

Silvercorp Metals Inc.

Second Quarter Fiscal 2024 Financial Results Conference Call

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CORPORATE PARTICIPANTS

Lon Shaver

Silvercorp Metals Inc. — Vice President

CONFERENCE CALL PARTICIPANTS

Joseph Reagor

ROTH MKM — Analyst

Felix Shafigullin

Eight Capital — Analyst

PRESENTATION

Operator

Thank you for standing by. Good afternoon. My name is Ynnah and I will be your conference operator today. At this time, I would like to welcome everyone to the Silvercorp Second Quarter Fiscal 2024 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, President of Silvercorp Metals. Please go ahead.

Lon Shaver — President, Silvercorp Metals Inc.

Thank you, Ynnah. On behalf of Silvercorp, I'd like to welcome you all for joining the call today to discuss our second quarter fiscal 2024 financial results. They were released yesterday after market. And a copy of the news release, MD&A, 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 may 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 10-Q and Form 40-F and annual information form.

With respect to the quarter, revenue in Q2 was \$54 million. That was up 4% compared to the prior year quarter, and this increase was due to higher net realized selling prices for silver, gold, and lead, which increased 27%, 38%, and 2%, respectively, and also due to a 110% increase in gold sales. This offset the lower silver, lead, and zinc sold. Based on production levels and realized prices this quarter, silver was 58% of revenue on a net basis and that's up from 54% in Q2 of fiscal 2023.

Q2 net earnings attributable to equity shareholders were \$11.1 million or \$0.06 a share and that compared to a net loss of \$1.7 million or \$0.01 per share in the same period last year. The main contributors to the increase in earnings were the higher realized silver, gold, and lead prices I mentioned earlier, the higher gold sales, and also we did not have an impairment of mineral rights and properties, which we incurred in the previous period. This increase though was offset by a 27% decrease in the realized zinc price and also a 12%, 12%, and 23% decrease in silver, lead, and zinc sold, respectively, and also a decrease of \$3 million in foreign exchange gain. On an adjusted basis, with adjustments we make to remove the impacts of non-cash and unusual items, earnings for the quarter were \$11.7 million or \$0.07 per share and that compared to \$6.8 million or \$0.04 a share in the same period last year. And just a reminder for everyone, the adjusted earnings is a supplemental non-GAAP measure that we provide to investors as another metric to better measure the performance of the underlying business, its continuing profitability, and growth potential.

Turning to cash flow, our cash flow from operations in the quarter was \$28.8 million. That was up from \$14.1 million in the prior year period due to those previously mentioned factors that impacted revenue and net income, but also \$1.8 million in cash taxes paid versus \$4.3 million in the prior year

quarter and a positive adjustment in non-cash working capital of \$3.2 million compared to the prior year quarter negative adjustment of \$6.8 million.

Capital expenditures totaled approximately \$15.1 million in the last quarter, down 13% from \$17.4 million in the prior year period due to lower corporate exploration spending and modestly lower investments in equipment and facilities at both operations. This was partially offset by higher exploration and ramp development spending at the GC and Ying mines. During this period we also repurchased, under our normal course issuer bid, just under 200,000 shares of the Company for a total of approximately \$600,000.

We ended the quarter with \$189.1 million in cash and cash equivalents and short-term investments. This was down 6% compared to the \$200.1 million we reported at June 30th and was largely due to an additional \$5 million investment in New Pacific as a part of participation in their financing and an \$18.5 million investment in OreCorp through a private placement that we completed in conjunction with the signing of the binding scheme implementation deed to acquire OreCorp. This cash position does not include our investments in associates and other companies, which had a total market value of \$124 million as of September 30th.

Now looking at production over the quarter, as we previously reported, we mined 273,465 tonnes of ore and milled 261,107 tonnes of ore. Those numbers were down 6% and 10%, respectively, compared to the same quarter last year. The decline was primarily a result from a five-week shutdown at the GC mine, as we previously reported in both an update as well as the production figures that we put out. So we produced, on a consolidated basis, approximately 1.6 million ounces of silver, 16.1 million pounds of

lead, and 4.6 million pounds of zinc in the quarter. These figures represent decreases of 12%, 11%, and 23%, respectively, in silver, lead, and zinc production compared to Q2 of fiscal 2023. The decrease mainly reflects lower production from GC and lower head grades achieved at Ying due to mining sequencing and increased mining and milling of gold ore during the quarter. In total, 12,800 tonnes of gold ore grading 1.9 grams per tonne and 82 grams per tonne silver were processed in Q2 to produce a gravity gold concentrate leading to the pouring of the Company's first gold doré and contributing to a record quarterly gold output of 2,500 ounces of gold. Year to date we've produced 3.4 million ounces of silver, 4,000 ounces of gold, 34 million pounds of lead, and 11 million pounds of zinc.

