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2015 Fourth Quarter and Year End Unaudited Results Conference Call & Webcast Transcript

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SPEAKERS:

Michael Steinmann, *President and Chief Executive Officer*

Steve Busby, *Chief Operating Officer*

Rob Doyle, *Chief Financial Officer*

Chris Emerson, *Vice President, Business Development and Geology*

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:

Welcome to the Pan American Silver Fourth Quarter 2015 and Year End Conference Call. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star and zero.

I would now like to turn the conference over Kettina Cordero. Please go ahead.

KETTINA CORDERO:

Thank you Operator, and good morning, ladies and gentlemen. Welcome to Pan American Silver's 2015 Fourth Quarter and Year End Unaudited Results Conference Call. I'm joined by our President and CEO, Michael Steinmann; our Chief Operating Officer, Steve Busby; our Chief Financial Officer, Rob Doyle; and our Vice President of Business Development and Geology, Chris Emerson.

I remind 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 17 and February 18, 2016, 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 Michael.

MICHAEL STEINMANN:

Thank you Kettina, and good morning, ladies and gentlemen. I will start with a short overview of our fourth quarter and then I'll let Steve, Rob and Chris provide you with more details on our operations and projects, our financial performance during the fourth quarter and for the fiscal year 2015, and of course our exploration programs and reserve update, before moving on to a Q&A session.

But, before we go to the results, I would like to take a moment to discuss our dividend distribution which, as you may have already seen, will change as of this quarter. As announced, after careful consideration, our Board has decided to reduce the dividend by 75% to $0.0125 per share per quarter. This brings our dividend back to the level of Q1 of 2010, when we paid a dividend for the first time. The dividend will be payable on or about Wednesday, March 9, 2016, to holders of record of common shares as of the close of business on Monday, February 29, 2016.

Cutting our dividend was not an easy decision, but given the current market conditions and, more importantly, with all the M&A opportunities starting to emerge, it makes perfect sense to preserve more of our cash and position ourselves to add meaningful new projects to our portfolio.

You may have seen the announcement we made on Tuesday, together with Kootenay Silver and Northair Silver. While these are early-stage projects and are not of material size for us right now, they have the potential to add significant silver resources through further exploration. In addition, this was an ideal entry point for us into a highly prospective mineral belt located in a preferred jurisdiction, which should allow us to add value by utilizing our proven expertise in exploration and project development. In my opinion, and that of the Board, this is an ideal use for our precious cash resources as we look for more opportunities to reload our development pipeline.

Now, let's have a look at our production performance. 2015 was arguably the best production year in the history of Pan American Silver. We posted 37 new production records last year, including tonnes processed, precious and base metals produced, as well as head grades and recoveries at several of our operations. I am sure Steve will provide more details shortly. We produced a new Company record of 26.12 million ounces of silver and a record of 183,700 ounces of gold in 2015, thanks to record silver production at our Dolores, La Colorada and San Vicente mines, and record gold production at Morococha and Dolores, Alamo Dorado and Manantial Espejo.

Our cost control strategies took full effect during the year. A combination of outstanding production performance, lower energy, supply and labour costs, as well as devalued local currencies reduced our cash costs for the year to $9.70 per ounce of silver net of by-product credits. This is a reduction of 15%, compared to our cash costs in 2014, and well below our already lowered cash cost guidance of $10 to $10.50 per ounce. The cost savings have been even larger on our all-in sustaining costs, which came in at $14.92 per ounce of silver net of by-product credits, representing a 17% cost reduction, compared to the all-in sustaining costs we experienced in 2014.

Similar to the cash costs, our AISCSOS were well below Management's reduced full-year forecast of $15 to $15.50 per ounce. It is worth pointing out that we were able to comfortably beat our forecast for AISCSOS even though we had to include a negative $0.76 per ounce in net realizable value adjustments on our heap leach and stockpile inventories due to lower metal prices.

These production records allowed us to generate the very healthy cash flow from operations of $23.4 million, or $0.15 per share, in Q4, and $88.7 million, or $0.58 per share, for the year, which more than covered our sustaining capital and contributed to our growth projects, and we did this in spite of continued deteriorated metal prices.

Now, I will let Steve provide you with a detailed account on our operations and expansion projects during the quarter and for the year.

STEVE BUSBY:

Thank you, Michael. It is my pleasure to provide additional details on Pan American's numerous record-breaking operating results and expansion project advances accomplished during the year. There'll be some slides with some photographs of some of our expansion projects on our website, as I'll follow through on the narration here.

