

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Pan American Silver Corp. (NASDAQ:PAAS)



MICHAEL STEINMANN is President and Chief Executive Officer of Pan American Silver Corp. Mr. Steinmann has been with the company since 2004, holding progressively senior roles before being promoted to President in February 2015, and President and CEO in January 2016. Mr. Steinmann has over 20 years of experience in the base and precious metals industry. He joined Pan American Silver Corp. after serving as Manager of Geology and Business Development for Glencore in South America. Mr. Steinmann holds a Ph.D. in natural science – geology – from the Swiss Federal Institute of Technology, or ETHZ; an M.S. in geology from the University of Zurich; and a degree in corporate finance from Escuela Superior de Administracion y Negocios, Lima. Mr. Steinmann has extensive experience throughout South America in mine operations and project development. He has participated in numerous mine

construction projects, from exploration and feasibility studies, through to startup and into continuous operation. He also has a strong background in M&A, corporate development and capital markets, having played a pivotal role in transactions and acquisitions that have grown the company and improved shareholder returns.

SECTOR — METALS & MINING

TWST: Tell us about Pan American Silver with a view to some of the major milestones achieved over the recent past.

Mr. Steinmann: Pan American Silver is the second-largest primary silver producer in the world. We are currently running seven operations throughout the Americas: three mines in Mexico, two in Peru, one in Bolivia and one in Argentina. Aside from our Alamo Dorado mine in Mexico, which is reaching its end of life, all of our operations contribute meaningfully to production.

Pan American is recognized in the industry as a very strong mine builder and mine operator. Our management team has been in place since 2003, and we have grown silver production from about 8 million ounces to the 25 million- to 26 million-ounce range we're at now. Geographically, about 45% of our silver production comes from Mexico, about 25% from Peru, 18% from Bolivia and 12% from Argentina. Our mines have large reserves, totaling 280 million ounces of proven and probable silver reserves.

In terms of recent news, on November 14, we announced our third-quarter results. Higher production, lower costs and higher metal prices resulted in strong earnings. We generated net cash flow from operating activities of over \$102 million in Q3, resulting in net earnings of \$43.4 million, or \$0.28 per share, and adjusted earnings of \$37 million, or \$0.24 per share. We also guided our costs down and production up for

the rest of the year. We now expect to produce 25 million to 25.7 million ounces of silver in 2016. We continue to have a healthy balance sheet and a very strong liquidity position.

In Q3 2016, we increased our cash position by \$41 million. At the end of September 2016, cash and cash equivalents and short-term investment balances were over \$245 million. We have very modest debt of only \$47 million and a very strong working-capital position of over \$434 million. To sum up, Pan American is in excellent financial shape, with producing assets, long reserve life and a proven management team.

TWST: You mine metals aside from silver, including some gold and base metals. How important are those to Pan American's bottom line?

Mr. Steinmann: Yes, that's correct. In terms of geology, silver occurs in most cases with other metals, gold or base metals. About 80% of our revenue comes from silver and gold, with the majority from silver sales. The remaining 20% of revenue comes from base metals: zinc, lead and copper.

TWST: It looks like you're set to ramp up production of gold over the coming year. What's behind that?

Mr. Steinmann: We expect gold production to increase over the next years as a result of our Dolores mine in Mexico, which is a silver/gold deposit. We're currently expanding that operation with a new underground mine and a new pulp agglomeration plant, which will increase recovery

of our higher-grade silver and gold ore. As we go deeper into the deposit, the gold grade increases, so it's really a factor of the mine sequencing that results in higher gold productions over the next few years.

We're also expanding a second operation in Mexico called La Colorada, which is an underground mine. That expansion is nearly finished. Over the next few months, we will continue to advance the underground development, and the new sulfide plant and mine shaft are already in production. The expansion of La Colorada should increase silver production from that mine to about 7.7 million ounces by around the end of 2017.

TWST: How significantly will increased gold production impact the bottom line for Pan American?

Mr. Steinmann: Gold sales, as well as the sales of base metals, are a credit against our cost of production. That means higher gold production should help improve our margins, depending, of course, on gold prices. The same holds true for production of base metals: lead, zinc and copper. The combination of higher production and higher prices for gold and base metals can even result in net negative costs per ounce of silver at some of our mines, as we saw in the third quarter of 2016.

TWST: Can you give us a closer look at the regions you operate in: Peru, Mexico, Bolivia and Argentina. How do the geopolitical or currency issues vary, for the better or worse?

Mr. Steinmann: Mexico, Peru, Bolivia and Argentina are some of the largest silver-producing countries in the world. The largest silver-producing country is Mexico, followed tightly by Peru. We have been working in Latin America for about 20 years and are very comfortable in the jurisdictions where we operate.

“Silver is our focus, and we intend to grow our silver assets and increase our production in the future. We believe the fundamentals for silver as a commodity are very strong, and our company provides a great way for investors to get that exposure. We are one of the largest primary silver producers in the world, and we intend to build on that position of strength.”

Looking at each of those four countries more closely, Mexico has a long history as a mining country. It also has the advantages of being close to North America, with very good infrastructure, good availability of professional engineers and skilled labor, and easy access to equipment. The Mexican peso has decreased in value over the past year, which has helped us on the cost side. In general, roughly a third of our costs are denominated in local currencies.

