



Pan American
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Pan American Silver Corp.

Q1 2010 Results Conference Call Transcript

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Speakers: **Geoff Burns**
President & CEO

Steve Busby
Chief Operating Officer

Rob Doyle
Chief Financial Officer

Michael Steinmann
Executive Vice President Geology and Exploration

Kettina Cordero
Coordinator, Investor Relations

OPERATOR:

I would now like to turn over the conference to Kettina Cordero, Coordinator of Investor Relations. Please go ahead, ma'am.

KETTINA CORDERO:

Thank you, operator and good morning, ladies and gentlemen. Joining me here today are our President and CEO, Geoff Burns; our Chief Operating Officer, Steve Busby; our Executive Vice President of Geology & Exploration, Michael Steinmann; and our Chief Financial Officer, Rob Doyle.

I would like to start this conference by reminding our listeners that this call cannot be reproduced or retransmitted without our consent. I also point out that certain of the statements and information in this call will constitute forward-looking statements and forward looking information within the meaning of applicable securities law. All statements other than statements of historical fact are forward-looking statements. These statements reflect the Company's current views with respect to future events and are necessarily based upon a number of assumptions and estimates that while considered reasonable by the Company, are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies.

Many known and unknown factors could cause actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements and the Company has made assumptions and estimates based on or related to many of these factors. We encourage investors to refer to the cautionary language included in our most recent news release dated May 10, 2010, as well as those factors identified under the caption Risks Related to Pan American's business in the Company's most recent Form 40F and AIF. Investors are cautioned against attributing undue certainty or reliance on forward-looking statements and the Company does not intend or assume any obligation to update these forward-looking statements or information other than as required by law.

With that I will turn the call to Geoff Burns, President and CEO.

GEOFF BURNS:

Thank you, Kettina. Good morning, ladies and gentlemen, and welcome to Pan American's 2010 First Quarter Earnings Conference Call.

As has become our normal format, I'm going to start by making some brief opening comments and then let Steve, Michael and Rob provide you more fulsome descriptions of our operations, project development activities, exploration programs and overall financial position as of the end of the first quarter of this year.

Overall, I'm pretty pleased with our first quarter results. Relative to the first quarter of last year we significantly increased our silver and gold production, reduced our cash costs, increased our bottom line net income and generated more cash flow from operating activities and absolute free cash flow.

Our headline metrics for the first quarter 2010 are as follows: silver production increased by 13%, to 5.5 million ounces; we increased our gold production by 34%, to 27,896 ounces; our cash costs declined 27%, to \$4.35 per ounce of silver, net of by-product credits; we increased our sales by 88%, to \$132 million; our net income rose 189%, to \$19 million, or \$0.18 per share; we increased our cash flow before changes in non-cash working capital by 127%, to \$42.6 million, or \$0.39 per share; and lastly, our net free cash flow was almost \$20 million, right into the bank.

While our Huaron mine had a difficult first quarter, all of our other operations performed at or above expectations, and we were within 3% of our quarterly silver production forecast. This is clearly the benefit of having a diversified asset base, where at any given quarter production shortfalls at one of our operations can be offset by positive production performance at one of our other mines. This was the story in Q1.

While our silver production remains on track to achieve our full-year guidance of 23.4 million ounces our gold production truly provided a positive surprise. Driven by better than anticipated gold grades at Manantial Espejo, we produced almost 7,000 ounces more gold in the first quarter than we had expected. As a consequence, we have raised our full-year gold production forecast to 95,000 ounces from 85,000 ounces and have reduced our cash cost guidance to \$5.90 per ounce as our by-product credits will benefit from the increased gold production and higher gold prices.

We also paid our first dividend in the Company's history during the first quarter. It is extremely rewarding to realize that your company has grown and evolved to a point where we can begin to return cash to our shareholders while maintaining the financial strength to fund our future growth objectives. It would be our intention to continue this dividend on a semi-annual basis and we will announce future dividends and pay-out dates as they are approved by the Board.

Now I would like to turn things over to Steve who will talk about our operating mines and development projects. Steve?

STEVE BUSBY:

Thank you, Geoff. And good morning, ladies and gentlemen.

It is my pleasure to provide you a report on our first quarter 2010 mine operating performance and project development advances. We are focused this year on sustaining solid production performances at our seven operating mines while bolstering our future growth potential with outstanding mine development projects including our world-class Navidad deposit in Argentina.