Starting off, our La Colorada mine in Mexico achieved record silver production in 2015, 7% more than in 2014, on account of increases in throughput, grades and recoveries. Poor mining rates have increased with the benefits of the new mining equipment purchases to the maximum rates possible, until our new shaft installation is completed. The increased throughput, particularly from deeper sulphide-rich ores, also brought a 16% increase in zinc production to 8,900 tonnes and a 14% increase in lead production to 4,300 tonnes, both achieving new annual records for the mine. Cash costs during 2015 declined 9% on account of lower unit operating costs per tonne given the higher throughput, the favourable depreciation of the Mexican peso, and lower cost of certain consumables, while the increased base metal by-product production was entirely offset by lower base metal prices.

Our Dolores mine also achieved record silver production in 2015, 7% greater than in 2014 due to record throughput and higher silver grades. Gold production also grew 18% from the previous year to a new annual record in 2015. Despite lower gold prices, cash costs declined 28%, on account of the higher gold by-product production, favourable currency exchange rate movements and lower cost of certain consumables, particularly diesel fuel.

Silver production at Alamo Dorado in 2015 fell 14% from 2014 as the final open pit mining ramped down and concluded by year end, which resulted in less feed from mined ore being supplemented with greater feed from lower grade stockpile ores, whereas gold production rose 16% to a record at Alamo Dorado during 2015, due to higher grades and recoveries from the mining of a high-grade gold zone in the final stage of the open pit. Despite lower gold prices, cash costs per ounce declined by 61% due to the combined effects of higher gold production and lower unit operating costs per tonne, given the reduced mining rates, the favourable depreciation of the Mexican peso, and the lower cost of certain consumables.

Huaron's silver production, in Peru, during 2015 was similar to that of 2014. However, production of copper increased 14% to 6,900 tonnes and lead 15% to 6,700 tonnes, both establishing new annual records, given the mine sequencing. Cash costs declined 6% as a result of substantially lower unit operating costs per tonne, driven by benefits from the ongoing mechanisation efforts, while the increased copper and lead by-product production was entirely offset by lower copper and lead prices. During 2015, Huaron also produced 13,500 tonnes of zinc, 5% less than in 2014.

Morococha's annual silver production declined 9% from 2014, as a result of a previously reported change in mine sequencing that targeted higher value ores during the year, partially aggravated from the impact of intersecting unexpected water flows in the high-value Esperanza copper-rich zones during the last four months of 2015, which has now since been resolved.

During 2015, the Company's share of Morococha's copper production increased 165% to a record 8,200 tonnes, while zinc production decreased 28% to 11,400 tonnes and lead 46% to 2,600 tonnes. Cash costs per ounce for 2015 at Morococha were similar to that achieved in 2014 as substantially lower by-product metal prices were offset by reductions in unit operating costs per tonne realized from the mine mechanisation efforts, despite addressing the unexpected water issue at Esperanza.

San Vicente in Bolivia achieved record silver production in 2015, 4% higher than in 2014, due to higher throughputs and silver grades, offset by lower recoveries. The higher throughputs also drove a 17% increase in the Company's share of zinc production to 6,800 tonnes and a 67% increase in lead production to 840 tonnes, both setting new annual records for the mine. Cash costs declined 12%, aided by higher zinc and lead by-product production, as well as royalty payments due to lower metal prices.

At Manantial Espejo, in Argentina, silver production in 2015 decreased 4% on account of lower throughput, largely caused by a two-week shutdown in the open pit operations that was reported during the second quarter of 2015. Irrespective of the two-week disruption, the mine achieved record gold production during 2015, 10% above that of 2014, on account of significantly higher gold grades with the mine sequencing into the final high gold grade ore zone of the Maria open pit during the last half of the year. Cash costs per ounce in 2015 decreased 28% compared to 2014 on account of substantial productivity improvements that drove unit operating costs per tonne lower, while the 10% increase in gold production was mostly offset by the 8% lower gold price.

Turning over, as the aerial photo of our new shaft and headframe and hoist room installation, as the slide illustrates, substantial progress was made on the La Colorada mine expansion project during 2015, particularly with respect to successfully completing the new 617-metre deep shaft bore that navigated through some challenging ground conditions. By year end, the top 30 metres of the shaft has been concrete lined, allowing the suspension of the prefabricated Galloway work platform structure in the shaft bore, bringing the total shaft project advanced to approximately 50% complete at year end.

