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2015 First Quarter Conference Call & Webcast Transcript

DATE:

Tuesday, May 12, 2015

TIME:

7:00 AM PST

SPEAKERS:

Geoff Burns, *Chief Executive Officer*

Steve Busby, *Chief Operating Officer*

Michael Steinmann, *President*

Rob Doyle, *Chief Financial Officer*

Kettina Cordero, *Manager, Investor relations*

ABOUT PAN AMERICAN

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

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OPERATOR:

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

KETTINA CORDERO:

Thank you, Operator, and good morning, ladies and gentlemen. Welcome to Pan American Silver's 2015 First Quarter conference call. Today, I am joined by our CEO, Geoff Burns; our President, Michael Steinmann; our Chief Operating Officer, Steve Busby; 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 law. 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.

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With that, I will leave you with Geoff.

GEOFF BURNS:

Thank you, Kettina, and good morning, ladies and gentlemen. As has become our customary format, I will start with a brief recap of our first quarter. Then I will let Steve, Michael and Rob provide you with more granularity on our operations and projects, our exploration programs, and our financial performance during the first quarter before moving on to a short Q&A.

Let's get started by looking at our performance. We produced 6.08 million ounces of silver and 37,500 ounces of gold at a cash production cost of $11.71 per ounce net of by-product credits. While a reasonable start to the year, both our gold and silver production were somewhat behind where we thought we would be at the end of March. There are two main reasons for this. The first was about an eight-week delay in pre-stripping of the Maria pit at Manantial Espejo in Argentina, which delayed the release of some very high-grade silver and gold ore until about mid-April. In addition, our mining and stacking sequence at Dolores was slightly off schedule, and some of the high-grade ore didn't make it onto the leach pads until about mid-March, and given the long leach times involved, didn't start to show up in the fragment solutions until early April.

While a little disappointing in terms of our first quarter production, the good news is that both operations have recovered nicely through April, and now into mid-May, and while Steve will likely touch on this in more detail in few minutes, at Dolores, we are virtually back on track for both gold and silver, and by the end of May should be in a similar position at Manantial.

The lower silver and lower gold production, which we treat as by-product credit, combined to push our cash costs higher, even though our actual consolidated property expenditures were well below budget. I fully expect to see our cash costs decline in the second quarter and over the balance of the year, as both Dolores and Manantial rebound from their slow start. The truth is that if the quarter ended on April 30th versus March 31st, I'd be singing quite a different song.

The balance of our operations performed pretty much as expected, with some silver production gains recorded at La Colorada and Huaron, offset by a small shortfall at Morococha. The one very pleasant surprise was that our AISCOS declined to $14.24 during the first quarter, primarily reflecting the lower property expenditures I just mentioned, and the expected decline in our sustaining capital expenditures this year.

During the first quarter, we produced slightly less than 9,300 tonnes of zinc, down from the first quarter from last year, about the same amount of lead at 3,500 tonnes, while producing some 82% more copper at 3,100 tonnes. During the first quarter, we decided to switch to higher value copper-rich ores at Huaron, and particularly at Morococha, so the decline in zinc production and the extra copper production was planned. For the balance of this year, we are now expecting increased copper production as we continue to mine copper-rich zones at Morococha.

During the first quarter, we generated revenues of $178.1 million, down a little over $30 million from the first quarter of 2014, due to lower volumes of silver sold and due to lower realized silver and gold prices. As a consequence of the decline in revenues, our operating earnings fell to $2.6 million—excuse me, our mine operating earnings fell to $2.6 million, and we posted an adjusted loss of $19.9 million or $0.13 per share, as compared to earnings of $12.8 million or $0.08 a share a year ago.

Our quarterly earnings were also negatively affected by a $6.4 million foreign exchange loss, of which most was the result of the effect of a strengthening US dollar on our Canadian dollar cash bank balances.

Our operating cash flow for the quarter was $11.9 million or $0.08 per share, as compared to $0.24 a share last year.

We continue to maintain a healthy balance sheet, with $292.4 million in cash and short-term investments, and working capital just under $500 million at March 31. Our total debt inched up about $5 million during the quarter to $65.3 million, as a result of some short-term borrowings in Argentina, which we will be repaying over the next few months as Manatial Espejo's production increases. We also added considerable financial flexibility with the recently announced $300 million revolving credit facility, which we could draw on if needed to fund additional organic or external growth opportunities.

