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SWC - Q3 2016 Stillwater Mining Co Earnings Call

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CORPORATE PARTICIPANTS

Mick McMullen *Stillwater Mining Company - President & CEO*

Chris Bateman *Stillwater Mining, Company - CFO*

CONFERENCE CALL PARTICIPANTS

Andrew Quail *Goldman Sachs - Analyst*

Dave Gagliano *BMO Capital Markets - Analyst*

Daniel McConvey *Rossport Investments - Analyst*

Lawson Winder *BofA Merrill Lynch - Analyst*

Lucas Pipes *FBR Capital Markets - Analyst*

Sam Crittenden *RBC Capital Markets - Analyst*

PRESENTATION

Operator

Greetings and welcome to the Stillwater Mining Company third-quarter 2016 results conference.

(Operator Instructions)

As a reminder, this conference is being recorded. I would now like to turn the conference over to your host Mick McMullen, President and CEO for Stillwater Mining. Thank you Mr. McMullen, you may begin.

Mick McMullen - *Stillwater Mining Company - President & CEO*

Thank you very much and thank you everyone for joining us this morning. I'm joined here by our CFO Chris Bateman, our VP Legal Brent Wadman and Mike Beckstead, our VP of IR.

There is an earnings deck which has been loaded up on the website. And I will refer to that. And specifically we will try to refer to the page numbers as we turn through these.

So if we go to that deck and look at slide 2, the forward-looking statements, I'd like people to read that and in particular understand some of the assumption and analysis that management has made to arrive at some of the content of this presentation.

Moving on to slide 3, the third-quarter highlights, I would say that this quarter was another solid quarter for us. And it was very much characterized by another strong year-on-year improvement in our safety track record. And it looks like we will improve on our 2015 year safety which in itself was a record.

And I think this is very important for us in that we continue to demonstrate that you can have safe production and that they actually go hand-in-hand and that you don't need to sacrifice safety in order to get strong production. We believe that there's still further opportunities in safety. We are continuing to push forward on many initiatives, and I will talk about some of those as we go through the slide deck.

You can see our mined sales ounces was up significantly on the previous year at just under 132,000 ounces. And not unsurprisingly our cost of metals sold was also down quite significantly compared to the previous year at just under $500 a PGM ounce. As we often say a PGM ounce we define as a mix of platinum and palladium broadly in a ratio of 3.4 for palladium to 1 platinum.

Our mine production was just under 139,000 ounces. It was our strongest quarter for the year, well up on the previous year but also up on our two preceding quarters.

All-in sustaining cost was $624 a PGM ounce. That was down about 8% from the prior year, up slightly from the previous quarter, and I'll talk about some of the reasons for that in a few slides. But overall still a very good result I think.

We processed a record 175,000 ounces of recycled material, again another record for us. We seem to have a very strong performance in the recycling business. We made it clear a couple of years ago that we wanted to grow this business, we see it as a core business for us and the efforts that our team have made in terms of securing this material are really starting to pay dividends now.

We ended the quarter with cash and cash equivalents plus highly liquid investments of around about $440 million. And we had net income attributable to stockholders of about just over $12.5 million, or $0.10 per diluted share.

The other major thing that we've done during the quarter is we've done a complete redesign of our Blitz project and we now anticipate production from Blitz to be in the range of 270,000 to 330,000 ounces a year when we fully ramped that up by 2021 to 2022. I'm going to spend quite a large amount of this presentation talking about Blitz. We think it's sort of a fairly major project for the Company and I will come back to that later.

Moving on to slide 4, you can see in the third-quarter highlights again in the table format we've covered some of the top lines. Our all-in sustaining cost, as I said, was down just under 8% year on year. Our SG&A continues to trend down.

Our sustaining capital trending down but not coming down in a large amount, 6.5% down year on year. Project capital spend down slightly and so total capital spend down about 6%. Again, you can see just under a 9% increase in our recycled ounces over the period.

As we've said before, we believe that we can continue to gradually reduce our sustaining capital and really that comes about through reduction in unit rates as opposed to stopping or cutting back on our essential activities. We think it's important for us to get our sustaining capital spend down by reducing unit rates whilst maintaining the activities that are necessary to maintain the developed state of the operation.

Going to slide 5, to the Stillwater Mine specifically, again a pretty strong result compared to the previous year. Production was up 9%, cost of metal sold was down about 16%. Again, cash cost was down as well.

Really we've seen a big improvement in safety over at the Stillwater Mine. This is very much driving the overall Company result, down almost 30% year on year. And we actually have seen a big step-up in our development footage.

We are 19% ahead of plan for Q3. And so I would say that much of the improvement in the last 12 months in the Company has come about at the Stillwater Mine. And we think there's some further opportunities there.

