Pan American
SILVER CORP.

Suite 1500 - 625 Howe St.
Vancouver, BC Canada V6C 2T6
604-684-1175
www.panamericansilver.com

2015 Third Quarter Conference Call & Webcast Transcript

DATE:

Thursday, November 12, 2015

TIME:

10:00 AM PST

SPEAKERS:

Geoff Burns, *Chief Executive Officer*

Steve Busby, *Chief Operating Officer*

Michael Steinmann, *President*

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

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.

For further information, please contact:

Kettina Cordero
Manager, Investor Relations
ir@panamericansilver.com
604-684-1175

OPERATOR:

Thank you for standing by. This is the conference Operator. Welcome to the Pan American Silver Third Quarter 2015 Conference Call. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, 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 phone.

At this time, I would like to turn over the conference call 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 third quarter unaudited results conference call. Today, I am joined by our CEO, Geoff Burns; our President, Michael Steinmann; our Vice President of Business Development and Geology, Chris Emerson; our Chief Operating Officer, Steve Busby; and our Chief Financial Officer, Rob Doyle.

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

We encourage Investors to refer to the cautionary language included in our news release dated November 11, 2015, 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. First of all, I would like to welcome Mr. Chris Emerson to our call this morning. Chris joined Pan American this past August as our Vice President of Business Development and Geology, reporting to Michael Steinmann, our President. Chris will be commenting shortly on our brownfield and greenfield exploration programs. Welcome aboard, Chris.

I'll start with a brief recap of what was a very strong operational quarter from both a production and cost viewpoint, and then I will let Steve, Chris, and Rob provide additional detailed commentary on our operations and projects, our exploration programs, and our financial performance during the third quarter, before handing the call over to Michael Steinmann for some closing comments, and then opening the lines for a Q&A session.

To begin, I am pleased to announce that yesterday our Board of Directors approved the fourth quarterly cash dividend of 2015 in the amount of $0.05 per common share. The dividend will be payable on or about Friday, December 4, 2015, to holders of record of common shares as of market close on Monday, November 23, 2015. Pan American's dividends are designated as eligible dividends for the purposes of the Income Tax Act of Canada, and as a 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.

Let's have a look at our operating performance during the third quarter of 2015. We produced 6.61 million ounces of sliver, 7% more than the year ago, and basically flat from what we produced in the second quarter of this year. In addition, we produced a new quarterly Company record of 53,600 ounces of gold; 57% more than a year ago, and even 21% more than in the second quarter of this year thanks to larger quantities of gold produced at our Manantial Espejo mine and our Dolores mine.

We also saw another nice decline in our cash costs, which were $8.74 per silver ounce net of by-product credits; 31% less than a year ago and down a further 7% compared to where we were last quarter. This was achieved thanks to lower operating costs at all our operations, higher by-product credits which benefitted from the increased copper and gold production, the continued devaluation of local currencies, in particular the Mexican peso and the Peruvian sol, and specifically, to lower diesel prices and lower reagent costs.

We also saw a good improvement in our all-in sustaining costs per silver ounce sold, which were $16.29 net of by-product credits, some 20% lower than a year ago. This was primarily achieved due to the reduction in cash costs I just mentioned, lower G&A expenses, and lower sustaining capital expenditures.

I think it is also worth noting that excluding the net realizable value adjustments of $2.71 per ounce primarily related to Manantial Espejo stockpiles which have been accumulated over the past several years of mining, that our AISCSOS would have been $13.50 per ounce. Even as by-product metal prices have declined, both our cash costs and our AISCSOS were well below our annual forecasts, which, as was noted in our press release of earlier this morning, we have now lowered our guidance for both for the balance of 2015.

In light of the continued slide in metal prices, I am quite pleased with our financial results this quarter, as we clearly benefited from our strong operating results. Focusing on cash, we generated $32.9 million or $0.22 per share in cash flow from our operating activities, a significant improvement over the first and second quarters of this year. Our third quarter operating cash flow does include an $8.2 million tax refund related to overpayments in 2014. But even excluding this item, we still generated sufficient cash from our operations to cover our exploration spending, our corporate G&A, pay all of our sustaining capital, and fund our current quarter's dividend distribution. In my opinion, a very acceptable result, given the decline in gold and silver prices we witnessed during the third quarter.

