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2014 Fourth Quarter and Year-End Results Conference Call & Web Transcript

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SPEAKERS:

Geoff Burns, *President & CEO*

Steve Busby, *Chief Operating Officer*

Michael Steinmann, *Executive Vice President, Corporate Development and Geology*

Rob Doyle, *Chief Financial Officer*

Kettina Cordero, *Manager, Investor relations*

ABOUT PAN AMERICAN

Pan American Silver's mission is to be the world's pre-eminent silver producer, with a reputation for excellence in discovery, engineering, innovation and sustainable development. The Company has seven operating mines located in Mexico, Peru, Argentina and Bolivia. Pan American also owns several development projects in the USA, Mexico, Peru and Argentina.

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OPERATOR:

At this time, I would like to turn the conference over to Ms. 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 2014 Fourth Quarter and Year-End Results conference call. Today, I am joined by 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 releases dated February 18th and February 19th, 2015, 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.

With that, I will leave you with Geoff.

GEOFF BURNS:

Thank you, Kettina, and good morning, ladies and gentlemen. I will briefly discuss the highlights of what was a strong production quarter, but, frankly, a bit of a messy financial quarter, then make a few comments on our full-year 2014 production and financial results. After that, I will let Steve, Michael and Rob provide you with more detail on our operations and projects, our exploration programs and reserve update, and of course our financial performance during the fourth quarter and for fiscal 2014.

Before I start discussing our results, I am pleased to announce 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 Friday, March 13th, 2015 to holders of record of common shares as of the close of business on Monday, March 2nd, 2015. Should the Company's Board of Directors continue to approve further quarterly dividends in the same amount, the annual cash dividend paid by Pan American would be $0.50 per common share, which represents a yield of approximately 4.5%, based on the Company's closing share price on NASDAQ last night, February 18th.

Now, let's review our fourth quarter and full-year performance. As previously released, we produced 6.75 million ounces of silver and 43,900 ounces of gold in the fourth quarter, which brought our total production for fiscal 2014 to 26.11 million ounces of silver and 161,500 ounces of gold, both within our guidance for 2014, and both representing new annual production records for Pan American. Our all-in sustaining costs per ounce of silver sold were $18.62 for the current quarter and $17.80 for the full year.

While we achieved our full-year guidance on AISCSOS, it is worth pointing out that included in our calculations is $1.17 per ounce in net realizable value adjustments on our heap leach and stockpile inventory due to lower prices. Excluding these adjustments, our full-year 2014 AISCSOS would have been well below our guidance at $16.71 per ounce, and more reflective of the productivity gains and cost control measures we began implementing in earnest in the third quarter of 2013.

Finally, our cash costs for the fourth quarter of 2014 were $11.92 per ounce of silver net of by-product credits, which was slightly higher than anticipated, but in line given the expected declining grades at Alamo Dorado and lower gold production at Manantial Espejo. Consolidated cash costs for the full-year 2014 of $11.46 per ounce of silver were well below Management's full-year 2014 guidance of $11.80 to $12.80 per ounce net of by-product credits, largely on account of better than expected performance at La Colorada, Huaron and Morococha, partially offset by slightly higher than expected cash costs at San Vicente and Manantial Espejo.

There is no doubt that our fourth quarter financial results can be described as messy and, to a large degree, have masked what was a very decent operating quarter. I'm going to let Rob, in a few minutes, provide a detailed dive into our fourth quarter accounting, but I would like to reference the fact that there were number of items, hopefully of a non-recurring nature, that clouded our fourth quarter financials, almost all of them predicated on two events; the first being the rapid decline in gold and silver prices, particularly in the fourth quarter, and the equally rapid strengthening of the US dollar relative to the Mexican peso and the Canadian dollar. As a consequence of these changes, we decided to run our life-of-mine plans using lower long-term gold and silver prices, which led to some significant impairments. We needed to book negative pricing adjustments on our concentrate sales, recognize foreign exchange losses on our Canadian dollar holdings and Mexican peso holdings, as well as record net realizable value charges on our stockpiles and heap leach inventories. Lastly, we decided to defer the sale of 150,000 ounces of silver and 7,000 ounces of gold produced at Manantial Espejo last year until the first quarter of this year, so we weren't selling into the teeth of a plunging price environment. All these items have really clouded what was essentially a very good operating quarter, and as I mentioned, I'm going to let Rob provide you additional detail.