This next photo shows the hoist control room. The Company anticipates completing the construction and commissioning of the new headframe, the sinking winches and the hoist during Q1 of 2016, this year. That will allow us to advance the shaft outfitting from the top down with concrete lining, supports, and all the necessary steel installations. Pan American expects that the new shaft will be fully commissioned by year end 2016, allowing hoisting to mark from the 588 loading pocket level, which is 588 metres below surface. The Company also continues to advance on underground developments necessary to prepare additional production phases in time to begin steady ore production ramp-up, beginning in late 2016 with the new shaft operation. It is expected that the ramp-up will continue steadily through to the end of 2017 when the full design of 1,800 tonnes per day of ore production capacity will be achieved.

Meanwhile, as the next photo highlights, construction of the new sulphide plant which began in April of 2015, was approximately 70% complete by year end, well within the schedule necessary to accept the ore production ramp-up described previously, that's driven by the commissioning of the new shaft at the end of this year. The Company is making provisions to provide temporary power supplies as necessary, while anticipating completion of the new 115kV power supply line to the site by early to mid-2017.

Overall, I'm quite pleased to report that the La Colorada expansion is advancing on budget and we anticipate overcoming the three-month delay in the shaft excavation that occurred during 2015 while navigating the challenging ground conditions encountered in the shaft raised boring, in order to achieve the planned 1,800 tonnes per day ore production rate by the end of 2017.

Moving over to Dolores, and as this next photo shows, the new underground ramp decline that started early in 2015 advanced 866 metres by year end, and the pulp agglomeration plant, engineering and procurement effort proceeded well during the year. The Company anticipates advancing the underground mine developments to intersect the main ore body, install the first ventilation raise, commence lateral development and perform initial stope definition drilling during 2016, all in accordance with the project schedule. The Company also anticipates completing engineering, continuing with procurement of all major equipment and begin ground breaking excavations for the new pulp agglomeration plant during the first half of this year.

Overall, the Dolores project expansion is proceeding on budget and the Company anticipates meeting a scheduled start-up of the pulp agglomeration plant by mid-2017, while ramping up underground operations to the full 1,500 tonne per day design capacity by the end of 2017. In addition, the new 115kV power line installation is approximately 74% complete and remains on budget and on schedule for an anticipated commissioning by mid-year 2016.

Apart from the expansion project, the Company's Project Team has also initiated the next phase of leach pad sustaining capital expansion at Dolores, as shown in the photo, which is scheduled for completion by mid-2016, and will provide an additional 18 million tonnes of ore-stacking capacity on leach pad three.

Looking forward to 2016, and as previously reported, the Company expects to produce between 24 million to 25 million ounces of silver at a cash cost between $9.45 to $10.45 per ounce. We expect gold production of between 175,000 to 185,000 ounces, primarily due to higher grades at Dolores, according to the mine sequencing, as we move deeper into that deposit. Furthermore, we expect our zinc, lead and copper by-product production at between 46,000 to 48,000 tonnes of zinc, between 15,000 to 15,500 tonnes of lead, and between 13,000 to 13,500 tonnes of copper.

The Company plans to invest between $65 million to $75 million in sustaining capital during 2016, primarily for open pit pre-stripping and leach pad expansion at Dolores, long-term underground development and infrastructure enhancements at our underground mine, as well as equipment replacements and overhauls, plant upgrades and debottlenecking, and mine site exploration across all operations. In addition, we plan to spend $64 million to $66.5 million on our La Colorada expansion project and between $71 million to $73.5 million on our Dolores mine expansion during 2016.

Before I pass the call along, I'd like to extend my personal gratitude to all our dedicated employees and contractors for all their efforts that actually lead to the 37 new Company operating production records during 2015, that Michael mentioned. I'd also like to mention that it's been nothing short of impressive to witness the breadth and the depth of our Project Team capabilities at work as they safely advance several critical projects simultaneously that are all designed to transform Pan American Silver into an even stronger, leading, low-cost silver producer for many years to come.

With that, I'll now turn the call over to Rob Doyle for the financial update.

ROB DOYLE:

Good morning, ladies and gentlemen. As Michael and Steve have described, there was much to be pleased about in 2015, including our financial performance. Clearly, the metal price declines put tremendous downward pressure on our revenues, causing a $129 million drop over 2014 revenues. However, we were able to counteract that by selling higher quantities of metal, particularly gold and copper, adding $65 million to revenues and halving the negative price effects.