I will note, and I am just providing a bit of notice for people, is that we have a fairly significant infrastructure project at the bottom of the mine, which relates to improving our haulage system. We are going to turn off one of our higher great stopes towards the back end of this year and into early next year. We do anticipate just a slight dip in production, probably mostly in Q1 I think from the Stillwater Mine and just like in 2014 when we turned off some of the stopes in order to get infrastructure in place we then turn those back on and then we saw a lower cost profile coming out of that.

So we are just giving people a bit of a heads-up that we expect to see Q1 a little lower in production from the Stillwater Mine. We are doing our best to schedule around that and we don't expect it to be a material impact but it will have some impact.

Turning to slide 6 at the East Boulder Mine, another very solid quarter from East Boulder. Again, you can see production up 7% year on year, you can see cost of metals sold down by about 14%, you can see cash cost down about 14% as well. And, again, one of the key metrics we look at is how many ounces per employee per month did we mine and you can see year to date we are setting records.

You can see for the three quarter so far again yet another record and also the ore tons fed per day year to date through Q3 yet another record. Again all done with very good safety. The East Boulder Mine just seems to continue to set record after record quarter after quarter, and we continue to push.

We think that there's some other areas that we can do some further improvement on here. And we see further potential to make a few improvements.

Turning to slide 7, in the Met Complex you can see from that graph there that we've seen really over the last two years quite a strong increase in our recycled volumes, up from Q4 of 2014 in the 110,000, 120,000 ounce range, up to the 175,000 ounce range for the quarter. We did continue to see a shift back to purchase material from tolled in Q3. That's had an impact in terms of our working capital going up and the recycling profits typically lag the physical volumes by two to three months.

We did see some pretty strong profit from this business in the last few months and we saw a record total number of ounces batch of the smelter in the third quarter. August was a record month for ounces fed to the smelter and not unsurprisingly September was, therefore, a record month for total ounces shipped to our external refinery.

Those facilities continue to operate well. We have a lot of excess capacity and those facilities at this stage until Blitz fully ramps up. But we can expand this recycling business for virtually no capital cost, and so whenever we have a facility that's not fully utilized we want to try and utilize our infrastructure.

This has been, we've have been able to expand his business to virtually no capital. We think there is still further potential there. Overall we think this recycle market grows at a 5% to maybe 10% CAGR, probably closer to 5% to 7% I suspect.

And our goal, our stated goal is that we want to at least maintain our market share. Over the last few years we've grown our market share, but our stated goal is that we want to grow our business at the rate that the market grows at.

We do see some opportunities in certain types up at your health but there is a bit of a mismatch in terms of the material that's becoming available and the installed smelter capacity globally. There is quite an issue coming up in Europe with the diesel catalysts which are high in silicon carbide. There is very limited ability for other smelters to take this material.

We've seen a lot of our volume growth has come from this material. We do have the ability to take it given the style of the smelter we have and the volumes that we have for blending. And actually the peak of that material probably doesn't hit the market for seven to eight years.

So we think this is a good business opportunity for us to continue to expand our volume. And that's typically higher grade material which, again, if you looked at our average grade of material we've seen the grades of material increasing as we take more and more of that material.

So overall I would say the Met Complex and the recycling business is performing pretty well. And we don't believe that we've topped out in terms of our ability to grow that.

I'm going to turn over to Chris Bateman, our CFO, for the next few slides to talk about the financials.

Chris Bateman - *Stillwater Mining, Company - CFO*

Thanks, Mick. Income for the quarter was $12.6 million. And from the blue line on the graph you will see that prices recovered in Q3 2016 that $764 per combined PGM ounce. That compares to a Q2 price of $665 and Q3 last year was around $693. So good price-performance.

That performance came on lower sales volume. We sold 131,800 mined ounces compared to 150,900 in Q2. So we did see a small mined inventory build with production of 138,800 compared to 137,100 the prior quarter.

Moving on to the balance sheet we finished the quarter with $439.4 million in cash and cash equivalents and short-term investments. The real driver of the reduction was the build in working capital as we saw a stronger recycling segment. In total we have around about 150,000 ounces in our inventory from the Columbus complex through to Johnson Matthey and that's up from about 125,000 last quarter.

Part of the build was the difference in mine production to sales. But the vast bulk of the build was with the strengthening recycling segment.

We continue to self-fund the investments in our business with, Mick touched on the, sustaining capital numbers. Our total cash capital in the quarter went up. We spent just under $24 million cash capital this quarter compared to just under $20 million cash capital in the prior quarter. So the drive in the cash position was good operating performance, continued investment in the capital programs and the build in the recycling working capital.

Mick McMullen - *Stillwater Mining Company - President & CEO*

Thanks, Chris. Going to slide 10, this is one that we've put in really for analysts if they want to build their models.

So looking at our cash cost per ton milled, you can see there's a couple of changes that I just want to talk about. At the Stillwater Mine you can see our mining cost per ton milled went up. If you look at the very bottom line you can see our tons milled was it down a bit from the previous quarter.