The cash cost per ounce of silver net of by-product credits was negative \$1 in the second quarter compared to a positive \$0.77 in the prior year quarter. The improvement is mainly due to decreases in per-tonne production costs contributing to a decrease of \$4.1 million in expense production costs. Unit production cost improvement also reflected a 6% depreciation of the Chinese RMB against the US dollar over the same prior year period.

The all-in sustaining cost per ounce of silver net of by-product credits was \$11.50. This compared to \$8.25 in Q2 of fiscal 2023 and the increase primarily reflects a \$5.4 million increase in sustaining capital expenditures and a \$7 million increase in G&A expenses and government fees and other taxes over the same prior year period.

Turning to our growth projects, we spent \$1.7 million on the construction of the new tailings storage facility at Ying during the quarter. As of September 30th, total expenditures incurred on the tailings storage facility were \$8.9 million and construction is on track for completion in 2024.

At the Kuanping project, a satellite property located to the north of Ying, the Company has completed environmental, water, and soil assessments. These reports have been approved by the relevant provincial authorities. And an updated mineral resource estimate report to be prepared in accordance with the Chinese standards is currently under review by the province. The Company is also in the process of preparing a comprehensive report that includes the mineral resources development and utilization plan, a reclamation plan, and environmental rehabilitation plan. We'll provide additional details when they are available.

Looking ahead at Ying, we are considering opportunities to increase operational efficiencies through enhanced mechanization of our mines in the Ying Mining District. Underground stoping activities will increasingly pivot to more shrinkage mining with LHD loading. This will help to reduce the labour-intensive mucking associated with the cut-and-fill resuing stoping method, which is being used predominantly. This shift is expected to increase mine output, improve labour efficiency, and reduce unit operating costs in the future and, as part of this initiative, the Company has ordered 20 scoop trams or LHDs for Ying with the first unit delivered to site in late October. A mobile XRT Ore Sorting System is being installed at the No. 2 Mill to address the higher anticipated dilution associated with shrinkage mining. This is one of three XRT Ore Sorters planned at Ying to upgrade ore from the various mines throughout the district. This type of sorting system has already been implemented at the GC mine with reported improvements in head grades.

Silvercorp is considering alternate strategies to expand Ying's mineral processing capacity. Instead of the original plan to build a new 3,000 tonne per day mill and then decommission the existing No. 1 Mill, we are currently considering the option of adding 1,500 tonnes per day of capacity to the No. 2 Mill, which

would increase the processing capacity at the Ying Mining District to 4,000 tonnes per day. The Company will provide additional details when available but it is expected this expansion could be operational sooner and at a lower cost both in terms of absolute dollars to implement and on a dollars per tonne per day increase in capacity.

With respect to our OreCorp acquisition, on August 6, 2023 the Company and OreCorp announced the signing of a definitive agreement whereby we will acquire OreCorp pursuant to an Australian scheme of arrangement, subject to the satisfaction of various conditions. Since the announcement, the Company and OreCorp have been working together to seek the necessary regulatory approvals, including an application lodged to the Tanzanian Fair Competition Commission for which approval was granted effective on November 3rd. The scheme booklet, which includes an independent expert's report saying the transaction is fair and reasonable to OreCorp shareholders, has been completed and provided to OreCorp shareholders to assist them in the considerations as to whether to vote in favour of the scheme at the scheme meeting. The scheme meeting is currently scheduled to take place at 10:00 a.m. Australia time on Friday on the 8th of December. We look forward to providing the market with further updates on the transaction over the coming weeks.

And with that, I'd like to turn the call over to questions, operator.

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, press star 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 from ROTH MKM. Please go ahead.

Joseph Reagor — Analyst, ROTH MKM

Hey, Lon. Thanks for taking my questions.

Lon Shaver — President, Silvercorp Metals Inc.

Hi, Joe.