Revenue was further hurt by downward settlement adjustments on provisionally priced concentrates, as you would expect in a lower trending market, to the tune of about $6 million in Q4 and $9.5 million for the full year of 2015, but hopefully we will see the reverse of that in Q1 of this year with the recent uplift in metal prices.

While our cash flow generation for the year and for Q4 was strong, we did see some significant non-cash charges causing net losses, with $121.5 million of pre-tax impairment charges recorded in Q4 and $150.3 million for the full year of 2015. In addition, we recognized reductions to deferred tax assets in Q4 2015, which amounted to a $25 million charge to earnings in the quarter.

On an adjusted earnings basis, the decline in revenue that we experienced in Q4 2015 relative to a year ago was more than offset by a reduction in our production costs, allowing us to narrow the adjusted loss that we reported in Q4 2015 to $17.5 million or $0.12 per share. For the full year, a $77.3 million decrease in revenue was only partially offset by production cost reductions and lower taxes, resulting in an increase to our adjusted loss relative to 2014.

Our balance sheet position and liquidity remained extremely strong at the end of 2015, which positions us well for the year of investments ahead. The working capital portion of our balance sheet decreased by $27.9 million during Q4 2015, with working capital around $392 million at year end. The change in working capital was principally reflected in lower cash and short-term investment balances, and lower inventory balances, partially offset by a net $42 million decrease to current liabilities, driven by the repayment of convertible notes in December 2015. We decided to draw down on our revolving credit facility to fund the repayment of the notes, leaving our outstanding debt unchanged. We ended the year in a healthy liquidity position, with $227 million in cash and short-term investments, and total debt of only $59.8 million. Together, with our strong balance sheet, we have $264 million of undrawn revolving lines of credit that mature in April 2019.

As mentioned, we generated strong operational cash flow during 2015, $106 million, which was sufficient to fund all of our sustaining capital expenditures of $74 million, tax payments of $14 million, and about half our dividend payments of $42 million during the year. Our treasury was used to finance our expansionary project capital of $77 million and the net repayment of loans and leases of $6 million and about half of our dividend payments. It was a similar story for Q4 2015, with operational cash flow covering all of our sustaining needs, but for part of our dividend payment.

Spending on our high-quality growth projects increased to $33 million during Q4 2015, a level of spending that we expect will continue throughout 2016, with approximately $135 million earmarked over the next 12 months for projects. At current metal prices, we forecast our cash balances to reduce over the course of 2016, as we complete the expansions at La Colorada and Dolores. However, our liquidity should start to build again in 2017, as we begin to harness the benefits of those robust mine expansions.

Michael mentioned the reduction achieved in our AISCSOS during 2015, and in this slide we present a table showing you the changes from 2014 on a per ounce basis. We calculated consolidated AISCSOS of $14.92 per ounce for 2015, 17% lower than last year. The main drivers for the lower AISCSOS in 2015 were lower sustaining capital and net realizable value adjustments, lower direct operating costs and higher by-product credits on the back of larger quantities sold. We are guiding to lower our AISCSOS further in 2016, to between $13.60 and $14.90 per silver ounce sold.

With that, over to Chris for the exploration update.

CHRIS EMERSON:

Thanks, Rob. Good morning. I'm pleased to share with you our new resources and reserves. As of 31st of December 2015, our proven and probable reserves were estimated to contain 280 million ounces of silver and 2.1 million ounces of gold. These numbers are down by approximately 7 and 8%, respectively, compared to last year. This was mostly due to 2015 mine production and more stringent factors used for the estimation, including lower metal prices. It's important to note that at the same time the average reserve silver grade increased by 5% and gold grade by 2%.

During 2015, we spent $10.9 million on exploration, completed over 105 kilometres of diamond drilling. Our reserve metal price assumptions decreased by $1.50 to $17 per ounce, and $70 to $1,180 per ounce for gold. These are positive results and maintain our proven and probable reserves as one of the largest in the silver industry.

During the last 12 years, our mine exploration efforts have been highly effective. We have added nearly 293 million ounces of silver to our reserves in that period, excluding acquisitions, more than replacing the 291 million ounces of silver mined. The average cost of the new silver reserves added during this period was approximately $0.44 per ounce, only assuming drill costs, resulting in the excellent return on investment in exploration.

On the current slide, you will see the 31st of December 2015 reserves by mine. The separate columns, from left to right, show the silver ounces contained within the reserves as of 31st of December 2014, the contained assets mined in 2015, additions through exploration, losses due to recapitalization of reserves, and the resulting current reserves as of the 31st 2015. Please note that we discovered approximately 22.5 million ounces of new silver mineral reserves, while at the same time depleting 33.5 million ounces of contained silver through production and re-categorizing 8.9 million ounces of silver.

