FINAL TRANSCRIPT

Silvercorp Metals Inc.

Fourth Quarter & Full Year Fiscal 2023 Financial Results Conference Call

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PRESENTATION

Operator

Thank you for standing by. Good morning. My name is Jenny- and I will be your conference operator today. At this time I would like to welcome everyone to the Silvercorp Fourth Quarter and Full Year 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 this 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. Thank you.

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, Jenny. On behalf of Silvercorp, I'd like to welcome everyone for joining the call this morning or afternoon, wherever you may be, to discuss our fourth quarter and full year 2023 financial results, which were released yesterday after market close. A copy of the news release, the MD&A, and 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 in our most recent 10-Q and Form 40-F and AIF.

So, to kick off and recap the quarter, with respect to Q4, despite the regular impact of the Chinese New Year slowdown, our mines operated roughly in line with expectations, as reflected in our previously released production numbers. Revenue for the quarter in Q4 was $34.1 million. That was down 18% compared to the prior year quarter. And this included a decrease of $4.6 million due to lower silver, lead, and zinc sold as compared to last year's quarter, and also a decrease of $3.6 million due to lower realized selling prices for all these metals. Based on production levels and the realized prices we obtained in the quarter, silver was 57% of revenues on a net basis compared to 55% in Q4 of last year.

Our fourth quarter net income attributable to equity shareholders was $0.2 million or nil per share compared to a net income of $4 million or $0.02 per share for the same period last year. The main contributor to the decrease was the factors I mentioned before, which affected revenue. As well, we had a mark-to-market loss of $1.1 million on equity investments and a $1.9 million impairment charge against a short-term investment in certain bonds.

On an adjusted basis, with adjustments made to remove the impacts of non-cash and unusual items such as impairment charges, share-based comp, foreign exchange changes, the share in loss of our associates' operating results, gains and losses on investments, and one-time items, our earnings for the quarter were $5 million or $0.03 a share compared to $9.7 million or $0.05 a share for the same period last year. And just a reminder, we're providing this adjusted earnings as a supplemental non-GAAP measure to give investors another metric to better measure the performance of our underlying business, its profitability, and growth potential.

Our cash flow from operating activities in the quarter was $5.7 million. That compared to $11.4 million in the prior year quarter. The decrease was mainly due to these other factors I mentioned before affecting revenue and net income and a $5.8 million adjustment in non-cash working capital. Before changes in non-cash working capital, our cash flow in the quarter was $11.6 million compared to $14 million in Q4 of last year.

Capital expenditures totaled approximately $9.5 million in the quarter, down slightly from $10 million in Q4 of fiscal 2022, and we ended the quarter with $203.3 million in cash and cash equivalents and short-term investments, down from $212.9 million at the end of last fiscal year, and that was mainly due to a negative $8.7 million translation impact arising from the appreciation of the US dollar against the Canadian dollar and Chinese RMB. This cash position does not include our investments in associates and other companies, which had a total market value of $141.9 million on March 31st, of which, I'll just note, New Pacific was $120 million of that.

To quickly recap the full year financial results, revenue for the fiscal year was $208.1 million. This was down 4% compared to the prior year, reflecting a few factors, one of which is a $16.6 million decrease due to lower realized selling prices of silver, lead, and zinc. And secondly, a $3.6 million decrease due to lower zinc sales. However, this was offset by a $9.7 million increase from higher silver, gold, and lead sold year over year. Net income to equity shareholders was $20.6 million or $0.12 per share. That compared to $30.6 million or $0.17 in fiscal 2022. The decrease primarily reflects the aforementioned factors affecting revenue and as well during the year. Earlier in the year, we took a $20.2 million impairment charge against the La Yesca Project.

Our adjusted earnings for the year were $37 million or $0.21 a share compared to $52.4 million or $0.30 a share last year. Cash flow from operating activities for the year was $85.6 million, down from $107.4 million in the prior year due to those previously mentioned factors that impacted revenue and net income and as well a $2 million adjustment in non-cash working capital. Before changes in non-cash working capital, cash flow for this fiscal year was $87.7 million compared to $101 million in fiscal 2022. Capital expenditures in the year were approximately $58 million for fiscal 2023. That was up slightly from the $54 million in the same prior period, mainly due to increases in exploration and development tunneling as well as certain equipment and facilities upgrades at both operations.

