

SILVER STRATEGIES REVIEW

CLIF DROKE



Interview with Bradford Cooke of Endeavour Silver

Endeavour Silver Corp. (NYSE: EXK, TSX: EDR, EJD: DBFrankfurt) is a small-cap silver mining company focused on the growth of its silver production, reserves and resources in Mexico. Since start-up in 2004, Endeavour has posted four consecutive years of aggressive silver production and resource growth. The organic expansion programs now underway at Endeavour's two operating silver mines in Mexico combined with its strategic acquisition program are expected to help Endeavour achieve its goal of mid-tier primary silver producer status.

Silver Strategies Review recently spoke with Endeavour's Chairman and CEO, Bradford Cooke, who graciously took some time out to answer questions about his company and its prospects for future growth. Below is the transcript of that interview.

Q: What was your initial attraction to the natural resource business and how did you get your start in it?

Cooke: As a kid I collected rocks and then trained to become a geologist. I ended up earning two degrees in geology and now have over 32 years in the mining business.

As for my involvement with Endeavour, I basically wanted to get into the silver business back in 2002, so I took an old Vancouver Stock Exchange company, restructured and renamed it, arranged a new financing, new board, new management team, and new business plan. Starting from scratch in 2003, we were basically two guys, myself and Godfrey Walton, with the bright idea to go to Mexico and acquire high quality silver and gold mining projects at a time when the price of gold was just starting to move but the silver price was still flat on its back. There are very few guarantees in the mining business but with our knowledge of the precious metals cycle, we felt that the silver price would start rising soon and we wanted to acquire some key assets before the party started. That was the foundation for bringing Endeavour to Mexico.

Q: What were some of the company's early experiences in Mexico?

Cooke: In 2003, we must have looked at four dozen gold and silver mining projects in Mexico on paper, and we visited at least a dozen of them on the ground. By mid-year, it was clear we weren't seeing what we wanted to see. Most properties were small historic silver prospects that had been found by the Spaniards out in the heart of the Sierra Madre. They weren't what we were looking for. We were looking for projects that had the potential to be company makers. In September 2003, we finally hooked up with the general manager of a small, recently closed silver mine in Sinaloa. We flew into Mazatlan and he drove us up to see the mine. His name was Miguel Ordaz. We spent two days crawling in and out of all the old tunnels and shafts on this mine property and around the 200 tonne per

day plant. In the end, we took him to dinner and told him we had good news and bad news. The bad news was that he had given us a wonderful tour but the mine was just too small; we were looking for something with bigger and better potential. The good news was, "Miguel, we like you and we want you to help find us a mine." We asked him if he knew of any mines with bigger infrastructure and more reserves, etc. Miguel looked at me and said, "Bradford, you want mines? I have mines."

As it turns out, he had spent the better part of his 35-year career in Mexico working for the mine investment arm of the government in northern Mexico. His job for 18 years was conducting due diligence for government loans so that small property owners could mine their ore and ship it to the local processing plants. In the 1970's and '80's, the government had built and operated custom process plants all over Mexico. So he knew all the mine owners and it was just like hitting a home run for us.

Q: Please give us an introduction to Endeavour's flagship property, the Guanacevi Mines Project in Durango, Mexico.

Cooke: Miguel started sending me courier packages in September and October of 2003 with information about silver-gold mines-plants in northern Mexico. After receiving a lot of reports we decided to pick the best and visit them. It was on one of my visits with Miguel in November 2003 that we set foot on the mine and plant properties at Guanacevi and within minutes, we knew we had to own them. They were fully permitted, built and operating assets that had been put up for sale because the mine had run out of ore.

Since acquiring these assets in May 2004, Guanacevi has been our flagship mining operation in Mexico but more recently, our second mine acquisition, the Guanajuato Mines project, has also been showing signs of becoming a flagship asset. Guanajuato is now growing faster than Guanacevi and may even match Guanacevi in terms of size and quality over the next couple of years. But there are still lots of opportunities to grow our production at Guanacevi also.