La Colorada mine, which holds the Company's largest silver reserves, once again returned outstanding exploration results in 2015, with an addition of 11 million ounces of silver. Net of 2015 production, La Colorada finished the year with a record 91 million ounces of silver mineral reserves, a 5% 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 development work for the mine expansion. It's worth noting that over the past two years, we have found and increased the amount of mineralized structures being identified in mines within the structural corridor of La Colorada, such as the four additional NC veins, 6, 7, 8 and 9, as well as Luna Roja, to name but a few. The Amolillo vein holds 37% of reserves and can continue to deliver in terms of higher silver grade and continued depth and strength potential. The 2016 La Colorada drilling will continue to build on the exploration success and target the 23 million ounces estimated in inferred resources.

Besides La Colorada, the second largest addition came from our operation Manantial Espejo. Focused drilling in the Maria vein east extension from surface and underground has added an additional 4 million silver ounces, resulting in 11.8 million ounces being maintained on the reserve book.

San Vicente had a strong year, by replacing 80% of the produced silver ounces, by finding and converting 3.5 million ounces in mainly the Union and Litoral R2 vein.

As expected, mine production, lower metal price assumptions, re-estimations on reserve and resource parameters meant that any exploration gains in Huaron and Morococha were offset by the loss of silver ounces from the reserves. Mineral reserves at Dolores declined by 11 million ounces of silver, with a total of 53.1 million ounces of silver, and gold at 706,000 ounces, mostly due to mining depletion and smaller amounts due to lower metal prices.

In 2016, Pan American expects to invest $7 million to complete approximately 91 kilometres of diamond drilling at six of its operating mines. In addition, the Company also plans to spend $2 million on greenfield exploration activities.

Once again, our strong core assets have proven their exploration potential and our high-grade assets, such as La Colorada, San Vicente and Manantial Espejo have shown that important reserve replacement and additions are possible in a declining metal price environment. We have one of the largest reserve and resources in the silver sector and I have no doubt that we will continue to deliver good exploration results in 2016 from our quality asset base.

Pan American continues to aggressively explore and review all deposits and good silver opportunities in the Americas. As part of this ongoing work commitment, Pan American has signed the option with Kootenay Silver on the Promontorio mineral belt. The deal is an option earn-in, with US$8 million cash payment and US$8 million in exploration investment over four years, plus a private placement of CDN$2 million subscribing to 4 million shares or roughly 10.3% of the undiluted shares of Kootenay Silver.

The Promontorio mineral belt has two silver discoveries in a prospective trend. Promontorio is a diatreme-hosted silver polymetallic system which is low grade and would likely require higher prices or better grades to move forward. However, La Negra deposit sits close to the surface and shows high-grade intersects within a hydrothermal breccia and low-sulphidation overprint. Kootenay has done a great job in drilling La Negra, and I would just like to mention a few of the drill results which have lead us to where we are today. In the November 26, 2015 press release from Kootenay, the drilling LN-13-14 hit a 140 metres from surface at 61 grams silver, LN-21-14 showed an average silver grade of 156 grams at 10 grams per tonne over 200 metres from surface. Press release 20th of May 2015 gave results such as LN-30-15 with 120 grams per tonne over 60 metres from surface.

Our ideas going forward will be to define a resource at La Negra, while exploring in the surrounding land packages for further mineralization. Both discoveries retain important exploration potential in a large prolific land package. This is a perfect entry point for us into an advanced exploration play.

Back to Mike.

MICHAEL STEINMANN:

Thank you, Chris. So let's quickly review our plans for 2016. As Steve mentioned, we plan to produce between 24 million and 25 million ounces of silver, slightly below our 2015 production, as we are heading into an important construction year for our two expansion projects. We expect to produce 175,000 to 185,000 ounces of gold, basically in line with the 2015 gold production, and we think we will be able to do this for a cash cost of $9.45 to $10.45 per ounce, net of by-product credits. Perhaps most importantly, we are forecasting a further 9% drop in our all-in sustaining costs in 2016, to between $13.60 to $14.90 per ounce, which is a function of lower sustaining capital and slightly lower operating and exploration expenses.

