Pan American Silver Corp.

Third 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 Ms. Kettina Cordero, Manager, Investor Relations. Please go ahead.

KETTINA CORDERO:
Thank you, Operator, and good morning, ladies and gentlemen. Welcome to Pan American Silver's 2014 Third Quarter Results conference call. Today, I am joined by our President and CEO, Geoff Burns; our Chief Operating Officer, Steve Busby; our Executive Vice President of Corporate Development and Geology, Michael Steinmann; and our Chief Financial Officer, Rob Doyle.

I would like to start this call by reminding our listeners that this call cannot be reproduced or retransmitted without our consent, and that certain statements and information in this call will constitute forward-looking statements and forward-looking information within the meaning of applicable securities laws. All statements, other than statements of historical fact, are forward-looking statements that reflect the Company's current views with respect to future events and are necessarily based upon a number of assumptions and estimates that, while considered reasonable by the Company, are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many known and unknown factors could cause actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements, and the Company has made assumptions and estimates based on or related to many of these factors.

We encourage investors to refer to the cautionary language included in our news release dated November 13th, 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 leave you with Geoff.

GEOFF BURNS:

Thank you, Kettina, and good morning, ladies and gentlemen. I will briefly discuss the highlights of what was a pretty decent production quarter, all things considered, a quarter which has kept us on track to achieve our production guidance for the year. After that, I will let Steve, Michael and Rob provide you with more detail on our operations and projects, our exploration programs and our financial performance during the third quarter.

Before I start discussing the results, I am pleased to announce that yesterday our Board of Directors approved our fourth quarterly cash dividend for the year in the amount of $0.125 per common share. The dividend will be payable on or about Monday, December 8th, 2014, to holders of record of common shares as of the close of business on Tuesday, November 25th, 2014. With this quarterly dividend, our total cash dividend distributions for 2014 will amount to $0.50 per common share.

Now let's review our third quarter performance. In spite of a two-week work stoppage at San Vicente in July and heavy rains in Mexico for most of the quarter that had a negative effect on our gold production at Dolores, we still produced 6.19 million ounces of silver and 34,100 ounces of gold. This brings our silver and gold production for the first nine months of the year to 19.37 million ounces and 117,600 ounces, respectively, positioning us well within the range necessary to achieve our annual silver and gold production guidance.

Our AISCSOS for the quarter were $20.55, higher than we had anticipated due to the inclusion of $2.48 in additional costs as a result of recognizing non-cash adjustments to the net realizable value of our heaps and ore stockpile inventories, which we had to book to reflect the decline in silver and gold prices experienced during the quarter. Excluding those, hopefully one-time adjustments, quarterly AISCSOS were actually $18.07. Excluding the impact of those same adjustments on our year-to-date, our AISCSOS were $16.56, comfortably below our annual guidance of $17 to $18, and much more reflective of the productivity gains and cost control measures we began implementing in earnest in the third quarter of last year.

Finally, our cash costs for the third quarter of 2014 were $12.29 per ounce of silver, net of by-product credits, which was similar to our cash costs during the second quarter of this year. Our cash costs were somewhat higher than we had hoped but reflected the effects of the work stoppage I just mentioned, as well as the impact of the heavy rains in Mexico. Year to date, our cash costs are $10.83 per ounce and remain well under our full year forecast for 2014 of $11.70 to $12.70 per ounce.

Before moving on to our base metal production, I would be remiss if I didn't comment on the exceptional performance at our Peruvian operations, where we have seen a transformation from our highest cost operations to almost our lowest cost operations. Both Huaron and Morococha recorded quarterly cash costs below $8.00 per ounce net of by-products. A combination of improved productivity, re-sequencing of mining blocks and strict cost controls have repositioned both these assets to be cash flow positive at current or even lower silver prices. I'm sure Steve will make further reference to this turnaround, but in my view, this is another example of what your Company can achieve with our asset base when we are stressed.

During the third quarter, our Peruvian operations saw a nice increase in base metal grades, particularly copper, where we recorded a 60% increase in production as compared to a year ago. Year-to-date zinc, lead and copper production are all ahead of expectation and we believe we will surpass our original production forecast announced at the beginning of the year. This is very positive news considering that base metal prices have held up much better than silver and gold prices over the last 12 months.

During the third quarter, we generated revenues of $178.3 million, a fair bit lower than revenues generated a year ago, due to lower volumes of silver and gold sold at lower silver and gold prices, which we all know about. We posted a mine operating loss of $12.4 million and an adjusted loss of $14.3 million. I'll make a comment in a moment on several items which saw us swing into the red for the current quarter; however, before this, I'd like to point out that in spite of lower metal prices, we still generated a very respectable $38.3 million in operating cash flow, or $0.25 a share. This was more than enough to fully fund our sustaining capital expenditures during the quarter and also fund the majority of our cash dividend which was paid out in September.

I believe Rob will make some additional comments in each of the items we have highlighted in the slide you're now looking at that negatively impacted our third quarter earnings. The decline in the price of silver from $20.87 per ounce at June 30th to $17.11 per ounce at September 30th required us to revalue our heap leach and stockpile inventories to recoverable value at these lower prices. As a consequence, we booked a non-cash $15.4 million net realizable value adjustment during the current quarter. In addition, lower prices also required us to take a negative $9.8 million price and quantity adjustment on our unsettled concentrate sales from previous periods; and lastly, we incurred a $6.7 million foreign exchange loss on our Canadian dollar bank balances, as the US dollar strengthened throughout the quarter relative to the Canadian dollar. Excluding these items, we would have been comfortably profitable during the third quarter, which would have been more reflective of our actual production performance.

