Pan American Silver Corp.

Q4 2013 and Full Year 2013 Conference Call & Webcast Transcript

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Speakers:

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Chief Operating Officer

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Rob Doyle
Chief Financial Officer

Kettina Cordero
Manager, Investor Relations

OPERATOR:
At this time, I would like to turn the conference over to Miss Kettina Cordero, Manager, Investor Relations. Please go ahead.

KETTINA CORDERO:
Thank you, Operator, and good morning, ladies and gentlemen. Welcome to Pan American Silver's 2013 Year End Results conference call. Joining me here today are our President and CEO, Geoff Burns; our Chief Operating Officer, Steve Busby; our Executive Vice President of Corporate Development and Geology, Michael Steinmann; and our Chief Financial Officer, Rob Doyle.

I would like to start this call by reminding our listeners that this call cannot be reproduced or retransmitted without our consent, and that certain statements and information in this call will constitute forward-looking statements and forward-looking information within the meaning of applicable securities laws. All statements, other than statements of historical fact, are forward-looking statements that 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 news release dated February 19 and February 20, 2014, as well as the factors identified under the caption, Risks Related to Pan American's Business in the Company's most recent Form 40-F and Annual Information Form. 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.

Now, I will hand over the call to Geoff.

GEOFF BURNS:

Thank you, Kettina, and good morning, ladies and gentlemen. As has become our practice, I will briefly discuss the highlights of what was a very strong production quarter, which was a nice follow-through from the turnaround we delivered in the third quarter of last year, and then I will let Steve, Michael and Rob provide you with some additional granularity on our operations, our projects, our exploration programs and our financial results.

To begin, I am happy to be able to again report that, yesterday, our Board of Directors approved our first quarterly cash dividend of the year in the amount of $0.125 per common share. The dividend will be payable on or about Monday, March 17th to holders of record of common shares as of the close of business on Monday, March 3rd. At yesterday's closing price on NASDAQ, our dividend provides an annual yield of approximately 3.4%. This is a very healthy return and our ability to continue to pay a sector-leading dividend is a sign of the financial strength of your Company and the confidence that I, and our Board of Directors, has in our ability to continue delivering strong production and financial results through our fiscal discipline and our commitment to operational excellence.

Now let's have a look at how we did in the fourth quarter of 2013 and for the full year. We produced 6.8 million ounces of silver and a new Company record, 46,200 ounces of gold during the fourth quarter. We set new Company records for both silver and gold production in fiscal 2014, producing 26 million ounces of silver and 149,800 ounces of gold, up 4% and 33%, respectively, as compared to fiscal 2012. At the same time as recording new Company records for production, we were able to sustain the meaningful cost reductions we achieved in the third quarter.

Our cash costs for the fourth quarter declined 19% from the same period a year ago to $9.56 per ounce of silver, net of by-product credits. For the full year, our cash costs were $10.81 per ounce, 10% lower than they were a year ago. Both of these results were well below our full year forecast of $11.80 to $12.80 per ounce.

Last quarter, we began reporting all-in sustaining cost per ounce of silver sold. Also, as I mentioned on our last call, we have been tracking this metric internally since I arrived at Pan American over 11 years ago. I think those folks who have followed Pan American for a number of years will continue to be pleasantly surprised that our all-in sustaining costs were $17.03 per ounce in the fourth quarter and under—and $18.33 per ounce for the full year.

For the quarter, our AISCSOS decreased 33% as compared to 2012, and for the full year 2013, were down 18%. Our production and costs results for the fourth quarter and the full year are a clear sign that the efforts we have put in to reposition our mines, adapting to the current metal price environment are sustainable, and if you will pardon the pun, are clearly paying dividends. There have been some notable operational improvements, in particular, at Dolores and our higher cost Peruvian mines, but I'll leave it to Steve to discuss this further.