Speaking of organic growth, yesterday, our Board of Directors approved a $112.4 million investment to build a pulp agglomeration plant and commence underground development to expand production at our Dolores mine. So, in addition to the La Colorada expansion, which has been progressing nicely, we now have a second low-risk, modest capital organic growth project to focus on. As we previously announced, the La Colorada expansion project is expected to increase the mine's silver production by 2.8 million ounces annually when fully completed in 2017, providing an after-tax internal rate of return of 17% at $16 per ounce silver.

The investment at Dolores should increase silver production by an average of approximately 1.8 million ounces annually, and more importantly, add plus 70,000 ounces of gold annually, while at the same time, significantly reducing our cash operating costs. Even more robust than the La Colorada expansion, the Dolores expansion project provides an after-tax IRR of 26% at a $17 per ounce silver price, with a payback period of just over two years. Both projects should generate excellent returns at current silver and gold prices, and combined, should more than offset the production we will be losing when our highly successful Alamo Dorado mine finally exhausts its mineral reserves over the next couple of years. Together, the two expansion projects will add 9.2 million ounces of annual silver equivalent production for a total capital investment of just over $250 million.

In a moment, Steve will provide an update on where we are at with La Colorada and discuss the Dolores expansion in much more detail.

Before turning the call over to Steve, Michael and Rob, I wanted to mention that yesterday our Board of Directors approved our second quarterly cash dividend of the year in the amount of $0.05 per common share. The dividend will be payable on or about Tuesday, June 2nd to holders of record of common shares as of the close of business on Friday, May 22nd, 2015.

After careful consideration, our Board decided that the prudent course of action was to reduce the dividend by 60% from what we had been paying over the last two years and redirect the funds to the investment in Dolores. Over the construction period, the amount saved by reducing the dividend will almost fund 100% of the capital needed for the Dolores expansion. While not an easy decision, I believe it is the right course of action, particularly during this period of challenging metal prices, to utilize our cash to improve our asset base by investing in good return, low-risk projects that increase our production and lower our overall unit operating costs.

Now, on to Steve for the operations and projects review. Steve?

STEVE BUSBY:

Thank you, Geoff. As Geoff mentioned, our consolidated first quarter silver and gold production lagged behind our expectations, due to some specific mine sequencing differences at our Dolores, Manantial Espejo, and even Morococha mines that I'll explain in more detail for each case momentarily. With regards to operating costs, I'm encouraged that our consolidated base unit operating cost per tonne performance was better than expected, thanks to improved productivities, reduced unit costs on some important reagents and diesel fuel, as well as some favourable movements in the currency exchange rates. These consolidated unit cost per tonne savings were sufficient to offset the production shortfalls and harsh unexpected base metal price reductions to achieve a cash cost per ounce of $11.71, within our full year guidance range.

At Dolores, stacking and leaching of our higher grade ore was pushed out about a month from original plan into late in the quarter, in favour of sustaining some excellent mine productivities we were realizing in one of the phases of the open pit. The effect of pushing the higher grade late in the quarter reduces the recovery ratio of ounces produced divided by ounces placed on the heaps, given the long retention times of our heap leach operation.

The revised mine sequencing will still access all of the ore scheduled for 2015, and we have already essentially caught back up to original anticipated silver and gold production schedules, with excellent performances being recorded for April, and so far in May, as we produced on the higher grade ore placed in late Q1. These excellent mine productivities are also allowing us to advance waste movements nearly 10% ahead of our plan, while sustaining overall direct operating cost spending below plan, leading to significant improvements in unit operating cost per tonne, particularly with regards to the mining unit cost.

At Manantial Espejo, waste stripping has lagged behind plan for about the last six months and caused delays in accessing some of the very high-grade ores in the lower benches of the Maria open pit by about eight weeks from our original 2015 expectations. I'm happy to report that by mid-April we finally removed the large blocks of waste in the Maria open pit, releasing the high-grade ores as we expected during Q1, while simultaneously sorting out much of the lower open pit equipment availability issues, largely thanks to mobilizing the sizeable rental equipment fleet, putting us back nicely on track to achieve our full year 2015 production expectation.