I'm going to start off my comments by discussing our one operation that had a challenging quarter. At Huaron in Peru, our production was impacted by about 25% after we made a decision to temporarily shut down an area of the mine that we had been trying to develop into a more productive mechanized mining area over the last couple of years.

The ground conditions in this area were worse than we had expected and we made the decisions to temporarily shut down the area so we could step back, redesign and enhance both the ground control systems and the mining method. Despite this setback, we remain committed to successfully deploying mechanized mining methods that stand to significantly improve productivities and reduce costs at our long-life Huaron mine.

We are expecting continued reduced productivity and higher costs at Huaron for the next four to six months as we redesign and restart the mechanized mining method. Meanwhile, our Quiruvilca and Morococha operations in Peru delivered solid production results as expected during the quarter. Overall, our Peruvian operations produced 1.7 million ounces of silver at a cash cost of \$6.92 per ounce which was below our planned production of 1.9 million ounces, but the mines did deliver better than our forecasted cash cost of \$7.50 per ounce, thanks primarily to better than planned by-product base metal prices.

We are also currently addressing labor-related challenges in Peru where 2009 profit sharing distributions fell shy of expectations, due in part to the closure of the Doe Run smelting facility. We feel we have now satisfactorily addressed the expectations at all of our operations and we are not expecting any further impacts beyond the six-day work stoppage at Huaron that we reported in April.

Overall in Peru, we are forecasting similar performance in Q2 followed by improvements coming from Huaron in late Q3 and into Q4 this year, while continuing solid performances at Quiruvilca and Morococha.

Our mines in Mexico provided another outstanding quarter exceeding our expectations and producing over 2 million ounces of silver at cash cost of \$6.67 per ounce, with better than planned production, at lower than planned costs at both La Colorada and Alamo Dorado mines.

We are particularly pleased with La Colorada's performance where we are enjoying the fruits of the previous two-year investments in underground mine ventilation and dewatering systems that are now yielding productivity benefits far beyond those we had anticipated. This coupled with the exploration successes in extending the Candelaria to depth has served to further stimulate an already focused and performing workforce. We see many years ahead of solid and sustained production at La Colorada.

Alamo Dorado also continues to exceed expectations. With our operators executing continual improvements to their productivities, enhanced by some positive surprises to our mineral resource realizations particularly in the Phase II pit layback, where the initial exploration drilling was somewhat limited due to topographic constraints. We are expecting steady state performance at La Colorada for

the rest of the year and an increase in production at Alamo Dorado as we begin pulling some production from the bottom of our higher-grade Phase I pit beginning in the second quarter.

In Bolivia, our San Vicente mine performed above expectations producing over 840,000 ounces of silver for the Company at a cash cost of \$7.18 per ounce. We are excited with the benefits we are realizing from the upgrades made to the tailings pond water recycle systems and starting to achieve regular mill throughputs substantially exceeding our design rates. We are expecting continued steady state production from San Vicente for the remainder of the year and actually feel there is an upside to the mill throughput.

In Argentina, Manantial Espejo had an excellent quarter, producing nearly one million ounces of silver at an incredibly low cash cost of negative \$6.63 per ounce, as outstanding gold production of nearly 21,800 ounces coupled with higher than anticipated gold prices exceeded our by-product credit expectations.

We continue to experience a modest shortfall in our silver grades but with much better gold grades relative to our mineral model, and have an extensive effort underway to reconcile the differences and improve our abilities to predict future performances. In the midst of this reconciliation effort, the operations are performing solidly in both productivity and cost measures and we are very pleased with the competency of the workforce we have assembled in Argentina.

In the meantime, while we complete our mineral model enhancements, we are forecasting similar Q1 production with slightly less gold production and therefore, slightly higher costs for the remainder of the year at Manantial Espejo.

Our project development teams are enthusiastically advancing studies at both the La Preciosa joint venture project in Mexico and our new Navidad project in Argentina. At La Preciosa, we are advancing the deposit infill drilling, have initiated critical geotechnical studies which will determine the appropriate mining methods according to the ground conditions present and have substantially advanced the metallurgical studies, honing in on the preferred process flow sheet alternatives, while we continue to collect environmental baseline data on the site. All of these studies are fundamental in determining the feasibility to develop a mine on the known current resources. Meanwhile, we are advancing additional exploration efforts on the site which could influence our schedule for the feasibility work depending on what discovery successes may be encountered along the way.

