THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

SWC - Q2 2016 Stillwater Mining Co Earnings Call

EVENT DATE/TIME: JULY 29, 2016 / 4:00PM GMT

CORPORATE PARTICIPANTS

Mick McMullen *Stillwater Mining Company - CEO*

Chris Bateman *Stillwater Mining, Company - CFO*

CONFERENCE CALL PARTICIPANTS

Andrew Quail *Goldman Sachs - Analyst*

David Gagliano *BMO Capital Markets - Analyst*

John Bridges *JPMorgan - Analyst*

Lucas Pipes *FBR Capital Markets - Analyst*

PRESENTATION

Operator

Greetings and welcome to the Stillwater Mining Company's second quarter 2016 results conference call. At this time all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. (Operator Instructions). As a reminder this conference is being recorded. I would now like to turn the conference over to your host, Mick McMullen, CEO. Thank you, Mr. McMullen. You may begin.

Mick McMullen - *Stillwater Mining Company - CEO*

Thank you very much. I have Chris Bateman, our Chief Financial Officer here with me, and there is a deck that is available online for people to look at which I'll refer to during the course of this presentation. So if people want to go to Slide 2 of that deck. I'll draw your attention to the forward-looking statements and in particular, those statements that relate to assumptions and expectations for some of our growth projects. And then we'll go to Slide 3 where the second quarter highlights are listed here. In summary, I can say it was a very strong quarter for us on many fronts.

Of particular importance was our very large improvement in safety year-on-year. We have seen a 60% reduction in safety incidents rate year-on-year. We saw our sales increase to about 151,000 ounces versus 133,000 for the prior year.

Cost of metals sold came down by about 17% year-on-year, and our mine production was up on a year-on-year basis and reasonably consistent with the prior quarter at about 137,000 ounces of platinum and palladium. Again, whenever I talk about a PGM ounces from the mines it's roughly in the mix of 3.3 palladium to 1 platinum.

All-In Sustaining Costs, which is sort of the measure that I typically use to sort of assess how the business is tracking came down to a very low $594 of PGM ounce. That was a 24% reduction on the prior year and well and truly the lowest that it's been since I've been with the Company.

We have seen the trend of our AISC continue to come down quarter-on-quarter very consistently and the June month actually was a very strong month. It was below the low end of our recent sort of median turn target of the mid-to-high 500s. Cash and cash equivalents for the highly liquid investments, we ended quarter with $442 million. Recycling had a very strong quarter. We processed 169,000-ounces and that was the second highest on record for us.

Again, we continue to see a very strong growth in that business. Net income to common stockholders was just and $1 million, or about $0.01 a share on a diluted basis. We obviously did see year-on-year fairly substantial reduction in the metal (inaudible) and that really drove the profit result I think despite the very strong operational results. We have seen since the end of Q2 the prices continued to recover. Yesterday the basket price was about $798.

We have seen it go through $800. Today that's currently holding just over $800 an ounce. So clearly we have seen a fairly substantial increase in prices since the end of the last quarter. Our Blitz project, which I will talk about later, is our main growth project at this point. We have done a lot of work with the teams to accelerate first production there. We're now expecting production there in late 2017 or early 2018.

The project capital spend of Blitz to the first production we expect to be in the range of $155 million to $175 million. And we did some drilling down in Altar, at our gold-copper porphyry project. Which actually discovered some new mineralization there which was quite exciting for us. Overall, I would say it was a very strong quarter for us on many fronts and it's good to see that the metal prices have started to recover to reflect the underlying fundamentals and we can get back to being in a position where we can generate some strong cash flow.

So, again, the second quarter results on Slide 4. If you look at the table there you can see the percentage changes year-on-year. In general a very strong performance. Sustaining capital continues to come down. And, I think that we can say very confidently that whilst the dollar spend is coming down the activities are not coming down. We are actually spending the money on the things that are necessary to sustain this business.

Going to Slide 5. At the Stillwater Mine we're up on production about 8% year-on-year. We saw a very strong reduction in cost of metals sold, 19% reduction year on year. Cash costs were down 26%. Our work force is relatively stable at just over 700 people there, on the non project people, so that's people not including Blitz. Importantly, our development footage. So this sort of a large component of our sustaining capital and was about 27% ahead of plan.