We did see a little bit of an inventory build on the mining side. So we mined more tons then we milled and, therefore, we spent the dollars but because of the denominator here is tons milled you saw a slight increase in cost per ton. And similarly at East Boulder Mine saw a bit of a drawdown in inventory so we did see a bit of a reduction in tons milled.

But in general pretty solid performance across the board from our total sites. And we think that, again, if you look at the quantum of the numbers clearly the biggest opportunity for us is to continue to drive that mining cost down. Maybe a little bit of opportunity administration cost, but the quantum of the mining cost means that that's where we will continue to focus our efforts.

Going to slide 11, and I find this to be a very useful graph. I talk a lot about productivity, and people say why does it matter? And I point them to this graph because you can clearly see a very strong inverse correlation between productivity and all-in sustaining cost per ounce.

This is but one of the metrics that we used to measure productivity which is ounces per employee per month. And you can see here that it continued to improve slightly but flattened out. And you can see that our all-in sustaining cost was actually up slightly.

So we still see opportunities to improve productivity. Our goal continues to be to get our all-in sustaining cost down into the sort of mid-to high $500s in the medium term. And I'm going to move into the next few slides and talk about, well, where do we see those opportunities still to come from?

Typically we've seen grades pretty flat actually over the whole period of that graph, flat to down ever so slightly. So I have been asked will have we managed to get the ounces per employee up by high grading the operations? And the answer is no.

In fact, what we did, what we found when we analyzed all of the stopes was that actually some of our very high grade stopes were, in fact, actually the ones that were costing us the most amount of money. So we are very focused on what does it actually cost us to get that ounce out.

And we have not gone the high grading route. We have kept our grades consistent to down slightly over that period.

So let's move on to slide 12 and, again, this graph really is a very good indicator of some of the drivers of what's driven those ounces per employee a month improvements. And you can see at East Boulder there when we brought Graham Creek on you can see the volume that we saw at East Boulder has very much driven a big step-change in productivity there. And you can also see in green as we did the reorganization and changed the incentive system at the Stillwater Mine last year around about this time, again that you can see another big step-change there in the productivity for the mine.

As I said earlier flattening out somewhat over the last couple of quarters. But, again, we've got a couple of levers that we can still pull to continue to gradually improve our productivity we see.

So that brings us to slide 13. And so some of the things, people often ask us is, well, what can we do, what is the next thing that we can do?

We've talked somewhat about innovation and technology. I think it's fair to say that we would not be classed as at the leading edge of innovation and technology where we stand today. We think that there's significant improvement to be had here and when we go and tour some other operations in other jurisdictions and try to explain why they are more productive than us this appears to be a fairly substantial component of it.

And these are not massive dollars that we need to spend. But there is some dollars, and as we highlighted on the last earnings call that would be some money spent over the back half of this year and into next year. And this is really these things here.

Lining the waste dump at the Stillwater Mine, this allows us to go to a different type of explosive which we've done at East Boulder and we saw significant improvement in productivity there. On the back of that we expect to see the same sort of jump in productivity at Stillwater.

This 32 East infrastructure development, so this is the area where I said we would shut down one of our better stopes. At the Stillwater Mine to do this, this will reduce our haulage costs. We will see this go through in Q1.

Mechanized bolter development, so this is an area where historically we've done a lot of handheld bolting and mining. We are not really doing much handheld mining, but some bolting, quite a bit of bolting still. This will allow us to significantly reduce the handheld bolting.

It's got, we think, large safety benefits but also it will allow us to get better productivity and also maintenance tracking and optimization. Again, I would say that we are not at the leading edge of maintenance tracking and optimization by any stretch of the imagination.

We think there's an absolute cost reduction potential here. But we also think there's a productivity improvement because when you look at our fleet availability it is not good. And I think through better maintenance tracking and optimization we can get our fleet availability up and, therefore, our productivity up.

So these are all great things to do. We did say last quarter we'd spend some money on this and we did spend some money on it. So during Q3 we spent approximately $16 an ounce on these activities, initiatives and realistically we didn't see any benefit in Q3.

We will start to see some benefit, a little bit of it in Q4. But probably we won't see the benefit of this stuff really until Q1 next year onwards.

So we have to spend the money on these things up front to get the benefit. We are spending the money. It does partly explain why we saw our all-in sustaining cost go up slightly quarter on quarter.

So that brings me on to Blitz on slide 14. And, obviously, this is going to be the subject of much discussion. And Blitz is our key development project.

And this graphic here I think outlines a couple of I think important points. One is the scale of it, this is a very large project. You can see we've put a Golden Gate Bridge on the top there so people can see just how big this thing is in relation to the Golden Gate Bridge.

We've also now reengineered the project to include what we used to call Lower Blitz. So when we historically talked about Blitz it was just that thing called Upper Blitz and there was an arbitrary line at the 5,000 foot elevation which was just arbitrary that they Blitz project was everything above that to surface. We've now included Lower Blitz as part of the Blitz project because if you look on that graphic there you can see in the old Stillwater Mine to all intents and purposes we've been mining that on the left-hand side of it there and, again, there was an arbitrary line that just said, well, we will come back and redefine the Lower Blitz project at some later date.