Unfortunately, our excellent operational performance isn't easily discernible within our financial results. It's in there, but there are a number of other items flowing through our income statement in the fourth quarter that make the direct correlation to our operating performance a little hard to find. We recorded a net loss of $293.1 million or $1.94 per share during the fourth quarter, largely due to the impact of the non-cash after-tax impairment charge of $218.1 million on our Dolores mine as we reduced our long-term metal price assumptions, and a non-cash $86 million deferred tax charge due to the recent tax rate increases and new taxes introduced in Mexico. There are also a number of other somewhat unusual items that flowed through the fourth quarter financials that I will let Rob describe to you in detail in a few minutes.

However, if we focus on cash, this is where our operational performance comes through. We generated net operating cash flow of $46.2 million or $0.30 per share in the fourth quarter, and we did this during the period where we realized the lowest silver and gold prices on our sales in all of 2013. For the full year, our net operating cash flow was $119.6 million or $0.79 per share.

Continuing to focus on cash, we ended 2013 with $422.7 million in cash and short-term investments, a modest increase to our cash position over the previous quarter, which means we covered both our project and sustaining capital and paid our quarterly dividend during the period of lowest prices and increased our cash balance. That is the bottom line benefit of our improved operational performance and Company-wide cost discipline.

Our balance sheet is sector leading, with $689 million in working capital and only $40 million of long-term debt. This strength leaves us in a great position to continue to thrive in the current price environment, self-finance our internal growth projects like the La Colorada expansion, pay meaningful dividends and take advantage of strategic opportunities should they present themselves.

Now, I'll let Steve run you through our operations and development programs. Steve?

STEVE BUSBY:

Thank you, Geoff. I'd like to start with a special recognition for our 7,300 employees and contractors, who achieved another year of world class performances in the prevention of lost time accidents and reductions in accident severity throughout the Company during 2013. I am particularly proud of the accomplishments we've made towards strengthening safety awareness at each of our workplaces. Our excellent safety performance provided the foundation for our record-breaking production performance during 2013, once again validating the axiom that a safe mine is a productive mine.

As Geoff mentioned, Pan American Silver achieved its greatest production year ever in 2013, producing nearly 26 million ounces of silver and nearly 150,000 ounces of gold from our seven mines, establishing new Company records and ending up right at the top end of the original guidance we provided at the start of 2013. In addition, we exceeded our guidance for all base metal production, in particular for copper, which was 40% even above our upper target that was provided. Incredibly, these production results were delivered in the face of a strong and unexpected decline in precious metal prices that occurred early in 2013, forcing our operating teams to take aggressive actions towards reducing costs and improving productivities. Our teams managed to end the year some $31 million or 5% below our targeted spending for direct site operating cost and sustaining capital, which, coupled with the production records, yielded a consolidated cash operating cost per ounce at $10.81, well below even our revised and reduced guidance provided last quarter. These efforts and results were very effective at preserving our superior financial strength, even with the precious metal prices that remained well below our target for the entire second half of 2013.

Thanks to the efforts of our project and technical services teams during 2013, we intend to put this financial strength to good use, growing our business with a solid and valuable Brownfield expansion project at La Colorada. On the heels of the exceptional exploration success we achieved over the past few years, which have grown La Colorada to now become our largest silver ore reserve among the Company's seven operating mines, we've defined and launched an exceptional organic expansion project that'll grow La Colorada to also become our largest silver producing mine over the next three years, reaching sustainable production rates of approximately 7 million ounces a year thereafter. This will be accomplished by building a brand new 600-metre deep shaft, equipped with a hoist on the surface that is centrally located between the main Candelaria and Estrella mineralized structures, which will enable a 50% increase to both underground development and production rates, reaching 1,800 tonnes per day of ore production by the end of 2017. We will also be upgrading the sulfide milling circuit to allow for the treatment of this increased ore production. We were able to advance an underground drift to the ultimate shaft location on the 558-metre level during 2013 and commenced ramping downward, intending to reach the loading pocket and shaft bottom below the 600-metre level by the end of this year, setting ourselves up to begin the shaft development in the beginning of 2015.