I cannot adequately describe the excitement we have as we begin to get our hands around the world-class silver deposits at Navidad since mobilizing our teams to the field early in January of this year. With the current workforce exceeding 130 employees, plus another 50 contractors mobilized on-site, we are in full swing with infill drilling, geotechnical and hydrologic studies, metallurgical sampling and testing, mine design, environmental baseline studies and community relation programs. We have launched a number of third-party consultants, including M3 Engineering of Tucson, Arizona, who will

assist us in developing the process plant and site infrastructure designs and assemble a mine scoping study in the third quarter of this year.

In addition, we continue to work closely with the Chubut Provincial government who has been drafting a revised mining law that would enable development of the Navidad mine, taking every opportunity we can to highlight the benefits of mining and to demonstrate Pan American Silver's proven mine development capabilities.

We are encouraged and remain confident that the mining law in Chubut will be amended, allowing for the open pit mine development at Navidad. It is too early in the process to comment on our findings today. However, it is easy for me to say that without a doubt Navidad is a positively unique silver occurrence and early indications have us extremely excited relative to the size of the silver mineralization and the potential magnitude of the economics of a mine development project on this site.

As per our previous report we expect to achieve our full-year consolidated Company silver production guidance of 23.4 million ounces as shortfalls, particularly at our Huaron mine in Peru will be completely offset with increases at the Alamo Dorado, San Vicente and La Colorada mines.

In addition, we have increased our annual consolidated gold production from guidance nearly 10,000 ounces to 95,000 ounces, given the continued better than expected gold production at our Manantial Espejo mine, which is also serving to drive consolidated cash costs guidance down 8%, to \$5.90 per ounce net of by-product credits. As I have mentioned before, our diverse portfolio of mines provides us meaningful abilities to make up from unexpected production disruptions that are so common in our industry. This along with our second-to-none mine development and operating personnel provide Pan American Silver and its shareholders distinct and unique competitive advantage.

I will now turn the call over to Michael Steinmann for the exploration update.

MICHAEL STEINMANN:

Thank you, Steve. Good morning.

We have ambitious exploration plans for 2010 advancing several projects at the same time and increasing our brownfield exploration at Manantial Espejo and San Vicente. The activities at our sites and projects have been impressive.

Including the infill and metallurgical drilling at Navidad, we've completed a total of nearly 60,500 meters of drilling during the first quarter of 2010. This is a Company record and more than on track to finalize our 183,000 meters program for this year. Included are over 8,300 meters of drilling at Manantial Espejo and over 2,600 meters at San Vicente as the exploration programs initiated at both sites in October 2009 gain momentum.

Let's have a detailed look at some of the exciting results. I'm sure you remember the exceptional exploration results we enjoyed last year at La Colorada. We added more than 16 million ounces of silver to our proven and probable reserves, expanding the mine life of La Colorada by at least three more years.

Drilling continues at the NC2 sulphur vein which is returning similar results to what we published at the end of last year. Exploration also returned exceptional results from Veta Dos exploration. Although no final resource estimates have been done yet, it seems that we already added more than one year of additional production to La Colorada's mine life during the first quarter.

Exploring this wide and high-grade veins is a real pleasure and I'm confident that we will see more impressive results from La Colorada during the rest of the year. In the past I mentioned many times Manantial Espejo's exceptional exploration potential. At the beginning of the Southern Hemisphere's summer we started the first exploration program at Manantial since construction of the mine. While most of the drilling is currently focused on vertical and horizontal vein extensions close to our current production, a new greenfield exploration team is discovering new drill targets in our large land holdings around Manantial Espejo.

We discovered over 6 million silver-equivalent ounces of new resources during the last three months. But the most important result is an extension of the main Maria vein to the northwest. This was a blind exploration target and was drilled based on a ground magnetic survey.

Up to now we drilled 12 holes and discovered a strike line extension of the Maria vein of over 700 meters. Maria is our most important vein, containing nearly half of Manantial's reserves. Drill holes have intersected up to 12-meters-wide vein with 224 gram silver and 1.3 gram gold. Most intersects are multi-meters wide and contain substantial silver mineralization.

