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2015 Second Quarter Conference Call & Webcast Transcript

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TIME:

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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:

Thank you for standing by. This is the conference operator. Welcome to the Pan American Silver Second Quarter 2015 Conference Call and Webcast. 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, simply press star and one on your touch-tone phone. Should anyone need assistance during the conference call, they may signal an operator by pressing star and zero on their telephone.

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 Second Quarter Results 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 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 August 13th, as well as the factors identified under the caption Risks Related for 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 pass the call to Geoff.

GEOFF BURNS:

Thank you, Kettina, and good morning, ladies and gentlemen. I will start with a brief recap of what was a very strong operational quarter, both production and costs-wise, and then I will let Steve, Michael and Rob provide additional detailed commentary on our operations and projects, our exploration programs and our financial performance during the second quarter, before opening the lines for a Q&A session.

To begin, I am pleased to announce that yesterday our Board of Directors approved a third quarterly cash dividend of 2015 in the amount of US$0.05 per common share. The dividend will be payable on or about Tuesday, September 8, 2015, to holders of record of common shares as of the close of business, Tuesday, August 25, 2015. Pan American's dividends are designated as eligible dividends for the purposes of the Income Tax Act of Canada and, as is standard practice, the amounts and specific distribution dates of any future dividends will be evaluated and determined by the Board of Directors on an ongoing basis.

A quick look at our production performance during the second quarter of 2015: We produced 6.65 million ounces of silver, 1% more than a year ago and 9% more than the first quarter of this year. With the exception of Alamo Dorado, which produced 250,000 ounces less silver, all of our operations achieved silver production gains which were more than sufficient to offset Alamo Dorado's decline. In addition, we produced 44,400 ounces of gold, 18% more than both a year ago and in the first quarter of this year, thanks to larger quantities of gold produced at Manantial Espejo and Dolores.

We also saw a nice decline in our cash costs, which were $9.44 per silver ounce, 24% less than a year ago and 20% less than in the previous quarter. This was achieved thanks to lower operating costs at all our operations, higher by-product credits from increased gold and copper production, the benefits of depreciation of local currencies, and lower diesel and reagent costs. We also saw a good improvement in our all-in sustaining costs per silver ounce, which were $14.46 net of by-product credits, some 20% lower than a year ago. This was primarily achieved due to the reduction in cash costs just mentioned, lower G&A, lower sustaining capital expenditures and an increase in silver ounces sold. Even with significantly lower metal prices, both our cash costs and AISCOS were well below our annual forecast, and we believe that if by-product prices remain near current levels, that our annual cash costs and AISCOS will be below or at the low end of our guided ranges for the full year of 2015.

As we increased our silver and gold production and reduced our costs, our financial results this quarter still suffered from the decline in silver, gold and base metal prices we have experienced, as compared to the same period last year. On the positive side, even with these price headwinds, we were still able to generate $20.6 million or $0.14 per share in operating cash flow, enough cash to pay for our sustaining capital and to fund our dividends, which means we only had to use our treasury to cover our long-term value-adding growth projects. I believe this is a pretty impressive accomplishment and a testament to the efforts our operating teams have expended to increase productivities while simultaneously reducing costs. We have and we will continue to fight the good fight as we adjust to the now extended period of lower prices.

Now, over to Steve for an update on our operations and projects.

STEVE BUSBY:

Thank you, Geoff. As Geoff had mentioned, in comparison to the second quarter of 2014, we managed to successfully increase silver production at six of the seven mines we operate to effectively offset the expected reduction from our Alamo Dorado mine in Mexico, which is reaching the end of its reserve life, all the while reducing our unit operating costs per tonne across the board, registering a 14% reduction on a consolidated basis. Furthermore, in terms of a bounce-back quarter, we managed to meaningfully increase silver production at all seven mines for this 9% increase on a consolidated basis and registered a 19% reduction in our consolidated cash costs per ounce, compared to the first quarter of 2015. But for disruptions to our excellent safety records, Q2 2015 marks one of the most successful operating quarters we have had in the Company.

I would like to make a few more comments on each of our individual operations with the following comments:

Starting off in Argentina, our Manantial Espejo mine overcame some incredible challenges to produce 900,000 ounces of silver and 44,400 ounces of gold, representing increases of 11% and 34%, respectively, over the same quarter of 2014, due to the expected mine sequencing. Fuelled by these production increases, particularly in gold, cash costs fell 66% from the previous year to $6.18 per ounce for the quarter.