The Q1 shortfall of the Maria high-grade open pit feed to the mill was made up with low-grade stockpiled ore that had been scheduled to be processed later in the year, as the mill throughputs are tracking right on plan. As such, we anticipate achieving the annual silver and gold production target set out in our original guidance. With the recent improvements in the open pit productivity, we still anticipate finishing the mining of the Maria open pit this year, while simultaneously substantially advancing the waste mining of the Concepcion open pit, which, together with the underground mining, will provide an important ore source for the mill feed during 2016.

Manantial Espejo's unit operating costs per tonne are actually tracking better than expected, thanks to reductions in diesel fuel prices and certain reagents, and we currently expect this trend to continue, depending somewhat on the difficult to predict local currency devaluation trends. Therefore, we are maintaining our original annual cost guidance and production projections for the Manantial Espejo operation this year.

At Morococha, a revised mine plan was developed and largely implemented during the last four months to aggressively transition away from some of the economically marginal narrow vein mining areas into the recently discovered larger multi 100,000 tonne Esperanza high-grade ore bodies, using a newly deployed, highly productive mechanized open stope with cemented backfill mining method. Our experienced Morococha mining teams have done a remarkable job at getting this new mining method operational in less than a year from the time of discovery of these larger ore bodies. We expect these high-grade—high copper grade Esperanza ores will provide almost half of the remaining ore to be milled this year, and can be mined at the lowest mine unit operating cost per tonne of any ores we have available at Morococha, driving our cash cost per ounce back in line with our full year guidance projections. It's a little too early in the transition of mining to update our annual guidance projections, but I think it's safe to say that we'll be producing much more copper at Morococha than our original guidance projected anticipated, perhaps with a little less silver and zinc. I will provide an update on Morococha annual projections once our Q2 results are reported and our new forecast is fully developed.

Our other four operations, La Colorada, Alamo Dorado, Huaron and San Vicente, all performed reasonably well, as expected in the first quarter, and we do not expect any significant changes through the remainder of the year that would materially affect our performance relative to our full year guidance ranges for production or costs, even considering the possible mine plan adjustments at Morococha. We are realizing some healthy unit operating cost savings virtually across the board compared to what we anticipated; however, these savings were offset by lower by-product production, except for copper, and reduced base metal prices during the first quarter.

On the capital spending side, we are tracking reasonably well on sustaining capital at our seven operations, and expect our project spending rates to increase through the remainder of the year, anticipating coming in line with our original full year guidance on both accounts before advancing our new Dolores expansion, which I'll discuss in more detail momentarily.

Before I discuss our exciting Dolores expansion, I'm pleased to report our project teams are now fully engaged on the construction of our La Colorada expansion, where the drilling of our critical pilot hole for the new raised ore shaft is advancing through the challenging ground conditions we knew were present when we started the project. We are employing a cement grouting technique to stabilize the ground as we advance the pilot hole through this critical area, and expect to start raise boring the 5 point metre diameter shaft late in Q2 or early Q3. Meanwhile, significant advances have been made during the quarter in underground mine development headings necessary to support the expanded production, as well as procuring and fabricating the equipment needed for both the mine and plant expansions.

Also, we are beginning to identify the preferred routing of our new 115KV power line with the national power company in Mexico, and have broken ground for the construction of the new sulphide processing plant. All in all, I am pleased with how the project is advancing according to plan, and so far within budget.

Meanwhile, we are also advancing the Dolores power line installation, with work initiated on the substations in preparation for setting the power line poles, advancing the project to about 15% completion, tracking on schedule and on budget, expecting the completion of this important project in mid-2016. With that said, I'm even more pleased with the authorization we've been given to develop the underground and pulp agglomeration expansion project at Dolores, largely according to the details released in our Preliminary Economic Assessment report issued last June of 2014.

As contemplated last year, we opted to conduct additional studies to further de-risk this attractive project before requesting authorization to move forward. Metallurgical column leach testing has been ongoing since last year's PEA release, and results further substantiate the expected silver and gold recovery improvements on the high-grade ores treated in the pulp agglomeration circuit.