I**'d like to focus on our full-year 2014 results, which I believe are more representative of our performance** and prospects as we move into 2015. We generated revenues of $752 million, lower than the revenues generated a year ago, due to lower average realized prices for both silver and gold, even though we sold more gold and more base metals. We posted mine operating earnings of $8.1 million for the year, which include all of the above adjustments that I just referenced, and we reported an adjusted net loss of $20.8 million or $0.14 per share. Perhaps most importantly, we still generated $124.2 million, or $0.82 per share, in net operating cash flow, which was sufficient to cover both our sustaining capital and project capital in 2014, a pretty decent result into the teeth of some pretty strong headwinds of declining metal prices.

Our balance sheet continues to be healthy. At December 31, 2014, our cash and short-term investments were $330.4 million, our net working capital was $522.6 million, and our total debt was a modest $60.4 million, including approximately $8 million in capital leases. This puts us in a solid financial position to continue executing our value-creating projects, like our La Colorada expansion, as well as look for opportunities within the sector to perhaps strengthen our asset base.

Now, I'll let Steve provide you with a detailed account of our operations and development projects during the quarter. Steve.

STEVE BUSBY:

Thank you, Geoff. For the third consecutive year, I'd like to start with a special recognition for our nearly 7,000 employees and contractors who achieved another year of world-class performances in the prevention of lost-time accidents throughout the Company during 2014, essentially duplicating the excellent results we achieved during 2013. Not only that, but our Pan American Silver employees and contractors also demonstrated their commitment to protecting the environment by running clean and compliant operations, as well as sustaining quality relations with the communities near our place of businesses. Our excellent performances in these areas provided the foundation for establishing new Company records for silver, gold and copper production during the year. Coupling these production results with the intelligence and innovative thinking of our people, we effectively addressed several challenges and managed costs, such that we achieved a consolidated unit cash cost per ounce below our guidance range, as Geoff mentioned.

I'd like to provide you some additional details on the annual performances at each of our mines during 2014.

Starting off, La Colorada has now become the Company's largest silver producer, with its record 5 million ounces of silver produced last year, as expected, thanks to record throughput, particularly of higher-grade sulfide ores mined, taking advantage of some of the additional underground trackless equipment acquired as part of our mine expansion project that is underway. The increase in sulfide ore throughput also had a positive effect on base metal grades and recoveries, complementing the record silver production with a record annual zinc production of 7,700 tonnes and a record annual lead production of 3,700 tonnes, driving our cash costs down below expectations to $8.14 per ounce. Sustaining capital expenditures for the year at La Colorada were above expectations at $13.6 million, recognizing the reclassification of $5 million for a tailings dam expansion from project to sustaining capital.

Dolores was our second largest silver producing mine during 2014, with a better than expected record 4 million ounces produced, thanks largely to the benefits of longer primary leach cycle times and an unconstrained crushing plant that became available with the commissioning of the new leach pad No. 3 in late 2013. Dolores also produced 66,800 ounces of gold during the year, as expected. Annual cash costs of $12.94 per ounce was also in line with our guidance, whereas sustaining capital was below expectations at $28.1 million, due to a decision to lease five new mine haul trucks instead of purchasing.

As expected, Alamo Dorado's annual silver production declined to 3.5 million ounces, due to lower output of higher-grade ore from the final stages of the open pit mine, necessitating treatment of greater quantities of lower-grade ores with lower recoveries. Annual cash cost of $12.89 per ounce was in line with expectations, as was the minimal sustaining capital spending of $300,000.

Our Huaron silver mine, silver, lead and particularly copper production all rose to new records during 2014, with 3.6 million ounces of silver, 6,000 tonnes of lead and 5,900 tonnes of copper produced, all well ahead of expectations, thanks to record throughput achieved from better than expected benefits of our multi-year mine mechanization effort. The mine also produced 14,200 tonnes of zinc during 2014. These record productions, combined with the significant benefits of mechanization, also served to drive our annual cash costs down, well below guidance, to $11.56 per ounce, despite incurring greater than expected concentrate treatment costs. Given the successes we were seeing, we made several decisions during the year to advance on some additional projects at Huaron for an extra $8 million that'll help to sustain these higher production rates in the years to come, resulting in a $17.3 million sustaining capital spend.