So whilst our spend on sustaining capital has come down we're actually doing more activities for less dollars. And we keep a very close eye on this to ensure that we maintain the developed state of the operations and it's very pleasing to know that we are actually doing that very successfully. Those are very large improvements in site (inaudible) Stillwater Mine year-on-year, and that really drove the big improvement in safety performance for the total Company. So I think on the Management Team at the Stillwater Mine need to be congratulated. That actually increased production, increased development, reduced costs and at the same time they managed to more than half their safety instant rate. So it's been an excellent performance team.

Moving to Slide 6, the East Boulder Mine. Again, many records set during the quarter again. We saw an increase in production, we saw a significant reduced cost of metals sold, cash costs were very low as well. I will talk more about productivity but one of the productivity measures we use is having ounces per employee of the month. (inaudible) We set another record in June just slightly eclipsing the previous record 49 PGM ounces per employee per months. June we saw a record high mill tons and mine tons. And again, we saw year-to-date best quarter. Safety was very good. So in general the East Boulder Mine continues to go from strength to strength.

Going to slight 7 under recycling as I said we had a very strong quarter in Q2. We have grown our market share in the two main markets which is North America and Europe. We have seen a bit of a pickup in the European market, but we have seen quite a good pickup actually in North American scrapping rights and so we did see, previously we shift away from purchased material (inaudible). We have seen a bit of a move back into purchased material and we still have excess capacity we have a lot of excess capacity.

So this recycling business provides a very stable cash flow profile for us. We basically take minimal to no processing risk on this material. The profits we report will lag the volumes by two to three months and so we continue to see growth and profit in that business. Again, lots of excess capacity in the facility. We are looking to grow this business as much as we can. And I think as you can see from that graph on Slide 7 we have been quite successful at growing that business. I'm going to hand it over to Mr. Bateman now for the next few slides to discuss the financial matters.

Chris Bateman - *Stillwater Mining, Company - CFO*

With respect to quarterly net income, as Mick said, said just under $1 million. We have already mentioned the price recovery in the quarter and you can see that on the blue line in the graph. We also as we foreshadowed last quarter drove inventories down this quarter with sales exceeding production. We would expect to continue to look at that inventory level and drive it down going forward. The recycling business, as Mick said, was a strong contributor this quarter.

So all-in-all a good quarter given the prices and the current price hovering around the $800 per PGM an ounce should continue to drive performance in the third quarter. Moving onto the next slide. On the cash, again, we continue to maintain a very strong balance sheet, $442.2 million of cash and highly liquid investments. The increasing volumes that we saw with the shift back to more purchase material in the recycled and the higher price of PGMs drove working capital up by $20.5 million as volumes strengthened.

In addition, we continue to self-fund all of the investments in the business and the Blitz capital expenditure stepped up in the second quarter on a cash basis just over $9 million compared to $5 million spent in the first quarter. With the increase in working capital and the continued capital expenditures we saw an overall decrease of around $10 million in our cash and cash equivalents. The convertible remains outstanding but not due until October 2019 so I think this strong liquidity profile gives us a lot of opportunities in the current commodity cycle.

Mick McMullen - *Stillwater Mining Company - CEO*

Thanks, Chris and we will just go to Slide 10 now which is a slide we have been putting out for several quarters now where we just look at our cost per ton. You can see a couple of the highlights on that. We have seen the mining cost of the Stillwater Mine, which historically has been much higher, down to $190 a ton. You know, which is actually now getting to be relatively close to the East Boulder Mine. There used to be a very large gap between those two costs. It's closing rapidly.

Our milling cost at $13 a ton for each site truly is sort of base Best-in-Class and I would say that our recoveries in our milling (inaudible) concentrating area at 92% to 93% are also Best-in-Class. So again across the board we're just continuing to squeeze our costs down. We're seeing a little bit of an increase in our By-Product Credit process which is helping us a bit. Those have been depressed for quite some time.