Quarterly production recap: in terms of quarterly production, previously reported, we mined 182,000 tonnes of ore and milled 179,000 tonnes. That was up 1% and down 2%, respectively, compared to the same quarter last year. Produced in the quarter, 1.1 million ounces of silver, 1,000 ounces of gold, 10.9 million pounds of lead, and 3.6 million pounds of zinc. Those were decreases of 3%, 9%, and 13%, respectively, in silver, lead, and zinc production due to some lower head grades, but a 100% increase in gold production over the same quarter of last year.

The cash cost per ounce of silver net of by-product credits was $0.92 in the fourth quarter, this compared to negative $0.54 in the prior year quarter, and we experienced a $2.6 million decrease in expensed production costs, but this was more than offset by a $4.2 million decrease in by-product credits impacting that cash cost number. On an all-in sustained basis, our cost to produce an ounce of silver net of by-product credits in the quarter was $13.85. This compared to $12.60 in Q4 of fiscal 2022 and the increase primarily reflects the same factors that impacted consolidated cash costs as well as a 3% lower silver production number in the quarter.

Looking at the full year results, mined and milled, 1.1 million tonnes of ore in the fiscal year, both of those were up 7% compared to fiscal 2022, and our production of 6.6 million ounces of silver, 4,400 ounces of gold, 68.1 million pounds of lead, and 23.5 million pounds of zinc represented increases in production of 8%, 29%, and 6%, respectively, in silver, gold, and lead, mainly due to higher mining and milling rates and a decrease of 12% in zinc production over the last year mainly due to lower head grades in the ore.

On a year basis, the cash cost per ounce of silver net of by-product credits was negative $0.42 compared to negative $1.29 in fiscal 2022. The increase is mainly due to a $2.1 million decrease in by-product credits and a $3.2 million increase in expense production costs. And on an all-in sustaining basis the cost to produce an ounce of silver net of by-product credits in fiscal 2023 was $9.73 compared to $8.77 last year. The increase reflects the same factors that impacted the consolidated cash cost per ounce as well as a $7.7 million increase in certain sustaining capital expenditures but offset by a $2.7 million decrease in admin expenses and mineral resources tax.

Now looking ahead to this current fiscal year, fiscal 2024, we're reiterating our production and cost guidance that we announced on February 9th: expect to produce between 6.8 million and 7.2 million ounces of silver; 4,400 to 5,500 ounces of gold; between 70.5 million and 73.8 million pounds of lead; and 27.7 million to 29.7 million pounds of zinc. Midpoints of these numbers reflect increases of approximately 3% to 8% in silver, 0% to 25% increase in gold, 4% to 8% increase in lead, and 18% to 26% in zinc compared to our actual fiscal 2023 results. In terms of cost guidance for the year, we're anticipating, on a consolidated basis, between $78.2 to $80.5 per tonne on a cash cost basis, which is 4% to 7% below our actual performance in fiscal 2023, and on an all-in sustaining basis we're looking ahead to between $136.40 and $142.40 per tonne, which is roughly in line to 4% below actual fiscal 2023 performance.

Now turning to growth projects, looking ahead, we completed a total of 8,485 metres of drilling in this last fiscal year at the Kuanping Project. Recall this is a satellite property located north of Ying that we acquired in November of 2021. In December of 2022 we received the Kuanping mining license from the Department of Natural Resources which covers an approximate seven square kilometre land package and is good until March of 2029. Looking ahead, we're planning to carry out certain studies this year to complete the environmental assessment, water and soil protection assessments, and preliminary safety facilities and mine design reports to get some remaining ancillary permits. Further updates on the mine construction plan and cost estimates will be provided upon completion of these reports.