Looking forward, we expect similar silver and gold production performance for the remainder of the year, with average costs perhaps closer to $9 per ounce, given lower expected gold prices, and some additional cost escalation expectations barring a significant currency devaluation.

In Bolivia, our San Vicente mine produced slightly over a million ounces of silver at a cash cost of $11.44 per ounce, which was 6% greater production at 12% lower cost, compared to the same quarter of 2014, largely due to mine sequencing and the benefits from lower operating costs and royalty payments. We are expecting reasonably steady-state production and costs for the remainder of the year at San Vicente.

In Peru, our Huaron mine produced similar silver production during the quarter to that of the same quarter of 2013, with 31% more copper, 7% more lead and 19% less zinc, due to mine sequencing, pushing towards more productive mechanized mining areas within the mine. This mechanisation effort also served to reduce our cash costs 21% from the previous year to $8.96, despite lower by-product prices, thanks to a 20% reduction in unit operating costs per tonne. We are expecting reasonably steady-state production and costs for the remainder of the year, albeit with not quite as much copper being produced as we've seen during the first half of 2015.

Our Morococha mine in Peru produced 560,000 ounces of silver during the quarter, which was slightly more than the same quarter last year, but with nearly a 450% increase in copper production, partially offset by a 42% decrease in zinc and a 60% decrease in lead production, driven by the changes in mine sequencing I discussed last quarter, as we push towards more mechanised mining areas that happen to contain higher copper grades. This push towards mechanisation drove our unit costs per tonne down 28%, which, when coupled with the changed base metal production mix, slashed our cash costs per ounce 45%, compared to last year, to $9.78 per ounce. We are expecting reasonably steady-state production and costs for the remainder of the year at Morococha, perhaps with some offsetting differences in the polymetallic by-product mix.

At our Alamo Dorado mine in Mexico, silver production fell 25%, as expected, from the year before to 770,000 ounces, at 37% greater cash costs of $15.25 per ounce, as we deplete the last remaining ore from the open pit, blending greater amounts of lower grade stockpile ore. We expect steady-state conditions for the remainder of the year, after which we will have completely exhausted the open pit ore and will begin processing only low-grade stockpile ores into 2016, for as long as is economically possible.

Our La Colorada mine produced 1.3 million ounces of silver at a cash cost of $7.85 per ounce for the quarter, improving on last year's results, thanks to throughput increases being realized with some of the expansion equipment brought into service. The operation is expected to remain in steady state throughout the remainder of the year, as we advance on the exciting expansion project that is fully underway.

With regards to the expansion project, we've managed to complete the critical pilot hole for the 5.1 metre diameter, 600-metre deep raise bore shaft and actually began full diameter boring in July, post quarter-end. In addition, civil works for the new sulphide plant are in full swing and the grinding mill concrete foundations were poured literally just a few days ago. We continue to work on authorizations to allow construction of the new power line, while completing the engineering works and fabrications for both the new shaft and plant construction.

We spent approximately $7.1 million on the expansion project during the quarter, bringing total spending to approximately $42 million thus far, with about 50% of the total expected capital expenditure being committed. Despite the greater time than expected we needed to complete the critical pilot hole on the raise bore shaft, we expect the overall expansion project will be completed reasonably on time and within budget, allowing us to progressively increase throughput to the 1,800 tonne per day target beginning in 2018.

Our Dolores mine in Mexico produced 1.1 million ounces of silver and 20,200 ounces of gold, which was 6% and 19% greater than production from the second quarter of 2014, respectively. We are benefitting from savings in diesel, some reagents and a favourable exchange rate on currency, which, combined with production increases, drove our cash costs down 33% to $8.34 per ounce, despite the lower gold prices. For the remainder of the year, we are expecting reasonably similar production but with perhaps slightly higher cash costs being negatively affected by a lower gold price assumption. We are also mindful of a possible production dip that may occur during the heavy seasonal rains expected to begin any time now. Meanwhile, our project teams are deploying effectively on the expansion project, with our underground ramp now advanced to 282 metres. Our power line installation is nearly 30% complete, and we have launched the engineering effort for the new pulp agglomeration plant which should begin construction before year end.