The orebody continues through there. We've been mining it at the Stillwater Mine and there is no realistic reason why you wouldn't mine up and down at the same time. And so the new scope of the project includes the Lower Blitz area down to the 3,500 foot level.

We now anticipate production out of Blitz to be in the order of 270,000 to 330,000 PGM announces a year when we fully ramp it up. And we expect to fully ramp this up by 2021 to 2022.

You can see that very first little stope block there we're developing downward at the moment. The grade is good. I'm going to talk about this in the next slide. But a lot of the focus in the last three to four months of our engineering teams, both internal and external, and our operations team has been about on optimizing the Blitz project for shareholders and accelerating it as quickly as we can.

Moving to slide 15, we expect this to be realistically ore growth production for the first decade of its life. We now expect capital spend to be up $250 million, which is up from the previous estimate of $205 million, and that is really because we've expanded the scope of it. We now expect capital spend to first production to be in the range of $175 million to $195 million, again because we've expanded the scope of this.

And really that extra capital that we're seeing is capital that was always planned to be spend but in later periods. And because we are now executing this project in parallel as opposed to in series what we've done is dragged forward activities that were going to be done in later years into the period that's closer now over the period between now and 2021.

We still expect first production to be in late 2017 or early 2018. We expect this Blitz project, when it is fully ramped up, to bring our Company average AISC down into the low to mid $500s. And we are continuing to see very favorable drill results.

And what we are doing each quarter as we release a new series of drill results as we drill out a new block, the entire block so we can get the full interpretation done. We are releasing the new drill results. There should be a table at the back of this deck with the full appendix there with all of the drill results.

But you can see in that block 11.1 that 28 foot at 2.34 ounces to the ton or 15 foot at 0.68 or 8.3 feet at 1.24 ounces, again similar grades and widths to what we've seen in the previous drill results we've announced. And, in fact, this block will be accessed from the decline that is being pushed down now to access the first stope in that 10,000 stope block.

So we are pretty excited about where Blitz is at the moment. An enormous amount of work that's underway to really make sure we optimize this thing and continue to accelerate it.

And on that highlight there, that little graphic you can see on slide 15, you can really see why incorporating Lower Blitz into the Blitz project makes a lot of sense because realistically the yellow line that's on the 5,000 level is the TBM level. The green line is the 56. There's no real reason why you wouldn't mine Lower Blitz and Upper Blitz at exactly the same time.

In fact, there are a lot of advantages for mining both of it because from a capital intensity point of view you can get a significant increase in your production rates for relatively small amounts of extra capital. So it makes a lot of sense and that's the way we are going.

So going on to slide 16, the other component of Blitz we talk about, we talk about the three key components being the TBM drive, the 56 and now the 53 decline and the Benbow end which is the decline coming in from the far end. This is critical path not for first production but for our ability to ramp up production because we need to get this to break through to the other declines to get full ventilation. So we've more or less completed the surface works.

We have a contractor, Redpath, who is mobilized here at the site. You can see that image there on the top of slide 16 which is them building their service facilities. You can see the image on the bottom of that page which is the portal.

We started the portal during right at the end of Q3. We've spent in total $101 million on this project to the end of Q3. We are looking to accelerate the spend.

The 56 drive is ahead of plan and we keep looking for ways to push that ahead because that is the critical path. The decline that comes off that down to the first production level is the 53 decline. That now becomes the critical path to first production, and so we are focusing a lot of attention on that.

We now as we look at our plans the new bottleneck is now the Stillwater Mine concentrator. We are doing a series of studies at the moment to see what we can expand that to for what dollars and we are costing out those expansion scenarios and we think that there is further opportunity to do some expansions. But it's just going to come down to what is the most capital efficient.

When we look at the limiting factors for us at Blitz, as we sit here today it's the Stillwater Mine concentrator, our ventilation requirements or ability to ventilate and our water treatment capacity. So we have parallel studies underway, engineering studies underway to look at each of those to see how we debottleneck this operation.

And so we think there's opportunity certainly on the vent and water. We don't have the answer on the Stillwater Mine concentrator into just how large we can make that.

It's probably fair to say that the Blitz project, the mine end of it could probably produce more than what we are currently planning. However, we have these other constraints that we need to debottleneck for.

That work is underway. As we get the answers we will come back and update people.

Moving on to slide 17, we've talked about the Lower East Boulder project. Again, we are doing a similar exercise here where we are looking at what are the bottlenecks. We've talked about what the design concept looks like here.

Again, we think there's potential opportunity to better than what we've been thinking. But we need to go through the exact same process here, look at all of the bottlenecks, get the engineering work done and then we will come back out and update the market as and when that information comes to hand.

Slide 18, the guidance, we haven't updated our guidance at this stage and we are tracking, I would say, fairly favorably against this guidance. And we will -- our goal is to do at least as well as the guidance if we can.