Morococha produced 2.4 million ounces of silver for the Company in 2014, slightly less than expected, largely due to a change in mine sequencing that was necessary to address some problematic stopes and focus in to higher value lead and copper ores. These mine sequencing adjustments resulted in contributing a record 3,100 tonnes of copper production, 4,700 tonnes of lead production and 15,800 tonnes of zinc production for the Company in 2014, all ahead of expectations, helping to drive cash costs down to $13.22 per ounce, well below guidance, despite incurring greater concentrate treatment costs. Sustaining capital expenditures at Morococha in 2014 were slightly over expectations at $10.2 million, as we continue to try and enhance the mine's mechanization to obtain the same results that we've been seeing and experiencing at Huaron.

Manantial Espejo produced 3.7 million ounces of silver and 70,500 ounces of gold during 2014, pretty much in line with expectation. Cash costs were just slightly above our expectation at $10.12 per ounce, whereas sustaining capital was below at $26.2 million, primarily due to shortfalls in our open pit pre-stripping tonnage, which will effectively spread out our remaining high-grade ores from the Maria open pit over a longer period during 2015.

Finally, San Vicente produced a record-breaking 4 million ounces of silver for the Company, as expected, at a cash cost of $13.16, which was close to our expectations. Sustaining capital expenditures were slightly below guidance at $3.4 million.

Our Project and Technical Services teams focused their efforts during 2014 towards engineering, defining the details and preparing for construction of our highly attractive La Colorada expansion and Dolores power line projects in Mexico, all the while essentially completing the large two-year Phase 2 heap leach pad construction project at Dolores. I firmly believe that the success of mining projects are largely determined during the crucial definition and preparation for construction stages before any material activities become visible on the ground. I am confident that the intensive defining and preparation efforts we conducted during 2014 will lead to success for the Company at both projects, as we enter into construction phases during 2015.

Looking forward to 2015, and as previously reported, the Company expects to produce between 25.5 million and 26.5 million ounces of silver, potentially setting another Company record, at a cash cost between $10.80 to $11.80 per ounce. Also, for the third year in a row, we expect a substantial increase in by-product gold production to another Company record, somewhere between 165,000 to 175,000 ounces, primarily due to higher grades at Dolores, according to the mine sequencing, as we move deeper into that deposit, whereas we expect our zinc, lead and copper by-product production to remain reasonably consistent to 2014 outputs, at between 41,000 to 43,000 tonnes of zinc, between 14,500 to 15,000 tonnes of lead, and between 8,000 and 8,500 tonnes of copper.

It is important to recognize that today's base metal prices have slipped below our 2015 budget assumptions, particularly for copper, and we will be re-evaluating our mine plans at Morococha and Huaron, that may result in some re-sequencing at those mines. I will provide an update to this evaluation, as necessary, in our first quarter report in May.

The Company plans to invest between $71 million and $84 million in sustaining capital during 2015, primarily for open pit pre-stripping at our open pit mines, long-term underground development and infrastructure enhancement at our underground mines, and tailings dam and leach pad expansions at Dolores, La Colorada and Huaron, as well as equipment replacement and overhauls, plant upgrades and debottlenecking, and mine site exploration across all operations. In addition, we plan to spend between $98 million and $109 million on long-term projects, primarily for substantially advancing the La Colorada mine expansion, shaft and process plant constructions, as well as advancing the installation of the Dolores power line.

I'd like to extend my personal gratitude to all of our dedicated employees and contractors for all their safety-focused efforts that led to new Company production records during 2014. These efforts have positioned Pan American Silver to hopefully establish yet another record-breaking year of precious metal production during 2015, while advancing construction efforts on our extraordinary value-enhancing organic growth projects that can lead to even further production records beyond 2015.

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

MICHAEL STEINMANN:

Thank you, Steve, and good morning. I'm pleased to share with you our new mineral reserves and resources. As of December 31st, 2014, our proven and probable reserves are estimated to contain 300 million ounces of silver and 2.32 million ounces of gold. These numbers are down by approximately 7% compared to last year, mostly due to 2014 mine production and lower metal prices used for the estimation. It is important to note that at the same time the average reserve silver grades increased by 4.1% and average gold grades rose by 5.5%.