Our balance sheet remains strong. Cash and short-term investments at September 30 were $266.1 million, down approximately $9 million from the previous quarter, even after funding $15 million in long-term expansionary project capital for La Colorada and Dolores, and repaying approximately $5 million in leases. Our working capital position also remains very good at $420 million, and we were actually able to modestly reduce the small amount of leverage we have employed on our balance sheet as our total debt declined to $58 million at quarter end.

Yes, we continue to use a portion of our treasury to cover our long-term, value-adding growth projects. I firmly believe that this is an excellent use of our cash as it will help transform Pan American into a lower cost producer, and the projects we are currently executing are exactly the type of investments that I believe our shareholders want us to make.

With that said, I would now like to turn the call over to Steve for an update on our operations and growth projects. Steve?

STEVE BUSBY:

Thank you, Geoff. As Geoff has alluded and despite some significant challenges, we delivered another strong production quarter with better than expected cash costs per ounce on a consolidated basis. It is my pleasure to provide you some additional details on each of our individual mine performances and project advances with the following commentary.

Starting off in Argentina, our Manantial Espejo mine produced 928,000 ounces of silver and 22,700 ounces of gold compared to 972,000 ounces of silver and 13,200 ounces of gold in the comparable quarter last year, despite falling 9% in mill throughput due to an unexpected SAG mill trunnion failure that has since been repaired.

Cash costs per ounce were slashed to $4.16 compared to $15.54 the year before thanks to higher gold production driven by our open pit mine sequencing into higher grade ores, and operating cost savings. Looking forward into Q4, we are expecting fairly similar silver production with perhaps 20% less gold production, which could raise our cash costs up to around $11 per ounce based on the ore quality expected in the final bit to be mined out of the Maria open pit by year end. Meanwhile, we are actively mining the Concepcion open pit that will provide a significant amount of the mill feed during 2016.

In Bolivia, our San Vincente mine produced slightly over a million ounces of silver at a cash cost of $11.23 per ounce; very similar to Q2 of this year and 36% greater production at 30% lower costs compared to the same quarter of 2014 due to a two week work stoppage that we had at the mine last year. We are expecting reasonably steady state production and costs at San Vincente during Q4.

Our Huaron mine in Peru also suffered from an unscheduled mill failure that led to an 8% reduction in mill throughput, resulting in less silver, zinc, and copper production, partially offset by more lead production during the quarter compared to the third quarter of 2014. Our Huaron operating team is having excellent success in improving productivities and reducing operating costs, yielding a 16% reduction in direct operating costs per tonne, which helped to partially offset lower by-product metal prices and lower production, raising our cash costs per ounce to $11.51 or 7% above last year's Q3 performance.

We have completed provisional repairs to the mill, awaiting a full analysis of the precise cause of the failure. We are expecting to see slight increases in metal production, offset by the current low metal prices which will likely raise our cash costs slightly somewhat during Q4 this year.

Our Morococha mine in Peru produced 564,000 ounces of silver during the quarter, which was 12% less than the same quarter of 2014 due to the change of mine sequencing I announced last quarter where we are targeting higher value, higher copper grade ores. This change in mine sequencing also resulted in producing over 2,000 tonnes of copper for the quarter, which was more than double what we produced in the same quarter of last year. The change of mine sequencing also resulted in reduced zinc production by 18% and lead production by 51% compared to last year's quarter.

Unfortunately, the erosion of by-product prices, particularly copper, drove our cash costs per ounce up 49% compared to Q3 of last year to $12.59 despite a 21% decrease in direct operating costs per tonne that's been achieved with the push towards mechanization. In addition, we intersected an unexpected water flow in one of our critical exploration drifts around the valuable Esperanza high copper grade ore zone that has forced us to shut down production in this valuable area in September of this year.