And that will bring me onto slide 19, which is the summary. So as I said at the start, I'd summarize really is the third quarter as being a pretty strong quarter. We continue to deliver on everything that we've said we'd deliver on.

Our safety is very good, which I'm very pleased about. We are continuing to see records falling across the operation whether it would be safety or production or cost or recycled volume. As Chris had indicated, we've kept a very, very strong balance sheet, a lot of liquidity even with funding a $22 million increase in working capital as the recycling volume business volume grew even as we funded everything on our project capital.

We've, I think, made some significant improvements in the way Blitz is going to be built. We continue to look for ways to accelerate that and underpinning all of that is we still see pretty robust PGM fundamentals. We did see a pretty strong recovery in the price during Q3.

We've seen them pull back a little bit since then. But, again, over the medium to long term we do continue to see the strong fundamentals underpin the business in its current format and also the investment decisions we are making as we go forward.

So with that I'd be happy to turn the floor over to any questions if anyone has got any.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Andrew Quail, Goldman Sachs.

Andrew Quail - *Goldman Sachs - Analyst*

Hi, Mick, Chris and team. Thank you very much for the update. Congratulations on another strong quarter.

Just wanted to get some comments around the likely impact of, obviously, US scrap steel prices moving up on your recycling business. I know you commented, Mick, about keeping the market share constant. But can you just give us what you are seeing and any trends, especially from a destocking point of view on the US autos?

Mick McMullen - *Stillwater Mining Company - President & CEO*

Yes, Andrew, there is for North America there is a pretty close correlation in our volumes to US scrap steel prices. Less so for other markets actually.

And so as we, if we see scrap steel prices strengthen, which we did see through Q3, although they actually then weakened a little bit but seemed to have flattened a bit now there is a pretty close correlation between our volumes and scrap steel prices. So if we see scrap steel prices go up then we are going to see our US North American volumes go up in recycled.

Andrew Quail - *Goldman Sachs - Analyst*

Great. Just on your guidance it, obviously, looks very achievable. Just looking into next year on something like G&A, obviously, you have done a lot of work restructuring over the last couple of years. Is that 30 to 40 something that we can model out for the next couple of years or is this further downside to that?

Chris Bateman - *Stillwater Mining, Company - CFO*

I think we'd be comfortable staying within that 30 to 40. Obviously, we haven't given guidance for next year just yet, but we don't see anything that will materially change G&A at this point.

Mick McMullen - *Stillwater Mining Company - President & CEO*

I'm always looking to save a few extra dollars here or there, Andrew. But, again, we've made a pretty significant cut in and you are not going to see it halve again, I don't think.

Andrew Quail - *Goldman Sachs - Analyst*

Yes, cool. And Chris, maybe one for you again on tax. Just as we do our models going forward and more sort of steady-state for you guys and prices it looks like stabilized, what are you guys paying in tax going forward and what's a reasonable effective tax rate?

Chris Bateman - *Stillwater Mining, Company - CFO*

I think low to mid 20s is a reasonable effective tax rate with the mix of business that we have got at the moment. We are obviously able to take a percentage depletion on the mining income and that lowers our effective tax rate to that sort of level.

Andrew Quail - *Goldman Sachs - Analyst*

Great. That's it for me. Thanks, guys.

Operator

Dave Gagliano, BMO Capital Markets.

Dave Gagliano - *BMO Capital Markets - Analyst*

Great, hi guys. Thanks for taking my question or questions. I wanted to focus in on Blitz a little bit more.

I wanted to drill down a little bit on a couple of things. First of all, can you give us a sense given the expanded scope of the project any early read on sustaining CapEx after it's up and running? That's my first question.

Mick McMullen - *Stillwater Mining Company - President & CEO*

Not really yet, although we have said that it will get our all-in sustaining cost down to that low to mid $500. So it will be a little bit, if you took our current sustaining CapEx per ounce and reduced that slightly that's probably the best indications I could give you at this point. And the reasons are that the design we have for Blitz, the newer design, is a little bit more capital efficient and the ounces the grade is higher so you get more ounces out for the same amount of development.

Dave Gagliano - *BMO Capital Markets - Analyst*

Okay, all right, thanks. I know it's early.

And then I just wanted to get a sense in terms of ground conditions and any other issues that we should be thinking about as this project, obviously the scope has expanded significantly. In your view, what are the major risks associated with execution now that the project has expanded?

Mick McMullen - *Stillwater Mining Company - President & CEO*

I don't really see any risks, new risks that arise because of the scope expansion because it's the same, basically the same stuff that we're doing. But I think the risks associated with delivery of the project are the following.

In terms of first production, it's a development rates on the 53 decline and associated infrastructure. So that will determine the timing of when we get there.