Our balance sheet continues to be healthy. As of September 30th, 2014, our cash and short-term investments were $377.5 million, a decrease of only $4.2 million from the second quarter of 2014, even after paying close to $19 million in cash dividends and spending almost $29 million in sustaining and growth capital. We ended the third quarter of 2014 with almost $609 million in working capital and total debt of a modest $57.3 million. This puts us in solid financial position to continue executing our value creating projects, like the expansion of La Colorada, as well as look for opportunities within the sector to perhaps strengthen our asset base.

Now I'll let Steve provide you with a detailed account of our operations and development programs for the third quarter.

STEVE BUSBY:

Thank you, Geoff. Looking at our mine-by-mine results according to the figures on the slide, and starting out, our La Colorada mine's quarterly silver production of 1.3 million ounces rose nicely from last year's Q3 result of 1.1 million ounces, thanks to improved mining rates and higher grades as we continue our steps towards the first phase of our expansion project targeting, 1,500 tonnes per day of processing by mid-2016. La Colorada's quarterly cash cost of $8.58 per ounce was within our expectations and below last year's Q3 that was at $10.19 an ounce, given improvements in productivity rates, partially offset by certain cost escalations. Based on our October actual performance and forecast for November and December, we expect La Colorada's production rate to remain reasonably steady to the Q3 levels during Q4, with perhaps slightly higher cash costs depending on the timing of certain planned equipment maintenance.

As expected, Alamo Dorado produced 0.7 million ounces in the quarter, as we process a greater amount of lower grade ores while navigating our way through the final benches of the open pit mine. The effect is reduced grades and recoveries from what we’ve seen in years past. The processing of lower grade ore also drove our cash costs higher to $17.04 per ounce for the quarter. Based on October actual performance and forecast for November and December, we anticipate better than a 10% increase in production at Alamo Dorado, resulting in perhaps a 10% decrease in cash costs, with the enhanced productivity as we realign the operation given today’s lower precious metal prices.

The Dolores mine produced 1 million ounces of silver during the quarter, in line with our expectations. Gold production of 15,400 ounces fell short, as Geoff mentioned, due to the heavier than expected rains this season bringing massive amounts of dilution to our pregnant solutions. With the reduced gold production and reduced mining and crushing productivities from all the rain we saw, our cash costs rose above what we had anticipated to $14.57 per ounce. I’m happy to report the rains have subsided and we are beginning to dry out and reduce the large inventory of solution, which will result in increased gold production rates. Based again on our October actual performance and forecast for November and December, we are expecting to see similar silver production, with perhaps as much as 10% more gold production, in Q4, while reducing cash costs by as much as 5% when compared to Q3, given the lower current gold prices.

Despite all the contrary opinions that we have read, our Peruvian mines have made excellent inroads at improving productivities and reducing costs, generating healthy operating margins during the quarter, thanks to increased mining rates, improved dilution controls and a change in mine sequencing that takes advantage of the relatively stronger base metal prices. Our Huaron mine was on plan, producing 933,000 ounces of silver in the quarter, up from the 872,000 in the comparable quarter last year, thanks to a 9% increase in throughput, comfortably outpacing the 870,000 tonnes annually we incorporated into the latest 43-101 Technical Report that was filed during the quarter. The higher productivities, combined with the base metal focused mine sequencing, drove cash costs down to the $7.63 per ounce for the quarter compared to $12.85 the year before, and it's the lowest we've seen at Huaron in nearly six-and-a-half years.

At Morococha, we produced 637,000 ounces of silver in the quarter for Pan American Silver's account, which was actually down from the 675,000 ounces in the comparable quarter last year. This was a conscious effort to shift mine sequencing towards base metal rich opportunities that exist within the large mineral resource that we have available at Morococha. Improvements in productivities and the change in mine sequencing combined to drive our cash costs down to the Company's lowest cash costs this quarter at $6.88 per ounce, well below last year's Q3 of $15.89 per ounce and the lowest we've seen at Morococha in four years.

Based on our October actual performance and forecast for November and December, we are expecting to see similar silver production at both Huaron and Morococha in Q4 when compared to these Q3 results, with cash costs perhaps a little higher than Q3, given anticipation for slightly reduced copper grades at both mines. I could not be more pleased with the results at our Peruvian operations, where we have battled hard to reverse the increasing cost trends that we had suffered for the last five years. We have both these operations on solid footing as we move forward during this period of reduced silver prices.

Largely due to a two-week work stoppage, as Geoff mentioned, that was announced in July, our Q3 production at San Vicente fell below our expectation at 755,000 ounces for the Company, compared to nearly 1.1 million ounces last year. The reduced output and costs incurred from the work stoppage drove our cash costs up to $16.05 per ounce, compared to $13.14 the year before. I'm happy to report that the disputes that led to the work stoppage have been fully resolved and the operation is definitely back on track, based on what we've seen so far during Q4. Actually, based on our October actual performance and forecast for November and December, we are expecting to see Q4 production and costs to come in similar to our strong second quarter performance we enjoyed this year.