Q: The Endeavor business model as applied to Guanacevi and Guanajuato has been a very successful one. Please elaborate on it.

Cooke: Our business model differs from the conventional mine development model in that fully permitted and built mines only need the discovery of a new ore-body in order to re-start production. Once your exploration is successful, the time needed to get back into production is measured in months, not years. It's far more typical to do raw exploration and strike out, and if you do make a find, it takes years of drilling just to get to economic feasibility status. Then you have to go through all the permitting, financing, construction, and commissioning phases etc. to get to production. The whole process normally takes five to ten years. But because of our fully permitted and built infrastructure, we were able to skip most of the feasibility/permitting/ financing/construction process and do the rest internally on a fast track so that the only real risks we faced were exploration and operating risks. In other words, if we could find a new high grade silver ore-body within a famous 450 year old silver district, we could be producing silver in a matter of months.

What we recognized in Guanacevi and Guanajuato was that even after 100's of years of prolific silver mining history, these districts were still grossly under-explored in modern terms. The reason is that in the Spanish and Mexican cultures, there were no real capital markets for Mexican mine owners to raise money and do higher risk exploration, the R&D of the mining business. And the profits of the mines belonged to the owners so there was rarely any money left over for exploration. We walked into Guanacevi and saw this large plant and the high grade ore outcropping on surface where the Span-

iards had found it. Standing above that 400-year-old mine, you could see the Santa Cruz ore-bearing structure extending to the northwest for more than 5 km. Any geologist worth his salt would say, "I can see the potential here." Yet there had been no drilling, so it wasn't rocket science for us to buy the project. The price we negotiated meant the mine was basically free and we got the plant for a third of its replacement value. In May 2004, we closed the transaction and started drilling. Within weeks, our first dozen exploration drill holes had hit a brand new, high-grade silver discovery which we called North Porvenir. It's along the same Santa Cruz vein structure only a few hundred meters away from the 400 year old Spanish silver mine. Within 3 months, we decided to drive a ramp (decline tunnel) down into the new ore-body and within six months after its discovery, we were mining ore. That was the validation of our business model: to identify an exploration target, drill it, make a new find and fast-track it, six months from discovery to production. Our production has grown more than 600 percent since that time. We've since grown our silver reserves and resources from zero to our current 47 million ounces.

Q: What's the next step in the process from here?

Cooke: We've now spent 5 years finding, developing and mining North Porvenir so this year we've focused on bringing two new mines into production in each district. Next year, two more will come into production and then others. Eventually, we will have four or five mines feeding the plant at Guanacevi. This is how we grow from a single mine, multi-year operation to a multi-mine, multi-decade operation and we believe there are many more opportunities to drill potential new ore-bodies in the district.

Q: What are some of the challenges and benefits of silver mining in Mexico?

Cooke: Mexico has a 450 year mining culture which makes it very friendly toward the mining industry. The Mexican government is very much pro-mining and their tax structure is amongst the lowest in the western world. With the emergence of democracy in the last eight years, new environmental and social and safety standards have been legislated. Nonetheless, we did not wait for these changes, we imported North American standards across the board in all our operations.

Q: Could you tell us a little about the company's Parral Project?

Cooke: In 2007-2008, we made a discovery in the historic silver-lead-zinc district of Parral, Chihuahua. Once again, we identified an historic ore-bearing vein that had never been drilled but had a small, high grade history of production. Today we have 1.75 million tonnes of good grade lead-zinc-silver-gold ore drilled out at Parral. Neither the tonnage nor the grades are yet sufficient enough to make an economic decision to develop the mine, but look for some news shortly on that.

Q: How much experience does your geological team bring to the table?