And then the next risk if we look in the first production will be ground conditions. If you recall at the Stillwater operations where you get the very high grades and the wider orebody, which is what we've got, you typically get worse ground condition, so we will be using cemented rock fill for the first stopes. So it's just, it's more of a timing risk just in terms of getting all of that in place in time.

In terms of the broader ramp-up and overall project execution, I would say the risks then become, really the key risk then becomes the timing for breakthrough of the Benbow decline into either the 56 or the TBM drive, effectively whichever gets there first, because that really limits you in terms of how quickly you can ramp up to full production. Because there's only so much ventilation you can get in from the portal end, and until you get some sort of ventilation breakthrough that's your key risk in terms of being able to ramp up to full production. And as I alluded to in my presentation, there is a lot of work underway in terms of how do we optimize that vent and either derisk that further or come up with alternative plans that would allow us to actually accelerate even further because, quite frankly, that actually is the determining factor for ramping up to that 270,000 to 330,000 ounces a year production.

Dave Gagliano - *BMO Capital Markets - Analyst*

Okay, that's helpful. Thank you. And then --

Mick McMullen - *Stillwater Mining Company - President & CEO*

Sorry, and the last risk that I will talk about actually is water. We've hit probably more water than what we expected there, so we can mine through the water.

However, we can't just let the water come out and we have to treat that water. So a part of, a small part of, but a part of the increase in capital is we're actually going to spend some additional money next year on expanding our water treatment plant, which then allows us to derisk that more and push on a bit quicker hopefully.

Dave Gagliano - *BMO Capital Markets - Analyst*

Okay thanks. One last one, I didn't hear the word labor in this discussion and I'm wondering, and historically that has been an issue with regards to expanding and labor becoming a bit of a challenge, and so can you just comment a little bit about the labor situation moving forward with, again, the increased project scope and things like that?

Mick McMullen - *Stillwater Mining Company - President & CEO*

Yes, we have not exhausted our recall list from the layoff that we had in August of last year, which means that there is still people that we laid off that would still be available to come back and work for us. And our attrition rates are running very low, I would say off the top of my head 6% to 7% per annum, which if you go back to times past when the Company has had challenges securing labor the attrition rates have been 15%, 20%, 25%.

And so at this stage labor doesn't appear to be a significant challenge for us. However, if we continue to ramp up faster that may become a challenge. But I would say this is that as we improve productivity we can execute more activities with the same workforce.

Dave Gagliano - *BMO Capital Markets - Analyst*

Okay, that's helpful. Thanks very much.

Operator

Daniel McConvey, Rossport Investments.

Daniel McConvey - *Rossport Investments - Analyst*

Good day, Mick, everyone. Mick, it will be historic to have the Stillwater plant as a constraint for production.

When you look at your non-Blitz production going forward for the next decade or so, in your plans it's stable. So the question, so everything we're going to get from Blitz is pretty much for that time period of the increment. Is that fair?

Mick McMullen - *Stillwater Mining Company - President & CEO*

That's correct. The plans for both operations are flat to up slightly.

Daniel McConvey - *Rossport Investments - Analyst*

Okay.

Mick McMullen - *Stillwater Mining Company - President & CEO*

Over that actually 10- to 15-year period.

Daniel McConvey - *Rossport Investments - Analyst*

Okay, and excuse me if I missed it, when is -- we've got the pre-fees, when is the feasibility coming on Blitz completed?

Mick McMullen - *Stillwater Mining Company - President & CEO*

While we are not doing a separate feasibility study given that we are actually building it. We will be in production on this thing in just over 12 months time. So we are not updating the market for a separate feasibility study on that.

Daniel McConvey - *Rossport Investments - Analyst*

Okay. And how much is ventilation challenged going forward? If I remember rightly are you allowed to build more vents, more over-the-top?

Mick McMullen - *Stillwater Mining Company - President & CEO*

We are. At the moment the design for Blitz is for the bulk of the ventilation to come basically through connecting the two declines up, the one coming in from the Benbow end in the one coming in from the portal end or the two coming in from the portal end. And that's still the plan.

However, that limits your ability to ramp up before that happens. So the work that's underway at the moment is there a better plan for the period between now and 2021, 2022 that would allow you to drag forward that ramp-up to full production. And that we don't have the answer for, that we are working on at the moment.

So the plan that we currently have is effectively the original plan, but that limits the time frame at which you can ramp up to full production. So I'm always a continuous improvement kind of guy, so if there's a better plan that allows us to ramp up to full production before that we should be looking at that.

Daniel McConvey - *Rossport Investments - Analyst*

Got you. Great. Thank you very much.

Operator

(Operator Instructions) Lawson Winder, Bank of America Merrill Lynch.

Lawson Winder - *BofA Merrill Lynch - Analyst*

Hi, Mick and team thanks for doing the call and congratulations on the results. Very, very nice.

Just a couple of questions. First of all, maybe a little color around the slowdown you highlighted at Stillwater.

Are you expecting to see tonnage come off or is this just grade that will be coming off? And I'm referring to Q4 and Q1 of 2017.