In addition, through a combination of enhanced ore control methods, mining deeper into more clearly defined mineralized zones, and some additional drill results in the deposit, we have seen substantial improvements in our reserve mineral model reconciliations. Since reporting the results of our reconciliations last May 2014, our mine ore control results have yielded 3% more tonnes at 3% lower silver grade, and, happily, 2% higher gold grade, yielding no difference in silver ounces, and 6% more gold ounces relative to the tonnes, grades, and contained metal estimated in our reserve model for the entire period of June 1st, 2014 through April 30th, 2015.

The previous ore control results reported last June were from mining in areas of the deposit higher up in the system, where the continuity of mineralization is not as solid as we see deeper in the ore body, according to both the results of the deeper exploration drilling, as well as the deepest benches we have mined on the deposit thus far. Overall, this understanding provides us with much more confidence in our ability to mine the more continuous and higher grade ores deeper in the deposit, which will be segregated and fed to the pulp agglomeration circuit when constructed.

Furthermore, additional resource drilling in the far south extensions of the mineralized system has develop large blocks of underground accessible mineralization that looks very attractive when coupled with the highly productive and cost-effective open stope mining methods we intend to deploy to supplement the open pit high-grade ore release for the pulp agglomeration circuit feed. We have fully mobilized an underground mining crew during Q1, reinforced the mining portal, and already have advanced the decline over 110 metres, which is, so far, largely confirming the excellent ground conditions we expected from the earlier geotechnical drilling studies we conducted. We aim to intersect the south area mineralized zone after advancing the ramp about 1.2 kilometres, which will likely be around this time next year, and we'll begin developing some drifts and prepare some initial test stopes in the solid ground we expect to encounter.

As a bonus to our expanded studies on the project, we have been able to incorporate real cost savings being realized for the purchase of critical reagents necessary to run the pulp agglomeration circuit, particularly with regards to sodium cyanide and diesel fuel prices. This added benefit has actually improved the economic rate of return for the project, when compared to our PEA results published in June 2014, even considering the lower long-term silver and gold prices we currently use for our reserves.

Furthermore, waiting to obtain authorization to construct has allowed our project team to focus on fully mobilizing for the La Colorada expansion before adding the Dolores expansion to their workload. Our project team is now fully capable and ready to take on the second expansion project simultaneously, particularly given the significant industrial slowdown for new mine developments we are currently witnessing. All in all, we feel incredibly confident with this expansion project, and I welcome the opportunity to showcase the talents of our highly experienced and capable project teams who will execute both projects in a safe and highly efficient manner.

To finalize, our operating teams continue to effectively and efficiently address the operational challenges we face, and we have already seen substantial recovery of the production shortfall experienced in Q1, which allows us to confidently reaffirm our original annual production guidance between 25.5 million to 26.5 million ounces of silver, and 165,000 to 175,000 ounces of gold, within a cash cost range of $10.80 to $11.80 per ounce, all the while defining, mobilizing and advancing construction of our two outstanding organic growth projects.

Our company-wide focus on safety, productivity and quality continues to bolster the Company's mission to be the preeminent primary silver producer in the world.

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

MICHAEL STEINMANN:

Thank you, Steve. Good morning, everybody. We drilled a total of 24,200 metres during the first three months of the year. This represents a reduction of about 17%, compared to the same period in 2014, but is on track to achieve our annual program of 83,000 metres of drilling. The focus of exploration for 2015 will remain on reserve replacement. Only a small part of the budget is dedicated to explore early stage projects in Mexico. There is no drilling planned for Alamo Dorado this year, and the Dolores and San Vincente programs will start in Q2.

The largest amount of drilling took place at the La Colorada mine, with 8,787 metres, closely followed by Manantial Espejo, where we completed, between RC and diamond drilling, a total of nearly 8,590 metres. These two mines together received over 70% of the quarterly program, and both returned outstanding results during Q1.

But let's start with the drill results for Huaron. I'm sure you remember that we discovered several wide mineralized ore bodies in 2014, which are now under development, like the Pozo D ore body. The exploration success continued during Q1, extending the wide and high-grade mineralized further to the west. You should see a long section of the Pozo D ore body on your screen right now, with the new drill hole intersect highlighted in blue. The wide mineralization is a combination of the high-grade Pozo D vein and associated dissemination.