So in general on the cost control side both sites have had a very, including the (inaudible) complex, have had a very strong quarter. Going on to slide 11. I talk about a lot about mine productivity and people sort of say, "Why does that matter?" Well, in its basic sense mine productivity has a very strong inverse correlation with our All-In Sustaining cost. You can see on that graph there the green line the All-In Sustaining cost is at a very strong downward trend. The blue line is one of our mine productivity metrics which is ounces per employee per month. Almost a one-to-one inversion correlation between those two.

As I said, June All-In Sustaining costs was very low. It was a very strong performance. We would like to continue to push costs down. If you recall we only at the last quarter came out with a new (inaudible) to reduce our All-In Sustaining costs per ounce down to the mid-to-high 500s and, again, within one quarter we have sort of, we have gotten there.

So I think that we still have many opportunities to drive productivity higher and that's really where we see the ability to continue to drive costs lower. I think maybe the absolute costs that could be taken out of the business have been. The cost reductions from here on in will very much come about through better productivity and higher production basically.

So if we go it Slide 12. In terms of other productivity metrics we look at, this is a subject that I spend much of my time thinking about. So this is our development rates and we typically look at the 56 incline over at Blitz because it's a single heading, it's very easy to benchmark it. And you can see from this graph here that this year we have basically doubled advanced rates relative to where they were last year which on itself was a bit of an increase over the average of the previous two years. The 56 we spent a lot of effort on because this is the critical path item for first production of Blitz.

We need this drive to drill the reserves out and we need this drive there so that we can access the (inaudible). We still think we have some room to improve, but again I think the team has done a great job at doubling their advance rates there. Some of the other metrics we look at on slide 13. We look at Stope Tonnes per employee hour. And again at the Stillwater Mine you can see that since the start of this year we have had a 36% improvement. Again, stoping cost are down by about 20% since the start the year, another strong inverse collation between productivity and cost.

We see similar trends for capital development productivity in the reduction of unit rights and so this is how we can reduce our sustaining capital spend but not cutting back on essential activities. And our teams have worked very hard. Again, we think we have some opportunities to continue to improve, but we really have so you know, over the last 12 months seen a material improvement in productivity across-the-board. Some of the things that we're working on if you go to Slide 14. We have achieved a lot the costs have come down a long way, the productivity has gone up, but we still have a fair runway in front of us in terms of things that we can do.

At the Stillwater Mine we're lining the waste up so that we can move away from stick powder to a different type of explosives for ANFO. Much higher productivity and much lower cost. Less risk of strains for our workforce. We are spending $2.6 million in the back half of this year which will go into our sustaining CapEx. And we see that will have about a one year pay back. We have done this over at East Boulder so we know it should work. And we saw a marked improvement in productivity and a significant reduction in cost of development once we did this.

Ground support standard review. We have gone through a process looked at our bolting patterns and we believe that we can still maintain adequate ground support, or potentially better ground support, and significantly reduce our bolting times and therefore increase productivity. I think on the technology side it's fair to say that current state we are not at the leading-edge of the industry and we are aiming to get at least somewhere close to the top.

There are a lot of opportunities with automation and tracking of fleet to increase productivity. We are spending capital on that. Again, it's in our sustaining capital budget for this year and will be in for next year. And we see that this has a lot of opportunities for us. If we go to best practice operations where they use some of this innovation in technology we can explain much of the productivity difference between them and us.

We're looking at our bolting and meshing equipment. Again we can see some different opportunities there. We have some new (inaudible) and (inaudible) systems going in place. Again, there's sustaining capital in that for the back half of this year. And if people recall when we had the (inaudible) system we shut some stopes down at the end of 2014. We said we would take them offline. We said it would reduce our production a little bit, but we would wait until the infrastructure was caught up to mine those ounces.

We brought those back online sort of September/October last year. And again, I think that had a fair bit to do with driving our costs down. We're doing exactly the same thing with the 32 East system. Again, we're going to spend the money. It will mean that we take some ounces offline in November/December of this year, but by early next year we expect to see this have another positive impact on our costs.

I think maintenance and tracking optimization we have maintenance is a large cost component for us. So we have a lot of opportunities here. And I think our blasting practices we have made some improvements. We still believe there's some way to go. So there are several things that we have on the way which we do require us to spend some money, but we believe that there are some significant opportunities here in order to significantly reduce our costs.