At Manantial Espejo, we produced 972,000 ounces of silver during the quarter, ahead of last year's 782,000 ounces in the comparable period, along with 13,200 ounces of gold, which was a little less than last year's 13,900 ounces. Due to a swing to drawing down stockpile inventories during Q3, compared to last year's Q3 that actually built stockpile inventory, and lower by-product credits for gold due to lower gold prices, our cash costs increased to $15.54 per ounce, compared to $12.55 in the comparable period last year. This quarter result was largely in line with what we had expected and what I had discussed in our second quarter conference call, as the operation continued pre-stripping the Maria open pit in order to access higher grade ores during Q4. I'm pleased to report that we are just beginning to encounter that higher grade ore we expected in the bottom of the Maria open pit, and although we are several weeks behind schedule, we have encountered more mineralization, albeit with more complex structures than we had anticipated. Irrespectively, we expect to see a boost to gold production in the fourth quarter at lower cash costs, ending the year on plan according to our original guidance for Manantial Espejo.

Our sustaining and capital projects are advancing well, with open pit stripping activities in Manantial Espejo and Dolores, tailings dam expansions at La Colorada, Huaron and Manantial Espejo, and some mine infrastructure projects at La Colorada and Huaron, along with exploration, primarily at Huaron, Morococha and Manantial Espejo, which all make up the bulk of our sustaining project activities during the quarter. As I mentioned last quarter, thankfully, we buttoned up the Pad 3 expansion project at Dolores during the rainy season and have reinitiated that work in early October, on track to finish the project before year end. We have successfully secured the necessary right-of-ways for our new power line project at Dolores mine and have initiated permitting efforts that allow construction to begin early in the New Year, anticipating a late 2016 date to energize the mine and shut down our expensive diesel power generation units, which will save us an estimated $7 million or more a year in direct operating costs.

Our La Colorada expansion project is getting off to a good start, where, during the first five weeks of the fourth quarter, we have now issued over $30 million in contracts and purchase orders, mainly related to the equipment and construction of the new sulphide plant, as well as the purchase of a new hoist for our new shaft. On a total project basis, we have committed $44 million to date, and in the upcoming few weeks we plan to commit an additional $20 million for the development of the new shaft.

Due to the timing of getting our Dolores power line and La Colorada projects into full swing, we are reducing our overall project spending guidance to $50 million for 2014.

As Geoff mentioned, with our results through the third quarter and expectations for the fourth quarter, I'm pleased to report that we remain on track to achieve our original 2014 consolidated production and cost guidance of between 25.75 million to 26.75 million ounces of silver, 155,000 to 165,000 ounces of gold at a cash cost forecasted now to be at the low end of our original guidance, which was between $11.70 to $12.70 per ounce net of by-product credits. Largely due to the outstanding improvements at our two Peruvian mines, we are increasing our 2014 consolidated by-product base metal production forecast to approximately 44,000 tonnes of zinc, 15,000 tonnes of lead and 8,000 tonnes of copper. We also confirm our original 2014 sustaining capital guidance of $95.5 million by reducing our project capital expenditure to approximately $50 million, as I stated earlier.

Before I finish, I'd like to make a couple of comments relative to our budget preparation for 2015, which we are right in the middle of completing. While I can't give you any preliminary production or cost figures yet, I can say that we are fortunate to have the La Colorada and San Vicente higher grade mines that can remain profitable even at lower precious metal prices we are currently seeing. I'm not expecting to see any significant changes in their production plans for 2015. Likewise, we will continue our course at both Peruvian operations, who have established profitability at the current precious metal prices as they focus their mining sequencing towards more by-product rich, particularly copper ores, using the higher productivities that the mechanized mining techniques has brought to these operations and our miners are now becoming familiar with.

Alamo Dorado is reaching the end of its mine life during 2015 and we will be supplementing lower open pit ore production with the large stockpile resources we have available, which limits our ability to make large changes in its cost and production profiles. We will simply be looking to keep costs down to sustain profitability at Alamo Dorado within the known resources that we have there. Our Manantial Espejo and Dolores mines represent our largest challenges for 2015, as these lower precious metal prices, given the nature of these deposits, make our challenges more difficult. We are looking for cost savings and productivity enhancement at all of our operations, and we will adjust our mine plans where we can to meet the challenges of the lingering low precious metal prices we expect for 2015. In addition to each of the operating aspects of our mines, we will be looking very carefully at minimizing our sustaining capital projects in light of these new lower prices.

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

MICHAEL STEINMANN:

Thank you, Steve. Good morning. The last few months have been very busy for our mine exploration teams. We drilled a total of over 50,300 metres at our operations during Q3, spending nearly $5.4 million on drilling related costs; we accelerated the programs at Huaron and Morococha and as of the beginning of November, we completed our exploration programs for 2014 at both operations. We increased our original exploration budget from 108,000 metres to about 130,000 metres, mostly through expanded programs at Huaron, Morococha and La Colorada, where we have achieved excellent results. With a total of 120,000 metres at the end of September, we are close to completing the annual program and Q4 will see much less exploration activity than the first nine months of the year.

About 22% of Q4 drilling took place at La Colorada, where both main areas, Candelaria and Estrella, again returned excellent results. In Candelaria, we had further intersections of the narrow, but very high grade NC7, and other split veins to the NC2 structure. Some examples are 1.1 metres containing 2.3 kilogram per tonne silver, 5.3% lead and 15.6% zinc; 0.53 metres with 5.9 kilogram silver, 3.8% lead and 22% zinc; or 0.63 metres with 2.8 kilogram silver, 10.1% lead and 22.8% zinc. The Amolillo vein returned further high-grade results as well, like 2.15 metres with 660 gram per tonne silver and 6.8% combined lead/zinc; or 1.12 metres with 853 gram per tonne silver and 2.3% zinc/lead combined.