Intersections of 16.5 metres containing 401 gram silver per tonne, 12.2% lead, and 17.4% zinc, nearly 14 metres with 245 gram per tonne silver, 3.7% lead, and 5.2% zinc, or 10.8 metres containing 173 gram silver, 3.4% lead and 6.6% zinc, are for sure impressive.

Up to date, we finalized already 46 drill holes exploring this ore body. Pozo D is currently under development, and started production on level 250, contributing currently about 4,300 tonnes per month to the Huaron mill feed.

At La Colorada, we focused during Q1 on the Amolillo and Recompensa veins, located in the Estrella and Recompensa zones. These zones keep returning high-grade intersects, increasing resources down deep and along strike.

I would like to mention a few and start with the Amollilo vein in Estrella, where we drilled 4.8 metres with 587 gram per tonne silver, 2.3% lead and 2.3% zinc, or 1.4 metres containing 1,170 gram silver. We also discovered a split at the main Amolillo vein called Santa Juana. This vein returned 1,112 gram per tonne silver, 2.2% lead and 3.3% zinc over an impressive width of 4.9 metres.

The Recompensa structure runs sub parallel to Amolillo and NC2, but it's located further to the north or on the right side on the section. The vein contains currently a small reserve of 4.6 million ounces of silver along the short strike line. During the last few quarters, we started to drill deeper and encountered very interesting results. Some of them are shown on the following long section. Exploration along the vein returned high-grade intersects, like 2.89 metres containing 904 gram silver, 6.9% lead and 4.5% zinc, or 3.5 metres with 1,900 gram silver, 5.1% lead and 7.8% zinc. Although we more than tripled the reserves of the Recompensa vein during 2014, there's still a lot of drilling required to further increase the reserves along this structure, but for sure, it has the potential to turn into another major mining zone for La Colorada.

The third mine I would like to discuss today is Manantial Espejo, as we achieved more than outstanding results at that mine. As mentioned before, we completed 2,260 metres of diamond and over 6,300 of RC drilling, for a total of 8,590 metres during Q1. Exploration focused on the east side of the Maria vein. You should see a long section on your screen by now. Please note on the left-hand side in red colour the current Maria open pit, and below that some of the underground development. All current reserves are located to the left of the red vertical line.

Drilling took place initially from underground, and was expanded further east from surface. The results are more than impressive, like 4.8 metres with 1,354 gram silver and 15.6 gram gold, 1.55 metres with 4,652 gram silver and 36 grams of gold, or 3.8 metres containing 77 grams of silver and 17.6 grams of gold, just to mention three. The current drilling extends the Maria vein already by about 350 metres to the east. The results are typical for the Bonanza zones at Manantial Espejo, which can add substantial value to the reserves and mine plan along short strike length. We plan to drill an additional 7,000 metres in this area over the coming quarters, which will hopefully expand the reserves at Maria vein by year end.

In general, all the drill programs are advancing as planned and I'm very happy about the results we achieved at Huaron, La Colorada and Manantial Espejo during the first three months of the year. I'm looking forward to share with you additional results in Q2 and Q3. At that time, I will also have an update for you regarding the advances on reserve and resource replacement.

Now, to Rob for the financial review.

ROB DOYLE:

Good morning, ladies and gentlemen. In a nutshell, our financial results this quarter were heavily inflected by a 15% drop in revenue, relative to Q1 2014, as a consequence of selling less metal at lower prices. Revenues were $31.6 million lower than a year ago, which had a major impact on our earnings and cash flow.

Let's start by reviewing our cash flows for the period, which provide the clearest perspective on our performance.

For Q1, our operating cash flow before interest and taxes was $24 million, which was a $32.1 million reduction from the comparable quarter of 2014. Our operating cash flow was sufficient to fund all of our sustaining capital expenditures, which amounted to $17 million, and most of our tax payments for the period of $11.2 million.

Cash taxes in Q1 were relatively high due to installment payments based on prior period taxable income and annual payments in Bolivia, so, typically, we would expect our cash taxes to be significantly lower through the balance of the year.