Before I conclude my commentary, I must report that we were struck with a stark reminder of the hazards associated with our business this quarter and I'd like to take this opportunity to make it clear that the safety of our employees and contractors is absolutely paramount at Pan American Silver Corp. We will never sacrifice safety under any circumstance, period. We have proven our mines can be built and operated safely, and we will relentlessly endeavour to prevent harmful accidents from occurring at our sites.

With the half year completed, we can confidently reaffirm our full year 25.5 to 26.5 million ounce silver production target and 165,000 to 175,000 ounces of gold, while anticipating cash costs to come in at the lower end of our guidance of $10.80 to $11.80 per ounce.

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

MICHAEL STEINMANN:

Thank you, Steve. Good morning. During Q2, we drilled a total of 29,000 metres around our seven operations for our resource and reserve replacement programs. We spent a total of $2.9 million in the quarter on drilling related costs.

Looking at the first six months of the year, we drilled a total of 53,200 metres or 64% of our 83,000 metre annual plan, but due to the industry-wide cost decreases, we spent only $4.2 million of the $10 million budget. These lower-than-plan drill and personnel costs will allow us to expand our annual drill programs, focusing on the exceptional results from La Colorada, Huaron and Manantial Espejo. Most drilling took place at La Colorada with over 8,700 metres and at Huaron with over 7,100 metres.

The exploration program at La Colorada is on budget, but substantially smaller compared to the last few years, as exploration activities are restricted in certain areas due to the development work for the mine expansion. These restrictions will continue during 2015 and early 2016. The geology team at Huaron is still exploring and expanding the Pozo D ore body in the northern part of the mine, and at Manantial Espejo we have been focusing on the Maria East expansion.

Let's start with Huaron. You should see now a long section of the Pozo D ore body on your screen, which is sandwiched between the Pozo D vein and the Shusha split vein. Holes highlighted in red were drilled during Q2. The ore body is currently about 200 metres long and shows in some areas impressive width. In the Central Zone, one hole returned a down-hole intersect of 80.6 metres containing 182 grams silver per tonne, 4.3% lead and nearly 8% zinc. The true width of the ore body at that location should be around 65 metres. Another hole returned 18.4 metres with 199 grams silver, 4% lead and 6.5% zinc. Although more variable at the fringes, the Pozo D ore body shows impressive wide mineralization in the central part, with over 30 metres in several locations. We will continue our drill efforts in this zone in order to convert larger parts of the ore body into the reserve categories by the end of the year. Production of Pozo D ore body continues along level 250, with a monthly mill feed of about 5,000 tonnes.

As mentioned above, we drilled over 8,700 metres at La Colorada. Similar to Q1, we focused our drilling on the Amolillo and Recompensa structures, located in the Estrella and Recompensa zones. The Amolillo vein is now one of our largest producers and keeps returning high-grade exploration results, like 2.36 metres wide intersection with 450 grams silver, 5.6% lead and 4.2% zinc, or over 2 metres containing 1,020 grams silver, 3.6% lead and over 22% zinc.

On the slide, you can see a long section of the Recompensa vein which is located to the north of Amolillo. Recompensa is currently the vein with the smallest reserves and resources. Proven and probable reserves are indicated in red and blue, respectively. Resources are coloured in green.

Drilling in Q2 expanded the high-grade mineralisation substantially to the east, returning impressive intersects, like 1.1 metres with 1,057 grams silver, 1.65 metres with 993 grams silver, 3.7% lead and 6% zinc, or 2.9 metres with 904 grams silver, 6.9% lead and 4.5% zinc, just to mention a few. Drilling will continue along both of these veins and I expect substantial resource additions at the end of the year.

On my last slide, I would like to discuss Manantial Espejo. As mentioned before, we completed over 4,700 metres of drilling at Manantial during Q2, which includes about 1,600 metres of RC drilling. Similar to the first quarter, we focused our drill efforts on the east side of the Maria vein, east of the current Maria pit and underground development which is shown on the long section in orange colours. Drilling extended the vein about 460 metres to the east, returning impressive results. The vein shows variable width between about 1.6 to 4 metres. One drill hole returned up to 40 metre down-hole intersect. Silver and gold grades are very high, running in the range of 500 grams per tonne silver equivalent of up to multi-kilogram silver equivalent, which are typical grades for the Bonanza zones at Manantial Espejo. An underground in-fill drill program will start later this month and continue for the rest of the year, which will hopefully increase the resources for our December 31st estimate.