Our project team also completed the initial phase of the Dolores Leach Pad 3 construction during 2013, which was fully commissioned into production by year end. They then moved immediately into expanding the next phase of Leach Pad 3, which will provide sufficient stacking capacity into late 2016. It is important to note that the investment requirements for future pad expansions will be much less intensive than the first two phases, as we will essentially just be dressing and lining the upper slopes of the valley-fill heap as opposed to the major earthworks, which were carried out to shape the entire valley, complete the valley bottom, construct the toe berm and install the primary solution application and recovery systems, which are all adequate for the life of the entire ultimate heap.

In addition, significant advances were made in defining a pulp agglomeration expansion project at Dolores during 2013 that, coupled with the power line connection already underway and a potential underground mine development, can enhance the precious metal recovery rates on higher grade ores, potentially increasing profitability over the remaining long life of the Dolores mine, particularly given the higher grade ores ahead of us deeper in the deposit. With the recent completion of the extensive resource and reserve model upgrades that Michael will be describing, we are now back to completing the full evaluation of this potential expansion of the Dolores mine and expect to release a preliminary economic assessment in May of 2014.

Looking forward to 2014, and as previously reported, the Company expects to produce between 25.75 to 26.75 million ounces of silver, potentially setting another Company record at a cash cost between $11.70 and $12.70 per ounce. We are once again expecting a substantial increase in by-product gold production to another Company record between 155,000 to 165,000 ounces; whereas we expect our zinc, lead and copper by-product production to remain reasonably consistent to 2013 output at between 39,500 to 42,500 tonnes of zinc between 12,700 and 13,700 tonnes of lead and between 5,200 to 5,700 tonnes of copper. The Company plans to invest $95.5 million in sustaining capital during 2014, primarily for open pit pre-stripping at Dolores and Manantial Espejo, a sulfide tailings dam expansion at La Colorada, long-term underground developments at Huaron and Morococha and mine-site exploration, as well as our typical mobile equipment fleet replacements and rebuilds, across all seven mines. In addition, we plan to spend $67 million on long-term projects, primarily for advancing the La Colorada mine expansion, in addition to completing the next phase expansion of Leach Pad 3, the power line installation project and advancing the pulp agglomeration expansion study at Dolores.

Before turning the call over to Michael, I'd like to extend my personal gratitude to all of our dedicated employees and contractors for their safety-focused efforts that led to the new Company production records, while simultaneously reducing our base operating cost by decisively responding to the unexpected decline in precious metal prices during 2013. These efforts have positioned Pan American Silver to hopefully establish yet another new record-breaking year of production of precious metals during 2014, while advancing our extraordinary value enhancing organic growth projects that can lead to even further production records beyond 2014.

With that, I'll now turn the call over to Michael Steinmann for the exploration update.

MICHAEL STEINMANN:

Good morning. 2013 was another successful exploration year around our seven operations. Despite lower metal prices and cutbacks in our exploration budgets, we were not only able to replace all of the silver ounces we mined, but we also increased our corporate silver mineral reserves by 2% to a record of 323.5 million ounces. These are outstanding additions and make our proven and probable reserves one of the largest in the silver industry.

During 2013, we spent about $16.3 million on exploration, completing nearly 150 kilometres of diamond drilling. We discovered 40.1 million ounces of new proven and probable silver—mineral reserves, which more than replaced the 33.7 million contained ounces of silver that we mined at our operations during the year.

In a press release published on January 30th, I shared with you the outstanding mineral reserve increase we had at La Colorada during 2013. Year after year, this mine has returned exceptional results and now holds 81.4 million ounces, the largest silver reserves of all our operations. Just through exploration, we added over 85 million ounces of silver in the last four years, which, as announced on December 18th, will lead to a mine expansion at La Colorada. Our drilling was and will continue to be focused on the NC2 and Amolillo veins. We already have wide-spaced deep drilling available on both of the structures, indicating that both veins extend far beyond the current proven and probable reserves. We also started the drilling on the third vein called Recompensa, which is located north of Amolillo.

The large reserve increase of 26% at La Colorada came mostly from sulfide mineralization. The lion's share was added in the Amolillo vein. I mentioned last year that Amolillo is shaping up to be a mirror image of the NC2 structure and open laterally and at depth for further exploration. The vein has now a strike length of 1,400 metres, of which 1,200 metres are in the reserve category. The current proven and probable reserve reach down to 575 level, which is 270 metres higher than the deepest positive drill holes located on the 845 level.