At this time our drill spacing is 100 meters and mostly located only on one level. Hence, it is difficult to get an idea of the size of this new discovery. But there is no doubt in my mind that economic vein intersects over a 700 meter strike line will eventually return high-grade ore shoots and extend our most important vein at Manantial Espejo.

The main reason for us to build a plant at San Vicente was the high-grade Litoral vein and its foot and hanging wall structures. Current drilling has extended this major structure to the east for another 100 to 200 meters and returned results of up to 4.8 meters with 950 grams silver per ton and in some cases substantial base metal grades.

The drill program continues and I'm looking forward to share with you interesting resource additions in the coming quarters from San Vicente.

Exploration drilling is continuing at all of our other operations on track with our exploration budget and so far on track with our reserve replacement plans.

Now I would like to comment on our two development projects, La Preciosa and Navidad. Infill and geotech drilling at La Preciosa was advancing very well during Q1. We finalized over 15,000 meters and I'm confident we will be able to finish our 50,000 meter program in the third quarter of this year.

As I mentioned, most of the drilling was infill and there are no new exploration results to report at this time. The ground magnetic survey was done in February and drilling of new exploration targets is planned in the coming weeks, a crucial step to increase resources at La Preciosa.

Finally, I would like to share Steve's enthusiasm on Navidad. This is an exceptional silver deposit, not only in size but also in its geology. We drilled nearly 17,000 meters in the first three months of the year. Most of it was for infill, geotechnical and metallurgical purposes in order to support the upcoming preliminary economic and feasibility studies.

Not many geologists have the opportunity to explore such a unique deposit. And I'm very much looking forward to start drilling some of the 11 most immediate exploration targets. There is already a measured and indicated resource of 632 million ounces of silver and 2.9 billion pounds of lead, certainly enough to work on a feasibility study. But the exploration potential in Navidad is so enormous that additional drilling could reveal new zones in the potential size of most of our existing mines; targets I definitely want to explore.

We'll pass on now to Rob.

ROB DOYLE:

Thank you. Good morning, ladies and gentlemen.

From a financial perspective it has been another busy quarter at Pan American. Some of the significant events were:

The successful completion of the compulsory acquisition process for Aquiline common shares, which allowed us to buy the remaining 7% of that company that we did not acquire in 2009. This resulted in the issuance of 1.7 million Pan American shares and some significant movements on our balance sheet, including increases in property, plant and equipment, future income tax liabilities and a reduction in a non-controlling interest account.

As Geoff mentioned, we also declared our first ever dividend of \$00.0250 in mid-February and expect this to become a biannual event.

Silver Wheaton elected to convert the convertible debenture that we inherited through the Aquiline transaction into a Silver Stream contract. Since we are still in the process of negotiating the definitive agreement with Silver Wheaton, we have not changed the accounting treatment in the quarter and still reflect the fair value of the debenture as "Other liabilities" on a long-term portion of our balance sheet.

From an earnings and cash flow perspective our results in Q1 2010 were dramatically better than the comparable period of 2009 when metal prices were vastly lower. Of course we've also ramped up operations at Manantial Espejo and commissioned San Vicente since Q1 2009, which also helped us to achieve nearly a three-fold increase in net income and more than double operating cash flow from a year ago. However, relative to our strong financial results in Q4 2009, we were a little disappointed that our Q1 2010 results were not even better. The following factors are relevant when comparing Q1 2010 results with the results of the last quarter of 2009.

The biggest difference was the quantity of metal sold. Q4 was an exceptional quarter in that we sold more metal than we produced, by roughly \$20 million of additional sales, at today's prices. In Q1 2010 we actually ended up selling almost exactly the same metal value as we produced. Although, we did build-up 2,000 ounces of gold inventory offset by drawdowns of base metal concentrate inventory.

Our realized prices in Q1 2010 declined by approximately 3% on average as compared to Q4 2009.

As a result of these slight price declines we recorded negative sales adjustments in Q1 2010 of \$2.8 million. These represent sales that were provisionally booked in prior periods and then finalized in Q1 at lower prices.

As you have heard from Steve, our Huaron mine had a very challenging quarter and underperformed relative to our expectations and compared to Q1 and Q4 of 2009. Huaron's mine operating earnings were approximately \$4.7 million below our expectations, and \$4.6 million below the mine operating earnings that the mine generated in Q4 of 2009.