We are in the process of installing a bulkhead to control the water flows, and expect to fully regain production in Esperanza in the next few weeks. As such, we are expecting to see a temporary increase to our cash costs to perhaps as high of $15 an ounce during Q4 given the expected reduction of copper production with similar silver and slightly higher zinc and lead productions. So far in November, we have recovered a significant amount of Esperanza production, and we hope to have the area back in full production which will lower cash costs by year end.

At our Alamo Dorado mine in Mexico we produced 692,000 ounces of silver at a cash cost of $9.50 an ounce, benefiting from reduced waste mining rates compared to the third quarter of 2014 as we mine out the final benches of the open pit. We expect similar silver production and costs during the fourth quarter, which will likely be our last full quarter of open pit mining, processing only low grade stockpile ores in 2016 for as long as is economically possible.

Our La Colorada mine again produced 1.3 million ounces of silver at a lower than expected cash cost of $6.76 per ounce for the quarter, thanks largely to throughput increases and a reduction of underground development advances while we finished the new shaft excavation. The operation is expected to remain in steady state during the fourth quarter, with the operating development rates returning to normal upon completion of the shaft excavation.

This brings me to one of our most notable accomplishments for 2015, and that is a week ago on November 5, with the outstanding support of Master Drilling of South Africa and Redpath of Ontario, Canada, we have managed to complete the deepest large diameter raise bore shaft in the history of Mexico. Safely adapting to the more challenging ground conditions than we expected, our team successfully excavated the 617 metre deep raise bore that is the full 5.1 metre in diameter for the bottom 411 metres of the shaft and neck down to 2.4 metres diameter in the top 207 metres to safely get through the area of poor ground geotechnical conditions. Furthermore, post completion of the raise bore, we have successfully cement grouted the poor ground condition zone, which provides us additional assurances of stability while we work our way back down slashing the top part to the full 5.1 metre diameter, installing the final supports and equipping the shaft. We are estimating this work will be completed over the next 12 months, targeting a completion in late 2016 or about three months behind our original schedule.

I'd like to personally congratulate all of our employees and contractors for completing this critical element of our expansion project which several people in the industry questioned if it would even be possible.

Meanwhile, civil works advanced well and structural steel works began on our new sulphide plant during the quarter. We spent approximately $12.7 million on the expansion project during the quarter, bringing our total spending on this project to approximately $45 million. Despite the three month delay in completing the raise bore, we still expect to deliver the overall expansion project on budget, while progressively increasing plant throughput ultimately to 1,800 tonnes per day in the first half of 2018.

Our Dolores mine in Mexico delivered a strong quarter, producing 1.2 million ounces of silver and 22,600 ounces of gold, which was 24% and 46% greater than production from the third quarter of 2014 respectively, largely due to heavier rains experienced last year, as well as higher grades from the expected mine sequencing. We are also benefitting from savings in diesel fuel and a few key reagent prices in addition to favourable currency exchange rates, which combined with the increased production, drove our cash costs down 40% compared to the third quarter of 2014 to $8.70 per ounce despite the lower gold prices.

We expect a slight reduction in silver and gold production during Q4 due to our mine sequencing, which will increase our cash costs to roughly around $10 an ounce. Meanwhile, we've invested $5 million on our expansion and power line projects during the quarter, including advancing the underground ramp to a total of 609 metres from the portal. We have advanced engineering on the pulp agglomeration plant, and started purchases of the major long lead time equipment needs. We expect to complete the power line installation by mid-2016 and begin construction of the pulp agglomeration circuit during the first half of next year.

In summary, on the back of the strong production results so far this year, we again reaffirm our full year 25.5 million to 26.5 million ounce silver production forecast, and are now increasing our gold production forecast from the original 165,000 to 175,000 ounces up to now 175,000 to 185,000. This increase in gold production, combined with the successful reductions in direct operating costs, leads us to reduce our full year consolidated cash costs forecast from the original $10.80 to $11.80 an ounce, down to $10 to $10.50 per ounce.