So coming down do Slide 15 with Blitz. This is clearly our main growth development project. We have talked about it in the past that those higher advance rights that we're seeing in the 56 have allowed us to accelerate the expectations for first production there to late 2017, early 2018, as I said. We're actually moving the development crew for all access across there on August 1. So we are pushing ahead with actually getting into mine the first stope. Capital spend the first production we expect to be in the range of $155 million to $175 million.

So this is not the total project budget. This is the amount of money we expect to spend until we get first production. We expect that production fully when ramped up fully to be in the range of 150,000 to 200,000-ounces a year. I can say that we are look at objections to increase this production rate and to further define that ramp up schedule which I would say still needs a bit of work. We are seeing a rapid change in our development rights and we still think haven't plateaued where we can get them to. We believe that Blitz will be our lowest cost ounces due to the expected grade; it's .6 to .7 of an ounce to the ton. And the logistics this is set up with it's like (inaudible) so we're hoping to get sort of at least bolder top cost per ton with the regional Stillwater top grades.

When we look at what can we do for shareholders to impact valuation, clearly accelerating Blitz and bringing on more production at a lower cost has really probably the best potential to maximize and, therefore, value for shareholders. So there's a lot of focus on this. We have a hired a dedicated project manager whose sole job is to accelerate this thing and deliver this thing safely in a environmentally friendly manner. And we are pushing on with this as fast as we can.

Going to Slide 16. You can see there sort of the full scope of the project. That first stope block on the left-hand side is ready 10,000E stope block, there's about 60,000 there. We expect to mine just under .7 of an ounce to the ton. So again, very good grade and we put a little scale on top of the Golden Gate Bridge so that people can understand truly the scale of this operation. It's equivalent to two of the big Golden Gate Bridges stacked end to end. And we are now starting to do some initial work on how do we then actually start accessing and mining the project. Below that, below the rail level called lower Blitz.

We've opened up a lot of country out there it's about 23,000 feet long. It's about 4,000 feet up to service from the rail level but, in addition we have 3,000 feet below the rail level down to our lowest levels of our working. So again, we're pretty excited about this. The faster we can develop it the quicker we can bring it online for people.

Slide 17. We've talked a little bit in the past about the work we're doing at Lower East Boulder. We thought we would give a bit more information today. So we've done a scoping study, we are part of the way through a pre feasibility study, or a PFS, and that PFS is really aimed at what's the optimal way to access or develop the next mine below the current rail level. The current rail level is on the 6500 level of the 6,500 level. Below that we have a large proven probable reserve base of around about 4 million ounces. You can see the numbers on the graphic.

We have this year done some limited drilling below those reserves. We have successfully intersected the reef at typical East Boulder with some grades at the 4,000 level. And so our PFS is really based on sort of establishing the new haulage level down and the 4,000 level which will either be accessed by twin declines or internal shaft.

That PFS is looking at a range of production scenario as of sort of 150,000 to 200,000 ounces a year. For a capital cost of somewhere in the order of $225 million to $275 million. That would be a combination of replacement and growth ounces. The pre-feed is not complete yet, but we're pretty excited about this. We have a large proven and probable reserve in it already and in fact we are mining Lower East Boulder from the top down not necessarily the most efficient way to do it, and hence we're doing this pre feasibility study.

When you have an (inaudible) that's 28 miles long by over a mile vertical you have many opportunities for getting growth without trying to sort of define some of those and look to see where we may bring those on.

Slide 18. ALTAR. As we know it's a very large porphyry system and there's around about 8 million tonnes of copper and 6 million ounces of gold contained. We spent some money recently on drilling that. Really not sort of looking at the known deposit but looking at some of the other exploration areas there and I think that the change of government in Argentina has definitely made Argentina a more attractive investment destination.

Going to Slide 19. You can see the Hole QDM029 was sort of drilled below and adjacent to what we knew in the sort of small QDM gold deposit. And actually had a very large mineralized intercept in it. So it's quite exciting. I think we have added some value to this project for not a lot of spend. We continue to evaluate how we may realize value for shareholders out of that.

