Pan American Silver Corp.

First Quarter 2014

Conference Call & Webcast Transcript

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Speakers:

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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

OPERATOR:

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

KETTINA CORDERO:

Thank you, Operator, and good morning ladies and gentlemen. Welcome to Pan American Silver's 2014 First Quarter 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 May 8th, 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.

With that, I will hand over the call to Geoff.

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GEOFF BURNS:

Good morning. Thank you, Kettina, and good morning, ladies and gentlemen. As is our practice, I will briefly discuss the highlights of what was another very strong production quarter, continuing with the trend we established in the second half of last year and then you will hear from Steve, Michael and Rob who will provide you some additional detail on our operations and projects, our exploration programs and our financial results for the current quarter.

To begin, I am happy to report that yesterday our Board of Directors approved our second quarterly cash dividend of the year in the amount of $0.125 per share. The dividend will be payable on or about Tuesday, June 3rd, 2014, to holders of record of common shares as of the close of business on Wednesday, May 21st, 2014. At yesterday's closing price on NASDAQ, our dividend provides an annual yield of just over 4%. Our ability to continue to pay this 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 deliver strong production and financial results, even during times of challenging silver and gold prices through our commitment to operational excellence and fiscal discipline.

Turning to the first quarter of 2014, we produced 6.6 million ounces of silver, 5% more than the first quarter of last year, and 45,900 ounces of gold which was 43% more than in the comparable period last year and just 300 ounces shy of our all-time record for quarterly gold production, which we set in the fourth quarter of 2013. For the third consecutive quarter, we were able to sustain the meaningful cost reductions we achieved in the second half of last year. Our cash costs for the first quarter of 2014 were 27% lower than they were a year ago at $8.35 per ounce net of by-product credits, and perhaps more importantly, down a further 14% from the fourth quarter of 2013. Our all-in sustaining cost per ounce of silver sold were $15.54 per ounce in the first quarter, down 20% from the first quarter of last year and 9% lower than in the fourth quarter of 2013. Our production and cost results for the first quarter are a further sign that the efforts we have put in to reposition our mines last year are indeed sustainable.

Our adjusted earnings for the first quarter were $8.6 million or $0.06 per share, down substantially from the $0.26 per share in earnings from a year ago. Unfortunately, our excellent operational performance wasn't fully sufficient to overcome the 34% decline in realized silver price and the 21% decline in the

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price of gold. Our mine operating earnings also suffered from the decline in metal prices and declined to $36.1 million in the current quarter.

Having said this, I think it is also important to note that our mine operating earnings were the strongest we've seen in the last four quarters and a testament to the work we have accomplished at our operations, particularly given the current quarter's prices are the lowest average we've realized in the last 12 months.

Now, looking at cash, we generate net operating cash flow of $36.1 million or $0.24 per share in the first quarter, a pretty reasonable result considering this is after paying an additional $9 million in taxes relating to last year and absorbing a $5.7 million devaluation on our Canadian dollar bank account holdings as the US dollar strengthened on a relative basis. Excluding these two items, we actually generated closer to $50 million in operating cash flow during the first quarter, a very respectable sum given current silver and gold prices.

Continuing to focus on cash, we ended the first quarter with $394.4 million in cash and short-term investments and our balance sheet remains sector-leading with $680 million in working capital and only $40 million in long-term debt. This strength leaves us in a great position to continue to self-finance our internal growth projects like the La Colorada expansion, continue to 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 BUSBY:
Thank you, Geoff. I'm pleased to report that we're off to a good start this year with La Colorada expansion project aggressively initiated, production largely in line and costs coming in below our expectations, keeping us on track to meet or exceed our full year guidance previously provided.

Our silver production increased at all but our Alamo Dorado Mine, largely as we expected. Our overall consolidated gold production surged 43% year-on-year, thanks to the significant increases at our two largest gold producing mines, Manantial Espejo and Dolores. The production increases came with

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improved unit operating costs driving our consolidated cash cost per ounce down even more than we expected to $8.25 per ounce, extending a downward trend that started back in Q3 of 2013.

I have many highlights to share with you this morning that contributed to our overall success, starting with our solidly stable San Vicente Mine in Bolivia, who delivered just over one million ounces of silver production, a 7% increase over last year's Q1, at a cash cost of $12.73 per ounce, erasing more than 30% of last year's Q1 cash costs, benefitting from the increased by-product production, reduced royalty payments given the lower metal prices and substantial smelting and refining savings, which is on account of both the general competitive concentrate market conditions today, but also thanks to the very desirable high-quality concentrates we produce at this mine.