Joseph Reagor — Analyst, ROTH MKM

So, at GC, you guys are obviously trending well below expectations with the issues in Q2. Do you think you can make up the tonnes to meet the low end of guidance on tonnage by the end of the year? Or is it just a matter of like seeing how much you can make up and then revising later?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yeah, I mean, I think the first thing to say is that GC is back up and running according to plan, if not even ahead of plan with respect to tonnage. I think what we're more focused on is really, from a corporate standpoint, and also just given the relative size of GC to Ying, what's really important with respect to guidance is that we still see silver as being achievable from a low-end standpoint of guidance. Yes, lead

and zinc looks difficult at this point here, but we're talking about sort of rounding numbers, not huge differences.

Joseph Reagor — Analyst, ROTH MKM

Fair enough. And then obviously, as it ramps back up to normal rates, we should expect the operating cost per tonne to come back down in your fiscal Q3, right?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yeah. I mean what we have at all the mines, a bit of a small numbers factor that can bite us when those small tonnage numbers are made even smaller and you're having to allocate those costs to smaller tonnes, and so we've seen that over periods. So yeah, with it back up and running, we see things falling back into line and more normal operating rates and costs going forward.

Joseph Reagor — Analyst, ROTH MKM

Okay. And then, based on current expectations for the OreCorp transaction, if it closes on time, what would be the timeframe thereafter that we would see like an updated financial study with your guys' outlook for the project?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yeah, that's anticipated, in terms of a technical report that we would issue, exact nature of it to be determined still, but probably in sort of January/February timeframe in terms of an initial report. But obviously we look to give as much guidance in advance of that as we can.

Joseph Reagor — Analyst, ROTH MKM

Okay. I'll turn it over. Thanks, Lon.

Lon Shaver — President, Silvercorp Metals Inc.

Okay. Thanks, Joe.

Operator

Thank you. Once again, that is star and one to ask a question. And your next question comes from the line of Felix Shafigullin from Eight Capital. Please go ahead.

Felix Shafigullin — Analyst, Eight Capital

Hey, Lon. Thanks for taking the questions.

Lon Shaver — President, Silvercorp Metals Inc.

Hi, Felix.

Felix Shafigullin — Analyst, Eight Capital

My question is around the alternative plan for expanding the processing capacity at Ying. Now I understand it's probably early days, but can you give a ballpark figure for what you're expecting the CapEx to be to add this extra processing line at Mill No. 2? And also how much money is left there to be spent on the new tailings facility?

Lon Shaver — Vice President, Silvercorp Metals Inc.

We'll tackle the second question first. We're at roughly \$8.9 million and, as you recall, the cost was \$38 million, so we would have \$30 million to go through, through the next sort of, I guess it would be five quarters really from a calendar standpoint to get to the end of 2024 calendar.

And then with respect to your first question, yeah, we're still working on the estimates. Our sense is the numbers here would come in sub-\$10 million, so it's actually quite a reasonable cost with respect to getting that production increase. And the other elegance of it is from a timeframe. We can see it being completed at some point over the course of 2024, which, as you recall, is ahead of schedule relative to the No. 3 Mill plan that we've articulated.

Felix Shafigullin — Analyst, Eight Capital

Okay. That makes sense. And if I recall correctly, I think you were using the No. 1 Mill, most of the gold processing was happening at the No. 1 Mill. Will that remain to be the case going forward?

Lon Shaver — Vice President, Silvercorp Metals Inc.

That's a bit to be determined. Obviously, with the No. 3 Mill plan, we are anticipating shutting Mill No. 1. Now if we're keeping it open and looking at Kuanping, we may actually dedicate Mill No. 1 to address ore coming from Kuanping, in which case we would move the gold circuit over to the No. 2 Mill. But that's yet to be finalized.

Felix Shafigullin — Analyst, Eight Capital

Okay. Understood. Thank you, Lon.

Lon Shaver — President, Silvercorp Metals Inc.

Thanks, Felix.

Operator

Thank you. Once again, that is star and one to ask a question.

This concludes the question-and-answer session. I would like to turn the conference back over to Mr. Lon Shaver for any closing remarks.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Okay. Well, thank you, operator, and thanks, everyone, for joining today. We appreciate your time and interest and, as we finish the call, please remember that our lines of communication are always open. If you have additional questions that you didn't get to put to us on the call today, please reach out to us by phone or email and we will follow up with you and get you the information that you need.

As we head into the holiday season, sending our best wishes for a wonderful and relaxing time for you and your loved ones and we are looking forward to what promises to be an exciting and successful 2024.

Operator

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