With that, I'm very pleased to now turn the call over to Chris Emerson for the exploration update.

CHRIS EMERSON:

Thanks, Steve, and good morning. As you can see from the first slide, I've summarized the current performance and listed the main mines with drill metres completed in the quarter. **A total of 25,649 metres was drilled in Q3, which was 12% lower than the previous quarter, at a total cost of 2.6 million.** Year-to-date we have completed nearly 81,000 metres, which accumulates to 92% of the budgeted drilling for 2015. We've been successful in controlling costs and have spent only 81% of budgeted dollars.

On a cost basis, the star performer has been La Colorada, with consistently lower costs per metre using the Company's own drill rigs. From Q3, over 60% of the drill metres have come from Morococha and La Colorada mines combined, and I'll focus on some of the encouraging exploration results we've seen from this work later on in the presentation.

At Manantial Espejo we have restarted exploration on the Maria East structure and have had good results in defining and infilling a high grade portion of the structure, which in turn could open up further exploration to the east of the current resources.

San Vicente continues to drill the Litoral Ramal 2 structure, which I will also highlight in the next slide.

The exploration in Bolivia's San Vicente mine in 2015 has been targeting the eastern extension of the Litoral Ramal 2 structure. The cross section you see on the screen shows two drill holes, which form part of the infill program confirming the extension of the vein of over 250 metres from the development gallery on level 170. The Litoral Ramal 2 makes up 30% of the current resource and reserve, so confirmation of this important structure further to the east bodes well for replacement of resources.

In particular, the deep drill hole has two intercepts of 1.96 metres at 467 grams per tonne of silver, and 2.3 metres at 614 grams per tonne of silver along the same structure. Step-out drilling 300 metres further east will be planned for 2016. All exploration results will be integrated into the reserve update at the end of December.

As mentioned before, we drilled over 8,000 metres in Q3 in Morococha, and a lot of this work has been focused on the Manuelita section of the mine, and the continued evaluation and development at depth of this zone. Several structures, including veins 10 and 11, have been targeted with the same drill holes. This area below the 510 level was drilled in 2007 and returned grades between 150 to 250 grams per tonne of silver over plus one metre widths. Resource and reserve confirmation drilling in Q3 has highlighted increased grade intercepts as shown in the slide, for vein 11 with examples such as 1.6 metres at 1,165 grams per tonne of silver, and 2.6 metres at 365 grams per tonne silver. In vein 10, the drilling is wider spaced and confirms new inferred resources at depth in this structure.

I would like to finish with a slide from one of the principal structures at La Colorada mine and the Amolillo vein located in the Estrella zone. Underground drilling has been very successful this year both in performance and cost per metre, as well as returned good results. Drilling took place from the 365, 498, and 528 levels, and the instercepts shown on the slide speak for themselves.

If we look at the long section, you will note the proven reserve blocks are shown in red. Blue are probable and inferred resources are shaded in green. The far east portion of the vein, to the right of the slide, shows several high grade intersects, with one hole at 2.7 kilo—kilograms of silver per tonne at just under 1 metre width. This shows the high grade nature of the vein even at the eastern extent of the main structure. Drilling at depth within and beyond the inferred resource has also delivered good results, with combined high grade intercepts ranging from 300 grams per tonne to half a kilo silver over 2 metre widths. Successful drilling in Q3 of the western side of the Amolillo vein means that we now have a structure with identified mineralization striking over 1.4 kilometres.

As previously highlighted earlier on in the year, La Colorada becomes increasingly difficult to drill from surface due to depth and dip of the vein. Underground drilling is currently limited due to availability of drill chambers and crosscuts, as our development teams are busy on the expansion project. Having said this, I'm confident that at the end of the year, La Colorada will be adding sufficient resource and reserves to replace this year's production.

Our mine exploration teams have done an excellent job this quarter on controlling costs, as well as advancing our understanding of the mineralized structures. Basic drill metre targets will be met at all mines and done so within budget; reserve and resources' placement and definition is on track for year-end. How much of this material will make it into the reserves at the end of the year will obviously depend on metal prices used for the estimation, which we have yet to decide.