In fiscal 2023 we spent a total of $4.8 million on the construction of the new tailing storage facility and a new 3,000 tonne per day flotation mill at Ying. This was, if you look back at guidance, significantly below what we had anticipated for the year. A total of 3,233 metres or 64% of the drainage tunnels have been completed and the site preparation for the new mill was also completed and also we can confirm we've received all government approvals to construct both projects.

In addition, over the last year we spent $2 million on various upgrades, including certain environmental protection facilities at Ying as part of our continued commitment to building green mines and we spent $1 million on the construction of an XRT ore sorting system at the GC Mine, which is currently in trial production. We're looking to implement a similar program at Ying. Overall CapEx in fiscal 2024 is budgeted at $64.7 million with roughly $21.8 million of that going towards Ying's equipment and facilities, construction of the tailing storage facilities, the addition of a paste backfill plant and, as I mentioned, an XRT ore sorting system at Ying to optimize the mine plan and improve ore processing head grades.

You'll note that on May 15th we announced a non-binding term sheet for the acquisition of Celsius Resources. The final structure of the proposed transaction will be governed by the terms of a definitive agreement, which we are in the process of negotiating and finalizing, and after we've entered into this agreement, which we anticipate within one month of the term sheet, we'll be driving ahead with the rest of the documentation to complete this transaction.

Celsius' flagship project is the MCB copper-gold project located on the main island of Luzon in the Philippines. Mineralization in the project area was first discovered in the early 1930s, but modern exploration was limited until Freeport entered in 2006. Over the next seven years, Freeport conducted systematic exploration work that included approximately 25,000 metres of drilling and 46 diamond drill holes. This work was what largely underpinned the initial MCB-JORC-compliant mineral resource estimate that Celsius tabled in 2021. Additional drilling between 2021 and 2022 by Celsius led to an updated JORC-compliant mineral resource estimate, which was announced in December 2022, which include measured and indicated resources of 296 million tonnes grading 0.46% copper and 0.12 grams per tonne gold and an inferred resource of 42 million tonnes grading 0.52% copper and 0.11 grams per tonne gold.

Celsius had also released a scoping study on the MCB project in December of 2021, based entirely on a high-grade subset of that initial resource, the indicated component of the initial resource that had been published in January 2021. That study that they completed outlined a potential 2.28 million tonne per year underground operation, mining and milling approximately 49 million tonnes of ore at 0.85 copper and 0.41 gold over a 25-year life with a standard flotation process producing a clean copper-gold concentrate and delivering, on average, 16,000 tonnes of copper and 19,000 ounces of gold per year over that life of mine at a C1 cash cost of $1.29 per pound of copper net of gold credits. However, the study also encompassed a first 10-year profile where the annual output was 22,000 tonnes of copper and 27,000 ounces of gold over that 10-year period at a cost of $0.73 per pound of copper net of gold credits. The study estimated initial capital cost of US$253 million and generated a post-tax NPV at an 8% discount rate of $464 million, assuming a $4 copper price and $1,695 per ounce of gold.

We believe the acquisition of the MCB project gives Silvercorp exposure to a high-grade copper-gold project well suited to our extensive underground mining experience in a promising jurisdiction and with substantial local relationships and support that has been developed by the Celsius team. We look forward to providing investors with updates on the proposed Celsius transaction and the MCB project over the coming months.

And with that, I would be happy to open the call for questions.

Q & A

Operator

Thank you, sir. 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 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 is from Joseph Reagor from ROTH MKM. Please ask your question.

Joseph Reagor — Analyst, ROTH MKM

Hey, Lon. Thanks for taking the questions.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Hi, Joe.

Joseph Reagor — Analyst, ROTH MKM

So, first thing, on GC, the cost guidance suggests most of the drop from last year will occur there. Is there anything in particular driving the lower cost per tonne at GC?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Well, I think it's just been a renewed focus. Obviously, GC was not a great performer for much of this past fiscal year, just a variety of reasons. Sort of nothing is a constant in mining and so you had some issues that arose. In particular, obviously you saw that we had a production curtailment because of some additional capital investment that had to be done at GC. The law of small numbers in this case really threw things off. So I think this is more of a return to a more normal steady state.