The NC2 vein returned outstanding results as well during 2013. Our reserves now reach the 678 level, whereas, our deepest positive exploration holes are intersecting the vein at 1,008 level. Please note that level numbers are metres below surface.

La Colorada is not only holding our largest reserves, it also has the second highest proven and probable silver grades of 388 grams per tonne, second only to our highest grade mine, San Vicente, which has an average grade of 411 grams per tonne silver, securing high margins for both operations.

Morococha, Huaron and San Vicente more than replaced all silver ounces mined during 2013. Successful exploration results from the Morro Solar vein at Morococha, the discovery of a wide ore body at Huaron, called Pozo D, and lateral vein expansions at San Vicente were the base for this success. Mining cost reductions and improved concentrate sales conditions helped to offset lower metal prices used for the new reserve estimation. Huaron now holds the third largest silver reserves in Pan American with 62.3 million ounces, while Morococha and San Vicente have 34.3 million ounces and 37.5 million ounces, respectively.

At Dolores, a combination of high grade drill results at depth and an optimized reserve estimation focusing on lower tonnage and higher grades resulted in an addition of 4.7 million ounces of silver, which helps to partially offset the 2013 production of 8.2 million ounces contained. Gold reserves increased by 135,000 ounces or 8% to 1.75 million ounces net of the 2013 production. Dolores' inferred mineral resources increased substantially by 9.9 million ounces of silver and 217,700 ounces of gold, mostly due to positive exploration to the south of the current pit. The newly-discovered mineralization in this zone is already 600 metres long and will be the most important target for this year's exploration program.

The Manantial Espejo mine in Argentina replaced 1.5 million ounces of silver of the 3.5 million ounces contained, which was mined last year. There will be an aggressive drill program at Manantial in 2014, where we plan to spend about $3 million on exploration activities.

Replacing reserves year after year is extremely important to us in our business. We have been very successful doing that during the last 10 years. We have added almost 270 million ounces of silver to our mineral reserves in that period, excluding acquisitions, more than replacing the 224.6 million ounces of silver mined during the same time. The average cost of the new silver reserves added during that period is approximately $0.38 per ounce; without question, an excellent return on our investment in exploration.

Our reserves are sufficient to sustain our current production levels for more than 10 years. In order to maintain these levels, we will spend approximately $14 million on mine-site exploration, including 108,000 metres of diamond drilling at our seven operations during 2014. In addition, we will spend about $6.5 million for Greenfield exploration. Nearly $2.5 million of that will be used in the larger surroundings of Morococha and Huaron. The remainder will be spent to explore a few select projects in Mexico and to maintain our Pico Machay, La Virginia and La Bolsa projects in good standing.

Once again, our strong core assets have proven their exploration potential by providing us with another year of reserve replacement, even in a much lower metal price environment. We have one of the largest reserves and resources in the silver sector with over 1.33 billion ounces of silver. I have no doubt that we will see important exploration results in 2014 from our Mexican assets, especially La Colorada and Dolores, and from our proven mines, Morococha and Huaron.

I'd like to pass on now to Rob for a financial review.

ROB DOYLE:
Good morning, ladies and gentlemen. As Geoff mentioned, our Q4 2013 financial results were not without complications, which seems incoherent with the solid operational performance that Steve described, so please allow me to walk you through the most significant factors influencing our results.

Let's start with our cash flow statement which is the purest reflection of our financial performance. Operational cash flow remained very strong in Q4, consistent with the excellent cash generation we saw in Q3. Operating cash flow was reduced by high actual cash taxes paid of $22.1 million during Q4, much of that relating to withholding taxes paid on intercompany payments as part of our repatriation of capital focus.