Now over to Rob for a financial review.

ROB DOYLE:

Good morning, ladies and gentlemen. As Geoff mentioned, despite the challenging price environment, we continued to generate strong operational cash flow in Q3; $32.9 million, which was sufficient to fund all of our sustaining capital expenditure of $16 million and our dividend payment of $7.6 million during the quarter. The strong cash flow generation meant that we only needed to utilize $8.8 million of our treasury to fund our expansionary project capital of $15.1 million, and the net repayment of loans and leases of $4.8 million. We ended the quarter in a healthy liquidity position, with $266.1 million in cash and short-term investments, and total debt of only $57.9 million.

The changes in our year-to-date all-in sustaining costs for silver sold, or AISCSOS, are presented in the table that you should see on your screens now. We calculate the consolidated AISCSOS of $14.99 per ounce for the first nine months of the year. That's 15% lower than the comparable period of last year. Based on this performance, we have revised our AISCSOS guidance downward for the full 2015 year from $15.50 to $16.50 per ounce to a new guidance range of $15 to $15.50 per ounce. The main drivers causing the lower AISCSOS in 2015 year-to-date were lower net realizable value, or NRV adjustments, lower sustaining capital, royalties and G&A, and higher by-product credits, partially offset by lower quantities of silver sold and higher TCRCs compared to the first nine months of 2014.

So on the cost side of our business, we have been able to achieve meaningful decreases compared to prior periods on the back of a vast number of operating efficiency initiatives, cost containment measures, and weaker local currencies. What has remained extremely challenge—challenged is the revenue side. The current slide gives you a breakdown of the factors that explain the changes in our revenue for the three and nine month periods ended September 30, 2015, compared to the revenue from a year ago, as well as how revenue moved compared to Q2 2015.

In all comparisons, we see that the negative variances caused by metal price declines was by far the dominant factor, partially offset by positive quantity variances mostly due to selling more gold and copper than in prior periods. The biggest price declines since Q3 2014 have been seen in our base metals, with much of that occurring since Q2 2015. Our copper hedge book has given us some protection against falling prices, but we are currently exposed to the full movements in the other metals we produce.

A quick look at our sales quantities in Q3 2015 against what we produced. You will see from the current slide that we built up about 260,000 ounces of silver inventory almost entirely due to timing of shipments from our San Vicente mine in Bolivia, which produces very high grade sliver concentrate. On the by-product side, we also built up about 2,000 ounces of gold. The total revenue effect of these inventory buildups was approximately $6.9 million. That will be carried over into subsequent periods when that inventory is sold.

That brings us to our adjusted earnings for Q3 2015, which came in at a loss of $9.3 million compared to an adjusted loss of $14.3 million in Q3 2014. The loss was narrowed as a combination of lower cost of sales, decreased taxes, and realized FX losses and reduced G&A expense outweighed the negative impact of $18.9 million less revenue in Q3 2015.

The main items reversed out of adjusted earnings in Q3 2015 were the write-down of carrying values at Manantial Espejo, and associated valuation allowance recognized on long-term receivables, and unrealized FX and commodity contract losses. Our adjusted earnings resulted in a loss of $0.06 per share compared to $0.09 per share lost in Q3 2014.

For the year-to-date period in 2015, our adjusted loss was $40.5 million versus essentially breakeven for the comparable period of 2014. The slide into a loss situation in the first nine months was driven mostly by a $77.1 million decrease in revenue, partially offset by lower costs and taxes.

Lastly, a brief review of our working capital portion of our balance sheet. We saw a decrease of $49.7 million in our overall working capital balances, with working capital around $420 million at quarter end.

The change in working capital was principally reflected in lower cash and short-term investment balances previously described, in lower inventory balances resulting from the NRV charge, in lower accounts receivable, and in lower taxes receivable after a healthy tax refund of $8.2 million during Q3, and in a net $1.6 million increase to current liabilities.