If you go to Slide 20, we have been doing some conceptual plans. If you look at the terrain on that slide, you can see clearly that a large blockade accessed from the side of the hill would make a lot of sense rather than trying to sort of develop an pit from the top of the hill where you have got a lot of waste dripping and the highest grade material is sitting at the base of the hill.

So this looks quite interesting actually and I think that we will continue to spend a limited amount of money on this project, but I think for shareholders it provides some good option value on copper and gold for very little money now.

Going to Slide 21. We have updated our guidance as we have often done at this time of the year in previous years. You can see that we're giving guidance for sales of mined ounces now and cost of metals sold, which we have not previously done.

In terms of guidance that we have previously given we have now bumped up our guidance range on ounces and narrowed the range a little bit. Cash costs were reduced. All sustaining costs guidance we're now targeting in the order of 595 to 635 an ounce. G&A broadly the same as what it's been. Exploration the same as what it's been before. Sustaining capital in the $50 million to $60 million range. Project capital in the $40 million to $45 million range, which is where we have been.

I would say on the sustaining capital, which then drives into our All-In Sustaining Cost guidance, we do anticipate a bit of a pick up in sustaining CapEx spend in the second half. I have said previously that the warmer summer months is typically when we can get in and do all of our ground works. But also, we have these other projects related to, for instance the waste up lining, which we're doing in the back half of this year, some of the technology spend. Not huge amounts of money but collectively they do add up to a bit and we do expect to see our sustaining CapEx spend pick up in the back half of the year. We will, on the other hand, continue to look to drive our underlying costs lower, but I think our guidance range of 595 to 635 for AISC is a reasonable improvement and we feel comfortable in that.

So going to Slide 22. I think it's been pretty clear that there's been a particularly in Palladium, a large market deficit. And Platinum, some sort of deficit. And growth is across the board and typically have been forecasting quite a bit higher prices than where we have been.

And if you go to Slide 23, this just sort of shows where we were yesterday versus where those long-term costs were. Obviously, prices have moved up significantly from when we had the call last quarter. We still think that there's some opportunity on the upside for those prices. And it's pleasing, in particular for Palladium which I think has been lagging the market and it's fundamentals for a while that we have seen it start to move up there and actually reflected its fundamentals.

So in summary on Slide 24. Look, again, safety performance was outstanding, I think, and the AISC was very strong. Productivity continues to improve at both sides, and that's really what's driving our cost improvement.

Recycling continues to grow. And as Chris said our balance sheet is very, very strong. We did see a slight cash reduction but was very much driven by working capital increases and funding our growth capital. Gives us a lot of optionality in the current market. And, as I say, we have seen, finally, in particular the Palladium (inaudible) start to reflect its fundamentals. Again, we have seen prices recover post the quarter. That's been very pleasing and we continue to look to drive improvements within our business.

And with that, I would like to turn it over to any questions that people may have and I'm happy to take them.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Our first question comes from the line of Andrew Quail, of Goldman Sachs. Please, proceed with your question.

Andrew Quail - *Goldman Sachs - Analyst*

Hi Mick, Chris. Great quarter. Congratulations. I have just got a few questions. Firstly on Blitz. I think it's on Slide 16 you talk about that stope. We're hoping to do that hopefully in 2017, is that right? And, just talk about the cost profile of Blitz versus the rest of the Stillwater. Is it because it's close to surface and it's on rail that the cost is low?

Mick McMullen - *Stillwater Mining Company - CEO*

Yes. That's right. So at the moment we're looking at late 2017, early 2018, for that first stoke block with 10,000 block to come on line. And the drilling that we have done there, we put the results in the deck. The grade is very good. It's what they call typical sort of typical sort of off (inaudible) material which is sort of what the mine is originally started on. And so yes, the grade is higher than what we are currently mining now. It is much closer to portal so in terms of getting people in and the materials in, it's a much quicker drive. And so, therefore, our productive day is longer. And yes, then we can drop everything onto rail and come straight out at the concentrated level. So it's a factor of all of those things. I will say that that ground is more challenging and we will need to do more, we'll actually submit a (inaudible), but even with that we do expect to see Blitz to have a much better cost profile than some of the other ounces we mine now.