Our two Peruvian mines, Huaron and Morococha, delivered well with both achieving meaningful increases to production of about 10% over last year with much higher base metal grades helping to drive down cash costs substantially from last year's performance. In addition, Morococha continues to succeed in its quest to unlock additional cost savings through further mechanization and operational consolidations.

In Argentina, our Manantial Espejo Mine delivered an exceptional quarter producing just over a million ounces of silver, 25% greater than last year's Q1, and nearly 24,500 ounces of gold which was 88% greater than last year's Q1, owing to the mining of a high-grade gold zone from the deepest benches of our Maria Phase I open pit. Just the gold production in and of itself, more than covers our full operating costs at this property during this quarter, particularly after achieving some significant cost savings through enhanced shift scheduling and improved mobile equipment availabilities coupled with an eroded local currency. Net-net, these factors drove our cash costs down to a negative $4.82 per ounce, well below last year's positive $7.11 per ounce.

We have mined out this high-grade ore from this zone in the bottom of Maria Phase I open pit and we do not expect to encounter similar ore grades until late this year when the pre-stripping of our Phase II Maria pit advances down and catches up to where we're current—where we were mining last quarter in the bottom of the pit. We'll expect to back in those grades by probably late Q4.

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Our excellent quarterly performance did not come without its challenges, typical in our mining business. For instance, at Alamo Dorado we suffered an unscheduled 13-day extension to a scheduled 5-day plant maintenance shutdown in January after a certified vendor technician inadvertently failed to open a critical bearing lubrication port, causing the SAG mill motor to fatally overheat during the startup, requiring us to shut down and send the motor out to a regional shop for the repairs. This extended shutdown cost us a couple of hundred thousand ounces of silver production. However, we believe we can make up a good chunk of that shortfall during the remainder of the year by processing higher grade ores that we had mined which should displace some of the anticipated lower grade ores we intend to process late in the year.

Elsewhere in Mexico, both La Colorada and Dolores delivered solid production quarters at expected cash cost levels with increased ore productions and better than expected recoveries at Dolores. The higher recoveries were largely the result of the benefits we obtained with the introduction of staged leaching whereby enriched solutions recovered from the residual leaching of the ore stacked on Pad 2 are used to leach fresh ore stacked on our new Leach Pad 3, providing a boost to overall recoveries. We expect this boost of recovery to trend downwards over the next coming months as the incremental Pad 2 staged leaching production, those contributions will begin to trickle down and will stabilize at the mine’s modelled recovery rates, probably towards year-end this year when the leaching operation achieves steady state.

Meanwhile, we are in the final throes of generating alternative mine plans with and without pulp agglomeration milling and underground mine expansion opportunities at Dolores. Our aim is to produce a preliminary economic study that we will share with you in the next couple of months. There are many significant value-adding levers to pull in this study and unlocking the optimum combination of mining rates with mining methods and processing rates with processing methods, in a complex matrix of metal price and mineral model high-grade gold reconciliation sensitivities is an exercise that would be the envy of the smartest minds in our industry. Dolores still retains some significant potential long-term value we have to fully define before we even consider the immense untapped exploration potential on this property.

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All the while, our project team advanced on the construction of Phase II of our Leach Pad 3 as planned and this will provide us sufficient capacity for the next couple of years of stacking when the construction is finished later this year.

Additionally, we were able to get the La Colorada expansion project solidly kicked off in January and have made meaningful advances on the underground, lateral and ramp developments, underground equipment purchases and contractor prequalification efforts preparing for the start of shaft excavation early next year. In addition, we are advancing on certain community projects, the tailings dam expansion, started basic engineering of the plant expansion and locked up a great opportunity by purchasing a used ball mill which will save us both on time and money.

In summary, our company-wide focus on productivity, quality and cost reductions that really began in April of 2013 after the abrupt drop in precious metal prices, has fuelled improved operating results while being supplemented with additional positive impacts from certain foreign currency exchange rate movements and general industry-wide cost reductions. We have some of our greatest challenges ahead in the coming quarters for this year, but I'm very pleased with the high level of energy and enthusiasm possessed by our industry-leading experienced operations and project teams who are squarely focused on their individual tasks at-hand.