During 2014, we spent about $16.6 million on exploration, completing over 152 kilometres of diamond drilling. Our reserve metal price assumptions decreased from $22 per ounce of silver used last year to $18.50 per ounce, and from US$1,300 per ounce for gold to $1,250 per ounce. These are positive results and maintain our proven and probable reserves as one of the largest in the silver industry. During the last 11 years, our mine site exploration efforts have been highly effective. We have added nearly 280 million ounces of silver to our reserves in that period, excluding acquisitions, more than replacing the 258 million ounces of silver mined. The average cost of the new silver reserves added during that period is approximately $0.43 per ounce, resulting in an excellent return on our investments in exploration.

In a declining metal price environment, reserve gains through exploration and losses due to lower metal prices and other factors are more complex, and I would like to explain this in more detail.

On the current slide, you should see the silver reserves as of December 31st, 2013, by mine, contained ounces mined during 2014, additions through exploration, losses due to re-categorizing of reserves to resources, and the resulting current reserves as of December 31st, 2014. Please note that we discovered approximately 29.6 million ounces of new silver mineral reserves, while at the same time depleting 32.9 million ounces of contained silver through production and re-categorizing 20.1 million ounces of silver, primarily due to lower prices.

The La Colorada mine, which holds the Company's largest silver reserves, once again returned outstanding exploration results in 2014, with an addition of nearly 11 million ounces of silver, and only a small loss of 0.8 million ounces due to lower metal prices. After production, La Colorada finished the year with a record of 86 million ounces of silver mineral reserves, a 6% increase year-on-year. This result is even more impressive taking into account that exploration activities were restricted in certain areas of La Colorada due to the development work for the mine expansion. These restrictions will continue during 2015 and early 2016. Once development work is completed, it is expected that exploration efforts at La Colorada will return to higher yields again. In the past six years, we discovered approximately 100 million ounces of new silver reserves at La Colorada, mainly in the sulfide mineralization of the NC2 and Amolillo veins. Widely spaced deep drilling indicates that both structures extend far beyond the current reserves, and these zones will continue to be targeted in the Company's exploration plans after the mine expansion is completed. La Colorada is truly an outstanding mineralized system, with very large vertical extension and very robust grades.

Besides La Colorada, the second largest addition came from our high-grade operation San Vicente, with 5.1 million ounces, resulting in a reserve increase of 0.9 million ounces net of 2014 production. As expected, lower precious metal price assumption and last year's production more than offset gains at Dolores, Huaron and Morococha. Net of 2014 production and exploration additions, mineral reserves at Dolores declined by 0.8 million ounces of silver, but gold reserves increased by 52,000 ounces due to pit optimizations. Mineral reserves at Huaron declined by 0.9 million ounces of silver, and at Morococha declined by a modest 0.2 million ounces. The largest reserve change was seen at Manantial Espejo, where silver reserves declined by 3.4 million ounces and gold reserves were reduced by 44,200 ounces. These ounces have been moved from mineral reserves to mineral resources, due to lower metal prices, and may be reclassified should metal prices or cost environment improve.

Looking at our corporate-wide reserves and resources, you will notice the 7% reserve decline in silver and gold ounces, already discussed. As a logic step to this, you will see an increase of measured and indicated resources by 2% and 13%, respectively. In absolute numbers, these increases are substantial, representing 16 million ounces of silver and 202,000 ounces of gold. The largest contributions came from Dolores, where successful exploration south of the current final pit discovered a 725-metre-long extension of the mineralization. Those ounces will be added to the reserves once the underground mine plan is defined.

In 2015, Pan American expects to invest about $10 million to complete approximately 83 kilometres of diamond drilling at its seven operating mines. In addition, the Company also plans to spend about $2.1 million on greenfield exploration activities. Once again, our strong core assets have proven their exploration potential and our high-grade assets La Colorada and San Vicente have shown that important reserve additions are possible in a declining metal price environment. We have one of the largest reserves and resources in the silver sector with over 1.3 billion ounces of silver, and I have no doubt that we will see important exploration results in 2015 from our diversified asset base.

Now, to Rob for a financial review.

ROB DOYLE:

Good morning, ladies and gentlemen. As Steve has described, our operations returned commendable production results for both Q4 and the full year of 2014. However, the extremely challenging market conditions had an overarching impact on our financial results. Many of the financial challenges were triggered by quarter-end, non-cash valuations in response to the lower precious metal price environment we now find ourselves in.