Our effective tax rates in Q1 2010 was 38% which was the highest it has been for the last six quarters and it was well above our 30% expectation. The main factors which drove up our effective tax rate were our conservative assumption that our current exploration and project development expenditures will not create future tax benefits, and the re-estimate of our NOL's used in prior periods in Bolivia. Current taxes for the period were \$7.9 million.

Nonetheless, our Q1 2010 results were pleasing from a number of perspectives:

Net income for the first quarter was \$19.1 million, which equates to \$0.18 per share; our mine operating earnings were \$36.9 million, which was a gross margin of 28%; cash flow generated from operations before working capital movement was \$42 million, or \$0.39 per share; our capital expenditure for the first quarter on property, plant and equipment were \$7.3 million with an additional \$4.7 million

capitalized as part of Navidad project evaluation expenditures. The net result was that we increased our cash balances by \$19.3 million during the quarter, net of the \$2.7 million paid to our shareholders as a dividend. We expect to see our cash balances continuing to build in the coming quarters, as all our mines continue to generate positive cash flow, including Huaron.

Healthy operating cash flow propelled the Company's working capital position to a record \$302.8 million at March 31, 2010. That is an increase of \$30.5 million for the quarter. Most of the increase in working capital is reflected in higher cash and short-term investment balances.

We did also see a \$25.9 million decrease in our accounts payable and accrued liabilities balances from the end of 2009. With most of that decrease a direct consequence of settling accruals related to the Aquiline transaction and the repayment of concentrate advances. We finished the quarter with cash and short-term investments of \$215.4 million, and no debt.

We still retain the doubtful debt provision of \$4.4 million that we established in Q2 of 2009 related to our accounts receivable balance from Doe Run Peru and have made no adjustments to that provision in the first quarter. The Company continues to sell copper concentrates to other buyers at terms that are inferior to the terms of the Company's concentrated contracts with Doe Run Peru.

While there have been some encouraging developments recently, as yet there are no tangible financing plans in place to allow the La Oroya smelter to reopen. On a more positive note we did make some progress on debt recoveries in Argentina during the quarter by receiving an important approval relating to our first 12 shipments of Dore from Manantial Espejo and believe that we are in a good position to collect the first approximately \$12 million of the roughly \$44 million we have paid in refundable VAT to date.

With that I'll hand it back to Geoff for some closing comments.

GEOFF BURNS:

Thank you, Rob. Yesterday we held our Annual General Meeting here in Vancouver, and I had the pleasure of being able to give a presentation to our shareholders who attended in person. I would like to use this opportunity to share with those of you who joined us on the call this morning the key messages in that presentation.

Our mission is straightforward. We are going to focus on optimizing our current operations to maximize our cash flow generating capacity and profitability.

We are going to continue to aggressively explore around our current assets to extend their respective mine lives. There is no question that the best exploration potential we see is within the shadow of our own head frames. As Michael has just described, La Colarada, San Vicente and Manantial Espejo have tremendous exploration potential that we are just starting to tap into.

Lastly, we are going to put our project development teams to the test as we ramp up development work at both the La Preciosa silver project in Mexico and the Navidad silver project in Argentina. These two projects are Pan American's future and have the potential to take our silver production to a completely new level.

I just returned from a trip to our Navidad project and I'm having difficulty finding the words to properly convey how excited I am about this project. I stood at the top of the Loma de La Plata deposit, which is a topographic high, some 150 meters above the valley floor and I looked off to the east. What I saw was a miner's dream, and like nothing I've been involved with in the plus-25 years I've been in the precious metals business. Calcite Hill, Navidad Hill, the Connector Zone, the Galena Hill, Barite Hill and Valle Esperanza, almost six continuous kilometers of the Navidad mineralized trend, over 500 million ounces of contained silver in resources. And where I was standing, Loma de La Plata, another 160 million ounces of silver. What a remarkable deposit.

Perhaps even more important are the things I didn't see. I didn't see a tree. I didn't see running water and I didn't see a single house. This is truly a location where a mine can be developed in complete harmony with the environment providing significant economic stimulus in a region that desperately needs it, without encroaching or competing with the current uses of the land. As Steve mentioned, we have ramped up our activities since finalizing the acquisition of Aquiline in January.

In a little over three months we are moving ahead with all aspects of project development and I couldn't be more pleased with how our team has hit the ground running.