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

MICHAEL STEINMANN:

Thank you, Steve, and good morning everyone. We drilled a total of nearly 28,600 metres during the first three months of the year. This represents a reduction of about 43% compared to the same period in 2013. Reductions took place in most of our operations and exploration programs but we are on-track to achieve our annual program of 108,000 metres of drilling. The focus of the exploration for 2014 will remain on reserve replacement. Only a small part of the budget is dedicated to explore earlier-stage projects in Mexico. There's no drilling planned for Alamo Dorado this year and this San Vicente program will start in Q2.

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No surprise that once again, we drilled the largest amount at La Colorada, especially with the new addition of the Recompensa vein in our exploration plans. Like every quarter, the drilling at La Colorada returned exceptional results and we'll show some of them in a few minutes.

But let's start with the drill results for Huaron. I'm sure you remember that we discovered several wide mineralized ore bodies during 2014 which are now under development, like the Pozo D ore body. The exploration success continued during Q1, this time with a new discovery made through surface drilling called Sevilla East. You can see this mantle style mineralization, which is located about 300 metres east of Pozo D ore body on your screen right now. Intersections of 4.3 metres containing 515 gram per tonne silver, 6.8 metres at 324 grams per tonne silver or 11.4 metres with 275 gram per tonne silver, are for sure impressive for this first round drill program. Up to date, we finalized already 31 drill holes exploring this ore body. We discovered already high-grade mineralization for 100 metres along strike and 270 metres along dip of this mantle and we'll continue with expansion and in-fill drilling during Q2.

At La Colorada, we focused during Q1 on the NC2, Amolillo and Recompensa veins located in the Candelaria, Estrella and Recompensa zones. You can see all of them on your screens in an oblique section. I showed the similar graph several times before with the mined out sections in white, proven reserves in red, probable reserves in orange and inward resources in green. By the way, the new shaft location for the expansion project is shown in purple in the centre of the graph. I'll show you more details later on regarding the Recompensa vein.

The known parts of the structure are still very shallow at the vein dips into the opposite direction than Amolillo and Candelaria, but all three veins returned high grades and wide intersect. I would like to mention a few and start with Amolillo where we drilled 3.7 metres width containing 467 gram silver, 0.6 gram gold and about 3% lead/zinc combined. A split to Amolillo, we intersected 1 metre containing 1,025 gram silver and 8% lead/zinc combined. Drilling along the NC2 vein in Candelaria returned many high-grade intersects as well; for example, in the NC2 vein with over 3 metres containing 1,460 gram silver, 2.35 gram gold and nearly 14% lead/zinc combined.

As reported before, the NC2 vein has several splits as well, and some of them are actually wider than the main structure. One of these plays returned 6.75 metres width containing 1,409 gram silver, 8.9%

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lead and 16.2% zinc. Like in many quarterly reports before, there is a long list of high-grade results for both of these veins and I won't have time to mention all of them, but they will all be included in the Reserves Statement at the end of the year.

I mentioned before, the newest outstanding results came from drilling of the third main structure at La Colorada, the Recompensa vein. The structure runs south parallel to Amolillo and NC2, but further to the north. The vein contains currently a small reserve of just over 1 million ounces of silver along a very short strike line. During the last two quarters we drilled, we started to drill deeper and encountered very interesting results. It is still early days and lots of drilling will be required during 2014 to substantially increase the resources and reserves of this vein, but I like very much what I see so far.

On the graph, you can see a long section of the Recompensa vein with the small mined out area in black and the proven and probable reserves in red and blue. Mining took only place down to about 200 metres below surface but we started drilling now about 300 metres below the old mining level. Results have been astonishing with drill intersects; for example 4.8 metres containing 1,786 gram per tonne silver, over 1 gram gold and nearly 7% lead/zinc combined, and other vein intersects returned 2.6 metres containing 1,085 gram per tonne silver, over 1.7 gram gold and more than 6% lead/zinc combined, just to highlight two.

In general, all the drill programs are advancing as planned and I will share some results with you during future calls once the drilling is more advanced. At that time, I will also have an update for you regarding the advances on the reserve and resource replacement.

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

ROB DOYLE:

Good morning ladies and gentlemen. Driven by the solid operational performance that Steve described, we got the 2014 year off to a strong start from a financial perspective. Operating cash flow before taxes and working capital movements of $56.1 million remained robust in Q1, consistent with steady cash generation we saw in the second half of 2013.

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Our operating cash flow was sufficient to fund all of our sustaining capital expenditures and tax payments related to the period which amounted to $24.7 million and $10 million, respectively, as well as fully funding our dividend payment of $18.9 million.