Overall, our exploration programs are advancing as planned at all the mines and I am very pleased with the results so far. Resource replacement for 2015 is right on track. Even with the limited drilling at La Colorada, the impact of these new resources to the year-end reserves statements will obviously depend on the metal prices used for the estimates, but I'm sure that many of the impressive exploration results we have achieved during the first six months of the year will make it into the reserve update on December 31st.

I'd like to pass on to Rob for a review of the financials.

ROB DOYLE:

Thanks, Michael, and good morning. As Geoff touched on, we generated healthy operational cash flow before interest and taxes of $30.1 million in Q2, which was sufficient to fund all of our sustaining capital which amounted to $17.7 million, our dividend payment of $7.6 million and our tax payments for the period of $7.7 million. We did utilise our treasury to fund our expansionary project capital of $11.8 million, which, together with the net repayment of leases, reduced our cash and short-term investment balances by $17.5 million, to end the quarter at $274.9 million. We remain in a strong liquidity position with total debt of only $61.8 million.

Our Q2 all-in sustaining cost per silver ounce sold is presented by Mine site in the graph that you should see on your screens now. We calculate a consolidated AISCOS of $14.46 per ounce for Q2. That's 20% lower than the comparable quarter of last year. For the first six months of the year, our AISCOS was $14.35, 13% better than for the same period of 2014, and nicely ahead of our guidance for the full 2015 year of $15.50 to $16.50 per ounce. The main drivers causing the lower AISCOS for Q2 were lower net realisable value or NRV adjustments, lower sustaining capital and G&A, as well as more ounces of silver sold in Q2 2015 than in Q2 2014. AISCOS for the first six months of 2015 benefitted from the same factors, other than the fact that we sold less silver in the first half of this year than last year.

The mines that showed the largest declines in AISCOS were Dolores where lower NRVs and higher gold by-product credits were generated, and at Morococha where significantly higher copper by-product credits were produced. The only mines where AISCOS increased were Alamo Dorado and Manantial Espejo, both primarily due to lower by-product gold credits and selling less silver in Q2 2015, compared to a year ago.

Select information from our Q2 income statement should be on your screens now compared to the previous quarter of 2015, as well as the comparable quarter of 2014.

Our revenues in Q2 '15 were slightly below revenues from last quarter, primarily as a result of $4.5 million negative sales adjustments, while higher quantities of metal sold were offset by higher TCRCs from our increasing copper sales.

Our sales for the quarter were roughly equal to the value of metal produced, as we drew down on silver inventories but built up gold and copper inventories.

Q2 2015 cost of sales included an NRV charge to inventory of $1.5 million, which, together with the $4.5 million of downward settlement adjustments, negatively affected our mine operating earnings for the quarter.

We saw the Canadian dollar strengthen during the quarter, which was the main driver behind the FX gain of $1 million. As of June 30, we had reduced our cash and short-term balances held in CAD to 9%, with a further 10% in Mexican pesos and the remainder held in US dollars.

The main factors that caused the deterioration in adjusted earnings from the comparable period of 2014 are shown on the waterfall graph on your screens now, with the $40 million effect of lower metal prices on revenue being the main one, exacerbated by higher realised FX losses. Although we sold significantly more silver and copper in Q2 2015 than we did in Q2 '14, which, together with the drop in our taxes and operating cost reductions partially offset the lower prices, we ended up with a net decline in adjusted earnings of some $13 million from a year ago.

Now a brief review of our working capital portion of our balance sheet. We saw a decrease of $18.7 million in our overall working capital balances, with working capital just below $470 million at quarter end. The change in working capital was principally reflected in lower cash and short-term balances previously described, in higher accounts and loan payables, and lower inventory balances resulting from the NRV charge, and partially offset by higher accounts receivable and lower lease balances.

Together with our strong balance sheet, we are pleased to have established a senior secured credit facility with a syndicate of eight lenders during Q2. This is a four-year $300 million secured revolving line of credit that matures in April 2019, and is available for general corporate purposes, including acquisitions.