As usual, I would like to start by reviewing our cash flows, which provide the clearest perspective on our performance. With our Q4 operating cash flow before interest and taxes coming to $10.1 million, our sustaining capital expenditures which amounted to $24.8 million, tax payments for the period of $7.7 million, and our dividend of $18.9 million, did require us to draw down on Treasury to the tune of about $42 million, which brought our Treasury balance down to the $335 million range. Our growth capital expenditures of $5.3 million, primarily spent on the expansion of La Colorada, and some lease and debt payments of $2 million, were partially offset by VAT refunds and proceeds from the sale of an exploration property, bringing our closing Treasury balance at the end of the year to a healthy $330.4 million, with total debt of only $60.5 million.

The same slide for the full year of 2014 shows robust operating cash flow of $161 million, sufficient to fund sustaining capital of $99.8 million, taxes of $33.1 million, and $28.1 million of the $75.8 million paid in dividends. Expansionary capital at La Colorada and Dolores of $36 million, together with $8 million of loan payments, were funded out of Treasury assets, for a total drawdown of cash balances for the year of $92.3 million.

Our Q4 and full-year consolidated all-in sustaining cost per silver ounce sold is presented on the table that you should see on your screens now, which provides a detailed reconciliation of this measure to the applicable cost items. We calculated an AISCSOS of $18.62 per ounce for Q4, up from the $16.72 per ounce in the comparable period of 2013, mostly due to higher exploration costs, smelting and refining charges, and production costs. On an annual basis, including the net realizable value, or NRV, adjustments on inventories, which added $1.17 per ounce, our AISCSOS in 2014 was in line with 2013's measure. Even with the unexpected NRV adjustments included, we ended up 2014 within our AISCSOS guidance range of between $17 and $18, which we expect to drop in 2015 to between $15.50 and $16.50 per ounce. Compared to 2013, our AISCSOS in 2014 benefited from lower sustaining capital and exploration costs and higher by-product credits, but were offset by higher production costs, royalties, and smelting and refining charges. Excluding the NRV adjustments, our full-year AISCSOS for 2014 was $16.73. That's 4% below the comparable number in 2013, and well below our guidance range.

We present select information from our Q4 income statement on your screens now, compared to Q4 of 2013. Our revenues in Q4 2014 lagged revenues from a year ago by $29.3 million, as a result of lower realized prices, combined with a small negative quantity variance, together with downward settlement adjustments on concentrates of $4.4 million. We also held onto approximately 7,000 ounces of gold and 150,000 ounces of silver produced at the end of December, which has been sold in January at substantially higher prices, the value of that shipment being approximately $11.5 million, which will be reported in 2015 revenues instead of 2014.

Included in our cost of sales for Q4 2014 was an NRV adjustment on inventories of $2.2 million, as we marked down the value of our precious metals contained on the heap at Dolores, stockpiles and doré products to reflect the decline in precious metal prices at the end of the quarter. The lower metal price environment led the Company to lower the silver and gold prices used in its long-term reserve prices, as Mike has just described, and also in the life-of-mine discounted cash flow models considered when testing assets for impairment. The Company assumed long-term silver and gold prices of $18.50 and $1,250 per ounce, substantially lower than the $22 and $1,300 used in previous estimates, respectively.

The deterioration in metal prices was also indicative of a decline in the market value of development properties. The most significant impairment charge was on the Navidad property, where lower prices and a relatively high discount rate reflecting the challenging current economic conditions in Argentina combined to bring down the estimated value for accounting purposes. Total impairment charges net of tax recoveries recognized in Q4 amounted to $498.7 million, of which $179.2 million related to operating mines and $318.3 million to development properties.

We saw Canadian dollar and Mexican peso weakness during the quarter, which was the main driver behind the FX losses of $4.7 million. As of year-end, about 22% of our cash and short-term balances were held in CAD.

We reported an adjusted loss of $21.2 million for Q4 2014, which equates to $0.14 per share, an improvement from the adjusted loss of $77.6 million reported in Q4 of 2013. For the full year of 2014, we reported an adjusted loss of $20.8 million. The main factors behind the narrowing of our adjusted loss from Q4 '13 to Q4 '14 are shown on the waterfall graph on your screens now. The two main movements in adjusted earnings between the two periods were the one-time charge of $86 million related to changes in the Mexican tax laws that we recognized in Q4 of 2013, and the impact of lower prices in Q4 2014, which equated to $31 million.