I reported many spectacular drill results from all main structures and many new splits discovered during the last nine months. They will all be included in the reserve and resource update at the end of the year. Overall, drill activities at La Colorada have slowed down in 2014, as our mine development teams are focusing on the mine expansion and not on the excavation of underground drill stations. Although, I still expect to more than replace what we mined during 2014, the new reserve addition will probably not be as large as in previous years. Once the expansionary underground development is finalized in 2016, focus will return to underground exploration and to expand our largest reserve even further.

Huaron received nearly 10,000 metres of drilling, about half of that on the newly discovered extension of the Sevilla ore body. I shared a few results of this new manto mineralization during the last conference call. The ore body is conveniently located between the main gate and the processing plant and can be accessed with a short development ramp from the 420 level. The average width of the manto is 6.5 metres, and besides silver, it contains high grades of zinc and some lead. Q3 drilling returned 12.8 metres with 173 grams silver, 5.2% zinc; 6.2 metres with 160 grams silver and 5.3% zinc; or 4 metres with 180 grams silver, 0.6% lead and 1.3% zinc, just to mention a few.

On your screen, you can see a long section with some selected drill results. This is the second ore body we discovered at Huaron in less than 18 months, underpinning the large exploration potential of this deposit. All exploration results will be integrated in the reserve update at the end of December.

Manantial Espejo received nearly 10,900 metres of drilling during Q3. Apart of the Brownfield targets around the producing Maria and Melissa veins, we explored five Greenfield targets, as well. Most of the drilling took place in August and September and sample analysis is still in progress. Some results have been received from Maria vein, with 4 metres containing 4.8 gram gold and 290 grams silver; or 2.4 metres with 0.5 gram gold and 860 grams silver. The Melissa vein returned even higher grades, returning intersects of 1.4 metres with 7.3 gram gold and 470 gram silver; or 0.8 metres with 37.4 grams gold and 1,490 grams silver. More results will be available in Q4, ready for the year-end reserves.

At Dolores, we finalized nearly 9,000 metres of diamond drilling during the last nine months, targeting the south extension of the current reserves, as well as some open spaces in the central zone. The south extension returned high-grade intersects like 5.3 metres with 104 grams silver and 0.65 gram gold; or 15 metres with 70 grams silver and 7.1 grams gold. The best hole in the central zone returned 8 metres with 442 grams silver and 16.6 grams gold.

As we move towards the end of the year, our exploration programs at the operations and projects are shaping up nicely. Drilling has added substantial new resources in most of our mines. How much of this material will make it into the reserves at the end of the year will obviously depend on the metal prices that we'll use for the estimation. I look forward to sharing with you in detail our new corporate-wide reserves and resources and final 2014 exploration results in February 2015.

I'll pass on to Rob now for the financial review.

ROB DOYLE:

Good morning, ladies and gentlemen. As Geoff and Steve have described, Q3 was not without its challenges for Pan American. Many of the financial challenges were triggered by quarter-end non-cash valuations in response to the lower precious metal environment we now find ourselves in. I would like to start by reviewing our cash flows for the period, which provide the clearest perspective on our performance.

For Q3, our operating cash flow before interest and taxes was $41.5 million. This operating cash flow was sufficient to fund all of our sustaining capital expenditures, which amounted to $25.8 million, our tax payments for the period of $2.3 million and most of our dividend of $18.9 million. We did realize some FX losses, mainly on our Canadian treasury balances, which brought our treasury balance down to the $370 million range. Our growth capital expenditures of $2.9 million, primarily spent on the expansion of La Colorada, was more than offset by net borrowings, primarily from local loans in Argentina of $9.9 million, bringing our closing treasury balance at quarter end back to a healthy $377.5 million, with total debt of only $57.3 million.

Our Q3 and year-to-date consolidated all-in sustaining cost per silver ounce sold is presented on 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 in our consolidated income statements for the respective periods on a per ounce basis. We calculate an AISCSOS of $20.50 per ounce for Q3, including net realizable value, or NRV, adjustments on inventories, which added $2.47 per ounce. This measure was also impacted by the fact that we sold significantly less silver in Q3 2014 than we did in the comparable period of 2013. Our AISCSOS for the first nine months of the year was $18.02 and was also negatively impacted by $1.45 per ounce of NRV adjustments, but it is a much better reflection of the overall reduction in our cost structure from a year ago, as we sold very similar quantities of silver in both nine-month periods. Excluding the NRV adjustment, our year-to-date AISCSOS was $16.57. That's 11% below where we were in 2013.

The improvements made to our cost structure were driven by stronger by-product credits, lower sustaining capital and curtailed exploration expenses. We expect that our full year AISCSOS will be within the guidance range we have provided of $17 to $18 per ounce, not factoring in any potential NRV adjustments that may occur in Q4. Excluding NRV adjustments, we would expect to come in below or at the low end of our guidance range.