We did require our treasury to fund our dividend of $19 million and our growth capital expenditures of $17 million, spent mostly on expansion of La Colorada and the new power line at Dolores, partially offset by net borrowings, primarily from local loans in Argentina, of $5 million. That brought our closing treasury balance at quarter end to a strong $292.4 million, with total debt of only $65.4 million.

Movements in our consolidated all-in sustaining cost per ounce sold from Q1 2014 to Q1 2015 are presented in the table that you should see on your screens now, which breaks down the changes on a mine-by-mine basis. We calculate an AISCOS of $14.24 per ounce for Q1, nicely down from $15.06 a year ago, and well below our guidance for the full 2015 year of between $15.50 and $16.50 per ounce. At a consolidated level, this measure benefited from lower production costs and royalties, favourable NRV adjustments, higher by-product credits, and lower sustaining capital, but was negatively impacted by the relatively low quantity of silver ounces sold, which forms a denominator to this metric.

We saw major improvements in AISCOS at Dolores, mostly due to positive NRV adjustments and higher gold by-product credits, while the opposite occurred at Manantial Espejo, resulting in an increase in AISCOS at that mine. AISCOS at Alamo Dorado increased as expected as the mine winds down with lower silver production and sales. San Vicente was among the mines that managed to reduce their AISCOS from a year ago despite low levels of silver sales, primarily as a result of lower royalties.

We present select information from our Q1 income statement on your screens now, compared to Q1 2014. As previously mentioned, our revenues in Q1 2015 lagged revenues from a year ago, as a negative price variance of $27.3 million, combined with a negative quantity variance of $6.1 million, partially offset by lower TCRCs on concentrates of $1.7 million.

While we did drill down on gold inventories at Manantial Espejo and Dolores in Q1 2015, which accounted for the relatively high depreciation charge, we had logistical problems in the shipment of March production at San Vicente, resulting in very low levels of revenue recognized from that mine in the quarter, which is also primarily why royalty costs were down. The net result was that our mine operating earnings declined by $28.9 million from Q1 2014 to $2.6 million.

As Geoff mentioned, we saw Canadian dollar weakness in the early part of the quarter, which was the main driver behind the FX loss of $6.4 million. We have further reduced our CAD holdings and now only approximately 10% of our treasury is in that currency, so we should not see such large P&L effects in the future.

Our adjusted earnings, after normalizing from mark-to-market movements and other unusual items, declined to negative $19.9 million from $12.8 million in Q1 2014. As shown on the waterfall graph on your screens now, the main factor that caused the deterioration in adjusted earnings from the comparable period was lower revenues due to lower realized prices and quantities sold. Other factors collectively had very little impact on adjusted earnings, with higher depreciation offset by decreased taxes.

The working capital portion of our balance sheet decreased by $34.2 million during the quarter, with working capital at $488.5 million at quarter end. The change in working capital was principally reflected in lower cash and short-term balances, previously described, and in lower inventory balances, partially offset by a decline in accounts payable and accrued liabilities. The decline in accounts payable balances related primarily to timing of payments at the La Colorada expansion project and the Dolores power line project.

We recently announced the establishment of a senior secured revolving credit facility with a syndicate of eight lenders. This is a $300 million revolving line of credit that matures in April 2019, and is available for general corporate purposes, including acquisitions. No drillings have been made under the facility to date. We are very pleased to have this source of capital readily available for the next four years, which, when combined with our excellent balance sheet liquidity, puts us in a very strong position to fund our future growth plans.

With that, back over to Geoff for closing comments.

GEOFF BURNS:

Thanks, Rob. Let's recap the salient points from our first quarter. We were a bit slow out of the gate in the first quarter with production at just over 6 million ounces of silver, and as mentioned, 37,500 ounces of gold. We also produced more copper, less zinc, and similar quantities of lead. However, I would like to emphasize one more time that both Manantial, Espejo and Dolores, which were the primary drivers behind our slower start, have rebounded exceptionally well, and as Steve mentioned, we fully expect to be back on track by mid-year. In the case of Dolores, I think we're already there. We advanced our La Colorada expansion project nicely, and have de-risked and decided to proceed with the Dolores expansion project. We remain confident in our ability to deliver on our full year guidance for silver, gold, and cash cost. Lastly, as Rob just mentioned, we added to our solid financial position with the $300 million revolving credit facility, which will provide us with the flexibility to execute on our project and business development plans.