Our goal is to complete a PEA, or pre-feasibility study, by the third quarter of this year and be positioned to complete a full feasibility study and make a construction decision early in 2011. This is a world-class silver deposit, and we are going to provide it all the attention it deserves and remain confident that by continuing to work closely with the Province of Chubut and by continuing to demonstrate that a mine can be developed in a socially and environmentally responsible fashion, that they will respond positively and make the necessary changes to the law that will allow us to build Navidad.

Not to forget La Preciosa in Mexico as we are concurrently carrying out the same project development work at this plus 135 million ounce resource as we are at Navidad. With these two development projects, Pan American is truly rich with future growth potential.

Before opening the call to questions, I would like to make some very brief comments on silver and gold prices. I apologize if I'm starting to sound like a broken record when it comes to my view on future silver and gold prices.

As the sovereign debt situation in Greece continues to unfold, we are reminded yet again of the frailty of governments and their ability to manage their own currencies. In my opinion the situation in Greece will be played out in numerous other countries in the coming months and years as the ability to finance public debt is pushed to the very limits of investor interest.

The world turned massive private debt into massive public debt last year and the year before. And in my opinion, the only way out of the debt do-doo is to deflate the value of those currencies. I would contend that in a world where currencies are going to become less and less able to maintain their relative value that silver and gold are going to look very, very appealing. Gold is over \$1,200 per ounce today, silver is pressing up to \$19 per ounce, and I believe it is very easy to make a case that these prices are going to climb even higher in the coming years.

With that I will now ask the operator to open the lines for questions.

OPERATOR:

Thank you. We will now begin the question-and-answer session.

First question comes from Haytham Hodaly from Salman Partners. Please go ahead.

HAYTHAM HODALY:

Good morning, Geoff. Good morning, everybody.

GEOFF BURNS:

Good morning, Haytham.

HAYTHAM HODALY:

Just a couple of simple questions. Maybe I'll start with Manantial Espejo, the grades as you said, gold grades are looking pretty good. What is your actual gold forecast for that operation for this year?

STEVE BUSBY:

Just one second, Haytham. We'll be just over our forecast right now, Haytham. This is Steve, we'll be just over 70,000 ounces.

HAYTHAM HODALY:

Now Steve, is that contained or is that payable?

STEVE BUSBY:

It's virtually all payable. I think we get 99% payable on that.

HAYTHAM HODALY:

Okay, so pretty close. Perfect, 99%. And then with regards to your forecast for cash costs, company-wide of \$5.90 you are using what gold price in that assumption?

ROB DOYLE:

I think it's still at budget gold price.

STEVE BUSBY:

Yes.

ROB DOYLE:

Yes \$975.

HAYTHAM HODALY:

\$975. Perfect, thank you, Rob. Then your G&A forecast for 2010 looks like obviously if you were to take out the stock-based compensation you would be somewhere -- south of \$10 million. But from what I recall when we spoke last I think it was supposed to be I believe \$11 million to \$12 million. What's your actual forecast without stock-based compensation this year?

ROB DOYLE:

Yes. I think we're going to be right around the \$11 million to \$12 million, Haytham.

HAYTHAM HODALY:

Okay. So \$11, \$12, hasn't changed then.

ROB DOYLE:

Has not.

HAYTHAM HODALY:

And then maybe just a question for Rob. Your effective tax rate for the year, I know you talked about 38% in the first quarter, 37.5% because of the tax implications there. Would you expect 30% for the remainder of this year?

ROB DOYLE:

Really depends on the -- how we treat the -- the exploration expenditures in Mexico and Argentina, Haytham. I would say that if we continue along the conservative route of assuming there is no tax benefit on those expenditures then the tax rate will be a little higher, maybe in the 35% range. But as we make progress we may be able to change our outlook on that treatment.

HAYTHAM HODALY:

Okay. Can you keep us updated with what you decide to do there?

ROB DOYLE:

Absolutely.

HAYTHAM HODALY:

Perfect. Thanks very much, gentlemen.

GEOFF BURNS:

Thanks, Haytham.

OPERATOR:

Our next question is from Chris Lichtenheldt of UBS. Please go ahead, Chris.

CHRIS LICHTENHELDT:

Good morning, everyone. First, Rob, can you remind or just repeat again maybe what you said about the inventory, you sold most of the metal but then there is a small build in inventory of gold. Is that right?