With the heavy expenditures related to Phase I of Pad 3 construction at Dolores now behind us, our operating cash flow was easily sufficient to fund all of our capital expenditures in the period, which amounted to $33.7 million. Happily, we did not need to utilize our treasury to fund any of our dividend of $18.9 million and maintained our exceptionally strong liquidity position, with cash and short-term investment balances increasing at quarter end to $422.5 million and with total debt of only $64.5 million. It is this robust cash generation and financial position that supported our Board's decision to declare the next quarterly dividend of the same amount, which will be paid on or about March 17th, 2014.

Our Q4 income statement should be shown on your screens now. Starting at the top, Q4 revenue trailed revenues from the prior quarter, primarily due to half a million less ounces of silver sold in Q4, which also explains why our depreciation charge for Q4 was low relative to Q3 depreciation. While we actually sold most of the silver that we produced during the quarter, we did build up 6,000 ounces of gold inventory, as well as 1,800 tonnes of zinc concentrate during Q4. Our mine operating earnings of $19 million for the quarter were negatively affected by a net realizable value charge to Dolores stockpiles of $8.4 million, which was recorded through cost of sales for the period. In the absence of this net realizable value adjustment and if we had sold all the production that we produced during the quarter, our mine operating earnings would have been close to the Q3 mine operating earnings of $33.9 million.

Moving further down the income statement, we recorded an impairment charge of the Dolores mine of $218 million net of the tax effect. This impairment charge, as well as the net realizable value charge on Dolores stockpiles I just mentioned, were triggered by our decision to reduce our long-term price assumptions used in our impairment testing to $22 for silver and $1,300 for gold, consistent with our assumptions used for reserves and resource estimations, as Michael discussed.

The next large item impacting earnings is buried in the income tax recovery line and is a charge of $86 million relating to the deferred taxes caused by recent Mexican tax changes, specifically the introduction of a 7.5% mining royalty and a change in the tax rate to 30%. We have not adjusted this non-cash item out of our adjusted earnings for the period, consistent with our internal policy not to adjust for effects of changes in taxes, although we do note that most other companies do back charges of this nature out of adjusted earnings.

Other items on our Q4 income statement worth noting were an FX loss of $6 million, primarily attributable to realized losses we incurred on our Canadian dollar treasury balance, which was offset by a gain on the sale of some exploration properties of $6 million. We also received a payment of $10 million from Chinalco pursuant to our relocation contract, which was recorded as other income during the quarter.

G&A and exploration costs for the quarter continued to trend downwards as our cost initiatives at the corporate level and at our exploration projects resulted in meaningful reductions to these key expense lines.

Our adjusted earnings after backing out the usual non-recurring and unrealized gains and losses, including the impairment charge, a gain on sale of mineral properties and the gain on the closeout of our silver and hedge—and gold hedge, but not including the full deferred tax charge of $86 million, the net realizable value charge of $8.4 million at Dolores or a realized FX loss of $6.7 million, was negative $84.3 million or $0.56 per share for Q4.

Moving to the working capital portion of our balance sheet, we saw only a modest decrease of $8.2 million in our overall working capital balances, with working capital sitting just below $700 million at quarter end. Our working capital movements in the quarter were routine in nature and fluctuated with normal course timing differences.

In Q3 2013, we adopted the reporting of all-in sustaining cost per silver ounce sold as a measure of our consolidated operating performance and the ability to generate cash from all operations collectively. We believe it is a more comprehensive measure of the cost of operating our consolidated business than traditional cash and total cost per ounce, as it includes the cost of replacing ounces through exploration, the cost of ongoing sustaining capital, G&A expenses, as well as other items that affect the Company's consolidated earnings and cash flow. Our Q4 all-in sustaining cost per silver ounce sold is presented in a table that you should see on your screens now, which provides a detailed reconciliation of this measure to the applicable cost items as reported in our consolidated income statement for the respective periods.

We calculate an all-in sustaining cost of $17.03 per ounce for Q4, up from the $16.26 reported in Q3 but well below the year-to-date calculation of $18.33 and a full $8.50 lower than the comparable period of last year. The calculation of this metric in Q3 did benefit from the sale of 6.9 million ounces; a full half a million ounces more silver ounces sold compared to Q4. For 2014, we expect to hold our all-in sustaining cost per silver ounce sold at current levels, in the range of $17 to $18, as set out on the table on your screen right now. There will be more fulsome discussion of all of our guidance contained in our 2013 annual MD&A, which we expect to file during the second half of March.