No drawings have been made under the facility to date. When combined with our excellent balance sheet liquidity, with cash and short-term investments of some $275 million, working capital of $470 million and debt of only $61.8 million, this facility puts us in a very strong position to fund our future growth plans.

With that, I'll hand it back over to Geoff for closing comments.

GEOFF BURNS:

Thanks, Rob. After a slow start to the year, our production rebounded nicely during the second quarter, such that in the first half of the year we've now produced 12.72 million ounces of silver and 81,900 ounces of gold, pretty much right on target for our silver production and slightly ahead of where we thought we would be for our gold production. Our operating costs continue to decline. For the first half of 2015, we posted AISCOS of $14.35 per ounce and cash costs of $10.53 net of by-product credits, both below our annual consolidated forecasts.

As you heard from Steve, our La Colorada expansion project advanced as planned, with good progress made on all fronts. We kicked off the Dolores pulp agglomeration and expansion project with detailed engineering for the pulp agglomeration plant, and have already advanced the development for the new underground mine ramp close to 200 metres. Both projects are now in full swing and we look forward to updating you on the progress again when we discuss our third quarter results in November.

Before opening up the call for some Q&A, I just wanted to close my remarks by looking at how our organic growth projects at La Colorada and Dolores are going to transform Pan American Silver. As you can see from the slide on your screen right now, we are going to be losing silver and gold production from our hugely successful Alamo Dorado mine as we finally exhaust its reserves. However, with the expansions at both La Colorada and Dolores, we will more than be able to offset this loss with new incremental silver and gold production. In fact, on a consolidated basis, we expect our silver production to actually grow by another 5 to 10%. But most importantly, the new incremental production will be at a significantly lower cost base, which will meaningfully lower our consolidated cash costs and AISCOS. Net-net, we will be increasing our silver production while simultaneously lowering our costs, and we will be doing so with lower-risk organic projects where we don't have to absorb premium-driven acquisition costs. These projects, when complete, will make Pan American a stronger and even more competitive silver producer, and we'll be financing this growth not from debt, not from equity, but from our own cash reserves.

With that, I'd like to now ask the Operator 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 touch-tone 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 Craig Johnston from Scotiabank. Please go ahead.

CRAIG JOHNSTON:

Hi guys. Thanks for taking my call. Congrats on a solid quarter. A couple of questions, mainly just housekeeping. Firstly, with Morococha and the revised guidance, given the change in mine sequencing, I'm just wondering if you guys could provide some guidance in regards to grade for the base metal production for the second half of the year.

STEVE BUSBY:

Yes, Craig. This is Steve. It's probably best I follow up with you on that. I don't have those right in front of me right now.

CRAIG JOHNSTON:

Okay.

STEVE BUSBY:

Can I give you a call later on those?

CRAIG JOHNSTON:

Yes, for sure, that sounds good. My second question might be the same answer, but just on Alamo Dorado, I'm just trying to get a sense of where you expect the stockpile grade to be at the end of the year, and what we should think about in terms of like '16 and '17 as it winds down, what type of grade you'll be processing.

STEVE BUSBY:

We're expecting somewhere in probably the 40 to 50 gram range. We do have areas that it's a little higher than that, but probably on the low side 40, on the high side 50, 55 still.

CRAIG JOHNSTON:

Okay. Thanks, Steve. Maybe, Geoff, more a question for you. Just in regards to the $300 million revolving credit facility and talking about where things are in the market right now with silver prices, any update on strategy in terms of growth? Obviously you just highlighted how you guys have a very good growth profile, but anything else that you're seeing in the market? Has your view changed on acquisitions at all? I'm just wondering if you could highlight that.

GEOFF BURNS:

Sure, Craig. I mean, I think as we probably have said just about every conference call, we continue to monitor our sector very carefully and look for opportunities where we think we can create value either through exploration or improving operations, et cetera. The $300 million is obviously sitting there to take advantage of perhaps one of those opportunities should we decide to move on it.

I will say this. I will say that since the last time we spoke in May that we have started to see some values come down where they are becoming of interest. For the longest time, you know, you compare everything on a relative basis and it seemed like, I'm going to say exploration and development silver companies were kind of deteriorating at the same relative rates as the producers like ourselves, but we've seen that gap start to grow, which is a good thing from our perspective. We're very aware of what we'd like to do in adding another asset to our portfolio and doing it at a time when, frankly, values are fairly low.