Lastly, a brief review of our working capital portion of our balance sheet. We saw a decrease of $84.3 million in our overall working capital balances, with working capital at $522.7 million at year-end. The change in working capital was principally reflected in lower cash and short-term balances, previously described, and in the reclassification of a convertible debenture of $34.8 million to the current portion of our balance sheet, as these notes mature in December 2015.

With that, over to Geoff for closing comments.

GEOFF BURNS:

Thanks, Rob. Let's again quickly review where we think we're going to be in 2015. As Steve mentioned, we believe we're going to produce between 25.5 and 26.5 million ounces of silver, basically in line with 2014's production. We expect to produce 165,000 to 175,000 ounces of gold, a nice little bump over 2014, and we think we'll be able to do this for a cash cost that is slightly less than what we just reported in fiscal 2014. Perhaps most importantly, we are forecasting a nice 8% to 9% drop in our AISCSOS in 2015, to between $15.50 and $16.50 per ounce, which is a function of lower sustaining capital, slightly lower cash costs, and our ability to maintain our exploration and general and admin budgets at current levels.

Before we move on to the question-and-answer session of our call, I'd like to briefly review what I believe are the highlights of our 2014 full-year performance. We produced new records for both gold and silver production; increased our base metal production across the board, posting a new Company record for copper; we meaningfully reduced our cash costs at our two highest cost Peruvian operations, on the back of mechanization, cost control and re-sequencing of mine plans; we discovered over 29 million ounces of new silver proven and probable reserves, not enough to overcome our annual depletion and reclassification of some of our reserves to resources due to lower price assumptions, but an excellent result on a significantly reduced budget; we decided to proceed with the expansion of our lowest cost and largest silver reserve mine, La Colorada, and have already made meaningful progress in the expansion, and we're financing this from our own Treasury; lastly, we again paid a dividend of $0.50 per share in 2014, the absolute best of any silver company, producer or streamer, and have still maintained an enviable balance sheet with virtually no debt and over $0.5 billion in positive working capital.

While in the long run, I remain staunchly optimistic that precious metals prices will recover to their previous highs, and more, we are and we will continue to respond to the current price environment, an environment that I suspect will be very volatile over the next 12 months. In anticipation of this, we've formulated our 2015 plans using a $17 per ounce silver price and a $1,200 per ounce price for gold, which, at least in today's terms, seems pretty reasonable, and I'm confident that we have the experience, the flexibility, the financial strength and the team to weather this currently challenging period and even excel.

With that, Operator, I'd like to open the conference to questions.

OPERATOR:

We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone to join the question queue. You will hear a tone acknowledging your request. If you're using a speakerphone, please ensure you lift the handset before pressing any keys. If you wish to remove yourself from the question queue, you may press star and two. Anyone who has a question may press star and one at this time.

The first question is from Craig Johnston of Scotiabank. Please go ahead.

CRAIG JOHNSTON:

Hi guys, thanks for taking my call. Just one quick question, just relating to Dolores. I'm wondering if you could provide a bit of an update on where you see things in terms of your latest thinking on the pulp agglomeration circuit, as well as the underground, as I noticed that Michael mentioned some positive exploration results underground at Dolores. Thanks.

STEVE BUSBY:

Yes, hi, Craig, this is Steve. We're still evaluating the pulp agglomeration and advancing some additional testing metallurgically, and flow sheet optimizations. The underground, we've done a bit more design work around what we intend to do there. Our hope is still to come out with a positive decision, probably sometime mid-year to Q3 of this year.

CRAIG JOHNSTON:

Okay, and with the decision one way or another, will there be additional kind of financial details with that, or more of just a kind of yay or nay?

STEVE BUSBY:

If there's any material differences—right now, we believe the PEA is pretty revealing what we think this project's worth. We'll update the financials based on the prices we use, but we're not seeing significant changes today to what the PEA said.

CRAIG JOHNSTON:

Okay.

GEOFF BURNS:

Craig, it's Geoff, to jump in for one second. I mean, we're deferring it as long as we can while still being able to capture the real upside and the what the project brings, which is the higher recoveries on silver and gold, the additional tonnage, which really affects our plans going into 2017, because we hit the higher grades in the ore body, but we're deferring that because we are very cognisant of what current silver prices are and what current gold prices are, and while, as I said, I believe in longer term higher prices, we're going to be very careful in making a commitment to spend another $105 million to $106 million. So, as Steve said, probably not much more on the project, some fine-tuning, but, really, let's watch what the market prices are, and we'll update you when we think we have to make that call.