Before opening up the line for questions, I wanted to make a few short remarks about the silver market.

Last week in New York, The Silver Institute released the results from the Gold Field Mineral Service Thomson Reuters 2014 Annual Silver Survey, which is renowned for its comprehensive look at the global silver market. I think the supply and demand results leave a lot of room to be optimistic about silver's fundamentals. While global supply increased to 1.06 billion ounces on the back of further mine production growth, offset by a significant reduction in scrap or recycling, global demand was slightly higher than supply at 1.07 billion ounces, with the key demand elements showing significant growth. Silver use in photovoltaic cells used to generate electricity and jewelry both grew nicely in 2014. While not huge, 2014 was the second consecutive year that demand has surpassed supply, and this occurred during a year when global GDP was relatively modest. In addition, even while investment in the gold ETF was declining, investments in the silver ETFs held their own, even growing slightly, showing once again that silver investors are much more reluctant to sell their holdings.

Projecting forward, it isn't difficult to envision further structural deficits. New mine production is close to having—is probably close to having peaked, with new project spending having been slashed over the past few years, and, conversely, any sort of increase in global GDP will translate directly into additional industrial demand for silver. In my opinion, the fundamentals look pretty good for silver going forward.

Operator, with that, I'd like to open the call to questions.

OPERATOR:

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

Thank you. The first question is from Ralph Profiti from Credit Suisse. Please go head.

RALPH PROFITI:

Good morning. Thanks, Operator. I have two questions, both on Dolores. Firstly, is the same cementing agent being used versus the original PEA, and was this part of some of the refined metallurgical testing that you were doing, and do you see this as a particular challenge with respect to binding and permeation as you integrate that circuit? Thanks very much.

STEVE BUSBY:

Yes, hello, Ralph. This is Steve Busby. We have, actually, in the testing, have decided to increase our dosage of cement for the agglomeration. We will be agglomerating only the fine component with cement, and we'll be adding about 30 kilograms per tonne for that agglomeration, and once those agglomerates are produced, they'll be mixed together with the low-grade ore from the crushing plant going to the heap.

We're feeling more confident with our ability to maintain what we call the rule of thumb, which is 10 times the solution application rate for the permeability of that material. We do have to likely add a—we're going to be adding a machine that will bust up the filter cakes coming off the filter plant before we add that cement, to ensure we get a good mix of that cement, because we see that as being a crucial factor. So, those are two changes we made from the PEA.

RALPH PROFITI:

Okay, great, and sort of a different type of follow-up. You've had some impressive success in Morococha on the mining method. It sounds very similar to what you're taking to the Dolores underground. Can we infer the same thing, and can we easily transfer the unit mining costs with respect to what it's going to cost you to do the underground?

STEVE BUSBY:

Yes, the interesting thing at Dolores, we're going to be looking at a much higher dip on the mining, so the stopes will be a much greater height. The ore bodies that we're mining currently at Morococha, they're kind of spherical in shape and they're a relatively flat dip, they're more of a mantle style structure, so it's a little bit different. The overall operating cost structure, we generally see in Mexico our operating cost structures are lower than we do see in Peru, but relative to productivity per worker shift, productivity per equipment hour, yes, we think we'll do as good or even better down at Dolores just given the ground conditions are so solid there.

RALPH PROFITI:

That's very helpful. Thanks very much.

STEVE BUSBY:

Yes.

OPERATOR:

As a reminder, anyone who wishes to ask a question may press star and one on their touchtone telephone to join the question queue.

The next question is from Craig Johnston from Scotiabank. Please go ahead.

CRAIG JOHNSTON:

Hi, guys. Thanks for taking my call, just a couple of questions around Dolores. First, I guess in terms of timing of capital spend, any insight you can provide in terms of when that capital spend will take place?