CRAIG JOHNSTON:

Okay, great. Thanks Geoff and thanks everyone.

STEVE BUSBY:

Craig, before we leave—this is Steve again. I just looked up while Geoff was speaking, but our base metal and silver grades at Morococha for the second half of the year, they should be reasonably close to what we saw during the first half.

CRAIG JOHNSTON:

Okay, great, that's helpful. Thanks guys and have a good weekend.

GEOFF BURNS:

Thanks, Craig.

STEVE BUSBY:

Thank you.

OPERATOR:

The next question is from Jim Belin from Aldebaran Asset Management. Please go ahead.

JIM BELIN:

Thank you for taking my question. This fall, Argentina is going to have another election and Cristina Fernández is not eligible to run. I'm just curious, if you were to get a change in attitude toward investments by the Argentine government, what impact would Navidad have on the Company going forward?

GEOFF BURNS:

Wow, I mean, Jim, Navidad is probably the best undeveloped silver deposit in the world today, it has been for a while, and an ability to actually move that project forward would be the classic sea change for Pan American, particularly given that I would suspect that there's almost no value remaining in our current share price attributable to Navidad.

For that to happen I think there's a few things we would need to see. I mean, the primaries I guess were held last weekend and Daniel Scioli came out of the pack as the leading presidential candidate. He has been, at least publicly, very supportive of the mining industry and has made it a platform of his re-election campaign. That seems positive. The final elections are in October of this year and we'll see who comes out of the group ahead at the end of the day. But not only does there have to be—I'm going to say—sort of the platforms, we have to actually see some changes, and it is still a difficult environment with inflation running in the 25 to 30% range, it is still difficult to import certain critical materials for our current operation, Manantial Espejo. I hope, I sincerely hope that with a change in the regime that we might see a more friendly environment on both those fronts, which would allow us to move ahead and develop Navidad. I mean, obviously, there's nothing I would like more, having participated in the purchase of that asset some almost five years ago now, and looking at what a wonderful asset it is, there's nothing I'd like more than to be able to bring that forward and create value for all our shareholders.

So, I'm going to say I'm cautiously optimistic, but time is going to have to tell.

JIM BELIN:

Thank you very much.

OPERATOR:

The next question is from Troy Beristain from Deutsche Bank. Please go ahead.

JORGE BERISTAIN:

Hey Geoff, it's Jorge Beristain, DB. I guess I'll go by Troy today. Just on your CapEx, I wanted to ask—you've recently pulled your numbers down significantly, your mid-point range now down to $95 million-odd, and I was wondering where those reductions are originating from, is that really driven by FX, industry costs, consultants, what have you, parts, steel, whatever, and how does that impact the La Colorada and Dolores CapExs, have there been any changes and any deferrals into 2015 and '16 we should be aware of?

STEVE BUSBY:

Thanks, Jorge. This is Steve, I'll address that one. In terms of La Colorada, we're now forecasting somewhere in the $55 million to $60 million range for the full year of 2015 spending, which is quite a bit down from our original forecast. A lot of it is driven by the delays we had in getting the pilot hole completed for the raise bore shaft. We had anticipated completing that pilot hole sometime in the April/May timeframe and it took us into June, and we started the full bore in July. So, what that's done is push some of those dollars into next year.

In addition, on the plant site, we were held up a little bit on getting our final permit for construction by about two to three months longer than we expected. We still anticipate we'll get that plant completed well in advance of when the shaft's actually going to start delivering some significantly increased throughput, but it does push those dollars off into next year.

So it's really schedule-driven, it's not anything more than that and we still don't anticipate that's going to impact the overall capital at the end of the day. Our overheads were reasonably managed through that period.

In the case of Dolores, we're now forecasting somewhere around $35 million, maybe as much as $40 million to be spent this year on the various projects there, between the underground, the agglomeration, power line and Pad 3 extensions, and that's just a matter of getting things kicked off there. We hadn't provided guidance, to my knowledge, beforehand on what we would spend this year, but that's kind of the range we'll be in.

GEOFF BURNS:

Jorge, just to add to that, we are seeing some reasonable decreases in prices of various things, particularly as we source them through Canada and through Mexico, directly related to the change in the Canadian dollar exchange rate and the Mexican peso exchange rate. I think it would be fair to say that a little bit of the delay we've seen at La Colorada has probably been absorbed by some of the benefits that we've seen there. So net-net, as of today, we're still thinking our capital cost is pretty damned accurate from what we put out in our PEA.

