43-101 compliant resource or do you think it'll just be relogging and verification?

Lon Shaver — Vice President, Silvercorp Metals Inc.

It's more the latter. There's been some work. There's been a resource. I think the main focus here is that this project is in an advanced state to be able to apply for a mining permit, and sort of more typical of what we've done in Ying, is get that permit, being able to start looking at mining activities using those early mining activities as a means, a justification to open up the mine, get in and do exploration simultaneously.

Justin Stevens — Analyst, PI Financial

That makes sense, yes. It should be hopefully completed this month and then you'll probably be boots on the ground fairly soon thereafter, I suspect?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yes. The completion is really more the closing of the transfer of the interest in the company that owns the mine. That's intended to take place this month, and then shortly thereafter is they're planning to be putting in the application for the mining permit.

But yes, as you pointed out, we'll be able to get over there and the team we have at Ying, just like for the other projects that we've acquired, the team at Ying is the one that's going to be tasked with going back and looking at where to pick up from an exploration and development standpoint.

Justin Stevens — Analyst, PI Financial

Got it. Sounds good. That's it for me. Thanks, guys.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Thanks, Justin.

Operator

Thank you. There are no further questions at this time. This concludes the question-and-answer session. I would like to turn the conference back over to Lon Shaver, Vice President, for any closing remarks.

Lon Shaver — Vice President, Silvercorp Metals Inc.

That's great. Thank you, Chris, and thanks, everyone, for joining in today. That's all we have for this call, but please if you have any additional questions or any new questions, as always, feel free to give us a call and reach out. Happy to answer those. Look forward to updating you again in February, our Q3 fiscal 2022 results. Have a great day.