Andrew Quail - *Goldman Sachs - Analyst*

Nice. Just on Recycling. Obviously (inaudible) scrap steel has been good for you guys. There is capacity there. But if have you seen any new customers in the last quarter? In I know you had a couple at the start the year. Any in the last quarter?

Mick McMullen - *Stillwater Mining Company - CEO*

I wouldn't say we have seen any large major customers come on this quarter. But what I will say is some of the people we saw in the previous quarter have picked up their volume. Typically, these businesses, it's very much about getting to know the customers and them getting to know us. And over a period of time then you will grow your business with those customers.

Andrew Quail - *Goldman Sachs - Analyst*

And, last one, on Contracts. Are you still 100% with Johnson Mathey, or is there an option to update there? And when is that contract actually come up for renewal?

Mick McMullen - *Stillwater Mining Company - CEO*

There's two separate contracts. One for (inaudible) and one for refining. And it's filed. The (inaudible) contract expires in about three years. We do have the option to opt out of that with a reasonable modest period for a nominal (inaudible) fee at any time. We sell all of our mined ounces to Johnson Mathey except for a reasonable proportion of our platinum mined ounces which goes to Tiffany.

Andrew Quail - *Goldman Sachs - Analyst*

Got it. That's it for me. Thanks guys.

Mick McMullen - *Stillwater Mining Company - CEO*

Thanks, Andrew.

Operator

Our next question comes from the line of David Gagliano, of BMO Capital Markets. Please, proceed with your question.

David Gagliano - *BMO Capital Markets - Analyst*

Thank you for taking my questions. I was wondering if we could just step back for a minute. I appreciate the update on our the organic growth opportunities and obviously things are going very well at Blitz. Cost savings, initiatives progressing well, self funding Blitz based on our numbers. And your balance sheet is obviously very strong. So I wanted to ask, as you think about the next three to five years, are you considering acquisitions as part of your growth strategy? And, if so, is your preference for upstream PGM related acquisitions, further recycling growth or would you even look to other commodity's? That's my first question.

THOMSON REUTERS

Mick McMullen - *Stillwater Mining Company - CEO*

Well, that's a fairly broad question, Dave, but I think I would say that we would look at anything that we thought would add value to shareholders. One part of that would be that you would look at acquisitions. Now, I think that our criteria for that would be very strict and what we see is that in the upstream part of the PGM business there are very, very limited opportunities there, I would say. We feel that as shareholders would not want us to diversify into less favorable jurisdictions for instance, which I think given the location of most of your PGM assets would make that very hard.

In the downstream, yes, we do like the downstream business. There are downstream assets that in the PGM space that allocated in reasonable jurisdictions. So I would say that we would look at them. As a general observation I would say that assets appear to be trading at labels that sort of pricing, you know, high middle prices, is probably my general observation at this point. We would look at everything. You would never say never.

Difficult to see that we could find an upstream asset in the PGM space that would satisfy our requirements. On the downstream side there are some potential opportunities (inaudible). But we need to assess what that return on a risk adjusted basis would be for shareholders versus funding our own organic growth here. As I said we have got lots of stuff we can do here. But, if we found the right thing that we thought on a risk-adjusted basis gave us a bit of return, you wouldn't rule it out.

And I think the last part of your question is would we go outside of PGMs? Again, I guess you would say, "You never say never." But, obviously the further you get away from you core business the harder it is to put a narrative around that, I guess.

David Gagliano - *BMO Capital Markets - Analyst*

Okay. That's helpful. Thank you. And then just one quick one with regards to the commentary on Altar. I just wanted to double check and make sure. The plan with Altar is still, if there is divestment opportunities, to divest that project. Is that correct?

Mick McMullen - *Stillwater Mining Company - CEO*

Yes. I have been very clear it's a non-core asset. So I think there are multiple ways we could realize value from it but I think it should be fairly clear that we, at Stillwater, are not visualizing that we would be building a mine there.

David Gagliano - *BMO Capital Markets - Analyst*

Okay. Great. And then last question.

Mick McMullen - *Stillwater Mining Company - CEO*

I'm sorry. But I think also, on the other side of that equation is that, as I said from day one, I just didn't think it was in the shareholders' interest to fire sell an asset just for various historical reasons when it is a large asset in the right market that I think could be worth quite a lot of money with a very large gold credit. Which, in this market people seem to be interested in.