In Peru, mining has been important for centuries. The country is rich in deposits, with many active mines and ongoing exploration. All of Pan American's operations are well-located, so easily accessible along the central highway. And Peru has highly qualified miners and engineers. In south Bolivia, our San Vicente operation is our highest-grade operation. And while Bolivia also has a history of mining and qualified people, the infrastructure, while improving, is not as advanced as other locations. The more remote places in Bolivia would benefit from better infrastructure, which would support further exploration.

Argentina is the home of probably the largest undeveloped

silver deposit in the world, which we own, called Navidad. It is a country rich in resources, with good infrastructure and highly qualified people; however, mining has been less important to Argentina's economy in the past. There is the potential to grow that part of the economy, and the new administration seems to recognize that and is implementing new measures to make the country more attractive for local and foreign investment.

TWST: Have you faced any safety or sustainability issues in any of these regions?

Mr. Steinmann: We've developed programs to support sustainable development and minimize our impact on the environment. Our performance in these areas has earned us a reputation of being a safe and responsible operator. So we haven't encountered anything out of the normal scope of business operations. I think that partly reflects our efforts to build successful relationships with the local communities. Our sustainability report on our website provides more detail on our sustainability efforts and performance.

TWST: Tell us a little bit about your business philosophy, and how it affects your growth plans and strategy.

Mr. Steinmann: Silver is our focus, and we intend to grow our silver assets and increase our production in the future. We believe the fundamentals for silver as a commodity are very strong, and our company provides a great way for investors to get that exposure. We are one of the largest primary silver producers in the world, and we intend to build on that position of strength. Our expertise in silver mining is an important advantage because silver deposits are harder to find, there are fewer of them, and they're smaller in size.

We have a strong track record of growing our silver assets and adding value to the company. One way we have done that is to acquire early-stage exploration projects and advance them into mine development. Our Alamo Dorado mine in Mexico is a good example of that. Also, early this year, we announced an option agreement with Kootenay Silver for their Promontorio and La Negra deposits in Mexico, which are midstage exploration projects.

Another way we have grown the company is to use our expertise to improve and advance early-stage producing mines. About 16 years ago, we acquired a small operation called La Colorada in Mexico, which then was a relatively close-to-surface underground operation producing only a few hundred tonnes a day. We are now finalizing an expansion of La Colorada, which will increase the processing rate to about 1,800 tonnes a day and grow silver production from that mine to 7.7 million ounces a year. Brownfield exploration has also increased our reserves at La Colorada by about 300% over the last six years.

Our approach to growth is focused on returns, not simply growing ounces. Our strategy is centered on maintaining a strong balance

sheet to enable us to invest in future growth, expand brownfield projects and to acquire projects when silver is at a lower point in the price cycle. Investing during these times enhances returns, but many companies are unable to do this because their cash flow has dried up, and they don't have the financial capacity.

But that has not been true for Pan American. We invested in both our expansions at Dolores and La Colorada when nobody else was building. The La Colorada expansion is expected to come in about 5% to 10% under budget, and the infrastructure we built is of very high quality because we had access to the best contractors and expertise.

TWST: What worries you? What are the risks and challenges that you might be preparing for in 2017?

Mr. Steinmann: The health and safety of our employees, contractors and communities is always my main concern. The challenge, and the opportunity, is to grow profitably. As I said, it is difficult to find new silver assets. Exploration activity has been limited in the recent past because we were in a low point of the price cycle. Our response has been to increase our investment in exploration and to evaluate earlier-stage projects, such as Kootenay, to provide us with a pipeline of projects for the future.

TWST: Is there anything unique about the way you've been able to lower your all-in sustaining costs? Do you employ any cutting-edge technologies at any of your mines?

Mr. Steinmann: We are seeing the benefits of increased mechanization at our mines in Peru. And overall, with our focus on cost efficiencies at all our mines, we have been able to drive significant reduction in costs. Over the first nine months of 2016, our cash costs were down 38%, and all-in sustaining costs were down 33% compared with the same period last year. Byproduct credits from the sales of our gold and base metal production also contributed to those results. And we continue to evaluate and apply technology at our other mines to enhance operations. I was at the mining expo in Las Vegas earlier this year, and there are many new, cutting-edge technologies that should benefit the mining sector.

TWST: Give us a view to the way you delivered shareholder value in 2016. Are you concerned about valuation levels as we head into the new year?

Mr. Steinmann: We are very proud of what we delivered to shareholders in 2016 and believe the course the company is on will continue to add value in the future. We were recently upgraded to a "buy" from three research analysts. Our focus on safe, sustainable cost reductions has led to improved operating margins. And our expansions at our Dolores and La Colorada mines are on track. So we expect them to further benefit margins when those projects reach their full processing rates at the end of 2017.

Finally, our strong financial position allows us to pursue growth opportunities, both organically and outside the company. We have a rich suite of assets that offer exploration and production upside, and have a solid base of long-life producing mines generating attractive cash flows. Our results are getting the market's attention. Total shareholder return year to date in 2016 is about 150%. So there are many factors that support the bright future we see ahead for Pan American and our shareholders.

TWST: Thank you. (VSB)

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