We did utilize our treasury to fund our investment capital, expended on project development, totalling $13.3 million for the quarter and taxes accrued on 2013 income but paid in Q1 of $9 million, which together with some realized FX losses and minor financing activities, reduced our cash and short-term investment balances by $28.3 million to end the quarter at $394.4 million. This still leaves us in an exceptionally strong liquidity position with debt of only $64.5 million.

Our Board has approved the next quarterly dividend of the same amount which will be paid on or about June 3rd, 2014.

Our Q1 consolidated all-in sustaining cost per ounce sold is presented in the table that you should see on your screens now, which provides the detailed reconciliation of this measure to the applicable cost items as reported on our consolidated income statement for the respective periods on a per ounce basis. We calculate an AISCSOS of $15.54 per ounce for Q1, almost a full $4 lower than the comparable period of last year. The calculation of Q1 benefited from lower production costs and treatment charges, higher by-product credits, lower exploration in G&A, as well as more than 0.5 million ounces of silver sold in Q1 2014 than in Q1 2013.

While we have started off the year well below guidance, repeating the same performance over the balance of the year will be challenging, especially maintaining the quantity of payable metals sold. So, while we expect to be lower end of our guidance, we are – affirming – reaffirming our AISCSOS range guidance of between $17 and $18 for the full 2014 year.

We present select information from our Q1 income statement on your screens now compared to the previous quarter, that being Q4 of 2013, (cross talk 23:53) comparable period of Q1 2013. Starting at the top, Q1 2014 revenues trailed revenues from a year ago as negative price variances outweighed positive volume variances. More specifically, the revenue analysis shows that in spite of selling more than 0.5 million more silver ounces, almost 17,000 more gold ounces and more base metals, due to the

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low realized prices, our revenues declined by $33.3 million compared to Q1 2013. The higher volume sold also explains why our depreciation charge for Q1 2014 was high relative to our Q1 2013 depreciation.

Our mine operating earnings were $31.6 million for the quarter while negatively affected by a net realizable value charge to Dolores heaps of 2.3 million that was still a very healthy margin of 15% of revenue; a very nice improvement from the 10% margin generated in Q4 of 2013.

Another item in our Q1 income statement worth noting was an FX loss of $5.5 million, primarily attributable to realized losses we incurred on our Canadian dollar treasury balance as the Canadian dollar continued its weakening trend against the US dollar; a trend which started in the fourth quarter of last year. As of March 31, about a third of our cash and short-term balances were held in CAD.

Our effective tax rate for the quarter was on the high side of 56%, driven primarily by FX losses previously described as well as additional withholding taxes paid on repatriations during the period. In the long run, we expect our effective tax rate to be in the 30% to 40% range.

Our adjusted earnings calculation for the quarter was relatively straightforward with the only significant adjustment to net earnings being the unrealized FX loss of $1.7 million. That leaves us with adjusted earnings of $8.6 million for the quarter, which equates to $0.06 per share.

This slide shows the factors that explain the change in our adjusted earnings from the comparable period of 2013. Again, we see the recurring themes of the impact of significantly lower prices being partially offset by higher volumes of metal sold. The higher depreciation charge is a direct result of more volume sold and the lower taxes are a direct result of lower realized prices.

Finally, let's move to the working capital portion of our balance sheet. We only saw a modest decrease of about $8.7 million in our overall balances with working capital right around $680 million at quarter end. Our working capital movements in the quarter were routine in nature and fluctuated with normal course timing of concentrate shipments, payment of taxes accrued on 2013 income, and a decline in

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our loans denominated in Argentine pesos as a combination of net repayments and as a consequence of the sharp devaluation suffered by that currency during the first quarter.

With that, over to Geoff for some closing comments.

GEOFF BURNS:

Thanks, Rob. As you've heard from Steve, Michael and Rob, we've had a very strong start to 2014. We nicely increased our silver and gold production as compared to the first quarter of last year. We've been able to maintain and even further reduce both our cash cost and our all-in sustaining cost, largely as a result of excellent by-product production. We have optimized the solution flows at Dolores to squeeze a bit more recovery out of our Pad 2 now that we're on to Pad 3. We've commenced our La Colorada expansion project which will create new, long-term value for many years to come, and we continue to share our successes directly with our shareholders through our continued dividend payments.

As for the full year, we have not updated the full year guidance we provided to you in February, even though we've had a good start to the year. We are still forecasting 25.75 million to 26.75 million ounces of silver; 155,000 to 165,000 ounces of gold, and cash costs of $11.70 to $12.70 per ounce net of by-product credits. However, I would comment that, all things being equal, most importantly the prices over the balance of the year, that I would expect us to find ourselves at the high end of our guidance for gold production and clearly at the low end of our guidance for cash costs and all-in sustaining cost per ounce.