Cooke: We think we've got one of the best management groups in the junior silver mining industry, a really good core group of experienced plant, mining, exploration and financial people. All of us came from larger companies and we came together in Endeavour to enjoy building a company from scratch and make money for our shareholders. Our President, Godfrey Walton, came out of Chevron Minerals, Hemlo Gold and other senior mining companies. He has experience managing exploration and development programs for uranium, precious metals and base metals in Canada and Ireland. Dave Howe, our Vice President of Operations, spent years working with Hecla amongst other companies and has a wealth of experience in precious and base metals mining. Barry Devlin is our Vice President of Exploration. He has 27 years of experience and also worked for Hecla as a senior geologist. These guys know how to take a mineral prospect from exploration stage to discovery to development to production. We're a fully integrated mining company with stock listings in three countries. Hugh Clarke

is our Vice President of Corporate Communications and he's enjoyed many careers: commercial and retail banker, stock broker, options trader, company president, etc. Miguel Ordaz is our number one man in Mexico and helps generate all the new opportunities for us. He's the one who first took us to Guanacevi.

Q: Is Endeavour pursuing any strategic partnerships with other mining companies right now?

Cooke: Certainly we want to grow both through organic expansion as well as strategic acquisitions. We're looking for mines number three and four but we may in fact find them within the three districts we are already active in. We want to grow our production and reserves so that we can move quickly into the mid-tier status of silver producers that is currently vacant. Pulling the trigger on one strategic acquisition should put us over the hump towards becoming a premier mid-tier silver producer.

Q: How challenging has it been for Endeavour to raise capital since last year's credit storm?

Cooke: Last year was a career experience to say the least! It was like coming to the edge of a cliff and looking down. There was no question we didn't like what we saw in the capital markets late last year. We tested the debt markets and we found the offers too embarrassing to even bring to the board. But we were patient. Thankfully, the gold/silver sector turned around and we were quickly able to do a small equity raise at year end and a convertible debenture at a significant premium to our stock price in February of 2009. Combined with our cash-flow, that has helped to finance our growth this year.

Q: Where do you see the price of silver in the next couple of years? Are you optimistic that the recovery will continue?

Cooke: I am optimistic. The precious metals by their very nature are separate and distinct from other metals. There's no question gold and silver will exhibit leadership as the commodities cycle resumes its march forward and inflation rears its ugly head. When prices finally peak in several years time, there is risk of a bubble at the top of these markets. Gold could run to two or three thousand dollars. We could see \$25 to \$50 silver. I consider myself a modest bull. Long-term, the sustainable prices of the metals in U.S. dollar terms may be significantly lower than the bubble tops but substantially higher than current prices, and that is what really matters.

Q: How much of an institutional following does Endeavour have?

Cooke: We have both healthy institutional and retail followings. Institutional holdings have been higher in the past [before the credit crisis]. We've expanded our retail shareholdings in last couple of years. As with most mining companies, the global economic crisis caused many institutions to sell all their stock holdings last year. Today, institutional holdings of Endeavour shares are in the order of 20 to 30 percent of shares outstanding. Fresnillo plc. is the largest holder of Endeavour stock at 2.8 million shares, which is about 5.5 percent of the company. I'm probably the number two shareholder behind Fresnillo at around 1.5 million shares.

Q: What are the future prospects for Endeavour and why should an investor considering buying the stock right now?

Cooke: We have delivered a five-year unbroken track record for annual growth of sales cash-flow, production, and resources. We were the only primary silver mining company last year to record four consecutive quarters of falling cash costs. We're one of the fastest growing silver companies in North America. The growth potential of our two mines alone is almost double last year's production, or about

four-and-a-half million ounces of silver. One good acquisition should put us into the mid-tier bracket where we want to be. The only way the seniors can grow is by looking to acquire the attractive mid-tiers and once we arrive in the mid-tier, we want to be the company they see in their rear-view mirrors.

[Visit the company's web site at www.edrsilver.com for more information.]

[Disclosure: This interview is not to be construed as a buy recommendation for Endeavour Silver. It is intended solely for educational and research purposes and is part of an ongoing dialogue between the *Silver Strategies Review* newsletter and various small-cap companies that utilize unique and innovative approaches to metals mining and exploration. Investors should do their own due diligence before investing in any mining and exploration company. Neither *Silver Strategies Review* nor its affiliates received payment or compensation in any form for this interview, nor does the editor currently own shares in Endeavour Silver.]

www.clifdroke.com