Mick McMullen - *Stillwater Mining Company - President & CEO*

You won't see much of it in Q4. It's really going to be Q1. It's a better grade and maybe a little tonnage.

It is one of our better stopes. And we just have to take it off-line because basically we are going to put the haulage infrastructure in place there. That's probably for a quarter, and it's not going to be a material impact but it will be a few thousand ounces, I think.

Lawson Winder - *BofA Merrill Lynch - Analyst*

So you expect to be done the work by the end of Q1 2017?

Mick McMullen - *Stillwater Mining Company - President & CEO*

Part the way through Q2, I suspect. It depends how quickly the work goes. And we will bake that into our guidance for next year.

I'm not seeing it is going to be hugely material impact. But I also don't want people to get surprises, I'd rather give you a little heads up and say Q1 next year you might see a few thousand ounces off relative to where we are. But also Q3 we've just delivered a very strong quarter, I like to give people a heads up.

Lawson Winder - *BofA Merrill Lynch - Analyst*

Well, that's much appreciated. Also I noticed there was no slide this quarter on the advance rates at 56 East. Are you able to share that with us what it was? I think the last update was June.

Mick McMullen - *Stillwater Mining Company - President & CEO*

Flat to down slightly. We haven't seen any big improvements there. Part of the reason is that we actually took those guys off onto the 53 and the 59, so again as I said earlier the critical path to first production six months ago was the 56.

Now that we've got the 56 out past where we need to go down to the first stope, the critical path to production is the 53. And so we actually took the crew off there and pushed them from August 1 down onto the 53. So we are continually looking at what is the critical path to get first production.

And so while that was a 56 we pushed that hard. Then it became the 53, so now we are pushing that hard. And then it's going to become the 59.

And so some of the capital that we've said that we've added in or dragged forward here is we are going to spend about an extra $10 million on a ramp up to the 59, which was previously scheduled for four or five years out. We are now going to, actually we've already started. And we are also going to spend about another $10 million on a dedicated fleet for that 53, 59 and 56 which, again, we think will allow us to speed up a bit more.

Lawson Winder - *BofA Merrill Lynch - Analyst*

So it sounds to me like the limiting factor in going full out on both 56 and 53 at the same time is just the amount of equipment that is available to you. Is that fair?

Mick McMullen - *Stillwater Mining Company - President & CEO*

That's one of, yes.

Lawson Winder - *BofA Merrill Lynch - Analyst*

And then the other, I guess, would be spending or just how much you wish to spend?

Mick McMullen - *Stillwater Mining Company - President & CEO*

When you've got $440 million in the bank I don't know if that's -- I don't think that's a constraint. I think it is also designed, like if you go back a year ago to today the plan for Blitz looks very different, which is fine, but you actually want to have that plan in place before you start making those changes. So we've been able to make some changes, but you've got to get the plan in place before you actually make those changes.

Lawson Winder - *BofA Merrill Lynch - Analyst*

Okay, thanks for that. And then in the past or often in the past you've guided to Blitz's average grade being somewhere in the range of 0.6 to 0.7 ounce per ton. How would Lower Blitz compare to that maybe on a percentage versus the midpoint of that range?

Mick McMullen - *Stillwater Mining Company - President & CEO*

It would be the same, it would be in the same range. And then what we have said is that if you look at the drilling results in the first stope block that we've drilled out, and we are now getting close to having designed the second stope block, the drilling we're seeing at the moment is at or above the top end of that grade range. I'm not so sure I'd put my hand on my heart and say the entire thing is going to be like that yet, but the first block or two look like being higher than that range.

Lawson Winder - *BofA Merrill Lynch - Analyst*

Okay and then just finally last question from me is you recently said in an interview, actually it was in September, you had indicated that you'd be looking to initiate a dividend. I think you said it could be as early as 2017, and I guess in light of the additional spending you guys will be doing to increase the production at Blitz does the thinking around the timing change at all? And then also have you put any thought into potential levels?

Mick McMullen - *Stillwater Mining Company - President & CEO*

Well, let me clarify. I said look my goal is that I think it would be good for shareholders to have some form of return out of the business. I'm not so sure I actually gave a time frame of when we might look to do a dividend.

But I think it's certainly something, feedback from shareholders indicates that, not all of them but a reasonable amount of them, would like to see something. But no, we haven't settled on what we think what that might look like. And, yes, we are spending more money on Blitz or I really actually -- I don't think we are spending a lot more money on Blitz.

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We are just spending it faster which I think that's a better thing because the faster you spend the money the cheaper it usually costs you. And our goal has always been to self-fund everything through operations. So I don't see the plan for Blitz really changing our thinking in terms of shareholder return one way or another.

Lawson Winder - *BofA Merrill Lynch - Analyst*

That's great. I appreciate all those answers and that's it for me. Thanks.

Operator

Lucas Pipes, FBR & Company.