Before opening the call for questions, I would like to make a couple of comments on the price of silver. After seeing a bit of a rally in both gold and silver prices in the early part of this year, specifically from late January through most of February where we saw silver prices move back up to $22 per ounce, we have watched prices drift lower, back towards the $19 per ounce level that we're seeing today. While I am obviously disappointed that we didn't see the rally in February keep going, I am also of the opinion that we are at or exceedingly close to a bottom in this part of the price cycle, and if there is any risk to the price, it is far greater to the upside. However, more importantly, I am comfortable that we have

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done what is necessary at Pan American to survive and even grow our business in the current price level environment, and if, indeed, this is extended for a longer period of time.

When investor sentiment returns to precious metals and prices start to rise again, which I have absolutely no doubt will happen, our patient and supportive shareholders will be well rewarded and in the interim, we are going to continue to pay you a healthy dividend to stay engaged with us until the prices – price movement happens.

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

OPERATOR:
Thank you. Our first question today comes from Andrew Quail of Goldman Sachs. Please go ahead.

ANDREW QUAIL:
Hey, morning guys. Congratulations on a very strong quarter. I've just got a couple of questions. First in Argentina, obviously you've flagged about sort of the high-grade and when you expect that to sort of come off. Can you give any sort of guidance about sort of verse (ph 31:06) reserve grade going forward? Not just second half '14, but maybe into '15?

STEVE BUSBY:
Yes. Sorry Andrew, this is Steve.

ANDREW QUAIL:
Steve, yes.

STEVE BUSBY:
Yes, I didn't understand the question. You wanted the reserve grade?

ANDREW QUAIL:
No, no, no. Sorry, mate. No, just saying can you give us some guidance? Obviously, you're mining well above reserve grade right now and you've flagged why. I'm just sort of saying is there any sort of

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guidance you can give—I mean obviously, you've said it into second half what's going to happen, but I'm talking sort of into 2015.

STEVE BUSBY:

Oh, well, I mean we are in the kind of 3 gram, 3.5 gram gold in this high-grade zone at the bottom of the pit. We'll get back into that zone and we expect it to be 3 gram, 3.5 gram. With that said, we'll be in a bigger part of that zone and we'll be mining out on the fringes, too. So, I would suspect as we move into 2015, we've got a pretty good ore supply blocked out ahead of us that's going to be right around reserve grade, right around that 2.5, I would guess, overall.

ANDREW QUAIL:

Great. Thanks, Steve. Maybe again for you, Steve, on Dolores, obviously an excellent quarter, all-wise, cost-wise, production-wise. What's—with the recoveries obviously doing so well, what do you sort of see is normalized sort of recoveries given with what's all going on there? What can we sort of model sort of going forward into the second half and even into 2015 for recoveries at Dolores?

STEVE BUSBY:

Yes, I think we typically use an anticipated 70% on the gold and like 45%—40% to 45% on the silver. That's where we think the monthly—you know, the heaps are notorious for having wide swings in recoveries just because you literally have years of inventories build on these heaps, so when you look at it month-by-month it's very difficult to see a stable recovery. But on the long-term, we are expecting 70%, roughly, in the golds and 40% to 45% on the silvers.

ANDREW QUAIL:

Great. Then last one, Rob, just on tax, obviously you flagged why it was high. You know, were you expecting that—obviously, that 30% to 40%, is that sort from '15 onwards, or are you expecting sort of a lower tax rate sort of from second quarter '14 for the rest of the year?

ROB DOYLE:

Yes. Andrew it really should be. There's no reason why the second quarter we shouldn't be seeing it back in the normal range. You know, having said that, obviously things like FX gains or losses are out

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of our control and that can really throw the rates around and so; but all things being equal, that's where we would expect it, in the 30% to 40% range.

ANDREW QUAIL:

Okay. Thanks guys and congratulations on a strong quarter again.

OPERATOR:

The next question comes from Kevin Chiew of CIBC. Please go ahead.

COSMOS CHIU:

Good morning. It's actually Cosmos here. Thanks Geoff and team for hosting the call. Congrats again on a very strong Q1. Maybe first off on Dolores; is there any kind of update in terms of timing of when you might be able to share some of the study results coming from the pulp agglomeration or the underground portion as well? Is it, you know, as we've talked about that on-site, is it still at this point in time, an exercise in terms of the increase in recovery and then how much it would cost to achieve that higher recovery?