So we felt that the right thing to do for shareholders has been to spend a nominal smallish amount of money maintaining and actually adding value to that asset to the point where shareholders at some point we think we can realize some value.

David Gagliano - *BMO Capital Markets - Analyst*

Okay. Great. I just have one last one real quick for me. Obviously a lot of talk about cost savings and there's been quite a bit of progress there at the Stillwater mine. I wanted to reverse a little bit. Last year you took the two highest costs stopes offline. Prices are starting to recover. Would you consider bringing higher costs stopes back online if prices continue to recover? And roughly what price would be needed to bring those two back on?

Mick McMullen - *Stillwater Mining Company - CEO*

Well, it's a progressive price so we have just like you have an industry cost curve we have a mine stope by stope cost curve. So there's no one price that we need to bring all of those stopes back on line. It's really just, if we bring it back online, is that stope making money? And for different stopes there's a variety of different prices. I will say that I spent the first year and a half, two years of my tenure very much focused on stripping costs out to get the culture up so that we're focused on getting the costs right and profitability of stopes.

You will notice that we are now pushing ounces. I feel that we have the internal culture right with people. We can push ounces without losing focus on cost. The guidance indicates that in the last two quarters that we are starting to push ounces up higher. (inaudible) now part of the sort of gold to get costs down lower. And I think take away part of that equation is to produce more ounces.

David Gagliano - *BMO Capital Markets - Analyst*

Okay. Great. Thank you.

Operator

Our next question comes from the line of John Bridges, with JPMorgan. Please, proceed with your question.

John Bridges - *JPMorgan - Analyst*

Hi Mick, everybody. Congratulations again on the results. You sound quite excited about Altar. What other alternatives are there to monetize that?

Mick McMullen - *Stillwater Mining Company - CEO*

Well, I am excited. I guess I was geologist, originally. I think the drilling, actually, this is the first time the Company has sort of really done any true exploration apart from just sort of drilling out what was known. Look, obviously, the optimal way to realize value for shareholders is to sell it all for cash to someone. And that may or may not happen. But there are other ways where we could look at some alternatives like joint venture with someone who wants to build something. Or, we could look at potentially leasing them separately.

Those plans are not underway as we speak, but as we see the market improve and we have done the work to add value to the asset, I think those are all options that we could look at. The fact that we have had such a strong balance sheet and haven't been forced to act on that asset and have not been able to spend the money that is needed, I think has been a bit of value creation strategy for the shareholders than if we just (inaudible) out at the bottom of the market, for instance.

John Bridges - *JPMorgan - Analyst*

Right. Right. And the cost cuts just seem to continue. How much more potential do you think there is there? How far the sort of learning cost cutting learning curve do you see yourself? And then you're talking about again about technology. What other technologies are you thinking of bringing in and what do you think their impact could be?

Mick McMullen - *Stillwater Mining Company - CEO*

Yes. Well, again, we've as I think I said we have been taking our (inaudible) mine management, touring of mines in Australia and Canada, and looking at what other people do. We benchmark our productivity. So whilst we've had a very respectable improvement in productivity, that benchmarking indicates that we're probably on single heading development, for arguments sake. We're maybe half way of where we could be, potentially. And that has a similarly large impact on your costs. So that does two things. One, you can accelerate your projects and, two, you can get the cost of doing it down.

The technology things, it's like automated LHDs. It's allowing to work from surface on shift change so you pick up an extra 2 hours a work a day. There are many things. No one thing that is going to have a massive improvement on its own, but there are many things that we are in the process of implementing that I think have big potential. The tracking of people and equipment, which is under way now.

You know, and we have done some things like the rapid mapper, which I think I spoke about on one of the calls, where for a very nominal number, $120,000, we put a system in place at one of the mines that allows us to track accurately how much dilution we are getting. And we have seen that dilution in terms of feet of extra, over by half since about November, at the Stillwater mine. So, lots of things.

You know, where can we get to? I would like to see us at least in the middle of the pack or even leading-edge. We have still got a long way to go to get there. Now, it's all about cultural change. We do need too spend some money. It's not tens of millions of dollars but it will be $5 million to $10 million over the next 12 months that we will spend in sustaining CapEx which I will have to take on my All-In Sustaining Costs.