Together with our strong balance sheet, we have an undrawn $300 million secured revolving line of credit that matures in April 2019 which is available for general corporate purposes including acquisitions.

With that, over to Michael for some closing comments.

MICHAEL STEINMANN:

Thank you, Rob, and good morning. As you heard from Steve, Chris, and Rob, our solid operational performance from Q2 continued seamlessly into Q3, with similar silver production, a 21% higher gold production and lower cash costs. Based on this set of positive production and cost results, we decided to provide new updated guidance for 2015.

Our silver production forecast remains unchanged at 25.5 million to 26.5 million ounces, but our gold production will increase by about 10,000 ounces, for a total annual production between 175,000 to 180,000 ounces. Due to higher by-product credits and important cost reduction programs during the year, our predicted cash costs will decrease substantially to between $10 and $10.50 per sliver ounce for 2015 net of by-product credits. Our all-in sustaining costs will also see a reduction of a new forecast, estimate (inaudible) costs between $15 and $15.50 by year-end.

Steve already gave you a detailed overview of our two expansion projects at La Colorada and Dolores. In spite of the slight delay of the construction of the new shaft at La Colorada, the expansion advanced as planned during Q3, and the raise bore for the shaft reached the surface in early November.

The expansion at La Colorada will increase our silver production by about 2.7 million ounces per year

at a cash cost between $6 and $8 per ounce. The underground ramp at Dolores is ahead of schedule and advanced by over 670 meters year-to-date and construction continues on the new power line.

The addition of the pulp agglomeration plant at Dolores will increase the annual silver production by about 2.2 million ounces of silver, and add about the 128,000 ounces of gold to our annual production. Due to the increased by-product credits, our cash costs per ounce of silver are forecast to be negative at Dolores once the expansion is completed.

Adding high quality and low cost production is crucial to our long-term success, particularly given the current market conditions. These two projects are designed to do exactly that; to add nearly 5 million ounces of silver and over 128,000 ounces of gold to our annual production while substantially reducing our consolidated cash costs by the end of 2017, and all for a very reasonable capital investment of about $250 million.

Before opening up the call for some Q&A, I would like to give you a quick summary of a very respectable first nine months of 2015. We are right on track with our silver production and increased our gold production forecast due to strong performance at Dolores and Manantial Espejo. Our cost control measures coupled with favorable exchange rates, a lower oil price, continued to deliver positive results, bringing our cash costs for the first nine months below $10 per ounce of silver net of by-product credits, which allowed us to revise our full year forecast for cash costs and all-in sustaining costs down to lower levels. Thanks to the strong production performance, we were able to maintain our balance sheet strength with over $266 million in cash and short-term investments, over $420 million working capital, and an untapped credit facility of $300 million.

We are in the enviable situation to finance our organic growth projects from our cash reserves and still have access to sufficient credit to react to new business opportunities should they arise in the future. In summary, we are in the process of transforming Pan American into a stronger and lower cost producer able to thrive and grow in a lower metal price environment.

With that, I would like to ask the Operator to open the call to questions, please.

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 phone to join the question 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, 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.

Our first question is from Ralph Profiti of Credit Suisse. Please go ahead, Mr. Profiti.

RALPH PROFITI:

Good afternoon. Thank you for taking my question. Michael, you just talked about this transformation at Pan American, and it looks like you've added some quality bench strength on the geology site. Is this part of a greater effort to reinvest in the business through the drill bit over and what we've seen before, meaning that sort of reserve replacement and expansion is now more of a priority given the alternatives of capital deployment?

MICHAEL STEINMANN:

Hi, Ralph. Good morning. Exploration has always been very important for us. As you know, we have a long history of resource and reserve replacement in our Company during the last let's say 10 to 12 years. So, especially brownfield exploration was always very important to us. Obviously based on that success, you see now the expansion at La Colorada. So I don't think so—that's a big change, but it's—definitely if you look around in the market, and although valuation of new projects are getting in, I would call from our point of view, in a more reasonable level, drilling projects by ourselves and finding new reserves and expanding our existing assets is for sure the best use of our capital right now. So you will see over the next few years increased drilling, and I think we have a few more examples in our portfolio where we hopefully could add some more value with the drill bit.