STEVE BUSBY:

Hi Cosmos. This is Steve.

COSMOS CHIU:

Hi, Steve.

STEVE BUSBY:

Yes, as we've discussed before, I mean it is a complex study and we're heavy into it now and we're starting to get the results that we wanted to see and we expected to see. I would say, you know, we're still shooting for kind of the end of June to release some information on that study and then follow it up a month and a half later with a detailed report. That's kind of the timeframe.

COSMOS CHIU:

Okay. Maybe Steve as well, we were on-site back about a month and a half ago. Now moving to La Colorada, we had talked about different approaches in terms of how Pan American Silver might be able to sink that shaft? Is there any kind of update at this point in time that you can provide to us?

STEVE BUSBY:

What we're doing right now, Cosmos, is we're doing some additional geotechnical work. We've got four shaft contractors that are looking at the project that are interested in helping us on this project. So, with their assistance, and we've brought in a third party geotechnical firm, we're actually drilling some geotechnical holes in the shaft location now that'll—that really is necessary to make the final determination of the precise approach we're going to make on that shaft. So, that's kind of the status of where that sits at this moment.

COSMOS CHIU:

Okay, and then, I guess, you know, moving on to your last Mexican asset, Alamo Dorado. You know, it's unfortunate that there was some downtime during the quarter but it's good that it's been fixed. Could you remind us again in terms of when the scheduled mining is going to come to an end and when the processing of stockpiles is going to start happening?

STEVE BUSBY:

Yes. I mean right now, we're probably going to mine through 2015. We are seeing a bit more ore than we expected, so, you know, it may squeeze a little bit into 2016, but not too much probably. But then we'll be running stockpiles through into 2017, late 2017 from it.

COSMOS CHIU:

Okay, and then maybe Geoff, I was late coming on to the call but is there any update that you can provide to us in terms of Navidad and what's sort of happening there?

GEOFF BURNS:

Sure, Cosmos. I guess I hadn't made any comments on Argentina. I have had the benefit of being in-country in Argentina for a couple of extended periods this year and without getting to the details, which I

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could probably spend the next hour on, my general comment is this: that I am more optimistic than I have been in at least the last two years on the changes I'm seeing, both at the national level as well as the provincial level in the country. Amidst some difficult economic times that they're facing in the country right now, there really seems to be a push towards once again, trying to attract foreign investment and creating new jobs and really bringing in new money into the country.

Obviously, Navidad is a quite a large project and I believe we are on the radar screen in terms of within the political arenas that our project is known, what we can do in terms of having been in-country is known. So these are all, I think, very positive signs. I don't want to go much beyond that because we've had some – I'm going to call it a little bit of false hopes and false starts previously, particularly back in 2012 – but I think there is a real opportunity right now to move Navidad forward and we're going to do what we can at our end to try and work with the various levels of government to convince them that we are long-term players and that we would be certainly excited about the opportunity to actually build this world-class asset.

COSMOS CHIU:
For sure. Thanks guys and congrats again and that's all I have. Thanks

GEOFF BURNS:
Thanks, Cosmos.

OPERATOR:
As a reminder, if you would like to ask a question, please press star, then one, on your touch-tone phone. Our next question comes from John Tumazos of Very Independent Research. Please go ahead.

JOHN TUMAZOS:
Jonathan Tumazos, good morning. Thank you for taking the question and having the call. Your balance sheet is spectacular and was wondering how in the slower markets you might utilize it. Do you expect to use the balance sheet to undertake big projects like Navidad? Could you withhold some of

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your silver and gold production and not sell it, holding it like a cash equivalent as the prices are low? Or do you envision consolidating out some under-financed smaller competitors?

GEOFF BURNS:

Hi, John. I think first in terms of the order of how to utilize our balance sheet, I think priority one is financing what we see as, you know, an excellent growth project in La Colorada which has got an all-in-cost of about a $160 million over the next couple of years. That's number one. Number two, as I think we've discussed a few times, we're getting very close to completing our studies on pulp agglomeration and underground potential at Dolores. We're, you know, probably within eight weeks of delivering all that and there will be a capital associated with that project, so that would be my number two priority in terms of utilizing our balance sheet. I don't, off-hand, see us holding onto our gold and silver production. We've actually discussed that, John, about three or four times at the Board level over the last five years and we ultimately always kind of get to the same place, which is we are already very long gold and very long silver in terms of reserves in the ground and our forte and our experience is really taking those ounces out of the ground and turning them into cash. So, you know, I don't feel bad about selling my—you know what we've produced on an ongoing basis because we're backed up by another 10 years of reserves and plus a lot more resources beyond that. So, our view is always that we're going to continue to sell into the spot market.