We present select information from our Q3 income statement on your screens now compared to the previous quarter, that being Q2 of 2014, as well as the comparable period of Q3 2013. Our revenues in Q3 2014 lagged revenues from a year ago, as a negative quantity variance of $20 million, combined with a negative price variance of $7.1 million and negative settlement adjustments on concentrates of $8.2 million. The lower volumes of precious metals sold in Q3 2014 compared to Q3 2013 also explains the decreased depreciation charge you see. Similar factors were behind the decrease in revenues that we saw from Q2 to Q3 of this year, as we sold 10,000 ounces less gold at lower precious metal prices and recorded $12.3 million more in settlement adjustments in Q3 than we had in Q2.

Included in our cost of sales for Q3 2014 was an NRV adjustment to inventories of $15.4 million, as we marked down the value of our precious metals contained on the heap leach at Dolores, stockpiles and dore products to reflect the sudden decline in precious metal prices at the end of the quarter. These NRV adjustments, combined with negative price adjustments of $9.8 million, were the major factors that took our mine operating performance into a loss for the quarter.

We saw Canadian dollar weaken towards the end of the quarter, which was the main driver behind the FX loss of $6.7 million. As of September 30, about a quarter of our cash and short-term investment balances were held in CAD.

After excluding NRV adjustments to long-term heap inventory at Dolores of $8.5 million, unrealized FX losses of $2.6 million and derivative gains of $2.2 million, we report an adjusted loss of $14.3 million for Q3 2014, which equates to $0.09 per share. For the year to date in 2014, we reported modest adjusted earnings of $0.4 million. As we look forward into the fourth quarter of this year, we are cautious with respect to additional NRV adjustments and negative price adjustments on open concentrated QPs that may be recorded at year end if precious metal prices close below the prices prevailing at the end of Q3, which were $17.11 for silver and $1,216 for gold.

The main factors causing the deterioration in adjusted earnings from the comparable period of 2013 are shown on the waterfall graph on your screens now. Lower quantities of precious metal sold, together with negative price and NRV adjustments and lower precious metal prices, were only partially offset by lower depreciation associated with the reduced volumes sold and decreased taxes.

Lastly, a brief review of the working capital portion of our balance sheet. We saw a decrease of $40.5 million in our overall working capital balances, with working capital at $606.9 million at quarter end. The change in working capital was principally reflected in lower cash and short-term balances previously described, in lower accounts receivable reflecting settlement adjustments, in lower inventory balances on NRV adjustments of $15.4 million, and lastly, by higher loan balances after the drawdown of loans denominated in Argentine pesos. With respect to inventory holdings, our sales for the quarter were roughly equal to the value of metal produced, as we drew down on silver, zinc and lead inventories but built up gold and copper inventories.

With that, back to Geoff for some closing comments.

GEOFF BURNS:

Let’s quickly review the salient points from the current quarter and look at where we are for the first nine months of the year. In spite of some short-term headwinds, which we are now recovering from, heavy rains in Mexico, the two-week shutdown at San Vicente, we delivered very respectable quarterly production of 6.2 million ounces of silver and 34,000 ounces of gold. We also produced more zinc, lead and copper than anticipated, thus raising our expectations for this year’s consolidated base metals production, which clearly helped our Morococha and Huaron mines achieve their lowest cost per ounce of silver in quite a number of years.

We generated strong operating cash flows, $38.5 million or $0.25 per share, more than enough to finance our sustaining and project capital needs and cover most of our dividend. We continued our cost control and productivity initiatives, posting AISCSOS of $18.08, excluding NRVs, and cash costs of

$12.29 per ounce of silver. We advanced our La Colorada expansion project as planned, setting the stage to start awarding key contracts in the final months of this year. And we are going to continue to return value to our shareholders in the form of an industry-leading dividend.

For the first nine months of 2014, we produced 19.4 million ounces of silver and almost 118,000 ounces of gold. Our base metal production is ahead of schedule. Our all-in sustaining costs per ounce of silver sold of $16.57 were 11% lower than where we were at the same time last year. We have generated $123.4 million of cash flow from our operating activities, which is equivalent to $0.81 per share, more than sufficient to fund our sustaining capital and growth capital and contribute to the over $75 million we paid out in dividends.

Before we move on to the question and answer session of our call, I'd like to follow up on some of Steve's observations regarding expectations for 2015, and while a bit repetitive, I would like to reiterate my closing comments from our earnings release. Since the end of the third quarter, we have seen silver and gold prices continue to decline. While in the long term I remain staunchly optimistic that precious metal prices will recover to their previous highs and more, we are and we will continue to respond to the current price environment. As we move through our 2015 planning and budgeting processes, we will again be looking for opportunities to further reduce our costs, increase our productivities, eliminate the processing of uneconomic material and focus on cash generation at each and every one of our mines.

It almost goes without saying, but this is an easier task at our higher grade operations, La Colorada and San Vicente, but will be more challenging at Dolores and Manantial Espejo, as Steve mentioned. Having said this, our success in reducing costs in Peru is a clear indicator of what Pan American can accomplish when faced with adversity, when others would have recommended we throw in the towel when faced with—when others recommended we would have thrown in the towel. As a realist, I fully appreciate that the task ahead is difficult, but I am confident we have the experience, the flexibility, the financial strength and the team to weather and even excel during this challenging period. Thank you.

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

OPERATOR:

Thank you, sir. We will now begin the question and answer session. If you wish to ask a question, you may press star, then one on your touchtone telephone to join the queue. You will hear a tone acknowledging your request. If you are using a speakerphone, please ensure you lift the handset before pressing any keys. If you wish to remove yourself from the question queue, you may press star, then two. Once again, anyone who has a question, please press star, then one at this time.