Lucas Pipes - *FBR Capital Markets - Analyst*

Hey, good morning everybody. Good job. Just a quick follow-up on Blitz.

I think the one aspect that hasn't been discussed in detail is on the concentrator. You mentioned that you will need additional capacity there or that would be the bottleneck as it currently stands, so how quickly do you think you would have to add capacity at the concentrator and what sort of ZIP Code are we looking at in terms of capital required for that?

Mick McMullen - *Stillwater Mining Company - President & CEO*

Well, I think I'd like to get the study done before I start telling people what the numbers look like. On that current Blitz plan like you wouldn't need it. You may be able to squeeze all of those extra ounces in on the current capacity.

A bit tight I suspect. So you're looking three, four years out before you'd need to do anything on it.

Lucas Pipes - *FBR Capital Markets - Analyst*

Got it. And just from your experience in the industry I understand and appreciate you want to get a study done. But if we were to say worst-case scenario what could we be looking at?

Mick McMullen - *Stillwater Mining Company - President & CEO*

I think your comment about I'd like to get the study done first is the correct comment. Let me get some numbers first before I start giving you numbers.

Lucas Pipes - *FBR Capital Markets - Analyst*

Okay. Fair enough.

And then maybe to change the topic just slightly, Mick, how do you think about the value of the smelter? I think one could make the argument that it has a unique attribute in terms of the cash flow that it generates.

Do you think it could make sense on a standalone basis or where you maybe sell a portion of that to the public? How would you think about the value of that business and how it could fit in and how quickly you could maybe crystallize that value if there is a discrepancy?

Mick McMullen - *Stillwater Mining Company - President & CEO*

I think those types of assets should and do trade at higher multiples than the mining assets really because they are more industrial-type earnings, particularly the way we run the business. I think that business needs to get a little bit bigger first before we think more about it.

But, yes, I think that's always an option. I've always said that we would look at all options to increase shareholder value. And if one of those options was that you did something with that business, obviously we are always going to need access to the smelter because the whole point is that by having that smelter we don't have to go to a third-party smelter ourselves.

But, yes, I think those types of businesses trade at pretty high types of earnings multiples. And if we at some point thought that it made sense to do something with that with the strategic or something then we would certainly consider it depending on the valuation, I guess.

Lucas Pipes - *FBR Capital Markets - Analyst*

And when you say size, is that defined by a certain level of EBITDA?

Mick McMullen - *Stillwater Mining Company - President & CEO*

Yes, probably, realistically. And if the next question is what is that number, then at this stage I don't have an answer for you on that.

Lucas Pipes - *FBR Capital Markets - Analyst*

I certainly didn't mean to ask that question. But I appreciate your candor and thank you very much and continue to have best of luck with everything.

Operator

Sam Crittenden, RBC Capital Markets.

Sam Crittenden - *RBC Capital Markets - Analyst*

Yes, thanks. Hi guys. Just wondering if you could talk a little bit about the mining method in Blitz and just really curious on how much is the narrow manual type mining with jacklegs and things like that versus more automated methods?

Mick McMullen - *Stillwater Mining Company - President & CEO*

Sure. Well, it will be pretty identical to the Stillwater Mine now which has almost no narrow jackleg mining, handheld mining. We off the top of my head I would say that we would get maybe 1% or 2% of our Stillwater Mine ounces from jacklegging and almost none over at East Boulder.

The only jackleg activity we do is bolting in those narrow headings and, again, as I said, we are moving towards away from that. So the mining method over at Blitz will be ramp-and-fill under cemented rock fill probably for the most part based on the ground conditions we see for the first stope block, which is identical to what they were doing in the old what they call off-shaft area of the Stillwater Mine. So it's nothing new for us.

Sam Crittenden - *RBC Capital Markets - Analyst*

Okay. And then just curious on any permits you might require for an expanded concentrator and then I guess presumably expanded footprint at surface you might need for once Blitz gets up and running. Is there any significant permitting required?

Mick McMullen - *Stillwater Mining Company - President & CEO*

No, not for what we are envisaging. And let's just be clear, you don't need an expanded concentrator for really the bulk of Blitz. It just becomes a limiting factor.

There's no doubt the mind can do more ounces than what we are currently saying it can do. But you need a concentrator to treat those ounces. So, therefore, we are looking at how to we expand that.

We have all of the permits required for Blitz. And the Stillwater concentrator runs 11 days on, three days off. So that's your first thing is you actually run it 24/7 for a start. And then we have some other levers we can pull in terms of getting a bit more capacity out of it before we have to spend any material amounts of money.

Sam Crittenden - *RBC Capital Markets - Analyst*

Okay great. Thanks very much.

Operator

There are no further questions in the queue. I would like to hand the call back over to management for closing comments.

Mick McMullen - *Stillwater Mining Company - President & CEO*

All right. Thanks everybody for dialing in and the good questions.

We look forward to talking to you all again at the next quarterly results presentation. Thanks everyone.

Operator

Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time and have a wonderful day.