CRAIG JOHNSTON:

Great, that makes a lot of sense. Thanks guys. That's it for me.

OPERATOR:

The next question is from Chitimukulu Musonda of Deutsche Bank. Please go ahead.

CHITIMUKULU MUSONDA:

Yes, hi, everybody, it's Chiti, standing in for Jorge. Just a couple of questions also on Dolores, and, Steve, I think you alluded to this at the top. The power line project, I imagine you're off to the races now. Could you just give us some colour on how things are going there and is late 2016 still the target hookup?

STEVE BUSBY:

Yes, Chiti, this is going well, yes. The one thing we are waiting on is the final permit for construction. We have secured all the right-of-ways; we've got those agreements in place. We have been allowed to start building the structures that will be put into place, which we have started. We hope to hit the ground running probably by the end of March, early April this year. We still intend to meet the schedule to bring the power online at the site by mid-2016, into Q3 of 2016.

CHITIMUKULU MUSONDA:

Okay, that's helpful, and just one quick one. 4Q appeared fairly weak on recoveries, and I know that this asset is impacted by the rainy season, which I thought was mostly in 3Q. Is that just a carry-over? What was going on there with recoveries at Dolores?

STEVE BUSBY:

Yes, I mean, it wasn't totally unexpected. We had been getting some advantages during Q1 and Q2 from when we brought in the inter-stage leaching with Pad 2, so we're taking solutions onto Pad 2 before we go to Pad 3 where we enrich it with the fresh ore, so we kind of—we saw some, what I'll call abnormally high recoveries during the first half of the year and we expected it to drop off. Also, you're right, Q3 is the wet season, and what happens during the wet season is we have to slow up the crushing and placement rates. So, Q4, we're now relieved again and we've got higher throughputs going through the crusher, but because of the long leach time you don't see that recovery, so you end up building a bit of an inventory for that short quarter-to-quarter period.

CHITIMUKULU MUSONDA:

Okay, got it. Thank you. That's it for me.

OPERATOR:

The next question is from Andrew Kaip of BMO Capital Markets. Please go ahead. Andrew, your line is open.

ANDREW KAIP:

Geoff, I'm wondering if you can give us some—or shed some light on the breakout of the project CapEx. How much are you anticipating on spending at La Colorada this year, and how should we look at the spend through the four quarters?

STEVE BUSBY:

Yes, Andrew, I can take that. This is Steve here. We're forecasting between $75 million to $80 million spent at La Colorada during the year. That's in line with what we had in the PEA, I think we were close to $78 million in the PEA. The spending is going to be heavier in the second half of the year versus the first half. We're starting the drilling of the pilot hole for the raise bore. We are mobilising—we'll be putting in the hoist. We'll start the plant construction, hopefully, in March or April. So, you'll see the heaviest part of that spending, for sure, during Q3, and heavier again into Q4. At Dolores, we're estimating between $15 million and $17 million of capital spending, which is largely for that power line, and then we have some other projects going on, as well.

ANDREW KAIP:

All right, and then I'm wondering if you can give us an indication of sensitivity towards currencies, and what currency assumptions that you've used both in Mexico—well, in Mexico, Argentina and Peru?

GEOFF BURNS:

Andrew, we might need to get back to you on that. Rob's just checking some of his materials in front of him, but we have—oh, wait. Go ahead then, Rob. Pardon me.

ROB DOYLE:

Andrew, we will be providing sensitivities in the MD&A, which we hope to get out around the middle, towards the end of March, we'll provide some of those sensitivities to our cash cost, et cetera. We did budget 14 for the Mexican peso in our 2015 budget, and the other main currency, operating currency of course is the Peruvian, which we budgeted at 2.95. Now, both of those are trading higher than that, so there is a little bit of an upside there as we currently sit.

ANDREW KAIP:

What do you think that—I guess I'm trying to—I'm trying to gauge the impact of currency fluctuations to your operating costs. I mean, you've indicated, based on your assumptions, that you're looking at a slight decline in operating costs, but you're really seeing your sustaining capital driving reduction in all-in sustaining costs. I guess the question is, you know, if we see these currencies continue to weaken, what benefit do you see on the operating level?