RALPH PROFITI:

Okay, great. Maybe a question for Steve. How much incremental metallurgical test work is being done at Dolores on the pulp agglomeration? You already have some significant positive recovery impacts. Has that analysis run its course or we could—or could we see upside versus the updated PEA?

STEVE BUSBY:

Yes, hello, Ralph; very good question. Yes, we have done some pretty extensive testing on the pulp agglomeration circuit. In these—the unique thing of these heap leach models for silver is the long leach time. We actually have just—we're just completing a pretty significant series of test with and without the pulp agglomeration circuit to kind of show that incremental recovery benefit. Some of these tests are completing as we speak have run over 760 days of testing. So it's quite a long extensive process that we started back when we first acquired the mine. What we're seeing is definite confirmation of the assumptions that we made in the model that we built for 43-101. Generally we're seeing 10, maybe even a bit of upside to that percent recovery boost with the pulp agglomeration circuit on the high grade ore for gold and about a 20% on silver. That's being confirmed. We're very pleased with the results. We're very confident of the 43-101 that we put out that the results are supporting that.

RALPH PROFITI:

That's great. Thank you very much.

STEVE BUSBY:

Yes.

OPERATOR:

Our next question is from Chris Terry of Deutsche Bank. Please go ahead, Mr. Terry.

CHRIS TERRY:

Hi, guys. Yes, Chris Terry. I'm part of Jorge Beristain's team at DB. Just a question on the CapEx. You've obviously been pulling that down as the year has gone on, and most of that related to the growth projects. Is it fair to assume that we basically put the reduction of about $25 million into 2016 and just look at that as a delay, or are you getting meaningful savings from peso devaluation, etc., that we should actually be lowering the numbers?

STEVE BUSBY:

Yes, good morning, Chris. This is Steve. Yes, basically it is a timing, so the best thing to do right now is to push that spending that we didn't do this year into next year. We'll come out with some better guidances early in the New Year on the capital spending on these projects. But right now we are seeing some benefits on the peso exchange and even the Canadian exchange as it affects us in certain services and equipment. However, as of this stage, we're basically still forecasting to bring these projects in on budget as we're currently showing.

CHRIS TERRY:

Okay, thanks very much, Steve. Then just on the cost-out opportunities generally, aside of currencies and what the diesel price might do, do you think you're at the latter stages of the opportunity set there or is it more efficiencies and self-help that you can do heading into next year?

STEVE BUSBY:

Yes, Chris, again this is Steve. Clearly on looking at next year, I think our biggest opportunities are in the efficiencies. We continue to focus on productivities and efficiencies, and I think we're going to get the biggest bang for our buck in those areas. With that said, I don't think we're at the bottom of the cycle. When you see these low oil prices sustaining like they are, they do start to feed through a lot of the materials and supplies that we consume a lot of. It just takes time. So I do think we're going to see some additional savings as these prices kind of hold where they are at now, but I think our biggest upside as we look into the future is finding additional productivity and efficiency gains going forward.

CHRIS TERRY:

Thanks very much.

STEVE BUSBY:

Yes.

OPERATOR:

As a reminder, anyone who wishes to ask a question may press star and one on their phone at this time.

Our next question is from Chris Thompson of Raymond James. Please go ahead, Mr. Thompson.

CHRIS THOMPSON:

Hi, good morning, guys. Congratulations on a solid quarter despite weak metal prices. I've got two real questions or maybe three, but I guess the first two relate to our operations and then just a quick question relating to Argentina. So on the operations, looking at Huaron and Morococha at the moment, I mean understanding what you said relating to some operational challenges in Q3, are you implying that those mills will not be running at capacity in Q4?