With that, over to Geoff for some closing comments.

GEOFF BURNS:

Thanks, Rob. Two thousand thirteen was one of the most challenging years that Pan American has faced, in some respects, similar to what we lived through in 2008. We began the year with strong silver and gold prices and healthy margins, but in a matter of weeks in April of last year, and again in July, we saw those margins collapse as the prices of silver and gold declined rapidly and significantly. But I could not be more proud of how our team, and your Company, responded. We meaningfully reduced our cash and all-in sustaining costs. We cut our general and administration expenses and exploration budgets to sector-leading levels. We eliminated our discretionary sustaining capital expenditures, while at the same time, completing critical long-term projects, like the Phase I Leach Pad 3 project at Dolores and the tailings dams expansions at San Vicente and Huaron, while recording new Company records for silver and gold production and actually increasing our proven and probable reserve base at lower assumed long-term prices of silver and gold. This was no easy feat and took the combined effort of our plus 7,300 employees and the wisdom, experience and ingenuity of a team of senior managers that have lived through and prospered after the lessons learned in 2008.

The big difference this time around was that our prudent and conservative management of our balance sheet over the last four years gave us the time and the legroom to go about our business of retooling and refocusing Pan American in a systematic and analytical fashion, such that the changes we have made, as shown through our fourth quarter results, should be sustainable and repeatable. That financial prudence, combined with our operational improvements, have allowed Pan American to maintain our dividend when just about every other precious metals company, both gold and silver, have cut theirs and we were still able to self-finance a major internal growth project at La Colorada without dilution or additional leverage. To me, this is a pretty nice place to be.

We have become a stronger company as a result of the adversity we had faced in 2013, and I look forward to better things in 2014. As Steve mentioned, we are forecasting yet another year of modest production growth, with a slight increase to our cash costs but with our all-in sustaining costs remaining consistent with how we performed in the second half of 2013, at $17 to $18 an ounce. We're going to advance the construction of our La Colorada expansion and complete the Dolores pulp agglomeration study, which will hopefully lead to another relatively low-cost, low-risk internal growth project and even with a tight exploration budget, I hope that we will again be able to replace our reserves at the end of 2014.

We have re-tuned to operate successfully at current silver and gold prices and should reap huge benefits when silver and gold prices return to higher levels, which I remain doggedly optimistic that we will see in the not-too-distant future. The signs are clearly there.

Operator, I would now like to open the call to questions.

OPERATOR:
Thank you, sir. If you would like to ask a question, please press star, then one, on your touchtone phone. You will hear a tone to indicate you're in queue. For participants using a speakerphone, it may be necessary to pick up your handset before pressing any keys. If you wish to remove yourself from the question queue, you may press star, then two. There will be a brief moment while we poll for questions.

Our first question today comes from Dan Rollins of RBC Capital Markets. Please go ahead.

DAN ROLLINS:
Yes, thanks very much and congrats on the good reserve update. I was wondering if you might be able to provide a little bit of clarity on what we should expect at Dolores going forward with the new mine plan. Obviously, less tonnage in the new reserves, shorter mine life, but what should we expect throughput-wise and also sort of the grade profile for both gold and silver going forward over the next two to three years?

STEVE BUSBY:
Yes, Dan, this is Steve Busby. Part of that's going to be answered with this pulp agglomeration PEA that we're preparing and when we come out with May, we'll kind of have an overall life of mine

production schedule associated with that. Up until that point, just considering the heap only case, we probably, right now, wouldn't back off in the near future of the 16,200 tonne per day capacity we currently run, simply because we've got somewhere around 8 million tonnes of stockpile available to us to supplement what we feed from the lower tonnage ore out of the pit. So, for the next couple of years as we develop this pulp agglomeration circuit, I think you'll be seeing similar production rates and grades that we've been seeing because we're supplementing that low grade, after which, in late 2015 and then certainly beyond 2018 when we get deep into the deposit where the high grade is, that's where we'll really see a market increase in gold production, not so much on silver but gold for sure, as we get into those higher grades. That's kind of the way we see it right now.