Our first question today comes from Jorge Beristain of Deutsche Bank. Please go ahead.

JORGE BERISTAIN:

Hey, good morning, guys. Yes, my question really has to do more with your power line that you're putting in at Dolores. I just wanted to understand if that's going to go ahead even if the expansion, which you guys had said was contingent on favourable metals prices, does not move forward?

STEVE BUSBY:

Yes, good morning, or good afternoon, Jorge. This is Steve. Yes, the answer is, yes, it will go ahead. The $7 million a year savings I referenced was for the heap leach only operation, so the payback is just over two years, even without the expansion.

JORGE BERISTAIN:

Okay, and my second question I guess is for Geoff. Obviously, you guys had attempted to do some hedging last—I think in the—what was it, the spring of 2013, was not well received, but in hindsight, I think was fairly prophetic. How are you feeling towards hedging now, and particularly for by-product credits, as you start to move more of your mix towards base metals and there will probably be less of a backlash towards hedging those? I just kind of wanted to understand your conceptual view at this point?

GEOFF BURNS:

Hi, good morning, or as Steve said, I guess, good afternoon where you are, Jorge. Yes, we're not going to be touching our silver and gold with respect to hedging. We have, at different moments in the past, covered some of our base metal with essentially put/call spreads. We're feeling pretty comfortable with current zinc prices in what I'm reading, so I'm not inclined to move too quickly to do anything on the zinc side of things, which is our largest base metal by-product, and we are having internal discussions on should we do anything with the lead and copper. I guess my general comment would be, if we feel that there is more downside risk to those base metal prices, we probably would put something in place, but at the moment, we are unhedged on all of our by-products.

JORGE BERISTAIN:

Great, and so if I could just also, Geoff, ask you a kind of more big picture philosophical question. You guys are one of the few remaining companies paying a reliable quarterly dividend in this environment, but if push comes to shove and you need to make decisions and choices into next year between growth CapEx and dividend, if it came to that, how sacrosanct is the dividend policy, or do you view it as being more of a variable policy that will shift with the changes in the silver price?

GEOFF BURNS:

Jorge, I think it's more a firm dividend policy than perhaps the market has realized. When we first looked at, you know, starting a dividend and then increasing it over a period of years to the current level, it was very much a long-term decision. We didn't just say, "Look, boy oh boy, look it, we've got a nice little cash bulge going on here because prices are at $35; let's crank the dividend up to the maximum." That's not the decision process we went through either at Management or at the Board level. We said, "What do we believe is a long-term sustainable dividend for Pan American?" and through good and bad times.

Well, we are in, I hope, a period of bad time, I hope this isn't the future, I certainly don't believe it is the future long term, and we are going to sustain that dividend. We have the financial strength to do it and I think it would be an error to cut that dividend, given the fact that for so far, about an eight-week period, we've seen pressure on the precious metals prices. That's not what prudent long-term thinking companies do. Otherwise, the dividend just goes up and down with the price and I'm not sure, as an investor, how you rely on that if you're looking for a yield stock.

Having said all that, the Board is realistic. We're going to look at this every quarter. We're going to look at what our future growth capital requirements are. At the moment, they're very manageable within our financial balance sheet, and so the decision was, yes, we're going to pay the dividend again, but we're not going to blindly do it. You know, if prices of silver went to $10, we wouldn't blindly keep following that pattern, that's not Pan American's way, but I can say that it was a long-term decision and we're sticking with it right now.

JORGE BERISTAIN:
Perfect. Appreciate it. Thanks.

GEOFF BURNS:
Thanks, Jorge.

OPERATOR:
Once again, if you would like to ask a question, please press star, then one on your touchtone phone. Our next question comes from Dan Rollins of RBC Capital Markets. Please go ahead.

DAN ROLLINS:
Yes, thanks very much and good morning; good afternoon for us over here, but good morning for you guys. Question on the reserves for next year. You're currently using $22 an ounce silver. You mentioned in the MD&A there could be some risk on that. What type of—obviously, you're not going to have a huge implication at your Peruvian assets and your underground, high-grade undergrounds, but what type of impact could we see at Dolores if you were to use a silver price of closer to $20 or $18 in your reserves going forward on grade and total tonnes contained?

GEOFF BURNS:
Dan, I'm going to let Michael make a bit of a comment here. You know, it's pretty tough speculating in mid-November on what the process of the entire reserve rerun is going to look like depending on exactly what price we settle on, and I would be—you know, I think it would be remiss for us to provide much guidance in that regard without doing the work. I would say the following: If prices stay where they are right now, we are going to reduce our reserve price. I can't give you the number today, but it would be poor stewardship if we didn't, in my opinion, and it will have some negative impact on what our reserves will look like, and, as a consequence, at what our valuations for each and every one of our

assets will be. I think what we were trying to do with our commentary, in the nicest sense, is just to remind our investors and our shareholders that that is out in front of us, and I would argue that that is probably in front of just about every other company in our sector, be it gold or silver.

With that, maybe I'll let Michael make some very generalized comments about what he might see at our operations.

MICHAEL STEINMANN:
Sure, Dan. Obviously, as Geoff said, we did not decide on the metal prices and I don't have numbers, we did not start yet the process of estimating the reserves, but when you talk about the metal price and the reserves, don't forget that also costs came off quite a bit and, you know, cut-offs will be lower as well. So, you know, it's not only the metal price that is important. If you look at our proven and probable reserves, so look at the cost as well. TCRCs for our concentrates will have a big impact as well. So there are a lot of factors in there and I don't have, you know, really the numbers yet and how they're going to influence our decision at the end.