GEOFF BURNS:

I'm going to talk to that one, Andrew, in a bit of a general sense, because it's—like I said, Rob is going to provide as good as sensitivities as we can in March, we haven't run them, but in Mexico, approximately 40% of our operating cost is denominated in pesos, largely related to labour. It's a little different between Alamo and Dolores, and of course La Colorada, which is more labour-intensive, but that denomination, if you fluctuate your peso above and below the 14 that we're using as a budget, you can probably get a sense for how that affects us. In Peru, our labour costs are actually a higher component, probably closer to 50 to 55, using the sol at 3 is what we used. I think today, or the last time I looked, it was about 3.06, 3.07, so you're getting a—you know, what is that, a 1/1.5% benefit against 55% of your operating costs. In Argentina, we actually scaled our exchange rate assumption because we felt there was a pretty good potential for some further devaluation. The offset of that one is, unfortunately, is they're still running very high inflation. So, net-net there, I wouldn't assume we'd see any benefit, frankly, unless there's a stair-step devaluation. The boliviano, in spite of everything, has been almost constant, somewhere 7.8 to 8 bolivianos per dollar, and it's been that way for years in spite of the rally in the US dollar. It just doesn't get traded, in the nicest sense, much outside of Bolivia. So, there is some incremental benefit. Rob can provide more detail.

I think the other question, not to preamble your thoughts, but is on oil. Out of our, roughly, $550 million in operating costs, about 10% is oil, or about $50 million, and there isn't quite a direct relationship between the barrel price from last year to the diesel price versus the barrel price from this year to the diesel price, because of delivery costs and taxes, et cetera. There is maybe a—I'm going to say a 15% to 20% potential saving in there, out of that $50 million of overall expenditures, that we really haven't baked into our forecast going ahead next year.

ANDREW KAIP:

Okay, thanks. That's been very helpful.

GEOFF BURNS:

Thanks, Andrew.

OPERATOR:

As a reminder, it is star, one to ask a question. The next question is from Mark Mehalovich of RBC Capital Markets. Please go ahead.

MARK MEHALOVICH:

Perfect, thanks, guys. So, a question from me a bit on your acquisition strategy. So, you've been pretty upfront before that you're looking for something that would make sense within your portfolio, so I'm just wondering if you had an update on your process there.

GEOFF BURNS:

Oh, sorry, I apologize, I didn't quite get all of your question, but if you're—where we're at with acquisitions, I guess—I hate to give the pat answer, but a little bit—we are continuing to look very carefully in our sector, we are focusing on silver acquisitions. I know a number of peers have recently strayed into gold. That is not our intention at all. We think, frankly, that there's a continued desire by our shareholders to stay with silver and be different than gold companies. Despite depressed valuations, to be blunt, we are still having difficulty coming up with what we would believe would be accretive acquisitions—not that we're not looking; we continue to do so and will continue to do so. At the end of the day, whatever we acquire has to improve our asset base, it has to be better than that which we're doing, or, quite frankly, I would rather do the Dolores pulp agglomeration, which adds ounces and production and reserves, than buy something that is of less value as we see it.

MARK MEHALOVICH:

Okay, perfect, and a bit of a follow-up to that. How do you do the trade-off between your organic opportunities and acquisition strategy?

GEOFF BURNS:

As best we can, we dominate that with a discounted cash flow valuation. Certainly, we look at valuing exploration potential or, in the case of an acquisition, the ability perhaps to operate it better or more efficiently or at a lower cost, but at the end of the day, I mean, we really focus on what is the return of a potential acquisition. Oft times you have to pay a premium after you take that into account versus organic opportunities. Without going too far, we have another very high-grade mine in our portfolio that has shown significant reserve additions year after year since we fully brought it in production in San Vicente and we will look at that carefully as we go forward, as much as we'll look at outside opportunities.

MARK MEHALOVICH:

Okay, perfect. That's it for me.

OPERATOR:

There are no more questions at this time. I will now hand the call back over to Geoff Burns for closing remarks.

GEOFF BURNS:

Thank you, Operator. Well, I'd like to thank everyone for joining us this morning and I very much look forward to talking to you again in about three months' time as we review how we have started off in 2015. Thank you.

OPERATOR:

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