But we do see benefits over a 12 to 24 month period out of that. So I know in my mind management will not want to give a firm answer where we thick we can get to, but all I can say is that when we benchmark ourselves, we still have a long way to go to get to best practice, I would say.

John Bridges - *JPMorgan - Analyst*

Very impressive. And you mentioned in your response to Dave the way you took steps off productivity at the end of last year. So should we expect the production forecasting for the rest the year to be sort of weighted into Q3 with a bit of a pull back in Q4?

Mick McMullen - *Stillwater Mining Company - CEO*

Yes. That's probably a fair comment actually. I think November, December we do have to take a couple of our best stopes offline at the Stillwater mine in order to get that 32 pass system in, (inaudible). And so, therefore, we're working around it but you could see production in Q4 be not a lot weaker but a little weaker potentially.

John Bridges - *JPMorgan - Analyst*

Okay. Cool. Many thanks and best of luck.

Mick McMullen - *Stillwater Mining Company - CEO*

Thank you.

Operator

Our next question comes from the line of Lucas Pipes, of FBR & Company. Please, proceed with your question.

Lucas Pipes - *FBR Capital Markets - Analyst*

Hey. Good day, everybody. I wanted to follow up a little bit on Dave's question. Kind of regarding M&A. It sounded like it's pretty hard to check all the boxes on the M&A front and in light of that, Mick, how do you think about allocation of capital? Could you share with us kind of your priority list to what's the first use and then going down the list from there? Thank you.

Mick McMullen - *Stillwater Mining Company - CEO*

Sure. Thanks. And yes. I would say that on M&A, again, you would never say never but we do have a pretty stringent list of things that would need to happen for us to deploy capital externally. So then it comes down to we're obviously funding Blitz as a growth project. And we're still funding that out of operating cash flow.

We then look do we return some cash to shareholders, or do we move in and do say for instance a Lower East Boulder project as a growth? We find shareholders, depending on where they are, who they are, have quite different views on what they would like to see us do. I would say I don't feel the need I have to spend the money, but at some point we would like to get to a point where we could give a return to shareholders. And it's just a balancing act between, obviously, prices six months ago were a lot worse then where they are today. And we want to be very conservative the way that we run the balance sheet.

I think it's the best outcome for shareholders to not get forced into something in an emergency. So our very solid balance sheet is number one priority for us, But if prices stay at these levels we clearly will have some surplus cash that we could look to maybe return at some point.

Lucas Pipes - *FBR Capital Markets - Analyst*

Very interesting. Thank you for that. And then to follow up on the recycling business you mentioned you still have excess capacity there and it's a priority for you to improve that. And I was looking for maybe a little bit more color about the steps you're taking there and over what time frame we could maybe model a higher utilization rate? How should we think about that? Thank you.

Mick McMullen - *Stillwater Mining Company - CEO*

It very much comes down to, you know, what contracts we can sign up. But in general we target that we would like to grow that business by about 10% CAGR. Obviously, we have done a bit better than that, but over let's call it three to five year horizon, that's about the sort of CAGR that we would look to, we would really want to try and get to.

Lucas Pipes - *FBR Capital Markets - Analyst*

Very interesting. So kind of from here on out going forward 10% CAGR over the next three to five years is what we should be looking at?

Mick McMullen - *Stillwater Mining Company - CEO*

That's what I'm hoping for. Now, it may be lumpy as the (inaudible) contracts come on and come off, but if you average it out over that period, yes, that's about what we're looking for.

Lucas Pipes - *FBR Capital Markets - Analyst*

Very good. Thank you very much and good job.

Mick McMullen - *Stillwater Mining Company - CEO*

Thanks.

Operator

There are no further questions in the audio portion of the conference. I would now like to turn the conference back over to management for closing remarks.

Mick McMullen - *Stillwater Mining Company - CEO*

Thanks everyone for taking the time to dial in and we look forward to speaking again at the third quarter results. And I would just like to thank everyone again.

Operator

This concludes today's teleconference. Thank you for your participation. You may disconnect your lines at this time.