Joseph Reagor — Analyst, ROTH MKM

Okay. Fair enough. And then last year in general, a lot of the production came in a little below expectation, but zinc was well below. Like what's your confidence level that you guys have resolved whatever caused that issue?

Lon Shaver — Vice President, Silvercorp Metals Inc.

I think the confidence level is good. I think it is useful to go back and look at the 43-101 that was published in September. There were a number of sort of changes in approaches to really looking at and addressing sort of what the zinc numbers were and sort of what type of zinc mineralization is kind of included in those numbers. So I do think that sort of the bad news on that zinc front is behind us and the targets that we've put out for this coming year are achievable.

Joseph Reagor — Analyst, ROTH MKM

Okay. Fair enough.

Lon Shaver — Vice President, Silvercorp Metals Inc.

I think the thing I would add is that, you know, you're dealing with fiscal 2023 zinc at Ying, you know, 0.7%. We're calling for in 2024 0.8%. So we're not dealing with big numbers or an incredibly aggressive forecast. I think it's just… And some of that is obviously factored in with rounding, but I do think we've addressed those issues.

Joseph Reagor — Analyst, ROTH MKM

Okay. Well, congrats on a good year despite the challenges.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Thanks, Joe. Appreciate the support.

Operator

Thank you. Your next question is from Felix Shafigullin from Eight Capital. Please ask your question.

Felix Shafigullin — Analyst, Eight Capital

Hi, Lon. Thanks for taking the question.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Hi, Felix.

Felix Shafigullin — Analyst, Eight Capital

Hi. So my question, I guess, sort of builds on the previous questions, but you reiterated guidance, higher production, lower costs. Could you just sort of provide, I guess, kind of like a rough roadmap of how you're planning to achieve that guidance? Because it seems kind of very lofty compared to the year that just ended.

Lon Shaver — Vice President, Silvercorp Metals Inc.

I think there's been, obviously, a lot of drilling and a lot of work that's gone into the mine planning off of that drilling. So I would say that, from identification of resources and reserves, we have a better visibility and a better scheduling program looking at where that ore is coming from. So I think that's going to help address the grade question.

Obviously, we're looking at certain things like ore sorting. And some of this is a bit of a trade-off question, because there are certain areas in the mine where you can make a call to, you know, go with resuing mining method, more surgical, more labour intensive, higher cost, where you can minimize dilution. On the other hand, shrinkage, cheaper overall mining, more dilution, lower grade, but then can you bring the grade up and still be delivering to the mill the ore of the grades that you're targeting. So I think that is really some of the optimization and some of the planning that's going into this mine plan.

On the flip side, from a cost standpoint, there are a lot of factors that go into that. It's always noisy when we have this exchange rate changes, how it impacts the selling prices in the market when you've got silver moving, the US dollar moving. On the one hand a strengthening US dollar is going to be a factor leading to lower costs on a reported basis. On the other hand we then see the noise in the income statement when the US dollar strengthens and that has an impact on conversion of other currencies in our cash and other asset balance.

So I think to kind of get into all of the details would be a number of factors and sort of probably too much for this call, but our projections are based on what we're seeing for the year in terms of cost performance and, as I said, that enhanced mine plan.

Felix Shafigullin — Analyst, Eight Capital

Okay. Thank you. And just a quick follow-up question: Last quarter, when you announced that the new mill at the Ying mine will be delayed by, I guess, about a year, I recall that the issue was kind of around permitting. So have you cleared that hurdle successfully at this point?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yes. Yes. As noted in the disclosed and in my comments, we've got all the permits to proceed with the mill.

Felix Shafigullin — Analyst, Eight Capital

Okay. Thanks. Thank you very much, Lon.

Lon Shaver — Vice President, Silvercorp Metals Inc.

You're welcome. Thanks, Felix.

Operator

Thank you. Once again, please press star one should you wish to ask a question.