STEVE BUSBY:

Yes, hi Chris. This is Steve. No, right now we are feeling pretty comfortable that they will run at capacity. Huaron is running strongly. Morococha, the problem we're having in the area with the water we are able to compensate with the other areas, they are just not as profitable areas, that is the problem. We find more profitability in that high copper zone and that's why we want to get back in there quickly. The mill at Huaron we're, I've got to be honest, we're a little concerned because we are not precisely sure exactly what caused the failure, and until we are, we're a little bit worried about the fix and whether it's going to last. At this stage of the quarter, it's been running fully since the repair was done back in late August a couple months ago. So I feel pretty comfortable we'll get through this quarter without a problem, but we do have a lot of effort going in, a lot of expertise going in and trying to figure out exactly what's going on on that mill.

CHRIS THOMPSON:

Thanks for that, Steve, and I guess this is for you, Geoff. Maybe just a comment on the tone of what's happening in Argentina at the moment relating to elections?

GEOFF BURNS:

Hi, Chris. Well, as you're aware, there is a runoff election in less than a couple of weeks of time on the 22 of November. It's pretty tough sitting where I am right now to pick a favorite or pick a winner between Scioli and Macri, although there's a lot of commentary that Macri may end up actually taking the election.

From the perspective of what goes on past that election date, I think both candidates have talked about foreign exchange and exchange controls, and both candidates have talked about essentially letting the peso trade more on a market basis versus a controlled basis. I suspect that if Scioli gets in he will take down—go down that path but at a much more restrained rate. I think there is a higher probability that Macri lets the peso float. Obviously, from our perspective, any change in or devaluation of the peso that helps offset some of the inflation we've been experiencing would be viewed very, very positively, not only for our Manantial Espejo operation, but what it could mean going forward for Navidad.

The other commentary I've heard relates a lot to some of the import restrictions that have been on and some of the difficulties in moving money in and out of the country. Again, I think both candidates have come out and indicated that they are looking at fiscal changes that would allow for a freer flow of goods and services as well as a freer flow of money, and that would certainly be welcome to us.

So I guess my comment is I'm optimistic that with the change in government that's on its way that we may see some more favorable conditions for people like ourselves who are foreign investors, and as the—Argentina adapts to their current economic reality, and that can only be favorable for both Manantial and Navidad. There was a change in the governor in Chubut where Navidad is located, where the governor—Das Neves will be taking power in January of next year. He was President for very short period of time when we first acquired Navidad, and we are hopeful that we'll be able to establish a positive relationship with him going forward, which we'll hopefully see Navidad able to be developed and unlock some—a huge value that's available to Pan American, and for that matter, available to Argentina.

So I'm—that was a long discussion, Chris, but I'm guardedly optimistic that some of the things that are going on right now politically will lead to some positive change for Pan American.

CHRIS THOMPSON:

That's great. That's great, Geoff, and thanks for that. Congratulation, guys.

OPERATOR:

Our next question is from John Bridges of J.P. Morgan. Please go ahead, Mr. Bridges.

JOHN BRIDGES:

Hi, Geoff; everybody. This answer should be short; just bookkeeping really. I see a comment in your Peru commentary about smelter costs going up. It's a bit of a sort of pink area for us obviously. Just wondered if that was Peru specific or what you're seeing generally with respect to silver smelter costs?

ROB DOYLE:

Hi, John, Rob Doyle here. Yes, I can respond to that. The increases we've seen generally in our TCRCs is mostly related to the increase in our copper production. We do see high smelter costs associated with that concentrate given the typically complex nature of the Peruvian copper concentrates that we produced. So in terms of that market, it's obviously fluctuating all the time. We don't expect any huge changes into next year. So I would expect TCRCs to remain roughly stable with where they are today given our outlook for copper production.

JOHN BRIDGES:

Okay. Is that copper staying domestic or is that going international—copper concentrate?

ROB DOYLE:

It's typically blended and then sent internationally.

JOHN BRIDGES:

Okay, cool. Okay, guys, well done. Thanks a lot.

OPERATOR:

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

MICHAEL STEINMANN:

Thank you, ladies and gentlemen, for dialing in this morning. I'm looking forward to talk to you in February again with our Q4 and year-end results. 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.