In general, obviously, our high grade operations stay—obviously, it varies—I would estimate there will be very, very small impact to them because, you know, they are so—most of the material is so far into the money even at today's prices, I don't think there will be a big impact. On the lower grade operations, again, it depends a lot on what we're going to use on the cost side, and I will only be able to tell you and answer your question fully in—end of January, beginning of February next year.

DAN ROLLINS:
Okay, that's fair. Maybe on a broader basis, could you guys maybe just discuss what type of savings you've been seeing from the weaker currencies in the jurisdictions that you're operating? I mean, obviously, we didn't see a big impact in Q3, but we did see a lot of the currencies weaken significantly through September. Do you have maybe just sort of rough idea of, you know, a 10% move, or a 5% move in the currencies lower, what type of implications that could have for your cost structure sort of across the board?

ROB DOYLE:

Sure, Dan. Rob Doyle here, I can give you a rough estimate. You know, we've seen the operating currencies, the major one for us being the Mexican peso, also the Peruvian sol, moving pretty much in tandem actually with the CAD. We've seen the weakening on the CAD, that caused the FX loss for us this quarter. We've seen a similar offset of about the same, sort of 5% to 10% relief at the operational level. So, it's in that order of magnitude.

DAN ROLLINS:
Okay, perfect. Then any thoughts about hedging currencies at all this time, or you just sort of let them sort of run as a sort of counter—potentially counter-cyclical nature to the precious metals?

GEOFF BURNS:
Yes, Dan, I think our view is probably consistent with the view of—I'm going to say most of the rest of the world right now, as we see continuing strength in the US dollar, I don't see anything that is going to suggest that's not going to be what we're looking at going forward, and in that environment we're, I think, best served to leave our operating currency, the Mexican peso, the Peruvian sol, the Argentine peso, leave them open to actually benefit from that strengthening US dollar, and until I see some sign, or we see some signs of a reversal to that trend, I'd be reluctant to go ahead and hedge any of the currencies.

DAN ROLLINS:
Okay. Then maybe just taking sort of a different approach here, you've done a fantastic job of getting the costs in the operations back on track in Peru. Given that expertise, do you see any opportunities in this current market to pick up assets that might need a little work, rolling up the sleeves, but you can get them at a fantastic value and then generate further value for investors in the next price cycle, is there opportunities out there right now that you're looking at, or is the asking price still too high for you?

GEOFF BURNS:
I obviously can only make a general comment. With this last leg of—well, call it market devaluation, there are assets now appearing that start to be more attractive to Pan American, particularly in view of what we think our operating expertise is and capabilities are. So I would say that the—there is a

broader range of opportunities now than we have probably seen in the last two years, and we're aware of what's going on in our sector, and I think I'll have to leave it at that.

DAN ROLLINS:
Okay, perfect. Thanks, guys.

GEOFF BURNS:
Thanks.

OPERATOR:
The next question comes from Andrew Kaip of BMO Capital Markets. Please go ahead.

ANDREW KAIP:
Hi, Geoff. Look, I've got just a follow-up question on the dividend, and looking at the first nine months of this year, from an operational perspective, you've done a very good job at supporting that dividend, and from your comments earlier, it sounds like the Board and Management are very committed to it. We've seen a price shock in the silver price recently and I'm just wondering can you provide investors, or can you provide us any insight into what metal prices do you as a management team start to get concerned about that dividend policy?

GEOFF BURNS:
Andrew, I don't have an absolute price in mind that says below $16.20, we're cutting the dividend. That's not the way we look at this. As I said, we made a long-term commitment to paying a dividend to our shareholders. We did it at a time when we were in a very strong financial position. We remain in a strong financial position. As of today, I don't have growth projects beyond La Colorada that will squeeze my balance sheet in any foreseeable way. So, you know, next quarter, we'll look at it again, given the comment that we are committed to it, and we'll judge what the price is at that time and what our ability is to continue with our commitment.

So, I mean I could tell you I could do this, I could say, "Well, if silver goes to $10, it would be a risk," but then there's a lot more at risk within the entire sector if silver goes to $10 than just Pan American's dividend. It's a commitment we made and it's a commitment we're going to stick with, unlike, unfortunately, a lot of other companies in our sector who added dividends and then took them right away again. I'm not sure what that says to any potential investor who wants to buy a stock and who expects some level of return above and beyond just capital appreciation. That's not where Pan Am's at.

ANDREW KAIP:
Okay, and then just one question. Given the adjustments with respect to stockpiles, can you give us some impressions on Alamo Dorado? It's been a very successful operation for Pan American since it began operating, but it is getting close to the end of its mine life, but you do have significant stockpiles there that could be processed. At current silver price, you know, what is your thinking about the future processing of those low-grade stockpiles?

STEVE BUSBY:
Yes, hi, Andrew. Steve here. I guess the easiest way to answer that is we were pleased with our performance in October. October, we had good performance, with a significant portion of our feed coming from the stockpiles, to the point where we feel reasonably comfortable we can adjust the cost structure at that site at these kind of prices to keep us going through next year. That kind of, I guess, corrals it for me. It gives you a fairly good feel on what the cost structure is there, and I think, you know, we can kind of duplicate what we're going to see in Q4 or for the next four quarters thereafter, I'll be pretty pleased, even at these prices.