The next one is from Justin Stevens from PI Financial. Please ask your question.

Justin Stevens — Analyst, PI Financial

Hey, Lon. Just a few questions on my side. As far as the ore sorting tech, are you looking to trial that tech at GC before you try it at Ying or are you potentially looking at targeting that for both mines simultaneously?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yeah, I mean simultaneously, I guess, is probably the best word. Obviously, GC's got it first. We're not waiting for the final results on the sorting program at GC to go ahead at Ying, so we will be doing that [inaudible].

Justin Stevens — Analyst, PI Financial

Got it. And as far as the Ying application, are you looking at sort of running potentially a mine-by-mine, like doing it at the portal, or more sort of at, call it, the mill, doing it on the whole feed, I guess on a campaign basis?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Great question. So it's more mine by mine but, as you recall, the location of LMW, LME, and TLP are somewhat close and we've been working on a lot of underground access and ramps and tunnels to be able to sort of integrate the flow between those mines. So, if I recall correctly, I think it's at the LMW mine that we're putting it at and—

Justin Stevens — Analyst, PI Financial

Got it. Yeah, there's that sort of transfer structure anyways, probably a logical spot to do that. But then you'd ship the concentrated, ah, you truck the concentrates up to the actual mill.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yes.

Justin Stevens — Analyst, PI Financial

Got it. Yeah, that's probably the way to do it. I guess the thinking there is that, like you were sort of saying, obviously resuing can be great, but it's obviously a pretty high cost, and if you can move to a more mechanized method the trade-offs, at least on stuff that would probably be marginal, probably tilt pretty aggressively if you can reject a lot of that uneconomic material.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yeah. Yeah. I think, to the [inaudible] of this question and to the previous one to sort of elaborate, this isn't talking about an abrupt change, but fine-tuning at the margin where you look at certain veins and certain stopes that you might have mined on a resuing basis, you know, now based on economics and the overall picture and doing all the math, you realize, yeah, actually this one now is probably better on an overall basis to run with shrinkage, and so then you realize with that comes some certain compromises in terms of greater dilution from the stope, and so can we implement an ore sorting program to, on a cost-effective basis, bring the trucked ore grade back up to what our targets are. But it's not meant to be an abrupt sort of hard pivot here in terms of how we're doing things. It's just looking at things with an improved stope-by-stope, area-by-area mine-planning focus.

Justin Stevens — Analyst, PI Financial

For sure. And I mean XRT should react pretty well with the material you're looking at here, so hopefully it pans out well. Last one I think for me. Given that the [inaudible] has been pushed out, are you sort of looking at targeting some of those shallow-dip, high-grade gold structures at Ying now or are you sort of maybe pushing those out to when that mill would be operational given the enhanced ability to recover gold with the new mill?

Lon Shaver — Vice President, Silvercorp Metals Inc.

No, we've been working on that and, arguably, it's taken longer than anticipated because, just given the orientation of those structures, they are requiring definitely a different mining approach to them. And we have added, we've added to the flow sheet the ability to do gravity concentration, so for some of those, particularly higher-grade areas in the gold, we've been trial mining that. So that will, based on the forecast, and you can see that in the projections in terms of production guidance in terms of gold ore for the year, that is still our target for this year and it's independent of the mill.

Justin Stevens — Analyst, PI Financial

Got it. So it is sort of working its way into the mine plan just, like you say, probably took a little bit longer just given the different orientation, the different mining approach that you have to take for those versus the rest of the veins?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Exactly. Yep.

Justin Stevens — Analyst, PI Financial

Perfect. Great. That’s it for me. Thanks.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Thanks, Justin.

Operator

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

Lon Shaver — Vice President, Silvercorp Metals Inc.

That’s great. Thank you, Jenny, and thanks, everyone, for tuning in today. That’s all the time we have for this call but, as always, if anyone has any additional questions, please don’t hesitate to call or reach out to us by email, happy to sit down and answer those questions in greater detail. So again, thanks, everyone, and have a great day.

Operator

Thank you. This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.