ROB DOYLE:

That is correct. We built up 2,000 ounces of gold in inventory but that was offset by an equivalent amount of value draw down in our base metal concentrate inventory. So for the quarter net-net we sold the same amount of value as we produced.

CHRIS LICHTENHELDT:

I see. Okay. Great. Thanks. And just a quick question on the situation in Argentina if I can. You said you anticipate that once you are able to convey that a responsible mine can be constructed, that that may sway them to change things so that open pit mining would be allowed. Do you expect that conveying to occur in the form of a feasibility study? Is that the type of conclusion they would need? Or maybe the PEA or would that just be on-going discussions and their site visits? If you don't mind commenting on that...

GEOFF BURNS:

Yes. I think that we're probably crossing about three or four different thresholds or three or four different things we're working on at the same time. One is, as Steve mentioned, we are very active in our social programs, working with the communities, the local communities of Gastre and Gan Gan, where we've done most of our hiring for our current team on the site, where we're working with the local communities on power, water and a number of other initiatives. That is one aspect.

Certainly, as we move forward with our development ideas we're going to be sharing those with the government in terms of the size of the plant, the location, what it is we're going to be building, how much we're going to be spending to do that build. We're also working with the government very much in

looking at what the potential benefits are financially in terms of taxes to their region. And, yes, we've already had a number of the senior officials visit our Manantial Espejo mine site. That actually happened last year, or excuse me, first quarter of this year and to which very clearly demonstrate how we've developed that project. So as we -- we have all of these initiatives going on at the same time and we are aware that they are indeed working on the law right now, and drafting the law. And we think that with these initiatives and with their own political impetus that we are going to see that change in the near future.

CHRIS LICHTENHELDT:

Okay. That's great. Thanks a lot. I think that's it for me then. Thanks.

GEOFF BURNS:

Okay, thanks, Chris.

CHRIS LICHTENHELDT:

Take care.

OPERATOR:

The next question is from Steven Butler of Canaccord Annuity. Please go ahead.

STEVEN BUTLER:

Good morning, guys. Rob, you had addressed the group here with respect to revenues in the quarter and actually, sales volumes. That was one of my questions, sales volumes this year, you are saying or suggesting are very close to production volumes. Is that correct?

ROB DOYLE:

That is correct, that is correct, Steve. The only thing is that we did, as I mentioned, we did incur a \$2.8 million negative sales adjustment in the quarter and so --.

STEVEN BUTLER:

Okay. And that's -- that's excluded from your realized pricing table. Is that correct?

ROB DOYLE:

That is correct.

STEVEN BUTLER:

Okay. And, guys, as you are evaluation -- thanks, Rob. As you are evaluating then Navidad's future, Geoff, any comments? Is it still really going to be based on Loma de La Plata as a starting point for the preliminary economic assessment, or the PA now?

GEOFF BURNS:

Steve, I can't go too far. Let's say certainly Loma de La Plata is going to be a very, very important part of the PA. What I will say is, our metallurgical testing to date is starting to suggest that there's a lot more material available within Calcite Hill, within Navidad Hill itself, within Galena Hill that had previously been excluded from the PEA that was put together I believe by Snowden for Aquiline. So, yes, Loma de La Plata is important but we're finding that there is much more of the deposit that may find itself in that PEA.

STEVEN BUTLER:

And simply because of met testing, Geoff, not because of drilling new less refractory resources?

GEOFF BURNS:

I think that, Steve, you know how these things work. I mean, typically you come up with a measure and indicated and then a referred resource and you do your infill drilling and you keep your fingers crossed that most of that is upgraded and maintained when you close out or tighten your spacing.

I think finding that at this stage that most of what we had classified is actually being retained in measured and indicated and inferred categories, and so that's really positive news. Having said that, are we drilling less refractory material? No. What we are finding is that there is some very distinct zonation to the mineralization in the zones that were previously thought to be completely refractory.

STEVEN BUTLER:

Okay.

GEOFF BURNS:

And our view is that, again, I do not want to go too far. We're working that equation right now but I will say I'm very optimistic about the results that I've seen to date.

STEVEN BUTLER:

Okay. And, Geoff, with the timing of permits I guess really come sometimes after full fees or the preliminary permits maybe granted on a PEA? Or is it full fees after which you would expect permits to come through thereafter?