ANDREW KAIP:
Okay. No, that's very helpful. Thank you.

OPERATOR:
The next question comes from John Bridges of JP Morgan. Please go ahead.

JOHN BRIDGES:

Morning, everybody. Just sort of following on from that question, once you've closed down the mine, then would it be possible to sort of warehouse those stockpiles and then bring them back as a sort of option on—at a higher gold, silver prices, if the opportunity came up?

STEVE BUSBY:
Yes, hi, John. Steve here. Yes, I think that's quite reasonable. I mean, if we got to the point where we thought those stockpiles became a resource of better prices, certainly that kind of operation you could sit on and wait on it until the price came back.

JOHN BRIDGES:
Yes, because you did that in Peru with those stockpiles for quite a while, I seem to remember.

STEVE BUSBY:
Yes.

JOHN BRIDGES:
Then I just wondered, with respect to the stockpile concentrate adjustment this quarter, it was quite big, was there anything unusual related to that?

GEOFF BURNS:
Sorry, John, which adjustment are you talking about?

JOHN BRIDGES:
The concentrate adjustment you mentioned in the start-up that affected earnings.

ROB DOYLE:
No, John, most—the vast majority of the adjustment was on the price side, and as you know, provisionally, price concentrates from previous periods got re-priced, those with open QPs. That was the lion's share of the adjustment. We did have a slightly higher than normal quantity adjustment flowing through this particular quarter, but it was really predominantly on the price side, and most of that

was at San Vicente, which is on the very high grade silver concentrate and, obviously, the precious metals are the ones where we've seen the biggest price declines.

JOHN BRIDGES:
Okay, great. Then on NRVs, how do you allocate those? Were all of those NRVs allocated to your operating earnings?

ROB DOYLE:
So the NRVs (inaudible).

GEOFF BURNS:
Yes, I think the quick answer, John is, yes, all those NRVs end up in our cost of sales.

ROB DOYLE:
Correct.

GEOFF BURNS:
So they are absolutely in our operating earnings, yes.

ROB DOYLE:
That's correct, and then from an adjusted earnings point of view, the only one that we adjust out is the NRV related to the Dolores heap leach, because that's long-term in nature.

JOHN BRIDGES:
Okay, that's helpful. Okay, well done, guys. Best of luck in these interesting times for silver.

GEOFF BURNS:
Okay. Thanks, John.

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

JOHN KRATOCHWIL:

Hi, good morning, guys. I've got actually two questions. First one, Dolores, could you (audio interference) what the operating strip ratio was in the third quarter, and what you might expect it to be in the fourth quarter of this year?

STEVE BUSBY:

Sorry, John, can you repeat the question—oh, the strip ratio.

JOHN KRATOCHWIL:

Strip ratio at Dolores.

STEVE BUSBY:

Yes, I don't have that number right off the top of my head.

JOHN KRATOCHWIL:

Okay.

STEVE BUSBY:

Yes, I can—we'll get back to you, John. We'll follow up with that.

JOHN KRATOCHWIL:

Sure. Then the other question that I had actually has to do with the technical report you filed on Morococha this week. Could you remind me, the agreement with MCP to move that plant, or to construct a new plant, is there—if you don't go ahead with full expansion to 800,000 tonnes per day, is there still, like, a drop-dead date where you have to move the existing plant or actually construct a new one?

STEVE BUSBY:

Yes, John, good question. We did have a date in the agreement. With that said, the development of the Toromocho operation has been extended out some and the forecast of when that actual open pit interferes with our operation appears to be extending out even further. It's not just us; it's the Central

Highway as well, we're kind of all connected there, all that's getting pushed out. There isn't really a date defined yet. The agreement, as I said, does have a date, but we see it being pushed out and there isn't a new agreement defined at this stage.

JOHN KRATOCHWIL:

And was it in the original agreement, if you could remind me?

STEVE BUSBY:

There was.

JOHN KRATOCHWIL:

No, but what is it, if you could remind me what it was?

STEVE BUSBY:

Yes, the original agreement, I believe, had us at 2017 with the new mill, yes.

JOHN KRATOCHWIL:

Okay. That's all I had. Thanks, guys.

STEVE BUSBY:

Yes.

OPERATOR:

The next question comes from Adam Graf of Cowen Securities. Please go ahead.

ADAM GRAF:

Hey, guys, thanks for taking my question. Just, maybe just some quick additional clarity on the positive impact of hooking up to grid power at Dolores, can you maybe give us some additional clarity there on when that's going to hook up and start to have a positive impact on operations, and maybe just give us, if you could, a percent cost savings on a cost per tonne process basis or something?

STEVE BUSBY:

Sure, Adam, this is Steve. Yes, I mentioned in my conference, but we're anticipating late 2016 to be energized, and when we're energized, under the current operating scenario, without any further expansion, we expect to see savings in the neighborhood of $7 million or just over $1.00 a tonne with that power line.

ADAM GRAF:

Perfect. Thank you very much.

STEVE BUSBY:

You're welcome.

OPERATOR:

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

GEOFF BURNS:

Thank you, Operator, and thank you again for joining us this morning and/or this afternoon, depending on your location, for our third quarter conference call, and I look forward to mid-February and our year-end conference call when we'll get to provide you another update on how things have transpired over the balance of 2014. Thank you.

OPERATOR:

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