But, it doesn't stop there. Given the transformational nature of the Company's mine expansions at La Colorada and Dolores, we published a three-year production and cash costs forecast in mid-January. The slide you should be looking at now is a graphical representation of our production and cash costs for 2014 and 2015, and a three-year forecast until 2018. While our production, indicated in grey colour, has reduced slightly during the intensive construction period in 2016 and 2017, we expect it to increase to somewhere between 25 million and 27 million ounces by 2018. But, more importantly, our consolidated cash costs, shown in green, will steadily decline during the next three years and should reach a level between $5.50 and $7.50 per ounce by 2018, thanks to increased efficiencies and additional low-cost production from La Colorada and Dolores. This is an impressive graph, showing the importance and transformational nature of our expansion projects, and highlights the strength and potential of our current mine portfolio.

Before we move on to the question and answer session of our call, I would like to briefly review the highlights of our 2015 performance.

We produced not only new records for both silver and gold, but also for copper and lead. We substantially reduced our cash costs to $9.70 per ounce of silver. We discovered over 22 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 metal price assumptions, but an excellent result on a significant reduced budget. Our expansion projects at La Colorada and Dolores, which we are fully fund from our cash on hand, are advancing nicely and will provide significant cost reductions and additional silver production over the coming years. Lastly, as I mentioned, we decided to reduce the dividend to $0.0125 per share per quarter in response to current market conditions and to M&A opportunities which are emerging. By the way, the dividend will be payable on or about Friday, March 11, as indicated in the press release.

Under these circumstances, it makes perfect sense to preserve our cash to be able and to add meaningful projects to our development pipeline. The recently announced option deal with Kootenay Silver is a prime example for projects which could potentially add meaningful resources to Pan American Silver in one of our preferred jurisdictions.

We have seen a nice price recovery in gold and silver over the last couple of weeks, but I would not be surprised to see further price volatility during 2016. In anticipation of this, we formulated our 2016 plans using a price of $14.50 per ounce of silver and $1,100 per ounce of gold, which today seems reasonable. I am confident that with our experience, flexibility, financial strength and outstanding team, we will continue to weather this currently challenging time while successfully expanding two of our most important operations, positioning ourselves to handsomely reward our shareholders even more when metal prices inevitably improve.

With that Operator, I would like to move on to the question and answer session.

OPERATOR:

Thank you. We will now begin the question and answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

The first question comes from Chris Terry of Deutsche Bank. Please go ahead.

CHRIS TERRY:

Hi, guys. Well done on a good production year in 2015. I've just got a couple of questions. Starting with the CapEx outline for your two growth projects, how much of that, I guess, is booked at this point looking forward and how much is still variable? To some extent, we're seeing with a number of other companies, they're are able to reduce the CapEx in the current climate, so I'm just wondering whether there's any downside to the current estimates.

STEVE BUSBY:

Yes, Chris, this this is Steve. Thanks for the question. Our current commitments at the end of 2015 for La Colorada was in the neighbourhood of about $94 million, which is out of the $132 million that we have for the full project, to give you a feel for that. The commitment at Dolores is much smaller on a ratio basis, I don't have that number handy for me, but it's much smaller at the end of the year.

CHRIS TERRY:

Okay, no problem.

STEVE BUSBY:

Maybe on the order of about $10 million, you know.

CHRIS TERRY:

Okay, yes, sure. Then, just on the operating costs, you obviously had a good year in 2015, stepping down from 2014, with some tailwinds, I guess, from currencies, et cetera. Looking into 2016, I'm just looking at some of the assumptions you've got on the currency side, in particular. I appreciate your by-product credits are going to be down a bit given the pullback in copper and zinc, et cetera, but the 2016 forecasts, are they on the conservative side? They look to be, from what I'm seeing in the presentation, I guess, on the Slide 30.

STEVE BUSBY:

To a certain degree, you're probably right on the exchange rates for the currencies. For example, we use the '17 exchange rate in Mexico for the currency. It's trading much higher, much lower value than that now, so that's definitely a tailwind. Likewise, in Argentina, as you probably are aware, they had a pretty dramatic devaluation of their currency. We did anticipate a devaluation in our budget, but this is in exceedance of what we had anticipated. As of this date, we'll have to see how things shake out over the next few months. But, yes, I mean, there are some tailwinds that we have there that are probably suggesting some better costs than what we had guided, but we'll have to see how the year plays out.

CHRIS TERRY:

Yes, sure, and then just the last one on Argentina specifically, given you've got some exposure there. How are you viewing that country now that there has been some changes in the leadership and also the tax carry in the last couple of months?