And it's just too early on the Dolores side. I mean, I think there is ability to take advantage of those two items I just mentioned, as well as lower diesel prices and a few other things that factor into our capital costs estimate, but we just haven't done the work. We're still in detailed engineering at Dolores and I know that Steve is going to be reluctant to put out any new forecast numbers on capital until at least that piece has been completed.

JORGE BERISTAIN:

Okay, great, and then if I could just maybe ask you guys about how sensitive your current reserves are as stated year-end '14 to the current silver environment, what you're thinking there, or are we going to see any kind of potential offsets as we rebase currency and input costs that may absorb some of the expected decline?

MICHAEL STEINMANN:

Hi Jorge, it's Michael. It's obviously pretty early in the year to define the reserve metal price right now. We've seen some strong declines in metal price and then quite a strong rebound in the last few days. So, as usual, we will define the price that we're going to use for the year-end reserve update somewhere around November. A lot of things can happen until then. For sure, if there are any cost savings available that we see through the year, they will be included in our cut-off calculations.

JORGE BERISTAIN:

Thanks, Michael. Can you remind me of what you were last using for your cut-off?

MICHAEL STEINMANN:

Metal price used, $18.50 or—sorry, what was the question, Jorge?

JORGE BERISTAIN:

Yes, thank you. Okay, I'll leave it there.

MICHAEL STEINMANN:

Eighteen-fifty silver price was used last year.

JORGE BERISTAIN:

Got it. Thanks very much.

MICHAEL STEINMANN:

No problem.

GEOFF BURNS:

Thanks, Jorge.

OPERATOR:

The next question is from Mark Mihaljevic from RBC Capital Markets. Please go ahead.

MARK MIHALJEVIC:

Hi guys. Actually, most of my questions have been answered, but a couple of little things to touch off. So, just following up on Craig's question with respect to M&A, I just wanted to know, or make sure that I understood your views correctly. You're still focused and you think the most value creation would come from the developer side of things, or would there be potentially interest in a producing asset?

GEOFF BURNS:

In general terms, Mark, I think our strength is very much in building and operating, so, you know, as a target for us, a development stage asset is probably where we see the best opportunity to create value. It's oftentimes where, in the nicest sense, the discoverers and the current owners are oftentimes not versed in building and operating, so I mean there's a clear—I'm going to say an alignment of opportunity between both. I'm not saying I would exclude other things, but to me that's a logical ground or hunting ground for us to look, because of the strength of our group.

MARK MIHALJEVIC:

Okay. Do you know, as a couple of people have touched on with the material weakness in a lot of these currencies, have you—what are your views on hedging? I know you took off some hedges on the diesel side of things, but what are your thoughts in terms of the currencies and whether you'd be willing to lock it in at these types of levels?

GEOFF BURNS:

Well, I think, in particularly the Mexican peso has been hit fairly strenuously over the last eight to 12 months, and I think the last time I looked it was trading somewhere over 16 ...

ROB DOYLE:

Sixteen thirty.

GEOFF BURNS:

Thank you, Rob. Sixteen thirty to one. Our two biggest projects we've got going right now, which in total are about $250 million in capital, I believe both of them made assumptions either 14 or 14.50, in that range, in our estimates, so, you know, when you're sitting at 16.30 there is clearly an arbitrage there that could help us save some money, yada, yada, yada. I think that we'll aggressively put in place some protection, likely on a put/call basis, to at least ensure a minimum exchange rate north of 15, 15.50 to one, while leaving us some further upside if we see further deterioration. But, certainly for the projects, we're very capital sensitive and we're going to manage that very, very tightly, and I think that would just be prudent management at this point.

MARK MIHALJEVIC:

Makes sense and that's it for me. Thanks, guys.

GEOFF BURNS:

Thanks, Mark.

OPERATOR:

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

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

GEOFF BURNS:

Thank you, Operator. Thank you, ladies and gentlemen, for joining us this morning. It was a very solid first quarter but for some incidents on our safety side—second quarter, pardon me— and we've got lots going on with our two projects and I very much look forward to talking to you again in early November to update you on our third quarter and where we're at. 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.