DAN ROLLINS:
Okay, perfect. Then maybe, Geoff, if we could move to Argentina for a moment. One of your fellow peers in the precious metal space is dusting off a project that's in the province of Chubut. Obviously, they're starting to see maybe the right, I guess, the right wording or, I guess, rhetoric coming out of Argentina from both the provincial level in Chubut, and then maybe the federal government. Where do you guys stand on Navidad right now with respect to moving this project forward within the current environment?

GEOFF BURNS:
Well, I think there's two comments to make, Dan. The first one is on a national level. I think we're starting to see signs of noted improvement in, I'm going to say, in our operating environment and in the attractiveness of making investments. You know, there was a new Chief of Cabinet installed, Capitanich, now a couple of months ago, and he certainly seems to be driving a more business-friendly environment, or at least pushing for a more business-friendly environment. So I see that as some very positive steps going forward.

In addition, we've obviously seen some change in the exchange rate. It has declined, you know, from sort of 5 pesos per dollar, the current official exchange rate is over 8 pesos per dollar, and that certainly has a market impact on our input costs, particularly labor and other things we source in Argentina. So, in those respects, I see some signs of significant improvement.

On the Chubut side, we're still in a situation where we need the government to modify the mining law to allow for open pit development. You know, we know that back in 2012, there was a move in that direction but it came with some very draconian taxes and, ultimately, that fell away. We're continuing our discussions, and we're still hopeful that we'll see some movement in a positive direction this year and really in the hopes that, from the Argentine side, that they will see companies like ours come back with strength and with commitment to bring foreign capital in and invest again in Argentina, which I think is a desirable result, both for the province and for the national government.

So, I would say in closing – and this is a bit of a long diatribe, Dan, I apologize – but I was down there just a couple of weeks ago, and I would say I am more optimistic than I have been in the last couple of years about the future of Argentina and the future of mining investment in Argentina.

DAN ROLLINS:
Great. Thanks very much.

OPERATOR:
The next question comes from Vitali Mossounov of Scotiabank. Please go ahead.

VITALI MOSSOUNOV:
Hi, good afternoon, everyone. Just one question for me. Do you possibly have a breakdown of the reserve ounces designated for the pulp agglomeration circuit, or maybe an estimate?

STEVE BUSBY:
We don't at this time. If you look at the reserves that we just stated, right now, we're looking at about – based on the old design we had for the pulp agglomeration – about a third of the tonnage would feed to the pulp agglomeration carrying close, a little bit less than half of the ounces but that's going to change now under this new model, and I don't have a better feel for it at this stage.

VITALI MOSSOUNOV:
All right. Thank you very much.

OPERATOR:
The next question comes from John Tumazos of John Tumazos Very Independent Research. Please go ahead.

JOHN TUMAZOS:
Congratulations on keeping things well in a tough time. One question I have is very specific. How much of your costs occur in Canada, the US, and other jurisdictions where you don't have offsetting revenue and profits to match against them? Second – and while the balance sheet is wonderful – what do you think is the most debt you'd take on if you had a really good project or opportunity or buyback or whatever purpose?

GEOFF BURNS:
Okay. Hi, John, thank you. Thank you for your opening comment on our results. In terms of our US dollar costs, they're very minor. We have some small sustaining costs for our Waterloo project—well, Project Waterloo resource in California and our Hog Heaven resource in Montana. You know, it's probably, at this stage, under a million dollars.

MICHAEL STEINMANN:
Yes, much less than that.

GEOFF BURNS:
Michael's saying—motioning to me much less than that. In terms of our Canadian dollars, our head office costs are in the neighborhood of $18 million annually, predominantly in Canadian dollars and those are, as you suggest, those are not tax effective, either of those. But, then again, on an overall cost basis, again relatively minor.