MICHAEL STEINMANN:

Yes, lots of changes Chris. It's Michael. Look, we have been watching the changes there obviously very carefully, very closely, what happened and what has been introduced newly by the federal government in Argentina. Especially, as a foreign investor, we are interested in that, and I must say we're very pleased with the steps that we have seen so far, which I believe make Argentina globally a much more competitive and attractive place for foreign investment.

You mentioned a few of the cost savings or cuts that—for us, cost saving initiatives, and cuts that the government undertook. They obviously impact Manantial Espejo. You mentioned some taxes that have been cut. Steve mentioned to devaluation of the peso. We have been hit on the cost side in Manantial Espejo in the last few years very heavily by inflation, taxes and import restrictions, just to mention a few. They have been removed, but there will for sure be some positive impact on the Manantial Espejo costs. It just happened a few weeks ago, as you know, so I don't have final details yet on how much that impact will be, but for sure we will share that with you in our Q1 results.

CHRIS TERRY:

Thanks very much.

OPERATOR:

The next question comes from Bill Fleckenstein of Fleckenstein Capital. Please go ahead.

BILL FLECKENSTEIN:

Thank you. Michael, I was just curious, on the Argentina topic, does the regime change there change the dynamics going forward about Navidad?

MICHAEL STEINMANN:

Bill, we are obviously looking at that very closely, as well, being Navidad, our biggest silver project that we have in our pipeline, there is more to that that has to be changed than the taxes and import restrictions and devaluation, et cetera, that I mentioned. As you know, it's located in the Shaboot province. There's no clear way at the moments forward to that. We are very respectful, obviously, of the legal process that has to go on in Shaboot, and we recognize that there has to be a change in the mining law before we can advance Navidad, but what I see so far in our Argentina from the federal government, the changes we have experienced are defiantly going the right direction.

BILL FLECKENSTEIN:

Thank you.

MICHAEL STEINMANN:

You're welcome.

OPERATOR:

The next question comes from Lawson Winder of Bank of America Merrill Lynch. Please go ahead.

LAWSON WINDER:

Hi, everybody. Thank you for taking my questions. So first off, I guess, for what it's worth, I think the cut with the dividend obviously was not an easy decision at all, but I for one definitely commend the move, I think it was the right move, and in that vein, I guess my question would be when you were debating this, did you consider just completely eliminating the dividend altogether?

MICHAEL STEINMANN:

As we indicated before in many occasions, the decision to pay a dividend, which started in Q1 of 2010, the Board made a decision to stop paying dividends, it was really long-term decision, and I think we rewarded our shareholders with a substantial dividend during the high times of the metal price, and it's backing out to the same level than when we started, at $0.0125 per share, so it's quite a low dividend right now, but we're still paying a dividend. I think it's not a big impact to our cash holding at this level and allows us, as I said, to move forward maybe with the few other projects, to add the few other projects to our pipeline. So, as I said, the Board sees the dividend as a long-term decision and that was the reason why a smaller dividend has been maintained.

LAWSON WINDER:

Okay, that's very fair. Thank you for that explanation. Then, I'm also curious on the depreciation. In light of the impairments at Morococha, Dolores and Alamo Dorado, does that in any way impact where you think depreciation maybe going in 2016 vis-à-vis 2015, in terms of that sort of absolute numbers?

ROB DOYLE:

Lawson, yes, Rob Doyle here. Absolutely, we would see the offset of the impairment charge in 2015, with lot of depreciation rates in 2016, certainly at Morococha and Manantial Espejo. The impairments at Dolores and Alamo Dorado were very modest in the month, so no real change to their depreciation rates, but certainly in Peru and in Argentina, we would see those go down, and especially given the relatively short nature life of Manantial Espejo, we should see quite a significant drop there in depletion rates.

LAWSON WINDER:

So, in terms of overall depreciation, do you—I mean, I guess what you're saying is you would see it going down, but can you give any guidance in terms of the magnitude of the change, at least a…

ROB DOYLE:

I don't have any calculations in front of me, to be honest. I'm happy to do some back-of-the-envelope after the call. If you'd like to give me a shout, we can work through it, but I would expect it should be a fairly simple calculation of — at the end of the day, we try to deplete the carrying value, effectively, by the end of their life. So, the impairment at Morococha will have a significant change in that depletion rate, probably in the order of 60 or 70% reduction to the depletion rate going forward.

LAWSON WINDER:

Okay, that's actually very helpful. I know traditionally you guys don't provide any sort of quarterly guidance, but is there anything you might want to feel comfortable adding in terms of the seasonality of your operating outlook for 2016?