STEVE BUSBY:

Sure, Craig. This is Steve again. We're anticipating this year getting the commitments on equipment and things, and we'll probably spend in the neighbourhood of $50 million, the total capital, and then quite the vast majority of it will be spent in 2016, thereafter, with maybe a little bit carrying over into 2017.

CRAIG JOHNSTON:

Okay, great, that's helpful. Then, in terms of production—I saw a snapshot in the presentation of the expectations of production over the next five years—will there be a disclosure around, say, those production estimates and the updates around the economic model?

STEVE BUSBY:

No, right now, Craig, we don't anticipate material changes to the PEA. Apart from the agglomeration techniques that we talked about previously, there really isn't many changes there. We see the mine production schedule being somewhat similar. The production profile that we produced, I think is reasonably similar to what was in the PEA.

GEOFF BURNS:

I think, Craig, the real difference is on the cost side.

STEVE BUSBY:

Right.

GEOFF BURNS:

We used the lower pricing deck than we used last June when we released the results of the first PEA. This time, we've incorporated—as I think Steve mentioned or we put in our press release, you know, we've seen a devaluation of the Mexican peso, we've certainly incorporated that, and we've seen some very nice gains on productivity and, therefore, lower mining costs at Dolores on a current basis, largely attuned to the fact that we've added new trucks there and we're getting better productivity out of them. There's a change in reagents. I don't want to be very specific, but we've had a couple of reagents that have really decreased in price. So, we put those cost savings into essentially the PEA model and that's what's driven the new economics and really improved the economics from where we were a year ago.

CRAIG JOHNSTON:

Okay, great. Thanks, guys. That's it for me.

OPERATOR:

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

CHRIS THOMPSON:

Good morning, guys, thanks for taking my questions. I've just got two quick questions here. The first one, I guess, you know, looking at current metal prices, what is your projection as far as timeline to free cash flow, obviously considering what's happening at La Colorada and now Dolores?

GEOFF BURNS:

Sorry, Chris, you're asking us for projections of free cash flow, what, over the balance of the year?

CHRIS THOMPSON:

Just when will you become free cash flow positive if you were to layer in current metal prices, Geoff.

GEOFF BURNS:

Well, I guess we'll need to see the—is that before capital, because that's—I mean, we're investing very heavily now in project capital. I'm not sure that there is any mining company out there that actually generates free cash flow after putting in new projects. But if you're asking free cash flow including sustaining capital, I think, as we see the La Colorada ramp up in late 2016, I guess when we start putting in the new stopes in, I would expect us to be cash flow positive after sustaining capital at current metal prices.

CHRIS THOMPSON:

Okay, so we're looking sort of late 2016, early 2017?

GEOFF BURNS:

Yes. Go for it Rob.

ROB DOYLE:

Yes, perhaps I could just add to that, Geoff. Yes, that's what our long-term cash forecast shows, that as we go through this period of investment, particularly at La Colorada and Dolores, our cash balance does decline through to the end of 2016, where it's at a low point, and then it's really in 2017, when La Colorado kicks in and we start to accumulate cash.

CHRIS THOMPSON:

Okay, perfect, and I guess the next question is—obviously, we're seeing a cut to the dividend. What sort of triggers do you need to bring back, I guess, the comfort of re-tabling a ramped up dividend again? What would prompt you to deliver on that?

GEOFF BURNS:

Well, I think it really comes down, I guess, to the question you just asked. As we see ourself going free cash flow positive again, we would look very carefully one more time at bringing the dividend back to the levels we've previously had. That's one, and that would be based on a current price environment. Part two is obviously if we see any sort of rally in the price of silver that we view as sustainable, then we would once again have a look at what our cash balances are. I think we've said this before, I mean, one of our fundamental objectives is to try and return value to shareholders directly, not only in capital appreciation, hopefully, but also in dividend. So, those to me are the two triggers, complete some of our expansion and get the cash flow going and/or see a rise in the silver or gold price.

CHRIS THOMPSON:

Okay, great. Thanks, Geoff. Thanks, guys.

OPERATOR:

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

GEOFF BURNS:

All right. Thank you very much for joining us this morning and we very much look forward to talking to you again probably in early August after we finish our second quarter, and hopefully can deliver on some of the comments we made today on production and operations. Thank you very much.

OPERATOR:

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