In terms of capacity, I guess it really depends on the project, John. I guess, you know, if something was sufficiently enticing with sufficiently strong MPVs—or NAVs, pardon me, I would not be opposed to looking at taking on some level of debt in conjunction with our current cash balances to take advantage of that sort of opportunity. In an absolute sense number, I would say that Pan American's current configuration could easily support $400 million to $500 million in debt if we needed to, but I wouldn't intend to do that unless, as I said, there was something very special that we had identified. Does that give you a rough idea?

JOHN TUMAZOS:

Thank you. I'm a shareholder and I'm happy that you've rolled with the punches as well as you have.

GEOFF BURNS:

Thank you, John.

OPERATOR:

As a reminder, if you'd like to ask a question, please press star, then one, on your touchtone telephone. Our next question comes from Chris Lichtenheldt of Dundee Capital Markets. Please go ahead.

CHRIS LICHTENHELDT:

Good morning. Thanks for taking my question. Just wanted to circle back. I think last quarter, Geoff, I asked about potential opportunities in the market and I think you had said something like you looked up 50 and found nothing that was enticing. Has anything changed there or has the tailwind in silver prices improved your outlook on potential opportunities?

GEOFF BURNS:

Oh boy. There's one really good one but I can't tell you who it is.

CHRIS LICHTENHELDT:

All right, we'll try to figure it out, but okay, fair enough.

GEOFF BURNS:

Kidding aside, you know, we've continued to canvas the landscape; I mean, we know our sector very well. I can't say that many of the projects that we looked at, even at a slightly improved silver price, have really garnered much more interest on our side. I think, you know, our organic opportunity with the pulp agglomeration is looking actually even a lot better than my conservative COO wants to talk about with respect to the higher grades, et cetera, within the new pit model—or, pardon me, new reserve model. There are a small cadre of opportunities that we're pursuing but it is still a very, very limited group, Chris.

CHRIS LICHTENHELDT:

Okay, that's helpful, thanks. Secondly, I think I'll just ask about reserves. The reserve update was quite good considering you brought the prices down materially. Can you discuss a little bit, particularly around improving operations, what has allowed you to maintain such a strong reserve in light of the fact that those mines have been challenged over the past few years and one might think, because of that, at lower prices, you may lose some ounces but the mechanization that's improved the operating outlook for those mines such that you can still mine all the reserves even at lower prices now?

MICHAEL STEINMANN:

Hey, Chris, this is Michael. Yes, it's for sure a combination, that a lot of improvements and the cost savings that you saw during the year and a lot of discoveries. I mean, discoveries on Morro Solar is a very important structure in Morococha. We discovered additional, a few ore bodies. As you'll recall at the beginning of the time, we had Morococha for many years. We were mining big mantos there, and we start hitting again interesting ore bodies there and the Pozo D ore body that we discovered at Huaron, which is containing already a million tonnes, about half of it is in the reserve right now. There is over 5—about 5 million, or more than 5 million ounces of silver in that with high base metals and this ore body's very wide; it's up to 25 metres wide. So, it's for sure, a combination of cost savings but a lot of great discoveries that we had during the year in both of these operations.

CHRIS LICHTENHELDT:

Okay, that's great. Then maybe just a follow-up there. If prices go back up and you put 25 back in, are there some ounces and tonnes that come back into some of these mines?

MICHAEL STEINMANN:

Sure, it's always a play between the resources and reserves, as you know, and if you look what we published in the press release, all the details of the resources here, you can get a pretty good idea, I think, of where we stand on increasing the prices. Hopefully, you know, keeping costs down and as I've stated in my speech there, the concentrate contracts improved a lot too, and that has to stay all at the same level, together with increased prices, to move back a substantial amount of resources to reserves.

CHRIS LICHTENHELDT:
Okay. That's great. That's it for me. Thanks a lot.

OPERATOR:
There are no further questions at this time. I'll hand the call back over to Geoff Burns for any closing comments.

GEOFF BURNS:
Okay, thank you, Operator, and thank you, everyone, for joining us this morning for our fourth quarter and year end release, and I look forward to our next discussion the next time we get to talk, which will be in May of this year, along with our first quarter, and perhaps we'll have some news about pulp agglomeration at the same time. Thank you very much.

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