ROB DOYLE:

We don't typically have a seasonal impact to our operational performance. There are always—the timing of concentrate shipments is probably the biggest thing that we grapple with around period ends, particularly out of our Bolivian mine where we have very high-value shipments, because of the high-grade nature of the silver concentrate. So depending on the timing of shipments, it can impact revenue recognition, and therefore the financial performance of a particular period, but that smooths out— certainly, over number of periods, that tends to smooth out and we don't have any particular seasonal impact to be considered.

STEVE BUSBY:

Yes, Lawson, from the production side, typically, we do have variability quarter-to-quarter. When you look back through our history, depending our mine sequencing, our mines — particularly mines like Manantial and Dolores come to mind because the high-grade nature of those mines are segregated into pretty discrete areas. So, as our mine develops, we move in and out of those kind of areas. With all that said, I think, generally speaking, we don't see 2016 to be quite as bumpy of a ride as we've seen in years past. There will be some bumps, we will be kind of in and out of some high grade, particularly at Dolores, but it won't near to the degree we've probably seen in years past.

LAWSON WINDER:

Okay, that's great. Thank you both, that was extremely helpful. I'll leave it there and let somebody else have a chance to ask some questions. Thank you.

OPERATOR:

Once again, if you have a question, please press star, then one. The next question comes from Lucas Pipes of FBR & Co. Please go ahead.

LUCAS PIPES:

Hey, good morning, everybody, and great job on the presentation, very helpful. I appreciate all the detail and good job operationally, as well. I wanted to hone in a little bit on the M&A side. It sounded like there were more opportunities now than what you've articulated in the past. Could you give us a flavour for geography, size, how it should fit in with the rest of your portfolio? Any additional colour would be appreciated?

MICHAEL STEINMANN:

Lucas, obviously, I can't give you too many details on that, but geography-wise, you know where we are working; we are in the countries where there is the silver. We are silver miner and that's where we are going and looking for deposits. So, it's Mexico, Argentina, Bolivia, Peru for us, preferably, as large as possible and as close to our current operations as possible, to make it short. That makes obviously deposits much more attractive. If it's close to one of our operations, it can be quite a bit smaller and still potentially economic for us. If it's further away it has to be much bigger, but I am always interested in large additions, as well.

I think the changes we have seen over the last two, three years is really that there are few very interesting earlier stage projects that we identified, and they is changed their valuation quite a bit in the last few years. As you know, capital is very scarce for early stage exploration companies. In combination with being in Mexico, if you go back to the Kootenay deal, and being relatively close to our operations there, that addition fits very well to us for our M&A activity. I think we'll leave it there, pretty general, I can't give you much more detail on it.

LUCAS PIPES:

No, that's already helpful, I appreciate that. Then, in this context, when you think about kind of in-house exploration versus M&A, a clear favour of one over the other in this market, is that a good interpretation?

MICHAEL STEINMANN:

We are very active, as Chris explained, always in our brown field exploration. This is one of the most important pillars for us to add value and expand and continue our operations, and the expansions that we are looking at building right now are direct results of our brownfield exploration activities. So, there's a huge addition of value here, especially at La Colorada with the big finds that we had there over the last, I would say, six to eight years. So, that will always continue on the brownfield side. On the green-field side, as I said, we have a quite a large portfolio of land package in most of the countries that we are currently or always looking at, plus additions like Kootenay, and so that's what I count as the green-field side of our exploration, which always has obviously a space in our exploration program, as well.

ROB DOYLE:

Well, I think from a cost point of view, for sure, the two currencies that we have the largest exposure to would be the Mexican peso and the Peruvian sol, so a 10% move in the mix would equate to about a $2 million change in our net cash flows is the way that we calculated it. I don't have that on a per ounce basis, but you could probably work the math backwards and figure out what that might mean from a cash cost point of view. So, 10% on the mix would be about $2 million change in our net cash flows, and the mix is—sorry, the Peruvian sol is a little bit less than that, it's probably about 70% of that impact.

LUCAS PIPES:

Perfect, great. Well, I appreciate it and good luck in 2016.

ROB DOYLE:

Thanks.

OPERATOR:

This concludes the question and answer session. I would now like to turn the conference back over to Michael Steinmann for any closing remarks

MICHAEL STEINMANN:

Thank you, Operator, and thank you very much for everybody sitting through the call here. I'm looking forward to serve with you in May our Q1 2016 results and give you an update on our development projects at that time. Have a pleasant day.

OPERATOR:

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