In terms of the very last piece – and I guess this would be my third priority – yes, we are continuing to review our sector and the landscape in our sector for opportunities to add production or add reserves. I have to say that there is no doubt that we are being very picky, I guess is the best way to describe it, in terms of what kind of return we're looking for if we're going to go out and do some sort of acquisition. I look at our own portfolio and I say—and we really changed a little bit of the way we've looked at things and when you have got a deposit like La Colorada, which is drawing and its over 400 grams silver and you have got a deposit like San Vicente which has also been growing and has the potential to grow even further and it's over 400 gram silver, it kind of makes sense to spend that first round of thought and effort and capital on what you can do in your own backyard. So, you know, as we stacked up those opportunities within our own portfolio against external ones, what we're finding is there is just not very many out there that are better than what we already have.

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So, yes, we're still looking, and yes, we would utilize some of that capacity if that right opportunity were to come along. As of today, we have not found that right opportunity.

JOHN TUMAZOS:

Geoff, with your various projects, and I realize this is rough, but looking at about five years, how much more do you expect the silver equivalent production of Pan Am to rise? Ten percent? Twenty percent? Thirty percent net of depletions?

GEOFF BURNS:

If we're thinking five years, John, I'm going to dream big, so I'm going to say 30%, and I say that—well, I've scared everyone in the room around me here. You know, I look at La Colorada and our expansion and I think we've been very conservative with what we've put out there to-date. I think that by the time three to five years goes by, you're going to find out that we're going to do better than what we've said. That tends to be the way we approach it. I think within that timeframe, again even though we haven't announced anything, I have no doubt that at some moment in time we're going to build the pulp agglomeration and go underground in Dolores, and again we're going to see incremental production from there. I think there's a tremendous opportunity at San Vicente, undefined today, but I'll put in this perspective: we're mining 900 tonnes a day there. I mean this is a very small level of production relative to the potential of the Literall (ph 44:50) vein and the other veins that we're mining at that property. When I add all that up and then I take away, yes, we're going to lose Alamo; that is going down and the production is going to come down. I see the potential of adding in the neighbourhood of 20% to 30% more production over that time period and, I guess indirectly I'm challenging the group of guys sitting around this table this morning to help me get there.

JOHN TUMAZOS:

Thanks Geoff, I'm looking forward to it.

GEOFF BURNS:

Okay. Thanks very much, John.

OPERATOR:

The next question comes from John Kratochwil of Canaccord Genuity. Please go ahead.

JOHN KRATOCHWIL:

Hey guys, congratulations on a great quarter. I had a question here. Manantial Espejo, you had mentioned in the MD&A that part of the cash cost decline year-over-year was due to the devaluation of the local currency. Could you—do you have any idea of approximately how much of that decline is due to the currency devaluation? Just trying to see how much would be sticky going forward.

STEVE BUSBY:

Yes. Hi John, this is Steve. Overall, if you look at last year versus this year's Q1, our gross cash required for operating cost was down about $1.6 million and of that we've done some rough—it's really difficult to get your hands precisely on what the FX effect on that is, but I would say roughly, it was probably three quarters of that, two thirds to three quarters of that.

JOHN KRATOCHWIL:

Oh really? Okay. Most of your other assets, I mean generally speaking, cash costs were below actually your – the low end of your 2014 cash cost guidance for most of the assets. Going forward, do you see it being fairly lumpy in terms of the performance quarter-over-quarter with by-product credits? Or, I mean, just to get to low end of cash cost guidance for the year, are we expecting maybe some smooth trends going forward, kind of creeping up or is it going to be lumpy quarter-over-quarter?

STEVE BUSBY:

The lumpiness comes from Manantial Espejo. If you take Manantial out, I think you're going to see fairly smooth numbers elsewhere with Alamo improving a little bit and maybe Dolores coming off a little bit as the recovery curves kind of get back to normal. But the real lump comes at Manantial and that big gold kicker and we are not going to see that over the next couple of quarters. I mean, we're going to be in a bit of a dry spell, if you will, in gold. So, outside of that, no, I think we are going to see fairly stable costs.