STEVE BUSBY:

Yes. This is Steve, Steven. Our view is that it will be almost simultaneous. We'll be working the full feasibility study simultaneously with the permit and the EIA. So -- we're preparing ourselves to submit the EIA immediately after the law is passed. And at the same time, finishing up our feasibility study and hopefully the Permit to construct would occur simultaneously with the issuance of the full feasibility study.

STEVEN BUTLER:

Okay. And lastly, guys, sorry, the laws that are envisioned to be revised, drafting changes to law, is it primarily the ban on open pit mining that would be hopefully no longer a ban?

STEVE BUSBY:

That's correct, Steve.

STEVEN BUTLER:

Okay.

STEVE BUSBY:

There is a provision within the current legislation to zone different pieces of the Province in different manners as it relates to open cut mining and the use of cyanide, frankly. And we believe that with the drafting of the amendments that they are going to identify those zones and we fully believe that Navidad will end up being in one of the zones where open cut mining is allowed. At the same time there are going to be other zones within the Province where open cut mining will continue to be banned.

STEVEN BUTLER:

All right, okay. And how long is the current ban in place for, Geoff?

GEOFF BURNS:

The law was renewed actually in June of last year for an additional three years.

STEVEN BUTLER:

June of 2009? Okay. Thanks, guys.

STEVE BUSBY:

Thanks, Steve.

OPERATOR:

The next question is a follow-up question from Haytham Hodaly. Please go ahead.

HAYTHAM HODALY:

Thanks, operator. Sorry, guys, just one quick housekeeping issue just with regards to depreciation levels; maybe a question for Rob. Are the depreciation levels presented on a -- if you looked at them on units production basis, is that a good indicator of the level of depreciation which you use on a go-forward basis for this year?

ROB DOYLE:

Yes, I would say that that is a good indication.

HAYTHAM HODALY:

And then with regard to your taxes, just one other question. What is a good deferred percentage proportion for this year?

ROB DOYLE:

Well, in the current - - in the first quarter our current taxes were \$7.9 million versus a total of \$11.4, so there's about \$3.5 million of deferred.

HAYTHAM HODALY:

So 38%, 35% sort of thing?

ROB DOYLE:

Yes, somewhere in that range.

HAYTHAM HODALY:

Okay, great, thank you.

OPERATOR:

The next question is from Shey Ylonnen of TD Newcrest. Please go ahead.

SHEY YLONNEN:

Thanks, very much. Just a quick question on Navidad and your spending plans. You are looking at about \$40 million over the next ten months to get you to where the full feasibility and construction decision. I'm presuming -- is that flowing through the income statement or are you capitalizing that?

And also just as a second part of that, what's the -- can you give any guidance as to how that is going to be weighted over the next, I guess three, four quarters? Thanks.

ROB DOYLE:

Okay, Shey The \$40 million actually takes us -- it is a little bit longer than ten months. It is going to take us to completion of feasibility study which we're envisioning in, I'm going to say February of - - February of next year.

In terms of the flow, we'll probably see about 65% to 70% of that value capitalized as project development expenditures, whereas about 30% to 35% of that, that's our current estimate will end up flowing through the income statement. And I think in general terms you can balance that on fairly much an even basis over the next 10, 12 months.

SHEY YLONNEN:

Okay, great. That wasn't included in a prior -- in your prior guidance with respect to any of the sustained capital, et cetera?

ROB DOYLE:

No, it was not, Shey. The - - we actually just approved an expanded budget at our board meeting yesterday. I think it is in our MD&A disclosure where we went from about \$16.5 million up to the \$40 million. And it is just really reflecting the confidence we have in the deposit. And secondly, quite frankly, the size of the deposit is bigger than anything we've seen and if you just think about the amount of drilling you need to do offhand to tighten up the drill patterns when you are going across five kilometers of mineralized trend you start to generate a pretty significant number. And, as Michael said, pretty significant meterage of drilling so, yes, that is a new disclosure, Shey.

SHEY YALNNEN:

Okay. Thanks so much, guys.

OPERATOR:

There are no more questions at this time. I will turn the call back over for closing comments.

GEOFF BURNS:

Well, thank you, ladies and gentlemen, for joining us here again to listen to our quarterly conference call. I very much look forward to our second quarter and look forward to sharing some more exciting developments at Navidad and La Preciosa. And also with Michael continuing to drill holes all over our assets I fully expect to have some positive exploration news as well. Thanks very much.