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JOHN KRATOCHWIL:

Okay. Okay, that takes care of my questions. Thanks a lot guys.

GEOFF BURNS:

Thanks, John.

OPERATOR:

The next question comes from Dan Rollins of RBC Capital Market. Please go ahead.

DAN ROLLINS:

Yeah, thanks very much. I just wanted to circle back to some of the comments that were made on the TC and RCs at some of your operations. Could you just give us some indication? Is it savings on the TC side, or are you starting to see the refining charges that were, I guess, ran up over the last couple of years on the silver, are the starting to decline given the demand by the smelters?

ROB DOYLE:

Sure, Dan. It's Rob Doyle here. I can give you a couple of comments, although obviously there's some proprietary information in our numbers there, but overall, we are seeing some—the market, particularly in RCs on silver, on the high-grade silver concentrates, has come down quite dramatically. At one point in time it wasn't uncommon to see a refining charge of approaching $4 per ounce for silver, per payable silver ounce, and now that's come way down. That's, you know, typically that's come down by at least 50%, if not more.

DAN ROLLINS:

Okay, perfect. Is it more price-linked or is it really just a factor of supply and demand and the pull from smelters?

ROB DOYLE:

I think it's a bit of both, for sure. Obviously, producers have been able to negotiate a little harder but there have been—there is more capacity that's come onstream to handle some of the more complex high-grade silver cons. You know, La Roya, for instance, the lead circuits at La Roya in Peru came

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onstream like last year. That's helped the market a little bit and various other facilities. So, there's definitely a supply/demand and smelter capacity aspect to this.

DAN ROLLINS:

Okay, perfect. Thanks very much and congrats on the great quarter, guys.

OPERATOR:

The next question comes from Chris Thompson of Raymond James. Please go ahead.

CHRIS THOMPSON:

Hi, good morning guys. Congratulations on a good quarter. A couple of quick questions relating to some of the smaller mines. Just looking at the mill throughputs on Manantial Espejo and Huaron for the Q1. Are those mill throughputs sustainable? Is that what we should be modelling on an ongoing basis?

STEVE BUSBY:

Yes. Hi Chris, Steve here. Manantial, yes, we're feeling pretty good with those throughputs. We do have some issues we're dealing with this quarter. We've got a cone crusher that we're having to upgrade a little bit, so we may it come off a little bit in the short-term, but I think overall we're pretty comfortable with that. Huaron, yes, we're definitely feeling good that we're seeing more ore coming out of the mine, so, you know, it's—it was a heavy quarter for us. I'm not sure we are going to be able to see it quite that high, but we're feeling pretty optimistic there as well.

CHRIS THOMPSON:

Great, Steve. Thanks for that. Just moving on, I guess looking at some of the unit costs and I typically monitor these things on a per tonne mill basis at Morococha, Manantial Espejo and the San Vicente. You know again a good quarter as far as what we were predicting I guess, as far as those costs. Do you see those costs in the Q1 sustaining themselves?

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STEVE BUSBY:

We typically—we're going through the cycles now of our collective bargaining with our unions, you know, that we typically see going into Q2. That's where we'll see a bit of a bump for some of the labour costs. So, you don't know—I think you're going to see them come up to where we kind of guided through the year as it goes through.

CHRIS THOMPSON:

Mm-hmm. Mm-hmm. Okay, great. Thanks for that, Steve, and congratulations again, guys.

OPERATOR:

The next question comes from Chris Lichtenheldt of Dundee Capital Markets. Please go ahead.

CHRIS LICHTENHELDT:

Good morning. Just a quick question. At Alamo Dorado, what is the expected reclamation cost when you're done producing there?

GEOFF BURNS:

Yes, Chris, I think we are carrying just under, like $8 million, $7 million and $8 million. We'll look—I guess Rob's got it.

ROB DOYLE:

Yes, just give me a moment, Chris. Yes, five to eight…

STEVE BUSBY:

Yes, five to eight, yes.

ROB DOYLE:

I'll confirm that afterwards but it's in that range.

CHRIS LICHTENHELDT:

Okay, that's it actually. Thanks a lot.

[redacted]

GEOFF BURNS:

Okay, thank you very much, ladies and gentlemen, for joining us this morning. It's very rewarding to come to you today with—on the back of like really our third very, very solid production quarter in a row. I look forward to updating you, probably before our next scheduled conference call, which will be in early August for our second quarter with the results of our – of the studies that – Dolores we've been working on on the pulp agglomeration. Until then, may the silver gods go with us.

OPERATOR:

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

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